



LETTER TO OPTIONHOLDERS

29 September 2014

Dear Optionholder

Ceramic Fuel Cells Limited - renounceable rights issue

Ceramic Fuel Cells Limited (**Company**) has recently announced to ASX that it is undertaking a 3 for 5 renounceable rights issue to raise a maximum of approximately \$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 (**Record Date**) at an offer price of 0.90 cents each (**New Shares**); 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.

All New Shares issued will rank equally in all respects from the date of allotment with the Company's shares currently quoted on ASX.

Entitlements will be rounded down to the nearest whole number and holdings on different registers or sub-registers will not be aggregated to calculate entitlements. The rights issue is renounceable, which means that entitlements can be sold or otherwise transferred on the terms set out in the prospectus.

Qualifying Shareholders

Only those shareholders with registered addresses in Australia and New Zealand will be entitled to participate in the rights issue (**Qualifying Shareholders**).

The Company has determined that it is unreasonable to make offers to shareholders under an Australian prospectus other than to Qualifying Shareholders having regard to the number of shareholders outside of Australia and New Zealand, the number and value of the shares that would be offered and the cost of complying with legal and regulatory requirements outside of those countries.

Optionholders' participation in the rights issue

Optionholders cannot participate in the rights issue, with respect to their options, without exercising those options prior to the Record Date. Check the terms and conditions of your options to determine whether those options may be exercised prior to the Record Date.

Please note that the Exercise Price of your options is higher than the current market price of the Company's shares, and the offer price under the rights issue. Therefore, if you exercise your options you will be required to pay more for your shares than the current market price.

However, if you wish to exercise your options in order to participate in the rights issue, please ensure a notice of exercise (together with payment) in accordance with the option terms is received by the Company before 7.00pm on 3 October 2014.

Applications

Optionholders who become shareholders by exercise of their options prior to the Record Date will be mailed a prospectus accompanied by a personalised entitlement and acceptance form to subscribe for New Shares under the rights issue. To participate in the rights issue, Qualifying Shareholders must

complete and return the entitlement and acceptance form accompanied by the relevant payment to the Registry as described in the prospectus.

Purpose of the rights issue

The purpose of the rights issue 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 greater detail in the prospectus.

Additional information

If you have any queries at this time, please phone Computershare on 1300 850 505 or phone our office on +613 9554 2300 or send an email to investor@cfcl.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A. Locke', with a stylized flourish at the end.

Mr Alasdair Locke

Chairman, Ceramic Fuel Cells Limited