

29 September 2014

**Ceramic Fuel Cells Limited  
("CFCL" or the "Company")**

**Rights Issue Prospectus**

Ceramic Fuel Cells Limited (AIM / ASX: CFU) a leading developer of generators that use fuel-cell technology to convert natural gas into electricity and heat for homes and other buildings, has today lodged a Prospectus for a pro rata renounceable rights issue to raise a maximum of approximately AUD \$13.7 million (before costs of the issue) through the issue of:

- up to 1,529,530,459 new ordinary shares on the basis of 3 new ordinary shares for every 5 existing shares held by qualifying shareholders at 7.00pm on 3 October 2014 at an offer price of 0.90 cents each; and
- the grant of up to 764,765,229 options, being one option to subscribe for a new ordinary share for every two New Shares issued, which options shall be exercisable on or before 30 October 2015 with an exercise price of 1.1 cents each.

CFCL shareholders with registered addresses in Australia or New Zealand will be entitled to participate in the rights issue. Qualifying shareholders may also trade their entitlement, including on ASX.

Qualifying shareholders can also apply for additional shares and options, to take up any shortfall from other shareholders not taking up their full entitlements under the rights issue.

The prospectus for the rights issue was lodged with ASIC on 29 September 2014 and will be sent to qualifying shareholders no later than 8 October 2014 together with a personalised entitlement and acceptance form.

The prospectus is attached to this announcement and will also be available at [www.cfcl.com.au](http://www.cfcl.com.au).

As required by the Listing Rules, CFCL has also lodged an Appendix 3B with ASX and will also mail a letter to shareholders and optionholders with information about the rights issue. Copies of those letters will also be lodged with ASX.

The indicative timetable for the rights issue is below:

Event	Date
Announcement of rights issue and lodgement of Prospectus with ASIC and ASX	Before 10 am 29 September 2014
Rights issue record date	7:00 pm 3 October 2014
Prospectus despatch date	8 October 2014
Renounceable rights trading ends	22 October 2014
New shares quoted on a deferred settlement basis	23 October 2014

Rights issue closes	5:00 pm 29 October 2014
ASX notified of shortfall	3 November 2014
Settlement of shortfall (if any)	6 November 2014
Allotment and issue of shares and grant of options	6 November 2014
Despatch date of holding statements	7 November 2014
Expected commencement of trading of shares on a normal basis	7 November 2014

Shareholders should refer to the Prospectus for the full details and terms of the rights issue.

If shareholders have any queries about the rights issue, please contact Computershare Investor Services:

Phone: 1300 850 505

Internet: [www.computershare.com.au](http://www.computershare.com.au)

**About Ceramic Fuel Cells Limited:**

Ceramic Fuel Cells is a world leader in developing fuel cell technology to generate highly efficient and low-emission electricity from widely available natural gas. Ceramic Fuel Cells has sold its BlueGEN gas-to-electricity generator to major utilities and other foundation customers in Germany, the United Kingdom, Switzerland, The Netherlands, Italy, Japan, Australia and the USA. Ceramic Fuel Cells is now focusing on markets in Germany, the United Kingdom and Benelux.

The company is listed on the London Stock Exchange AIM market and the Australian Securities Exchange (code CFU).

[www.cfcl.com.au](http://www.cfcl.com.au)

[www.bluegen.info](http://www.bluegen.info)



# CERAMIC FUEL CELLS

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CERAMIC FUEL CELLS LIMITED

ABN 82 055 736 671

## PROSPECTUS

For the Offer of:

1. A pro-rata renounceable rights issue of up to 1,529,530,459 New Shares on the basis of 3 New Shares for every 5 existing Shares held by Qualifying Shareholders on the Record Date at an offer price of 0.90 cents per New Share; and
2. The grant of up to 764,765,229 Options, being one option to subscribe for a new Share for every two New Shares issued, which options will be exercisable on or before 30 October 2015, with an exercise price of 1.1 cents each.

**Offer closes 5.00pm (Melbourne time) 29 October 2014**

**The Rights Issue will raise a maximum of approximately \$13.7 million by way of the pro-rata renounceable rights issue of New Shares**

Ceramic Fuel Cells Limited  
170 Browns Road  
NOBLE PARK VIC 3174  
AUSTRALIA  
Phone 613 9554 2300  
[www.cfcl.com.au](http://www.cfcl.com.au)

**If you are a Shareholder recorded on the Register at the Record Date with an address in Australia or New Zealand, you will be a Qualifying Shareholder, and this is an important document that requires your immediate attention. It should be read in its entirety. If, after reading this Prospectus, you have any questions about the securities being offered under this Prospectus, you should contact your stockbroker, accountant or other professional adviser.**

**An investment in New Shares offered under this Prospectus should be considered as speculative.**

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## **Important Notice**

This Prospectus is dated 29 September 2014 and was lodged with ASIC on that date. Neither ASIC nor ASX takes any responsibility for the content of this Prospectus or the merits of the investment to which it relates. The Offer is made only to those Shareholders with registered addresses in Australia and New Zealand and only those Qualifying Shareholders will be entitled to accept an Entitlement.

The New Shares and Options being offered under the Prospectus are offered in New Zealand in reliance on the Securities Act (Overseas Companies) Exemption Notice 2013 (New Zealand).

Ceramic Fuel Cells Limited will apply by no later than seven days after the date of this Prospectus for the grant by ASX of official quotation of the New Shares issued and Options granted under this Prospectus. ASX takes no responsibility for the contents of this Prospectus.

This Prospectus does not constitute an offer in any place in which, or to persons to whom, it would not be lawful to make such an offer. In particular, this Prospectus does not constitute an offer to Non-Participating Foreign Holders.

No New Shares will be issued or Options granted on the basis of this Prospectus after the expiry date, which is 12 months after the date of this Prospectus.

This is a Prospectus for an offer of continuously quoted securities (as defined in the Corporations Act) or options over them of Ceramic Fuel Cells Limited and has been prepared in accordance with section 713 of the Corporations Act. Accordingly, this Prospectus does not contain the same level of disclosure as an initial public offer prospectus. This Prospectus should therefore be read in conjunction with publicly available information in relation to the Company (including but not limited to announcements to ASX and AIM made by the Company, and announcements made on the Company's website).

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not contained in this Prospectus may not be relied on as having been authorised by the Company or the Directors.

You should read this Prospectus in its entirety before deciding to complete and lodge an Entitlement and Acceptance Form and, in particular, in considering the prospects of the Company, you should consider the risk factors that could affect the Company's financial performance. You should consider these factors in the light of your personal circumstances (including financial and taxation issues). The key risk factors that should be considered by potential investors are outlined in Section 10 of this Prospectus. If you have any questions, you should seek professional advice from your stockbroker, accountant or other professional adviser before deciding to invest in New Shares and Options.

Note – all currency references are Australian dollars unless otherwise noted.

## **Electronic Prospectus**

This Prospectus is available in electronic form at [www.cfcl.com.au](http://www.cfcl.com.au). The Offer constituted by this Prospectus in electronic form is available only to residents in Australia and New Zealand.

Persons who access the electronic version of this Prospectus should ensure that they download and read the entire Prospectus. A hard copy of the Prospectus is available free of charge to any person in Australia by telephoning Computershare on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia), or the Company on +61 3 9554 2300. The Corporations Act prohibits any

person from passing the Entitlement and Acceptance Form on to another person unless it is attached to a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

## **Privacy**

If you apply for New Shares and Options, you will provide personal information to the Company and the Registry. The Company and the Registry will collect, hold and use your personal information in order to assess your Application, service your needs as an investor, provide facilities and services that you request and carry out appropriate administration.

Tax and company law requires some of the information to be collected in connection with your Application. If you do not provide the information requested, your Application may not be able to be processed efficiently or at all.

The Company and the Registry may disclose your personal information for purposes related to your investment to their agents and service providers including those listed below or as otherwise authorised under the Privacy Act 1988 (Cth):

- the Registry (and its related bodies corporate) for ongoing administration of the Register;
- the printers and the mailing house for the purposes of preparation and distribution of statements and for handling of mail.

The information may also be disclosed to the Company's agents and service providers on the basis that they deal with such information in accordance with the Company's privacy policy.

Under the Privacy Act (Cth), you may request access to your personal information held by (or on behalf of) the Company or the Registry. You can request access to your personal information by telephoning or writing to the Company through the Registry as follows:

Computershare Investor Services Pty Limited

GPO Box 505

Melbourne VIC 3001

AUSTRALIA

Telephone: 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia)

You can obtain a copy of the Company's privacy policy electronically at [www.cfcl.com.au](http://www.cfcl.com.au).

## **Important information for Qualifying Shareholders in New Zealand**

This Offer is being made to the Company's New Zealand resident Shareholders without a New Zealand registered prospectus or an investment statement, in accordance with the New Zealand Securities Act (Overseas Companies) Exemption Notice 2013. Accordingly, this Prospectus may not contain all of the information which a New Zealand investor may require to make a decision as to whether to apply for New Shares and Options in the Rights Issue, and does not contain all the information which would otherwise be required by New Zealand law to be disclosed in a registered prospectus and an investment statement.

## **Glossary of terms**

Unless the context requires otherwise, capitalised terms used in this Prospectus have the meaning given to those terms in Section 13.

## 1. LETTER FROM THE CHAIRMAN

Dear Shareholder

### **Pro rata Renounceable Rights Issue and Options**

As the Chairman of the Company and on behalf of the Directors, it is my pleasure to offer you an opportunity to participate in a 3 for 5 renounceable rights issue of ordinary shares in the Company at an offer price of 0.90 cents per New Share to raise up to approximately A\$13.7 million, along with an offer to grant one Option to subscribe for a new Share for every two New Shares issued, which options shall be exercisable on or before 30 October 2015 with an exercise price of 1.1 cents each.

The purpose of the Offer is to raise further working capital in order to fund existing operations of the Company, to increase its sales and marketing spend in order to increase sales, to permit further value engineering to drive down manufacturing costs and to fund continuation of its research and product development programmes as outlined in Section 8.1.

I am pleased to advise that in FY2014 the Company has delivered against a number of key objectives:

- The BlueGEN fleet has achieved in excess of 5 million accumulated operating hours and demonstrated high levels of reliability/availability.
- During the financial year the Company raised a net \$12.0 million (£6.6 million) from the issue of Equity and a net \$0.5 million (£0.3 million) from the issue of Convertible Loan Notes.
- A further \$4.0 million (£2.2 million) was received as a tax refund against research and development expenditure in the FY 2013 year and the Company is anticipating receiving a refund of approximately \$4 million for FY 2014 in the near future. This remains subject to confirmation with the Australian tax authorities.
- Our sales strategy has been reviewed to deliver lower sales costs per unit. This has been achieved by significantly reducing the direct sales resource in both Germany and the UK and concentrating on the development and delivery of large-scale, project based opportunities. This allows the Company to use its resources much more efficiently and we are now engaged in the development of a number of key opportunities. We have also seen a marked improvement in the administration of the German grant support systems and this is now feeding through into our sales activities in that country. Overall we have seen a 43% increase in unit sales in 2014 with 210 units sold.
- During the last six months the Company has realigned its operational activities to reduce operating costs by 20%.
- The Company has recently announced a major technical improvement. We have achieved a 70% reduction in degradation resulting in an anticipated stack life of five years. This puts us on the path to achieving our objective of a 10-year stack life. This will allow further improvements in operational performance of the BlueGEN unit and subsequently provide a major improvement in the overall commercial performance of the Company.
- The Company has continued to concentrate on achieving its key objective of reducing manufacturing costs. Since 2012, standard costs of production have been reduced by 29% and we remain confident of achieving significant further major savings through higher volume production, value engineering, process efficiency improvements and outsourcing.
- Our revised strategy has provided the opportunity to initiate discussions with a number of potential strategic partners. We are liaising with North American and Asian companies to develop alternative rated products for a variety of applications. We are also exploring the

possibility of further distribution and manufacturing alliances in those regions as well as Europe.

- The Company has recently installed its first 2 BlueGEN units in China, at a company listed on the Hong Kong Stock Exchange, which is focussed on the energy sector. Both units are currently running at greater than 60% efficiency.

Given that this is a renounceable rights issue, Qualifying Shareholders who do not wish to take up their full Entitlement may be able to sell some or all of their Entitlements in the manner set out in Section 7.2. Similarly, Qualifying Shareholders wishing to take up more than their Entitlement may be able to purchase additional Entitlements in the manner described in Section 7.2.

In addition, Qualifying Shareholders will also be entitled to apply for Additional Shares and Options to the extent that not all Qualifying Shareholders take up their full Entitlements under the Offer.

As announced to ASX and AIM on 24 March 2014, the Company raised approximately £3.36 million (before expenses) by way of a placing of new ordinary shares with existing institutional and other shareholders in Europe ("**Placement**"), which issue of shares was approved by shareholders on 28 April 2014. Shares under the Placement were issued at an issue price of 0.5 pence per ordinary share (equivalent to 0.92 cents per ordinary share, using exchange rates as at the date of announcement of the Placement, being 24 March 2014).

The Board believes that our existing shareholders in Australia and New Zealand should have the opportunity to participate in a capital raising process at approximately the same price as was offered to institutional investors under the Placement.

Further details about the purpose of the Offer, and the impact on the Company's operations, are set out in Sections 7.1 and 8.1.

The Directors are adopting a focused strategy to enable the Company to become cash flow positive as soon as possible. This focus is necessary and appropriate given the Company's resources. In the longer term there are many other opportunities to generate value from the Company's technology, either with the appropriate in-house resources, or with new development partners. We believe there is a very large global market for the Company's products and the Company has been approached to develop different sized SOFC systems for new markets.

### **Refund from Taxation Office for expenditure on research and development**

The Company anticipates receiving a taxation refund of approximately \$4.0 million for expenditure on its research and development activities and expects that this refund will be received during the last quarter of this calendar year.

### **Continuous disclosure and further information**

The Company is a disclosing entity for the purpose of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations.

The Company recommends that potential investors review all the Company announcements that have been lodged with the ASX either by looking them up on the ASX's ([www.asx.com.au](http://www.asx.com.au)) or the Company's ([www.cfcl.com.au](http://www.cfcl.com.au)) websites. It also encourages you to read the Company's Annual Report to Shareholders that was lodged on 26 September 2014.

More information about our BlueGEN product is available at [www.bluegen.info](http://www.bluegen.info).



## Use of Funds and Working Capital

The Company encourages its Shareholders to subscribe to this offer in order to raise the targeted amount. It is necessary for CFCL to have financial stability for it to implement its strategy, cost down initiatives and continue its research and development programmes in order to remain at the forefront of fuel cell technology.

Your Directors advise that until the Company becomes cash flow positive it will need to continue to raise further capital or debt. Please refer to the capital raising sensitivity analysis Section 10 of this Prospectus.

The Board believes that raising funds through the Offer is in the best interests of all shareholders and can place the Company in a stronger position to capitalise on the significant global opportunities for its products. Detailed information about the Offer and the Company's business, as well as the risks of investing in the Company, are set out in this Prospectus, which I encourage you to read carefully.

On behalf of the Board, I invite you to consider an investment in the Offer. I take this opportunity to thank you for your ongoing support of the Company.

Yours faithfully



Mr Alasdair Locke  
Chairman  
Ceramic Fuel Cells Limited

## 2. KEY OFFER DETAILS

Maximum number of New Shares to be issued under the Offer to Qualifying Shareholders	1,529,530,459
Offer Price	0.90 cents per New Share
Qualifying Shareholders' Entitlement to New Shares	3 New Shares for every 5 existing Shares held by Qualifying Shareholders on the Record Date
Qualifying Shareholders' Entitlement to Options	One Option to subscribe for a new Share for every two New Shares issued
Maximum amount to be raised under the Offer from Qualifying Shareholders (before Offer costs) in connection with the New Shares	Approximately \$13.7 million
Maximum number of Options to be granted under the Offer to Qualifying Shareholders	764,765,229
Option exercise price	1.1 cents per Option
Option exercise period	On or before 30 October 2015
Maximum amount to be raised (before expenses) in connection with the exercise of the Options during the Option exercise period	Approximately \$8.4 million, assuming that all Options are exercised during the Option exercise period

## 3. IMPORTANT DATES

Lodgement of Prospectus with ASIC and ASX and announcement of Offer	29 September 2014
Record Date	7.00pm 3 October 2014
Prospectus despatch date	8 October 2014
Renounceable rights trading ends	22 October 2014
New shares quoted on a deferred settlement basis	23 October 2014
Closing Date – last date for acceptance and payment in full	5:00 pm 29 October 2014
ASX notified of shortfall	3 November 2014
Settlement of shortfall (if any)	6 November 2014

Allotment and issue of New Shares and grant of Options	6 November 2014
Despatch date of holding statements	7 November 2014
Expected commencement of normal trading of New Shares	7 November 2014

*The dates above and other dates referred to in this Prospectus (except the date of this Prospectus) are indicative only. Subject to the Listing Rules and the Corporations Act, the Company reserves the right to change any date (including to extend the Closing Date of the Offer or to close the Offer early) without prior notice.*

#### **4. OFFER AT A GLANCE**

- A 3 for 5 renounceable rights issue of ordinary shares in the Company at an offer price of 0.90 cents per New Share to raise up to approximately \$13.7 million, along with an offer to grant one option to subscribe for a new Share for every two New Shares issued, which options shall be exercisable on or before 30 October 2015 with an exercise price of 1.1 cents each.
- Qualifying Shareholders, being Shareholders recorded on the Register at the Record Date with an address in Australia or New Zealand, will be entitled to apply for Additional Shares and Options if not all Qualifying Shareholders take up their Entitlements. If the Board of CFCL exercises its discretion to make up any shortfall under this Offer, then it may do so under this Prospectus (or otherwise) as a separate offer to third parties of its choosing in the manner outlined in Section 7.10.
- The Rights Issue is renounceable, meaning that Qualifying Shareholders can trade their Entitlement, including on ASX. Qualifying Shareholders may be able to purchase additional Entitlements. Please refer to Section 7.2 for details of how to buy and sell Entitlements.
- Offer closes at 5.00pm (Melbourne time) 29 October 2014.
- Net proceeds of the Offer will provide the Company with additional working capital in order to fund existing operations of the Company, further value engineering to drive down manufacturing costs, and continuation of its research and product development programmes.

#### **5. INVESTMENT HIGHLIGHTS**

- World-leading clean energy technology:
  - Broad patent portfolio, all intellectual property is Australian developed and wholly owned
  - Australian research and development, volume assembly plant operating in Germany
- The Company's products generate electricity far more efficiently than the current power grid and other small scale power and heating products
- Supportive policy settings in launch markets of Germany and United Kingdom

- In late 2012, the Government of North-Rhine Westphalia, Germany's most populous State, introduced a capital subsidy scheme for innovative mCHP products. Four other States have since announced subsidy schemes
- In December 2012, the UK Government increased the feed-in tariffs applying to mCHP units like BlueGEN
- Product sales revenue increased by 43% from FY2013 to FY 2014
- Sales of units increased from 147 in FY2013 to 210 in FY2014
- During the last six months the Company has reduced its direct sales resources in Europe and realigned its operational activities to reduce overhead costs
- The Company is actively pursuing large projects in the UK
- The Company leads the manufacturing and marketing of SOFC in Europe with:
  - More than 500 units deployed and installed
  - More than 5 million accumulated operating hours across the fleet
- Patented a major technological improvement in its fuel cell stack in June 2014 which is anticipated to increase its stack life to 5 years
- International award winner in Germany, UK and Australia
- Successful installation and operation of the first two BlueGEN units in China.

### Financial position

	<b>Full Year to 30 June 2014 \$m Audited Accounts</b>	<b>Half Year to 31 Dec 2013 \$m Auditor Reviewed Accounts</b>	<b>Full Year to 30 Jun 2013 \$m Audited Accounts</b>
Revenue from Operations	6.1	3.4	4.3
Net operating cash outflow	18.2	7.2	16.7
Operating Costs	22.5	11.5	21.3
Net Loss	21.43	7.8	19.8
Cash balance at end of period	5.3	9.0	10.0

## Offer Price at discount to market

The Offer Price is a discount to the market price of the Company's shares immediately before the Company announced the Offer. The Offer Price relative to the market price of the Company's Shares is discussed in more detail in Section 8.6.

## Risks factors in relation to the Offer

Risk factors that should be considered by any proposed investor are outlined in Section 10 of this Prospectus. You should consider these factors in light of your personal circumstances (including financial and taxation situation). If you have any questions, you should seek professional advice from your stockbroker, accountant or other professional advisor before deciding whether or not to invest.

## 6. HOW TO ACCEPT

### Action required by Qualifying Shareholders

- Review this Prospectus and make your investment decision carefully. If you decide to take up all or part of your Entitlement, please complete the attached Entitlement and Acceptance Form. If you wish to trade your Entitlement, please refer to Section 7.2. Qualifying Shareholders wishing to purchase additional Entitlements should also refer to Section 7.2.
- Qualifying Shareholders may also apply for more than their Entitlement by completing the "Additional Shares and Options" section on the Entitlement and Acceptance Form with the number of Additional Shares and Options you wish to apply for, lodging the completed form and paying the applicable Application Monies. If you are paying by BPAY® you should make payment for the total number of Entitlement Shares and Additional Shares and Options applied for.
- If you request Additional Shares and Options then, subject to this Prospectus, including Ceramic Fuel Cell Limited's absolute discretion to scale back your allocation of Additional Shares and Options (in whole or part), you will be issued these at the same time as other shares issued as part of the Offer. The decision of Ceramic Fuel Cells Limited on the number of New Shares to be allocated to you will be final.
- Use the reply paid or self addressed envelope enclosed with this Prospectus to post the Entitlement and Acceptance Form to the Registry with full payment (if paying by cheque, bank draft or money order). Payment by BPAY® is also available – instructions are set out on the Entitlement and Acceptance Form. If you are paying by BPAY® you do not have to return your Entitlement and Acceptance Form.
- **Your BPAY® payment or your Entitlement and Acceptance Form with full payment must be received by the Registry by the Closing Date, 5.00pm (Melbourne time) 29 October 2014. Applications received after that date may not be accepted.**
- If you are not a Qualifying Shareholder, you may not be entitled to accept an Entitlement under the Offer. For further information, please refer to Sections 7.7.5 and 7.7.6.
- For further information on the Offer generally please see Section 7.

<b>Contacts</b>	<b>Telephone</b>
The Company	+ 61 3 9554 2300
The Registry	1300 850 505 (callers within Australia) +61 3 9415 4000 (callers outside Australia)

## **7. DETAILS OF THE OFFER**

### **7.1 The Offer**

The Company is inviting Qualifying Shareholders, being Shareholders recorded on the Register at the Record Date with an address in Australia or New Zealand, to participate in a pro-rata renounceable rights issue of up to 1,529,530,459 New Shares on the basis of 3 New Shares for every 5 existing Shares held by Qualifying Shareholders on the Record Date. The New Shares will have an offer price of 0.90 cents per New Share to raise up to approximately \$13.7 million, along with an offer to grant one option to subscribe for a new Share for every two New Shares issued, which options shall be exercisable on or before 30 October 2015 with an exercise price of 1.1 cents each.

Qualifying Shareholders may elect to apply for all, some or none of the New Shares and Options offered to them under the Offer, or may elect to trade their Entitlement, including on ASX. Qualifying Shareholders may also be able to purchase additional Entitlements. Qualifying Shareholders wishing to buy or sell Entitlements should refer to Section 7.2.

Qualifying Shareholders will also be entitled to apply for Additional Shares and Options, to take up any shortfall created by not all of the other Qualifying Shareholders taking up all or any of their Entitlements under the Offer. If the Board of CFCL exercises its discretion to make up any shortfall under this Offer, then it may do so under this Prospectus (or otherwise) as a separate offer to third parties of its choosing in the manner outlined in Section 7.10.

Fractional entitlements to New Shares will be rounded down to the nearest whole number.

The Entitlement of each Qualifying Shareholder under the Offer is shown on the personalised Entitlement and Acceptance Form accompanying this Prospectus. If you are a Qualifying Shareholder and did not receive your personalised Entitlement and Acceptance Form, please call the Registry on 1300 850 505 (or, from outside Australia, call +613 9415 4000).

Qualifying Shareholders may accept their Entitlement in full or in part by returning their Entitlement and Acceptance Form and payment of Application Money to the Registry before 5.00pm (Melbourne time) on the Closing Date. Payment may be made via cheque, bank draft, money order or BPAY® by following the instructions as set out on the Entitlement and Acceptance Form. Once an Entitlement and Acceptance Form is returned, or a BPAY® payment is made, it is irrevocable and may not be varied or withdrawn except as allowed at law.

Further information for Qualifying Shareholders on how to accept the Offer is set out in this Section 7.

## 7.2 What You May Do under the Offer – Choices Available

Before taking any action in relation to the Offer, Qualifying Shareholders should read all of this Prospectus including Section 10 (Risk Factors).

The choices available to each Qualifying Shareholder include:

- Taking up their Entitlement in full (refer to Section 7.3);
- Taking up part of their Entitlement (refer to Section 7.4);
- Not taking up any of their Entitlement (refer to Section 7.5);
- Applying for Additional Shares and Options (refer to Section 7.6);
- Selling some or all of their Entitlement, or purchasing additional Entitlements (refer to Section 7.7).

### 7.3 If you wish to take up your Entitlement in full

Qualifying Shareholders wishing to take up all of their Entitlement should complete the accompanying Entitlement and Acceptance Form in accordance with the instructions set out on the Form and return it, together with payment of Application Money for the full amount payable.

### 7.4 If you wish to take up part of your Entitlement

Qualifying Shareholders wishing to take up part of their Entitlement should complete the accompanying Entitlement and Acceptance Form in accordance with the instructions set out on the Form, indicating the number of New Shares and Options they wish to take up together with payment of Application Money for the full amount payable (being 0.90 cents multiplied by the number of New Shares they wish to take up).

### 7.5 If you do not wish to take up any of your Entitlement

Qualifying Shareholders who **do not wish to take up** any of their Entitlement, and who **do not wish to sell** any of their Entitlement, do not have to do anything, and any Entitlement not taken up will automatically lapse. Qualifying Shareholders will receive no payment for a lapsed Entitlement. You cannot sell or transfer your Entitlement to another person, other than as set out in Section 7.2.

### 7.6 If you wish to apply for New Shares and Options beyond your Entitlement

Qualifying Shareholders may, in addition to their Entitlement and in addition to any additional Entitlements purchased in accordance with Section 7.2, apply for any number of Additional Shares and Options under this Prospectus, regardless of the size of their present holding, by completing the relevant section of the Entitlement and Acceptance Form and lodging the completed form and paying the Application Monies.

Additional Shares and Options may be issued/granted from any shortfall in subscriptions for New Shares and Options under the Offer. The Company reserves the right to scale back or reduce to zero the number of Additional Shares and Options applied for by any Qualifying Shareholder. Please note that New Shares and Options in excess of Entitlements will only be allocated to Qualifying Shareholders if there are sufficient New Shares and Options from

Qualifying Shareholders who do not take up their full Entitlements, subject to any scale-back that the Company may apply (in its absolute discretion).

It is an express term that Applicants are bound to accept a lesser number of Additional Shares and Options allotted/granted to them than applied for and Applicants shall be bound to accept a refund of Application Monies in respect of the number of Additional Shares and Options that may have been applied for. No interest will be paid on any money refunded to Applicants in these circumstances.

The Company will treat Qualifying Shareholders as applying for as many New Shares and Options as their Application Monies will pay for in full. Any amount received by the Company in excess of the amount required to be paid by a Qualifying Shareholder to apply for its Entitlement ("**Excess Amount**") may be treated by the Company as an application for as many Additional Shares and Options as that Excess Amount will pay for.

Additional Shares and Options will not be issued/granted to Qualifying Shareholders if such issue would involve a breach of the Listing Rules or any applicable law.

If the Board of CFCL exercises its discretion to make up any shortfall under this Offer, then it may do so under this Prospectus (or otherwise) as a separate offer to third parties of its choosing in the manner outlined in Section 7.10.

## 7.7 Offer is renounceable

The Offer is renounceable, which means that Qualifying Shareholders can buy or sell Entitlements in accordance with this Prospectus. Qualifying Shareholders wishing to sell some or all of their Entitlement must follow the process outlined below. Qualifying Shareholders wishing to purchase additional Entitlements must also follow the process outlined below.

### 7.7.1 Qualifying Shareholders wishing to sell all of their Entitlement on the ASX

If you wish to sell all of your Entitlement on the ASX, please follow the instructions in the section headed "Sale or Disposal of your Entitlement" on the Entitlement and Acceptance Form.

### 7.7.2 Qualifying Shareholders wishing to sell only part of their Entitlement on the ASX, and accept the remainder of their Entitlement

If you wish to sell only a part of your Entitlement on the ASX, please follow the instructions in the section headed "Sale or Disposal of your Entitlement" on the Entitlement and Acceptance Form in respect of the proportion of your Entitlement that you wish to sell on the ASX. In relation to the proportion of your Entitlement that you wish to accept, you will need to complete the accompanying Entitlement and Acceptance Form in accordance with the instructions set out on the Entitlement and Acceptance Form and return it, together with payment of Application Money for the full amount payable.

### 7.7.3 Qualifying Shareholders wishing to sell all or part of their Entitlement other than on ASX

You may elect to sell all or a proportion of your Entitlement to another person other than on ASX.



If you are a Qualifying Shareholder on the issuer sponsored subregister and you wish to sell all or a proportion of your Entitlement to another person, other than on ASX, forward a completed standard renunciation and transfer form (which can be obtained from the Registry) accompanied by the buyer's cheque for the amount (in Australian dollars) corresponding to the New Shares they wish to subscribe for in accordance with this section (being 0.90 cents multiplied by the number of New Shares they wish to take up in accordance with this section), crossed "Not Negotiable" and made payable to "Ceramic Fuel Cells Offer". The completed standard renunciation and transfer form accompanied by the buyer's cheque must be received at the return address on the Entitlement and Acceptance Form by no later than 5.00pm (Melbourne Time) on the Closing Date.

If you wish to sell all or a proportion of your Entitlement to or from a holding on the CHESS subregister, you must engage the CHESS controlling participant for that CHESS holding. You should follow the CHESS controlling participant's instructions as to the most appropriate way for the buyer to take up the Entitlement. Ultimately, payment for New Shares subscribed for must be received at the return address on the Entitlement and Acceptance Form by 5.00pm (Melbourne time) on the Closing Date.

Section 7.7.6 of this Prospectus contains important information regarding applications for New Shares and Options (including applications for Additional Shares and Options) submitted to the Registry or the Company by or on behalf of persons other than Qualifying Shareholders.

#### 7.7.4 Qualifying Shareholders wishing to purchase additional Entitlements

Qualifying Shareholders wishing to purchase additional Entitlements on the ASX should consult with their broker. Qualifying Shareholders wishing to purchase additional Entitlements other than on the ASX should consult with their broker, and should procure that their broker consults with the Registry.

If you are a Qualifying Shareholder on the issuer sponsored subregister and you wish to purchase additional Entitlements from another person, other than on ASX, forward a completed standard renunciation and transfer form (which can be obtained from the Registry) accompanied by a cheque for the amount (in Australian dollars) corresponding to the New Shares you wish to subscribe for in accordance with this section (being 0.90 cents multiplied by the number of New Shares you wish to take up in accordance with this section), crossed "Not Negotiable" and made payable to "Ceramic Fuel Cells Offer". The completed standard renunciation and transfer form accompanied by the cheque must be received at the return address on the Entitlement and Acceptance Form by no later than 5.00pm (Melbourne Time) on the Closing Date.

If you wish to purchase additional Entitlements on or from a holding on the CHESS subregister, you must engage the CHESS controlling participant for that CHESS holding. You should follow the CHESS controlling participant's instructions as to the most appropriate way for you to take up the Entitlement. Ultimately, payment for New Shares subscribed for must be received at the return address on the Entitlement and Acceptance Form by 5.00pm (Melbourne time) on the Closing Date.

### 7.7.5 Non-Participating Foreign Holders

This Prospectus does not constitute an offer in any place in which, or to persons to whom, it would not be lawful to make such an offer. In particular, this Prospectus does not constitute an offer to Non-Participating Foreign Holders. The Company has determined that it would be unreasonable to offer to issue the New Shares and to grant the Options to Shareholders with a registered address outside Australia or New Zealand, after taking into account the number of Shareholders outside Australia and New Zealand, the number and value of the New Shares and Options that would be offered to those Shareholders, and the cost of complying with the laws and regulatory requirements of relevant jurisdictions outside Australia and New Zealand.

Accordingly, the Offer is not being extended to, and no New Shares will be issued and no Options will be granted to, Non-Participating Foreign Holders (other than as expressly permitted in accordance with this Prospectus). Details of the Offer will be sent to Non-Participating Foreign Holders for information purposes only. The Company reserves the right to treat as invalid any Entitlement and Acceptance Form that appears to have been submitted by a Non-Participating Foreign Holder.

The Company has appointed Patersons Securities Limited ACN 008 896 311, as nominee for the Non-Participating Foreign Holders to arrange for the sale of the Entitlements that would otherwise have been available to Non-Participating Foreign Holders. The Company will transfer those Entitlements to Patersons Securities Limited as nominee, who will account to those Non-Participating Foreign Holders for the net proceeds of the sale of Entitlements (if any) on the basis of the timetable set out on page 6 of this Prospectus. Patersons Securities Limited, as nominee, will have the absolute and sole discretion to determine the timing and the price at which those Entitlements may be sold and the manner of any such sale.

Neither the Company nor Patersons Securities Limited in its capacity as nominee will be subject to any liability whatsoever for failure to sell those Entitlements, to sell them at a particular time, or to sell them at a particular price. Any amount paid by Patersons Securities Limited as nominee to Non-Participating Foreign Holders in connection with the sale of Entitlements that would otherwise have been made available to them will be paid in Australian dollars and in accordance with existing payment instructions provided to the Company. Non-Participating Foreign Holders should check those payment instructions and notify the Registry if any changes are required. Neither the Company nor Patersons Securities Limited in its capacity as nominee will be subject to any liability whatsoever in connection with making any payment to Non-Participating Foreign Holders in accordance with payment instructions received from such Non-Participating Foreign Holders.

Patersons Securities Limited will charge the Company nominal fees or expenses in connection with it acting in its capacity as nominee for the purpose of selling Entitlements that would otherwise have been made available to Non-Participating Foreign Holders.

It is possible that there will not be a viable market for Entitlements that would otherwise have been made available to Non-Participating Foreign Holders, and it is possible that any gross proceeds of sale of those Entitlements will be less than

the expenses of the sale. If, in the reasonable opinion of Patersons Securities Limited as nominee, there is not a viable market for those Entitlements or a surplus over expenses of sale cannot be obtained for the Entitlements that would otherwise have been offered to the Non-Participating Foreign Holders, then those Entitlements will be allowed to lapse and they will form part of the shortfall under the Offer.

#### 7.7.6 Applications for New Shares and Options from persons purchasing Entitlements

As mentioned above, this Prospectus does not constitute an offer in any place in which, or to persons to whom, it would not be lawful to make such an offer. In the context of trading in Entitlements (whether or not on ASX) and any resulting application for New Shares and Options (including any application for Additional Shares and Options) submitted to the Registry or the Company, the Company will not issue New Shares and will not grant Options to any person who did not receive the offer of those securities in Australia, and the onus is on applicants to confirm that their application complies with all relevant laws. The Company reserves the right to reject any application or acceptance which it believes comes from a person who did not receive the offer in Australia.

The distribution of this Prospectus in jurisdictions outside Australia or New Zealand may be restricted by law. Persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law.

#### 7.7.7 Deadline for trading of Entitlements

Renounceable rights trading ends on 22 October 2014. This means that you cannot sell or transfer your Entitlement or buy additional Entitlements after this date, so any such transaction must be finalised and effected before close of trading on that date. The Company does not accept any liability for any failure to trade your Entitlement by that date, for any failure to finalise and effect any trade by that date, or for any failure by a stockbroker to carry out the instructions of a shareholder.

#### 7.8 Offer is not underwritten

The Offer is not underwritten.

#### 7.9 Potential dilution of shareholdings

All Shareholders should be aware of the dilutionary impact of the Offer, which is summarised in Sections 8.2, 8.3 and 8.4.

#### 7.10 Placement of Shortfall

The Board of CFCL reserves the right, exercisable in its absolute discretion subject to the Listing Rules and the Corporations Act, to issue New Shares and grant Options to Qualifying Shareholders and other parties to make up any shortfall under this Offer. Securities offered as part of the shortfall under this Offer will be subject to the same Offer Price as under the Offer.

If the Board of CFCL exercises its discretion to make up any shortfall under this Offer, then it may do so under this Prospectus (or otherwise) as a separate offer to third parties of its choosing. It is expected that CFCL would make such an offer within three months of the Closing Date.

#### 7.11 Payment

The Offer Price of 0.90 cents per New Share is payable on acceptance of a Qualifying Shareholder's Entitlement (whether in whole or in part) or application for Additional Shares and Options.

Payment by **cheque, bank draft or money order** must be:

- In Australian currency drawn on an Australian branch of a financial institution; and
- Payable to "*Ceramic Fuel Cells Offer*" and crossed "Not Negotiable". Do not forward cash.

If paying by cheque, bank draft or money order, Qualifying Shareholders must submit a completed Entitlement and Acceptance Form in the reply paid or self addressed envelope provided with this Prospectus.

Qualifying Shareholders are encouraged to submit their completed Entitlement and Acceptance Form and payment as soon as possible. If you have lost the reply paid or self-addressed envelope enclosed with this Prospectus, please send or deliver your Entitlement and Acceptance Form and payment to the Registry at:

Ceramic Fuel Cells Limited Offer  
Computershare Investor Services Pty Limited  
GPO Box 505  
Melbourne VIC 3001  
AUSTRALIA

Entitlement and Acceptance Forms will not be accepted at the Company's registered office or Computershare Investor Services Pty Limited's offices.

#### 7.12 Payment by BPAY®

Payment by BPAY® must be made according to the instructions set out on your personalised Entitlement and Acceptance Form.

**If paying by BPAY®, Qualifying Shareholders do not need to submit a completed Entitlement and Acceptance Form.**

If you have multiple holdings you will have multiple BPAY® reference numbers. You must use the specific customer reference number shown on each personalised Entitlement and Acceptance Form when paying for any Shares that you wish to apply for in respect of that holding. If you inadvertently use the same customer reference number for more than one of your Entitlements, you may be deemed to have applied only for the Entitlement to which that customer reference number applies and any excess amount may be treated as an application for Additional Shares and Options.

**Applicants should be aware that their own financial institution may implement early cut off times with regards to BPAY® payment, and should therefore take this into consideration when making payment.** You may also have your own limit on the amount that can be paid via BPAY®. It is your responsibility to check that the amount you wish to pay via BPAY® does not exceed your limit.

#### 7.13 Application Monies

Application Monies received from Qualifying Shareholders will be held in a bank account established and kept by the Registry solely for the purpose of holding the Application Monies, in accordance with the Corporations Act.

The Company is entitled to retain any interest paid on Application Monies, whether or not allotment and issue of the New Shares and grant of Options takes place. If quotation of the New Shares and Options is not granted by ASX, no New Shares or Options will be allotted/granted and Application Monies will be refunded to Applicants without interest within the time prescribed under the Corporations Act.

#### 7.14 Closing Date

The Company reserves the right to reject any Entitlement and Acceptance Form that is not correctly completed or that is received after the Closing Date or appears to come from a person who is not entitled to apply for or accept any securities in accordance with the terms of this Prospectus.

Your completed Entitlement and Acceptance Form and payment must reach the Registry before 5.00pm (Melbourne time) on 29 October 2014.

The Company reserves the right, subject to the Corporations Act, the Listing Rules and any requirements of ASX, to accept late Applications or to extend the Closing Date without prior notice. If the Closing Date is varied, subsequent dates may also be varied accordingly. Unless the Company decides to accept late Applications or extend the Closing Date, Applications received after 5.00pm (Melbourne time) on 29 October 2014 may be rejected and Application Monies refunded without interest.

#### 7.15 Brokerage, commission and stamp duty

No brokerage, commission or stamp duty is payable by Applicants under the Offer.

#### 7.16 ASX quotation

The Company will apply for the quotation of all New Shares and Options on ASX by no later than seven days after the date of this Prospectus. If official quotation of the New Shares and Options is not granted by ASX within three months after the date of this Prospectus (or any longer period permitted by law), the Offer will be cancelled and Application Monies will be returned (without interest) to Applicants as soon as practicable.

#### 7.17 CHESS

The New Shares and Options will participate from the date of commencement of quotation in the CHESS subregister. They must be held in uncertificated form (ie no share or option certificate will be issued) on the CHESS subregister or on the issuer-sponsored subregister.

Arrangements can be made at any subsequent time to convert your holding from the issuer-sponsored subregister to the CHESS subregister or vice versa by contacting your sponsoring participant.

#### 7.18 Allotment of New Shares and grant of Options

Allotment and issue of New Shares and grant of Options will only be made once the Application Monies have been received and cleared and ASX has granted permission for quotation of the New Shares and Options.

If permission is granted, it is expected the New Shares will be allotted and Options will be granted on 6 November 2014 and confirmation of the issue of the New Shares and grant of the Options will be despatched on 7 November 2014. These dates are indicative only. All New Shares will rank equally with the Shares already on issue from the date of issue.

It is the responsibility of Applicants to determine their allocation prior to trading in the New Shares and Options. Applicants who sell New Shares before they receive their written confirmation of issue, and Applicants who sell Options before they receive their written confirmation of grant, do so at their own risk.

### **8. THE OFFER AND ITS IMPLICATIONS FOR THE COMPANY AND ITS CAPITAL STRUCTURE**

#### 8.1 Purpose of the Offer

The purpose of the Offer is to raise further working capital in order to fund existing operations of the Company, to facilitate further value engineering to drive down manufacturing costs and to allow for the continuation of its research and product development programmes.

The actual use of the proceeds from the Offer may change depending on various factors, and the Directors reserve the right to vary the application of funds in the best interests of all Shareholders.

#### 8.2 Capital structure after the Rights Issue

The following tables set out the Company's current capital structure and its capital structure immediately following the successful completion of the Rights Issue, assuming:

- Maximum number of New Shares are issued in connection with the Offer and maximum number of Options are granted in connection with the Offer;
- No new Shares are issued prior to the Record Date;
- No existing options are exercised prior to the Record Date, and no existing convertible securities are converted prior to the Record Date; and
- The number of shares held by Qualifying Shareholders remains the same at the Record Date.

<b>Share capital</b>	<b>Number</b>
Ordinary shares on issue at the date of this Prospectus	2,549,217,432
Maximum number of New Shares offered under this Prospectus	1,529,530,459
<b>Shares on completion of Offer</b>	4,078,747,891
<b>Options</b>	<b>Number</b>
Listed options granted prior to the date of this Prospectus	Nil
Unlisted options granted prior to the date of this Prospectus	33,030,650
Maximum number of Options offered under this Prospectus	764,765,229
<b>Options on completion of Offer</b>	797,795,879
<b>Convertible Notes</b>	<b>Number</b>
Convertible securities on issue at the date of this Prospectus and on completion of Offer	191,588,785
Bergen convertible notes to a value of US\$825,000	

### 8.3 Dilutionary impact of Offer

The following table outlines the maximum dilution you will be subject to if you do not participate in the Offer. The Company has assumed that the maximum number of New Shares offered under this Prospectus are issued and the maximum number of Options offered under this Prospectus are granted. It has also assumed that no convertible securities are converted into ordinary shares and no existing options are converted into ordinary shares as the current share price is below the known exercise price of such securities.

	<i>Maximum Dilution</i>
Following the Offer	<b>37%</b>

### 8.4 Potential impact of the Rights Issue on control of the Company

If the maximum number of New Shares are issued in connection with the Offer and the maximum number of Options are granted in connection with the Offer and if all those Options are exercised at the same time and new Shares are issued following the exercise of those Options, then this will mean that the Company will issue a total of 2,294,295,689 new Shares in connection with the Offer. This would equate to approximately **47%** of the issued Share capital of the Company, upon completion of the Offer and issue of all new Shares as described above. As such, shareholders should be aware of this potential level of dilution of their shareholdings.

The figure of 47% of the issued Share capital of the Company assumes no new Shares are issued prior to the Record Date, no existing options are exercised prior to the Record Date, and no existing convertible securities are converted prior to the Record Date.

## 8.5 Optionholders

The Company has 33,030,650 unlisted options and nil listed options currently on issue. Of these 8,230,650 have vested and are exercisable under the Company's Directors and Employee Benefits Plan or Share Option Plan.

The Company also granted 24,800,000 options to Bergen Global Opportunity Fund, LP, under the Share Purchase and Convertible Security Agreement dated 24 March 2014 between the Company and Bergen Global Opportunity Fund, LP.

Existing optionholders will not be entitled to participate in the Offer unless they:

- Are entitled to exercise their existing options under the terms of their issue, and
- Exercise their existing options and have new Shares issued to them prior to the Record Date and thereby participate in the Offer as a result of being a holder of Shares registered on the Register before 7.00pm]on the Record Date.

All of the options which have vested have exercise prices which are higher than the Offer Price.

In the event that all previously granted options that have vested and are exercisable, are exercised in the manner outlined above before the Record Date, then a further 19,818,390 New Shares and a further 9,909,195 Options will be offered pursuant to this Prospectus.

## 8.6 Market price of Shares

The highest and lowest market sale price of the Company's Shares on ASX during the three calendar months immediately preceding the date of issue of this Prospectus, the monthly volume weighted average price ("**VWAP**") and the last market sale share price on the last day of trading before lodgement are set out below:

<i>3 month high</i>	<i>3 month low</i>	<i>Last market sale share price on 26 September 2014</i>
1.4 cents	1 cent	1.2 cents

<b>Month</b>	<i>June 2014</i>	<i>July 2014</i>	<i>August 2014</i>	<i>September 2014 (up to 26 September 2014)</i>
<b>VWAP</b>	1.3 cents	1.3 cents	1.1 cents	1.2 cents

Patersons Securities Limited prepared all trading data in Section 8.6 but it has not consented to the use of this data in this document.

The Offer Price of 0.90 cents per New Share represents a discount of 25% to the last market sale share price of 1.2 cents.



## 8.7 Investment risks

Investors should carefully read the section on risk factors in Section 10 of this Prospectus. An investment in New Shares involves various risks, a number of which are specific to the Company. An investment in New Shares should therefore be regarded as speculative.

## 8.8 Taxation

It is the responsibility of all Applicants to satisfy themselves of the particular tax consequences that apply to them, by consulting their own professional tax advisers. Neither the Company nor any of its officers, employees or agents, nor its taxation or other advisers accepts any liability or responsibility in respect of taxation consequences connected with the Offer.

## 8.9 Enquiries

If you are uncertain about any aspect of this Prospectus, including whether the Offer is a suitable investment for you, you should seek professional advice from your stockbroker, lawyer, accountant or other professional adviser.

## 8.10 New Shares

New Shares issued pursuant to this Prospectus will rank equally in all respects with existing Shares, from their date of issue, which is expected to be on or about 6 November 2014. Statements of confirmation of the issue of the New Shares are expected to be despatched in accordance with the Listing Rules. A summary of the rights and liabilities attaching to New Shares is set out in Section 12.2 of this Prospectus.

Please refer to Section 12.3 which details the rights and liabilities attaching to the Options.

# 9. OVERVIEW OF THE COMPANY AND ITS OPERATIONS

## 9.1 Overview

CFCL has a broad portfolio of wholly-owned intellectual property, including 28 patent families (ie a single invention covered in multiple jurisdictions) that have been granted in key global markets.

CFCL makes small scale generators that use proprietary fuel cell technology to convert natural gas into electricity and heat for homes and small commercial buildings. Our BlueGEN® product provides electricity and heat for hot water for homes and other buildings at 60% electrical efficiency and with up to an additional 25% of energy being recovered as heat. The Directors believe this electrical efficiency is higher than any other technology in the very large market for small scale power and heating products.

Following the Company's announcement on 30 June 2014 regarding technology improvements that have significantly reduced degradation rates of its fuel cell stacks, there has been significant interest in its technology from Japan, China and North America and the Company is in discussions with a number of organisations with regard to the development of additional products for these markets. At this time, limited financial resources prohibit CFCL from undertaking these projects and the Company remains essentially a single product Company at this time, however, if finances allow, the Company intends to develop a lower power output electrical generator and integrated product aimed at penetrating the residential heating market. Developments of larger systems will require additional levels of resources

and discussions are proceeding with a number of organisations to secure the appropriate financial support. These activities may lead to the Company becoming a multiple product business.

In March 2014, the Company reviewed its sales and marketing strategy and reduced its direct sales and marketing efforts due to limited financial resources. This was done with reluctance as the Board is aware that it needs to increase its sales significantly in order to become cash flow positive. At the same time, the Company restructured its operations to reduce operating costs by 20%.

The current sales and marketing strategy is to focus on indirect and large-scale project based sales. Development of these large-scale project based sales is progressing and discussions are being held with several interested parties in the UK. The Board anticipates a number of these targeted projects will be converted into orders in the near future. The Company continues to monitor the markets of Japan, Korea, China and North America and is actively pursuing opportunities with potential distribution partners in these regions as well as in Europe.

The Company sold 210 units in FY2014 which was a 43% increase on the previous year. The Company acknowledges that, while there is the basis to significantly increase sales volumes through large-scale projects, there is also the opportunity to secure the business' future viability through actively pursuing strategic partnerships with a number of key distribution partners in Europe, Asia and North America.

As a result of the recent restructure, the Company's headcount has recently been reduced to 109 full time equivalents, 12 fewer than in March 2014. This reduction, together with a lowering of production volumes until sales orders increase, has resulted in the Company's operating expenditure cash out flow reducing from A\$8.1 million in the March 2014 quarter to A\$2.9 million in the June 2014 quarter. It has also reduced its production volumes considerably in order to conserve cash and to reduce its inventory. Since December 2013, inventory levels have reduced from A\$12.5 million to A\$10.4 million at 30 June 2014.

## **Products**

CFCL's BlueGEN® product provides one and a half kilowatts of electricity as well as heat for hot water for homes and other buildings. Our core Gennex™ fuel cell module is also being integrated by our development partners into micro combined heat and power (mCHP) products which include a boiler for additional space heating.

The Company's products achieve a peak electrical efficiency of 60% which the Directors believe is higher than any other technology in the very large market for small-scale power and heating products. The Directors believe the nearest competitor in this market has an electrical efficiency of approximately 45%.

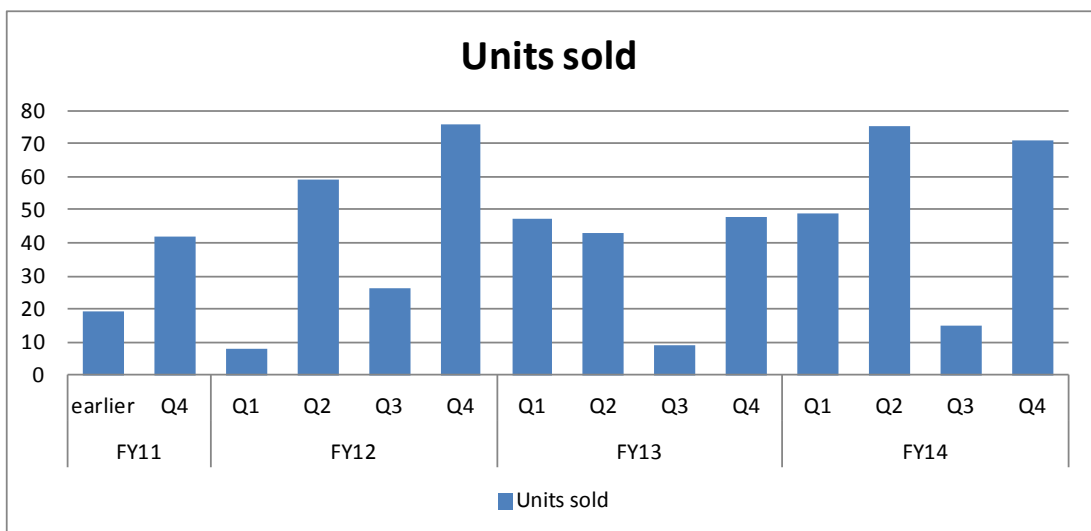
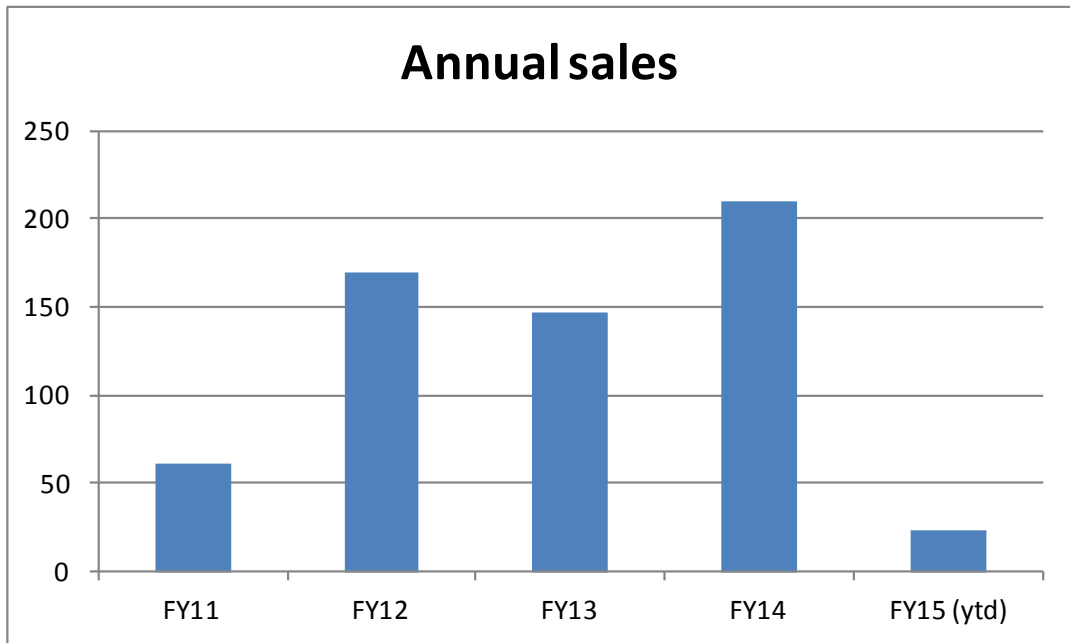
This very high electrical efficiency reduces carbon emissions by up to two-thirds compared to power generated by coal-fired power stations.

The Company has deployed and operated more than 500 units in 11 countries, for combined operation of more than five million hours. This operational performance places the Company as the leading marketer and manufacturer of solid oxide fuel cells in Europe.

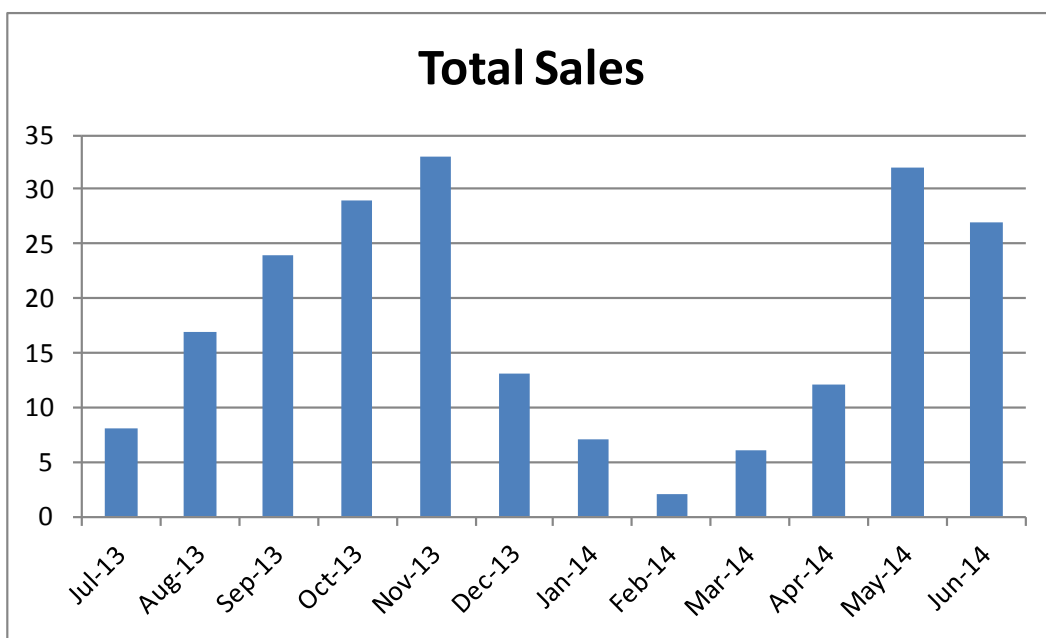
CFCL has received numerous industry awards in Germany, the UK and Australia, the latest being the prestigious European Green Tec award, Europe's premier award for environmental technology, which it received in September 2013.

9.2 Sales and Revenue Growth

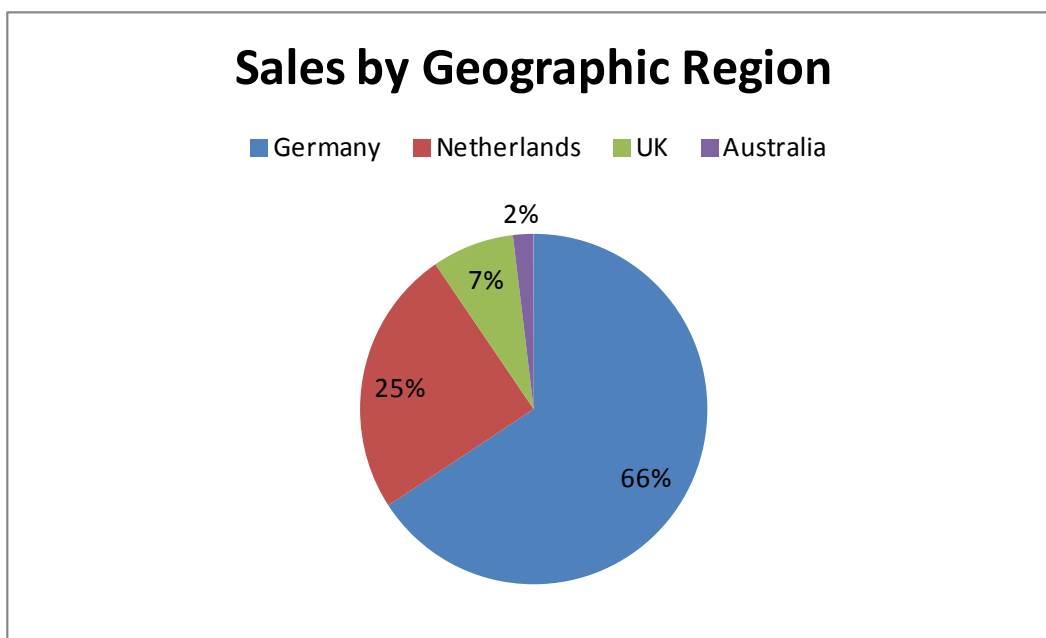
The following graph shows the unit sales volume per annum since FY2011.



Monthly sales for the 12 months to 30 June 2014 were as follows:



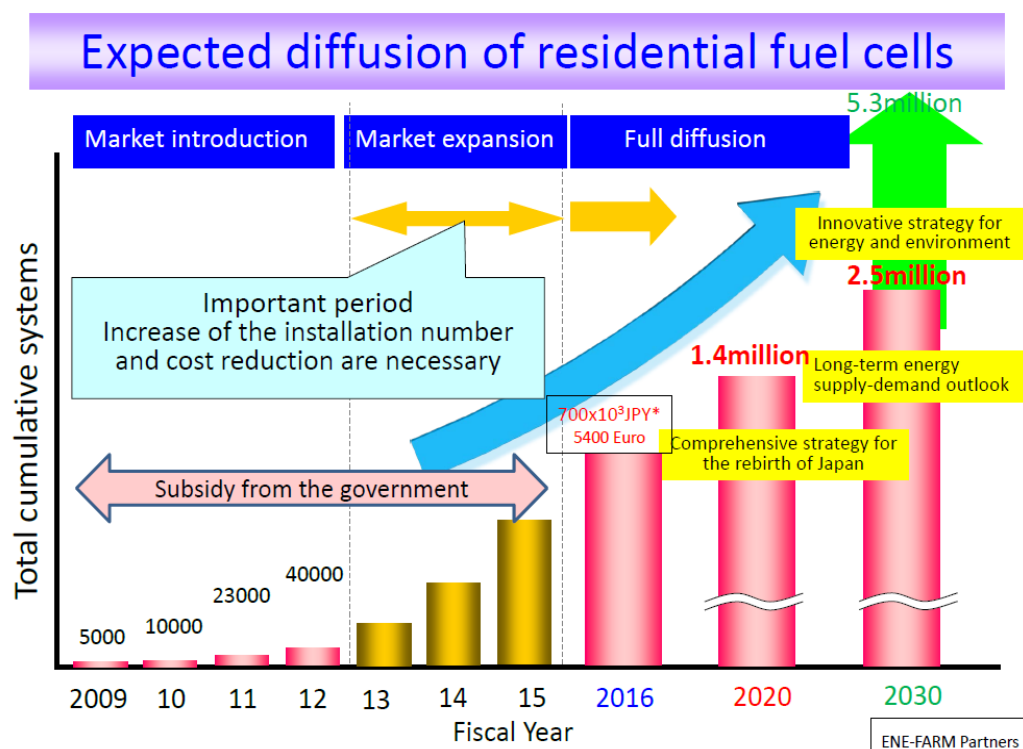
Sales by geographical region for the 12 months to 30 June 2014 were as follows:



Sales activity is now focused in Europe with the primary markets being Germany, the UK and the Benelux region. In FY2014, 210 units were sold compared to 147 units in FY2013. Revenue from continuing operations of A\$6.1 million was up by 43% in FY2014 compared to A\$4.3 million in FY2013.

In July 2014, 6 units were sold, 10 were sold in August and to-date in September 5 have been sold. This slowdown in sales was anticipated given that July and August are generally vacation months in Europe and the UK.

Japan, which is currently the world leader in adoption of residential fuel cells, expects the residential fuel cell market to expand as shown in the following graph.



The Board of CFCL believe that this anticipated growth rate is directly transferrable to other economies such as the Company's target markets of Germany and the UK.

In late 2012, the NRW State Government announced a subsidy scheme for mCHP products. In addition to the NRW subsidies, the Governments in the German states of Hesse, Saxony, Rhineland Palatinate and Baden Wurttemberg have announced funding programmes to support mCHP installations. The level of subsidy per unit differs per State subsidy programme. These subsidies are in addition to the German Federal Government feed-in tariff for mCHP products.

We are seeing further evidence of support in both existing and new markets. European Industry has estimated that in Germany alone market growth will exceed 90% per annum year-on-year through to 2020. This provides confidence of a very strong potential sales pipeline supported by increasing fiscal support schemes.

Policy support for our products in the United Kingdom continues via the feed-in tariff that applies to mCHP units that are accredited under the UK's Microgeneration Certification Scheme (MCS). BlueGEN is currently the only fuel cell based mCHP appliance accredited under the MCS and hence the only fuel cell product eligible for this feed-in tariff.

The Company's reviewed its sales channel strategy in March 2014, and due to limited resources, reduced its direct sales force and marketing communication function and is now concentrating on large-scale projects and indirect sales channels (utilities and installers) to sell its products. Development of these large-scale projects is progressing satisfactorily and the Board is confident that a number of these targeted projects will be converted into orders in the near future.

Following the sale of units for the virtual power plant project on the island of Ameland in the Netherlands, the Company believes that there are significant future sales opportunities for similar projects where our BlueGEN is able to provide a flexible base load to complement renewable energy sources such as wind and solar.

At this time, based on the current cost base of operating its business following the March restructure, the Company will need to sell 3,400 units per annum, at current cost and pricing levels, to obtain a positive cash flow outcome.

### 9.3 Manufacturing and Supply Chain

The Company continues to assemble a low volume of BlueGEN units in Heinsberg, Germany. The individual fuel cell components are shipped to the Heinsberg plant (together with other components) to be assembled into fuel cell stacks. A review of the total supply chain is underway and for some raw materials alternative suppliers are being evaluated in order to establish second suppliers so that the Company does not become exposed to sole suppliers.

The Company's relationship with its fuel cell producer, Chaozhou Three-Circle (Group) Co., Ltd ("CCTC") in China remains strong and the quality of fuel cells being manufactured remains high. CCTC are now being tasked with the production of other stack components and it is anticipated that these products will be introduced into production in the near future. The outsourcing of these stack components to CCTC will result in a significant reduction in costs and it is anticipated that there will be no impact on quality.

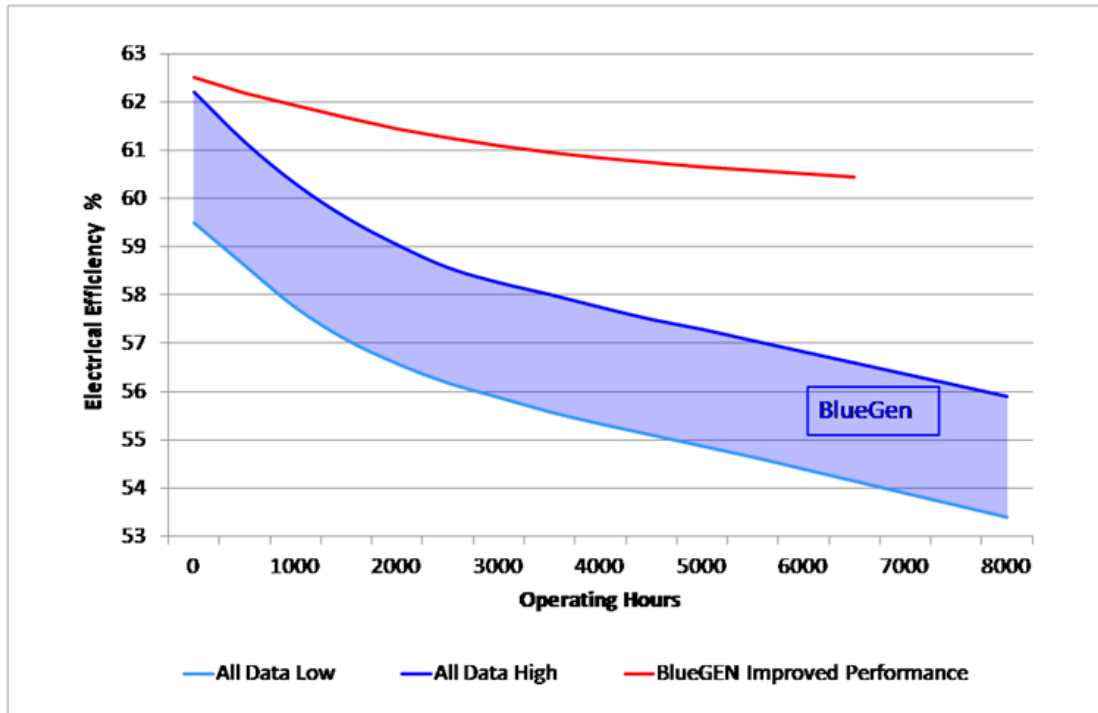
Until sales ramp up, there is no need to increase production capacity, however, once large project sales occur, the Company intends to make further capital expenditures to increase furnace capacity to circa 4,000 – 4,800 stacks per year from the current 1,500. It is expected that this capital expenditure would be approximately A\$5 million.

From June 2012 to June 2014 the Company has reduced the unit standard costs of the BlueGEN product by approximately 29%. Several projects for delivering further reductions in unit cost continue, including the redesign of some high value components, outsourcing selected manufacturing and sub-assembly operations and implementing internal process improvements.

### 9.4 Technology Improvements

On 30 June 2014, the Company announced that recent patented improvements to its BlueGEN product reduced stack degradation rates significantly. Extensive in-house and in-field testing demonstrated a reduction of up to 70% of the average degradation rate experienced in current BlueGEN products. These improvements were also validated in a BlueGEN operating at a site of CFCL's key German customer, EWE.

This substantial decrease in the degradation rates significantly improves the efficiency of the product over the life of the stack as demonstrated by the following graph. The blue shaded section in the graph is representative of the BlueGEN degradation band before the implementation of the patented solution, which is illustrated by the red line.



These patented improvements are presently being introduced into the supply chain and will be incorporated into routine stack production at the Heinsberg assembly facility. It is envisaged that these improvements will reduce the magnitude of the required future warranty provision per unit.

The Research and Product Development team continues to refine the product in order to improve both its robustness to thermal cycling events and the unit's ability to continuously power modulate across the entire operating range. In-house validation testing of enhanced stack technology has demonstrated successful thermal and power cycling under a range of operating conditions. Significant progress continues to be made to fully validate and deliver these refinements into production.

#### 9.5 More Information

More information about the Company, our products and recent activities, and our financial reports, are available at [www.cfcl.com.au](http://www.cfcl.com.au).

More information about our BlueGen product is available at [www.bluegen.info](http://www.bluegen.info).

### 10. RISK FACTORS

#### Risks

Set out below are some of the risks associated with an investment in the Company. Each of these risks could, if it eventuates, have a material adverse impact on the Company's operating performance and the value of its Shares.

## **Pre-profitability**

An investment in the Company should be regarded as high risk given its current stage of development. If the Company experiences delays in meeting its development goals or if the Company's products exhibit technical defects or if the Company cannot meet sales, cost or performance targets, the Company's commercialisation plans will be delayed.

## **Capital raising sensitivity analysis**

The Company intends to raise funding of approximately A\$13.7 million from the issue of New Shares. If all Options are exercised during the Option exercise period, this will raise an additional amount of approximately A\$8.4 million.

These additional proceeds will provide the Company with further working capital required to bolster its sales and marketing activities, leverage economies of scale by placing volume orders with suppliers and to implement further value engineering to drive down manufacturing costs. The funding also allows the Company to continue its research and product development programme and enable it to begin developing a lower power output electrical generator and integrated product aimed at penetrating the residential heating market.

It is not possible for the directors to know in advance how much will be raised under the Rights Issue, and as such, any shortfall in the actual amount raised may have impacts on the Company's ability to continue its operations.

The potential impacts on the Company's current business plan for various levels of funds raised under the Rights Issue are described below.

*If the total amount raised from the Rights Issue (including funds raised upon exercise of the Options) is A\$13 million.*

## **Impact on Financing and the Business**

The Board considers that if A\$13 million was raised under the Rights Issue (including funds raised upon exercise of the Options), this would have the following effects:

- It would allow the Company to execute its current business plan, with minimal contingency for the next 12 months.
- It would strengthen the Company's balance sheet. The Directors believe that this will encourage supply chain partners to further engage with the Company as it moves from ordering components in small volumes (lots of approximately 100) to larger volumes (lots of approximately 1,000). In many cases this requires supply chain partners to invest in the scale-up of their own production capacity. It is expected that through economies of scale this will result in a reduction in the cost of a BlueGEN unit by up to approximately 20%.
- It would allow the Company to fund increased working capital requirements as it increases its marketing activities in order to increase its sales volumes. It would also allow the Company to undertake further engineering work to reduce component and manufactured costs as well as manufacture in greater volumes in order to meet expected sales volumes.
- It would enable the Company to continue its research and product development work and begin developing a lower power output electrical generator and integrated product aimed at penetrating the residential heating market.



- It would provide an opportunity for the Company to increase its sales and marketing activities and hold further discussions with potential strategic partners before seeking further funding.
- It would provide potential customers with the knowledge that they are dealing with a Company that has a sound balance sheet.

*If the total amount raised from the Rights Issue (including funds raised upon exercise of the Options) is A\$6 million.*

### **Impact on Financing and the Business**

The Board considers that if A\$6 million was raised under the Rights Issue (including funds raised upon exercise of the Options), this would have the following effects:

- It would not allow the Company to execute its current business plan for the remainder of FY2015 and additional funding would be required in April /May 2015. It would not allow the Company to undertake the proposed capital expansion at its assembly facility and would reduce the engineering work being done to reduce the manufactured cost of BlueGEN units. The Directors believe this will result in a slower move down the manufacturing cost curve. As a result, in order to make a positive margin on sales, the Company will have to maintain a higher selling price for longer. This in turn is likely to reduce demand for the Company's products.
- If demand for products is higher than that envisaged in the current business plan, the Company would have reduced financial and assembly capacity to respond to this demand, meaning lost sales opportunities.
- It would enable the Company to continue its research and product development work but not enable it to develop a lower power output electrical generator and integrated product aimed at penetrating the residential heating market.
- It would provide an opportunity for the Company to increase its sales and hold further discussions with potential strategic partners before seeking further funding.
- The level of investment that could be made in additional marketing expenditure to grow volume would also be reduced.

*If the total amount raised from the Rights Issue (including funds raised upon exercise of the Options) is A\$2 million.*

### **Impact on Financing and the Business**

The Board considers that if A\$2 million was raised under the Rights Issue (including funds raised upon exercise of the Options), this would have the following effects:

- The Directors believe that this would severely restrict the execution of the Company's current business plan and would require additional funding in February 2015. The Directors believe this could negatively affect both the Company's ability, and the supply chain partners' willingness, to accept orders at the higher 1,000+ volume level and to pass on the resulting lower component costs. This would have negative implications for gross margins and the Company's ability to offer lower selling prices as demand increases.

- It would enable the Company to continue its research and product development work but not enable it to develop a lower power output electrical generator and integrated product aimed at penetrating the residential heating market.
- The Directors believe it would impact sales as potential customers may have concerns regarding the Company's ability to meet its warranty obligations.
- In response, the Company would further reduce both operational and capital expenditure across all its facilities. Engineering cost reduction and research and product development work would be severely curtailed and staff numbers may be reduced.
- It would reduce the timeframe for the Company to hold further discussions with potential strategic partners before seeking further funding.
- The Directors would seek to increase the Company's level of cash resources. Potential sources of future funding may include, but are not limited to:
  - Securing debt financing for working capital requirements; and
  - Further issues of equity.
- The Directors would need to consider the on-going viability of the Company and potentially seek to dispose of its main assets and undertakings.

Notwithstanding anything outlined in this document, the Directors reserve the right to vary the application of funds raised by the Rights Issue in the best interests of the Company.

### **Utility and appliance manufacturer partnerships**

The Company has entered into product development agreements with utility customers and appliance manufacturers to develop mCHP products based on the Company's technology. Those agreements generally contain "stage gates" or milestones (such as the end of a major project phase) at which the parties review the project and agree whether to proceed with the next stage. If the agreed milestones are not achieved, or Government funding is not provided, these orders may be delayed or reduced. The Company's customers and partners also have certain rights to terminate projects.

### **Manufacturing expansion**

To support the Company's commercialisation strategy, the Company needs to manufacture its fuel cell stacks in commercial quantities, in compliance with regulatory requirements and at an acceptable cost. The Company has built a volume fuel cell stack assembly plant in Germany, but has limited experience at volume manufacturing its products. There is no guarantee that the Company can scale up its manufacturing processes as smoothly, quickly or efficiently as it plans to.

### **Core technology**

The Company's future revenues are highly dependent upon products based on its solid oxide fuel cell technology. There is no guarantee that the Company will be able to manufacture products that have reliability, robustness and lifetime performance sufficient to meet the requirements of commercial customers.

## **Product liability**

The Company's technology may contain undetected defects which could harm the Company's reputation, result in loss of customers and revenues, and expose it to product liability claims. Whilst the Company is conducting tests (and will continue to conduct tests) to predict the overall life of its products, the Company has not yet operated its products over the extended period of time required by commercial customers. Therefore there is a risk that the Company's products do not last as long as predicted, or perform according to specifications, which could result in warranty claims and additional costs to the Company.

## **Intellectual property**

The Company relies on a combination of patents, trade secrets, trademarks, copyright and licences, together with non-disclosure and confidentiality agreements, to establish and protect its proprietary rights in its technologies. If the Company is unable to adequately protect its intellectual property rights or becomes subject to a claim of infringement, its business may be materially adversely affected.

## **Dependence on suppliers**

The Company depends on a small number of suppliers to provide key inputs to enable the Company to make its fuel cell stacks, particularly one supplier of fuel cell components, and on other suppliers of components for its BlueGEN product. These suppliers may not be able to develop and supply inputs to meet the Company's requirements for quality, quantity, lead time and cost. If the inputs provided by these suppliers are specialised or proprietary, the Company may be unable to obtain substitutes, which may prevent or delay the Company from successfully commercialising its technology.

## **Growth in the business**

The Company is projecting considerable future growth in its business. The Company will have to maintain close co-ordination among its technical, accounting, manufacturing, sales and marketing and research and product development departments and maintain adequate control systems. The Company will also need to closely co-ordinate its activities with its supply chain partners who may need to invest further to scale up their production capacity to meet the Company's growth projections.

## **Reliance on key personnel**

The Company's success depends to some degree on the continued services of its senior management and key personnel. Whilst the directors believe that the terms of employment of the Company's employees contain robust restrictive covenants, the loss of their services could disrupt the Company's operations and harm its business.

## **Additional funding requirements**

The Company may need to raise further funds to continue to commercialise its technology to the point where the Company is cash flow positive. If the Company requires access to further funding, the Company may be adversely affected if access to capital or debt is not available at all or on commercially acceptable terms. If additional funds should be raised by issuing equity, this might result in dilution to the existing shareholdings at that time.

The Company may not be able to offer first ranking security against new debt, owing to its secured convertible notes, and this may limit the Company's ability to secure loan funding.

## **Exchange rates**

A large proportion of the Company's expenses and liabilities, including those related to research and development, are denominated in Australian dollars and its revenues are (currently) mainly in Pounds Sterling and Euros. The Company does not currently intend to enter into arrangements to hedge these non-Australian denominated cash flows back to Australian dollars. In addition, the Company has assets located outside Australia or denominated in foreign currencies. As a result, the Company's financial results will be subject to the effects of exchange rate fluctuations.

The Company's secured convertible notes are issued in Pounds Sterling and there is foreign currency exposure at the time of repayment. The unsecured convertible notes are issued in US Dollars and there is a foreign currency exposure at the time of repayment.

Each of the Offer Price of 0.90 cents per New Share, and the Option exercise price of 1.1 cents each, represent values in Australian currency. In addition, the currency in which New Shares and Options will be quoted and traded on ASX is Australian dollars. The Offer (and any issue of New Shares and grant of Options in connection with the Offer) may therefore involve a foreign exchange risk for Qualifying Shareholders in New Zealand. The New Zealand dollar equivalent of the Offer Price and Option exercise price, and the value of New Shares and Options (as quoted and traded on ASX), will go up or down according to changes in the exchange rate between the Australian dollar and the New Zealand dollar, which changes may be significant.

Similarly, any amounts paid in respect of the New Shares and Options (including the amount for which the New Shares and Options may be sold on ASX, and any dividends declared and paid by the Company, subject to the terms of issue of the relevant securities) will be in Australian dollars, and the same foreign exchange risk described above will apply. Converting any amounts received in Australian dollars into New Zealand dollars will also be subject to such foreign exchange risk, and may also require payment of significant fees (for example, currency conversion fees and commissions, and bank fees).

## **Share market**

On completion of the Rights Issue, the Shares issued to successful applicants ("**New Shares**") may trade on ASX at higher or lower prices than the issue price. There can be no guarantee that an active market in the Shares on ASX will exist at all times. Investors who decide to sell their Shares after admission may not receive the amount of their original investment.

## **Tax risk**

Although the Company does not currently pay any income tax, due to the existence of accumulated income tax losses, any change to the rate of company income tax in jurisdictions in which the Company operates may impact on future shareholder returns, as will any change to the rates of income tax applying to individuals or trusts. Any change to the tax arrangements between Australia and other jurisdictions could have an adverse impact on future earnings and the level of dividend franking. The Company, under current taxation legislation, is entitled to a tax refund for its Australian research and development expenditure. Any future change in this legislation may impact on shareholder returns and cash flow. Once the Company generates more than A\$20 million in revenue, it may no longer have access to a cash refund.

## **Legislative and regulatory changes**

The Company's technology, or products based on its technology, may not comply with environmental laws or energy regulations in all countries of the world. Any imposition of liability that is not covered by the Company's insurance or is in excess of the Company's insurance coverage could have a material adverse effect on the Company's image, business, financial condition and results of operations. No assurance can be given that the Company will be able to obtain any necessary licence required in the future. Similarly, no assurance can be given that future changes in laws or government policies affecting the Company's technology or products will not have a material adverse effect on the Company's business, financial condition and results of operations.

## **Sales and installation**

The Company's sales strategy is to use indirect sales channels to sell its products and to utilise its direct sales force to secure major projects. The Company must seek to manage these channels to optimise its sales performance.

### *Direct Sales Channel*

The Company has reduced its direct sales force in Europe and is now concentrating on large-scale project sales. The Company has limited experience in securing large-scale projects and if these projects are not secured, this would negatively impact the achievement of the Company's sales objectives.

### *Indirect Sales Channel*

The Company has established, and continues to establish, a network of utilities, distributors and installers to sell, install and service its products. For this strategy to be effective the Company needs to select and train sales and service partners who have the necessary capability, resources and motivation in order to properly sell, install and service the Company's products. A delay by these sales and service partners in selling or installing the Company's products will have a negative impact on the Company's finances.

## **Market and policy risk**

In order to reduce operating costs the Company is now focusing on a small number of European markets, mainly Germany and UK, where there is policy support for its type of products, most notably in the form of subsidies and feed-in tariffs.

There has been recent pressure on clean energy policies in these markets that have seen reductions in the feed-in tariffs applying to certain renewable technologies. If the current policies were to be reduced or removed then this may result in the volume of sales being significantly lower than expected.

## **Pricing Risk**

The Company needs to charge appropriate prices for its products and for ongoing support services and replacement parts. Setting prices for new products made in relatively small volumes with relatively high costs of production, involves balancing two risks: the risk of making a loss on sales (margin risk) versus the risk of making fewer sales (revenue risk). Setting a high price reduces margin risk but if the price is more than customers are prepared to pay, it increases revenue risk. Conversely, discounting the price can lead to more sales, but this forces the Company to sell at a lower margin (or at a loss), increasing margin risk.

If the Company cannot balance these risks across its product range, and through different sales channels in different geographic markets, it may result in lower sales revenue and/or lower or negative margins on sales.

### **Credit Risk**

The Company may supply products to indirect sales channels or end customers on credit terms. This may expose the Company to the risk of non-payment of all or part of the amount due to it.

### **Loan Note Holders are secured creditors**

The Company currently has convertible loan notes on issue. Loan note holders who hold £4.1 million are secured creditors of the Company. In these circumstances, if the Company is unable to repay any amount outstanding in connection with the loan notes, then a person seeking repayment of such amount may institute proceedings seeking (either or both of) repayment of the relevant amount, appointment of a receiver to recover these monies and possibly winding up of the Company if the Company cannot satisfy its repayment obligations. If a receiver is appointed to the Company or it is wound up in these circumstances, the proceeds from sale of the assets of the Company may be used (in whole or in part, depending on the amount outstanding in connection with the loan notes) to repay the outstanding amount.

### **Profitability and commercialisation**

No representations or assurances as to future profitability or dividends can be given by the Company, since these elements are dependent on the future success of the development programs currently being undertaken.

### **Dependence on general economic conditions**

A prolonged deterioration in general economic conditions could be expected to have a material adverse impact on the Company's business and financial condition. Changes to laws and regulations or accounting standards which apply to the Company from time to time could adversely impact on the Company's earnings and financial performance.

## **11. FINANCIAL EFFECT OF THE OFFER ON THE COMPANY**

The Offer will have an effect on the capital structure and the financial position of the Company.

### **11.1 Effect on capital structure**

A maximum of 1,529,530,459 New Shares may be issued under this Prospectus. A maximum of 764,765,229 Options may be granted under this Prospectus. The tables in Section 8.2 set out the Company's current capital structure and its capital structure immediately following the successful completion of the Offer, on the basis of the assumptions set out in that Section.

The Company's actual position on completion of the Offer may differ from the position illustrated in the pro-forma capital structure tables in Section 8.2 above as the Entitlements taken up cannot be determined until the Closing Date.

## 11.2 Effect on financial position – pro-forma balance sheet

The effect on the Company's financial position will be to increase Shareholders' funds and net assets by up to \$13.7 million before payment of the expenses of the Offer before taking into consideration any funds raised from the exercise of any Options.

### **Basis of preparation**

To illustrate the effect of the Offer on the Company, the following pro-forma consolidated balance sheet of the Company is based on the 30 June 2014 accounts audited by the auditor of the Company.

The accounting policies adopted are as described in the Company's Annual Report for the financial year ended 30 June 2014 and should be read in conjunction with that report.

### **Assumptions and qualifications**

The second column in the pro-forma consolidated balance sheet is the Consolidated Balance Sheet as at 30 June 2014 adjusted to reflect the following pro-forma transactions:

- the position as if the Offer was fully taken up and effected on 30 June 2014 and as if no Shares are issued pursuant to the exercise of existing options on or before the Record Date.
- receipt of \$13.7 million under the Offer from the issue of the New Shares and grant of Options, but assuming no exercise of any of the Options.
- the payment of costs associated with the Offer of A\$0.2 million.

The Company's actual financial position on completion of the Offer may differ from the position illustrated in the pro-forma capital structure and pro-forma balance sheet due to:

- Movements in profit and loss and in the asset and liability levels during the period between 30 June 2014 and the date when the Offer is completed.
- The actual amount raised by the Offer only being known when the Offer has closed. The pro-forma capital structure and the pro-forma balance sheet assume the Offer is fully subscribed.

## Pro Forma Consolidated Balance Sheet

	Actual results to 30 June 2014	Pro forma balance sheet figures
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	5,310	18,783
Trade and other receivables	465	465
Other	259	259
Inventory	10,431	10,431
<b>Total Current Assets</b>	<b>16,465</b>	<b>29,938</b>
<b>Non-Current Assets</b>		
Other	236	236
Property, plant & equipment	9,628	9,628
Intangible assets	1	1
<b>Total Non-Current assets</b>	<b>9,865</b>	<b>9,865</b>
<b>Total Assets</b>	<b>26,330</b>	<b>39,803</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	1,734	1,734
Borrowings	348	348
Other liabilities	1,275	1,275
Provisions	2,849	2,849
<b>Total Current Liabilities</b>	<b>6,206</b>	<b>6,206</b>
<b>Non-Current Liabilities</b>		
Borrowings	7,481	7,481
Derivative Financial Instruments	760	760
Other liabilities	1,217	1,217
Provisions	2,751	2,751
<b>Total Non-Current Liabilities</b>	<b>12,209</b>	<b>12,209</b>
<b>TOTAL LIABILITIES</b>	<b>18,415</b>	<b>18,415</b>
<b>NET ASSETS</b>	<b>7,915</b>	<b>21,388</b>
<b>EQUITY</b>		
Contributed equity	301,728	315,201
Reserves	3,846	3,846
Accumulated Losses	-297,659	-297,659
<b>NET EQUITY</b>	<b>7,915</b>	<b>21,388</b>



## **12. ADDITIONAL INFORMATION**

### **12.1 Continuous disclosure and inspection of documents**

The Company is a disclosing entity for the purpose of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations.

The Company believes that it has complied with the general and specific disclosure requirements of the Corporations Act and Listing Rules, which require the Company to notify ASIC of certain information and notify ASX of information about specific events or matters as they arise, for the purpose of ASX making that information available to the market conducted by ASX.

This Prospectus is issued under section 713 of the Corporations Act. This section enables disclosing entities to issue a prospectus in relation to securities in a class which has been continuously quoted by ASX at all times during the 12 months before the date of the Prospectus. Apart from prescribed matters, this Prospectus need only contain information relating to the terms and conditions of the Offer, the effect of the Offer on the Company and the rights and liabilities attaching to the New Shares and Options. Accordingly, this Prospectus does not contain the same level of disclosure as an initial public offer prospectus. This Prospectus should therefore be read in conjunction with publicly available information in relation to the Company (including but not limited to announcements to ASX and AIM made by the Company, and announcements made on the Company's website).

Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an office of ASIC.

The Company will make available a copy of each of the following documents, free of charge, to any person who asks for it before the Closing Date:

- The annual report for the year ended 30 June 2014;
- The interim financial report for the half-year ended 31 December 2013;
- The quarterly cashflow report for the 12 month period ended 30 June 2014; and
- The preliminary final report for the 12 months ended 30 June 2014.

This Prospectus contains details specific to the Offer. If you require any further information about the Company, the Directors recommend that you visit the Company's website, [www.cfcl.com.au](http://www.cfcl.com.au). You may also request a hard copy of any of the above documents from the Company.

### **12.2 Rights attaching to New Shares**

#### **General**

New Shares issued pursuant to this Prospectus will be fully paid ordinary shares in the capital of the Company and will rank equally from the date of issue with the existing Shares. The rights and liabilities attaching to Shares are set out in the Company's Constitution and are regulated by the Corporations Act, the general law, the Listing Rules and the Settlement Rules. The Company will provide a copy of its Constitution free of charge to any person on request on or before the Closing Date. A copy is also available at [www.cfcl.com.au](http://www.cfcl.com.au).

Set out below is a summary of the principal rights and liabilities attaching to Shares. This summary is not exhaustive and is not a definitive statement of the rights and liabilities of Shareholders.

### **Voting**

The Constitution provides that, at a general meeting:

- On a show of hands, each Shareholder present has one vote; and
- On a poll, every Shareholder present has one vote for each fully paid share held.

### **General meetings and notices**

Each Shareholder is entitled to receive notice of, and to attend and vote at, the Company's general meetings and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act or the Listing Rules.

### **Dividends**

Subject to the Corporations Act, the Company's profits which the Directors determine to distribute by way of dividends are divisible amongst the holders of Shares in proportion to the amounts paid on the Shares.

### **Power to issue shares**

Subject to the Listing Rules, the Board may issue such number of Shares as it determines. The Board may issue shares in the Company with different class rights on the terms and conditions and for the consideration it thinks fit. At present, the Company only has ordinary Shares on issue and has no current plans to create further classes of Shares.

### **Pre-Emptive Rights**

Holders of Shares do not have any pre-emptive rights under the Constitution. Under the Listing Rules, certain restrictions apply to a listed company offering its Shares otherwise than pro-rata among shareholders.

### **Small Holdings**

Subject to the Listing Rules and Settlement Rules, the Company may sell the shares of a Shareholder who holds less than a marketable parcel of shares.

### **Buy Backs**

Subject to applicable laws, in particular the Corporations Act and the Listing Rules, the Company may buy back shares on such terms and conditions as the Board may determine from time to time.

### **Transfer of Shares**

Subject to the Listing Rules and the Constitution, the Shares are transferable in accordance with CHESS (for CHESS approved securities), by instrument in writing in any usual or common form or in any other form that the Directors approve. The Directors may, subject to

the requirements of the Listing Rules, request ASTC to apply a holding lock to prevent a transfer of shares in the Company.

### **Winding-up rights**

Subject to the rights of holders of Shares issued on special terms and conditions, on a winding up of the Company, a liquidator may, with the sanction of a special resolution of the Company, divide among the Shareholders in kind the whole or any part of the Company's property. The liquidator may set such value as it deems fair on any property to be so divided and may determine how the division is to be carried out as between Shareholders or different classes of holders.

### **Directors**

The minimum number of Directors is three and the maximum is ten. The Board may appoint additional Directors to fill a casual vacancy. The Directors may not reduce the number of Directors below the number in office at the time of the reduction. If the places of retiring Directors are not filled, the retiring Directors, or any Directors who have not had their places filled, shall be deemed to have been re-elected and shall, if willing, continue in office until the next annual general meeting and so on from year to year until their places are filled (unless certain circumstances arise, such as the Directors making a determination that the number of Directors be reduced, or resolving not to fill vacated offices). At each of the Company's annual general meetings, one-third of the Directors (or, if the number of Directors is not a multiple of three, then the number nearest to but not exceeding one-third), and any Director still appointed to the Board at the third annual general meeting after which the Director was elected or re-elected, must retire from office. The Managing Director is exempted from retirement by rotation. A retiring Director is eligible for re-election.

### **Amending the Constitution**

In accordance with the Corporations Act, the Constitution may only be amended by a special resolution passed by shareholders holding at least 75% of the shares voted at a general meeting of the Company.

### **Change of control**

There are no provisions in the Constitution which would have the effect of delaying, deferring or preventing a change of control of the Company.

## 12.3 Rights attaching to Options

### **Exercise**

An Option may be exercised by delivery to the Company of a duly completed notice of exercise of Options, signed by the registered holder of the Option, together with payment to the Company of 1.1 cents per Option being exercised (subject to adjustment on the terms set out below) and provision of the relevant option certificate.

An Option may be exercised on any business day from the date of grant to 30 October 2015 (inclusive) but not thereafter. A notice of exercise of Options is only effective when the Company has received the full amount of the exercise price in cash or cleared funds.

### **Shares issued upon exercise of Option**

Upon exercise of an Option, the holder will be issued and allotted one new Share. Each new Share issued and allotted upon exercise of an Option ranks equally with other issued Shares of the Company from date of issue, and otherwise will be subject to the rights and liabilities outlined in Section 12.2.

### **Transfer/transmission**

An Option may be transferred or transmitted in any manner approved by the ASX.

### **Dividend entitlement**

Options do not carry any dividend entitlement until they are exercised.

### **Participating rights**

For determining entitlements to the issue, an Option holder may only participate in new issues of securities to holders of Shares in the Company if the Option has been exercised and Shares allotted in respect of the Option before the relevant record date. The Company must give at least six business days' notice to Option holders of any new issue before the relevant record date for determining entitlements to the issue in accordance with the Listing Rules.

If between the date of issue and the date of exercise of an Option the Company makes one or more rights issues (being a pro rata issue of Shares in the capital of the Company that is not a bonus issue), in accordance with the Listing Rules, the exercise price of Options on issue will be reduced in respect of each rights issue according to the following formula:

$$NE = OE - \frac{E[P-(S+D)]}{N+1}$$

where:

**NE** is the new exercise price of the Option;

**OE** is the old exercise price of the Option;

**E** is the number of underlying Shares into which one Option is exercisable;

**P** is the volume weighted average market price per Share calculated over the five trading days ending on the day before the ex-rights date or ex entitlements date (excluding special crossings and overnight sales);

**S** is the subscription price for a Share under the rights issue;

**D** is the dividend due but not yet paid on each Share at the relevant time (except those to be issued under the pro rata issue); and

**N** is the number of Shares that must be held to entitle holders to receive a new Share in the rights issue.

If there is a bonus issue to the holders of Shares in the capital of the Company, the number of Shares over which the Option is exercisable will be increased by the number of Shares which

the holder of the Option would have received if the Option had been exercised before the record date for the bonus issue.

### **Reconstructions and alteration of capital**

Any adjustment to the number of outstanding Options and the exercise price under a reorganisation of the Company's share capital must be made in accordance with the Listing Rules at the time of the reorganisation.

### **ASX listing**

The Company must make application for quotation of the Options and for quotation of Shares issued on exercise of the Options on the ASX in accordance with the Listing Rules.

## 12.4 Interests of Directors

No Director:

- Holds or has held in the last two years before the lodgement of this Prospectus with ASIC any interest in:
  - the formation or promotion of the Company; or
  - any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer under this Prospectus; or
  - the Offer under this Prospectus, or
- Has been paid or has agreed to be paid or has received or has agreed to receive any benefits:
  - to induce them to become, or to qualify as, a Director; or
  - for services rendered by them in connection with the formation or promotion of the Company or the Offer under this Prospectus.

### **Shareholdings of Directors**

The following table sets out the relevant interests in Shares held by each Director as at the date of this Prospectus:

<b>Director</b>	<b>Number of Shares</b>	<b>Number of options</b>
Mr Alasdair Locke	<i>283,258,782</i>	<i>nil</i>
Mr Robert Kennett	<i>360,000</i>	<i>nil</i>
Mr Clifford Ashby	<i>nil</i>	<i>nil</i>
Dr Karl Föger	<i>1,492,634</i>	<i>934,450</i>

**Note:** This table does not take into account any New Shares or Options the Directors may acquire under the Offer.

### **Directors' deed of indemnity, insurance and access**

The Company has entered into deeds of indemnity, insurance and access with each Director. To the extent permitted by law and subject to the restrictions in section 199A of the Corporations Act, the Company must continuously indemnify each Director against liability (including liability for costs and expenses) for an act or omission in the capacity of Director.

However, this does not apply in respect of any liability:

- to the Company or a related body corporate;
- to some other person that arises from conduct involving a lack of good faith;
- for costs and expenses incurred by the Director in defending civil or criminal proceedings in which judgment is given against the Director or in which the Director is not acquitted; or
- for costs and expenses incurred by the Director in connection with an unsuccessful application for relief under the Corporations Act in connection with the proceedings referred to above.

The Company has also agreed to insure the Directors and provide the Directors with access to Board documents circulated during the Director's term in office.

#### 12.5 Disclosure of interests of advisers

Except as set out in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus:

- has any interest, or has had any interest during the last two years, in the formation or promotion of the Company, or in property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or the offer of the New Shares; or
- has been paid, or has agreed to be paid, any amount, or
- has received or agreed to receive any benefit that has been given, or agreed to be given, in connection with the services provided by the person in connection with the formation or promotion of the Company, or the offer of the New Shares.

DLA Piper Australia has acted as legal adviser to the Offer and has generally advised in relation to due diligence enquiries and is entitled to receive approximately \$143,000 plus disbursements and GST in respect of these services. Further amounts may be paid to DLA Piper Australia in accordance with its usual time-based charge-out rates.

Computershare Investor Services Pty Limited is providing registry and mailing assistance in relation to the Offer and is entitled to receive approximately \$50,000 in respect of these services.

Patersons Securities Limited has agreed to be the nominee for the sale of Ineligible Shareholders Entitlements to the offer of securities under this Prospectus and is entitled to receive \$5,000 in respect of these services together with brokerage of 1.5% of the transaction value of securities sold by them on behalf of these entities..

## 12.6 Consents and disclaimers

None of the persons named below has authorised or caused the issue of this Prospectus or made any statement that is included in this Prospectus, or any statement on which a statement made in this Prospectus is based, except as stated below. Each of the persons named below expressly disclaims and takes no responsibility for any statements or omissions from this Prospectus. This applies to the maximum extent permitted by law and does not apply to any matter to the extent to which consent is given below.

### **Consents to be named**

The following persons have given and have not, prior to the lodgement of this Prospectus with ASIC, withdrawn their written consent to be named in this Prospectus in the form and context in which they are named.

DLA Piper Australia has consented in writing to be named in this Prospectus as solicitors for the Company and has not withdrawn that consent prior to this Prospectus being lodged with ASIC.

Computershare Investor Services Pty Limited has consented in writing to be named in this Prospectus as the Registry for the Company and has not withdrawn that consent prior to this Prospectus being lodged with ASIC.

PricewaterhouseCoopers has consented in writing to be named in this Prospectus as the auditor for the Company and audited the accounts of the Company as at 30 June 2014. It has not withdrawn that consent prior to this Prospectus being lodged with ASIC.

Patersons Securities Limited has given its consent to be named as nominee for the sale of Ineligible Shareholders Entitlements to the Offer of securities under this Prospectus, in the form and context in which it is named.

Patersons Securities Limited was not involved in the preparation of any part of this Prospectus and did not authorise or cause the issue of this Prospectus. Patersons Securities Limited makes no express or implied representation or warranty in relation to Ceramic Fuel Cells Limited, the Prospectus or the Offer and does not make any statement in this Prospectus, nor is any statement in it based on any statement made by Patersons Securities Limited.

## 12.7 Expenses of the Offer

The estimated costs of the Offer, including advisory, legal, listing and administrative fees, as well as printing, advertising and other expenses are currently estimated to be approximately A\$0.2 million.

## 12.8 Governing law

This Prospectus and the contracts that arise from acceptance of the Applications are governed by the laws of Victoria and each Applicant submits to the exclusive jurisdiction of the courts of Victoria.

## 12.9 Expiry date

No Shares will be offered on the basis of this Prospectus later than 12 months after the date of this Prospectus.

#### 12.10 Consent to lodgement

This Prospectus is issued by the Company. Each Director has consented to the lodgement of this Prospectus with ASIC as required by section 720 of the Corporations Act.

### 13. GLOSSARY OF TERMS

**"Additional Shares and Options"** means, as the context requires, any or all of the following:

- New Shares and Options that Eligible Shareholders may apply for under Section 7.6 of this Prospectus that comprise any shortfall in subscriptions for New Shares and Options under the Entitlement Offer; and
- any New Shares and Options to be issued by the Company in accordance with Section 7.10 of this Prospectus.

**"AIM"** means the AIM market operated by the London Stock Exchange.

**"Applicant"** means a Qualifying Shareholder who submits a validly completed Entitlement and Acceptance Form and delivers Application Monies.

**"Application"** means a valid Entitlement and Acceptance Form to subscribe for New Shares under the Offer.

**"Application Monies"** means monies received from Applicants in respect of their Applications.

**"ASIC"** means the Australian Securities and Investments Commission.

**"ASTC"** means ASX Settlement Pty Limited (ABN 49 008 504 532).

**"ASX"** means ASX Limited (ABN 98 008 624 691).

**"Board"** means the Directors of the Company acting as a board.

**"CFCL Group"** means the Company and its wholly owned subsidiaries.

**"CHESS"** means the Clearing House Electronic Subregister System, operated by ASTC.

**"Closing Date"** means the date on which the Offer closes, being 5.00pm 29 October 2014 or such other date as Directors determine in accordance with this Prospectus.

**"Company"** (or **"CFCL"**) means Ceramic Fuel Cells Limited ABN 82 055 736 671.

**"Constitution"** means the Constitution of the Company.

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

**"Director"** means each director of the Company at the date of this Prospectus.



**"Dollars (\$)"** means Australian dollars unless otherwise indicated.

**"Entitlement"** means the entitlement to apply for:

- 3 New Shares for every 5 Shares held as at 7.00pm (AEDT) on the Record Date;
- one option to subscribe for a new Share for every two New Shares issued, which options shall be exercisable on or before 30 October 2015, with an exercise price of 1.1 cents each; and
- Additional Shares and Options.

**"Entitlement and Acceptance Form"** means the personalised entitlement and acceptance form to be used by Qualifying Shareholders in connection with the Offer, attached to or accompanying this Prospectus.

**"Listing Rules"** means the listing rules of ASX as in force from time to time.

**"London Stock Exchange"** means London Stock Exchange plc.

**"mCHP"** means micro combined heat and power.

**"New Shares"** means the Shares offered under this Prospectus.

**"Non-Participating Foreign Holder"** means any Shareholder who is not a Qualifying Shareholder.

**"Offer"** means the renounceable offer to Qualifying Shareholders under this Prospectus to take up their Entitlement.

**"Offer Price"** means 0.90 cents per New Share.

**"Options"** means up to 764,765,229 options proposed to be granted in accordance with this Prospectus, being one option to subscribe for a new Share for every two New Shares issued, which options shall be exercisable on or before 30 October 2015, with an exercise price of 1.1 cents each.

**"Prospectus"** means this document (including any electronic form of this document), and any supplementary or replacement form of this document.

**"Qualifying Shareholder"** means a Shareholder recorded on the Register at the Record Date with an address in Australia or New Zealand.

**"Record Date"** means 7.00pm 3 October 2014.

**"Register"** means the Company's register of members.

**"Registry"** means Computershare Investor Services Pty Limited ABN 48 078 279 277.

**"Rights Issue"** means the pro rata renounceable rights issue that is the subject of the Offer and outlined in the Prospectus.

**"Securities"** has the meaning given by section 9 of the Corporations Act.

**"Settlement Rules"** means the rules produced by ASTC that govern the operation of ASTC.

**"Shares"** means fully paid ordinary shares in the capital of the Company.

**"Shareholder"** means a holder of Shares recorded on the Register.

## CORPORATE DIRECTORY

<b>Board of Directors</b>	
Mr Alasdair Locke	Chairman
Mr Robert Kennett	Managing Director, Chief Executive Officer
Mr Clifford Ashby	Executive Director, Chief Financial Officer
Dr Karl Föger	Non-Executive Director
Mr Glenn Raines	Company Secretary
<b>Registered Office</b>	170 Browns Road NOBLE PARK VIC 3174 AUSTRALIA Telephone: +613 9554 2300 Facsimile: +613 9790 5600 Website: <a href="http://www.cfcl.com.au">www.cfcl.com.au</a>
<b>ASX code:</b>	CFU
<b>Lawyers</b>	DLA Piper Australia Level 21 140 William Street MELBOURNE VIC 3000 AUSTRALIA
<b>Auditor</b>	PricewaterhouseCoopers Freshwater Place Level 19 2 Southbank Boulevard SOUTHBANK VIC 3006 Australia
<b>Registry</b>	Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street ABBOTSFORD VIC 3067 Australia Telephone 1300 850 505 Website: <a href="http://www.computershare.com.au">www.computershare.com.au</a>