

# Ceramic Fuel Cells Limited

## ACN 055 736 671

## Cleansing Statement

10 May 2013

This Cleansing Statement has been prepared for the purposes of Section 708(12C)(e) of the *Corporations Act, 2001* (Cth) (as inserted by ASIC Class Order 10/322) to enable fully paid ordinary shares (**Shares**) in the capital of the Ceramic Fuel Cells Limited ACN 055 736 671 (**CFCL** or the **Company**) issued on conversion of convertible loan notes (**Notes**) issued by CFCL to the following parties:

- The Caddis Master Fund Limited
- Southern Fox Investments Ltd
- Aequitas Investments Limited
- HFM Pty Ltd
- The City of Bradford Metropolitan District Council (on behalf of the West Yorkshire Pension Fund)
- Artemis Alpha Trust plc
- HSBC Global Custody Nominee (UK) Limited A/C 811548
- Alasdair Locke
- Arden Partners PLC
- TFC Capital LLP
- Bradshaw Asset Management Limited
- Innovation Management Limited

(each being a **Noteholder**) to be on-sold to retail investors.

This Cleansing Statement is important and should be read in its entirety.

### 1. CONTENTS OF THIS CLEANSING STATEMENT

This Cleansing Statement sets out the following:

- (a) in relation to the Notes:
  - (i) the effect of the issue on the Company;
  - (ii) a summary of the rights and liabilities attaching to the convertible notes; and
  - (iii) a summary of the rights and liabilities attaching to the ordinary shares that will be issued on conversion of the convertible notes;

- (b) any information that:
  - (i) has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules;
  - (ii) is information that investors and their professional advisors would reasonably require for the purpose of making an informed assessment of:
    - (A) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
    - (B) the rights and liabilities attaching to the Notes; and
- (c) any other additional information including content relating to the Company's status as a disclosing entity and where documents may be obtained.

## 2. BACKGROUND

On 3 May 2012, CFCL entered into a convertible loan note deed and, with each Noteholder, a subscription agreement pursuant to which CFCL agreed to issue, and Noteholder agreed to acquire, convertible notes with an aggregate face value of up to £4,300,000. The Notes will be issued on or about 10 May 2013.

Further background is included in the announcement made by CFCL to the ASX on 6 May 2013.

## 3. EFFECT OF THE ISSUE ON THE COMPANY

Before costs, the Notes will provide some £4,300,000 (approximately AUD6.5 million) to CFCL. CFCL intends to use these funds to provide further working capital for the Company.

To illustrate the effect of the Issue on CFCL, a pro-forma Consolidated Balance Sheet has been prepared based on the Company's Consolidated Balance Sheet as at 31 December 2012. The pro-forma Consolidated Balance Sheet as provided shows the effect of the issue of the Notes as if they had been issued on 31 December 2012.

The accounting policies adopted in preparation of the pro-forma Consolidated Balance Sheet are consistent with the policies adopted and as described in the Company's Financial Report for the half year ended 31 December 2012. In addition to these policies, the following policy has been applied in relation to the treatment of the convertible loan notes in the pro-forma Consolidated Balance Sheet:

*The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note or an appropriate market-based valuation technique. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.*

### Assumptions and qualifications

The first column in the pro-forma Consolidated Balance Sheet is the balance sheet that was subject to review (rather than a full audit) by the auditors as at 31 December 2012. (Refer to the ASX announcement on 27 February 2013 entitled 'Half-yearly Report & Accounts').

The second column in the pro-forma Consolidated Balance Sheet is the balance sheet that was subject to review by the auditors as at 31 December 2012 (as per column one) adjusted to reflect the following pro-forma transactions:

- the position as if the convertible Notes had been issued as at 31 December 2012 and no new ordinary shares arising from the placement of 32,710,300 shares at an issue price of £0.0214 (approximately A\$0.0324) and raising £700,000 (approximately A\$1,061,088) that was announced on 6 May 2013 and is expected to be completed on or about 10 May 2013, had taken place as at 31 December 2012. Also no new ordinary shares are issued pursuant to the exercise of existing options before the date of this cleansing statement.
- receipt of £4,300,000 (approximately \$6,518,114) on issue of the convertible Notes.
- the valuation and recording of the liability element of the Notes (in accordance with the above accounting policy) at an amount of A\$5,549,028 and the recording of an increase in shareholders' equity in the balance sheet of A\$654,821 arising from the valuation of the conversion rights attached to the Notes.
- the payment of costs associated with the issue of the Notes of £207,321 (approximately A\$314,266).
- Transactions in pounds sterling have been converted to Australian dollars at the exchange rate of AUD 1 = GBP 0.6597.

The Company's actual financial position on completion of the issue of the Notes may differ from the position illustrated pro-forma balance sheet due to:

- Movements in profit and loss and in the asset and liability levels during the period between 31 December 2012 and the date of this Statement;

**Pro Forma Consolidated Balance Sheet**

	<b>Actual</b> <b>31 Dec 2012</b> <b>\$</b> <i>Auditor Reviewed</i>	<b>Pro-Forma</b> <b>Balance</b> <b>\$</b> <i>Unaudited</i>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	8,623,772	14,827,621
Cash equivalents (restricted)	2,287,748	2,287,748
Trade and other receivables	803,931	803,931
Inventories	8,130,150	8,130,150
Other	607,956	607,956
<b>Total Current Assets</b>	<u>20,453,557</u>	<u>26,657,406</u>
<b>Non-Current Assets</b>		
Plant and equipment	10,493,855	10,493,855
Intangible assets	1,000	1,000
<b>Total Non-Current Assets</b>	<u>10,494,855</u>	<u>10,494,855</u>
<b>Total Assets</b>	<u>30,948,412</u>	<u>37,152,261</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	1,867,235	1,867,235
Borrowings	279,709	279,709
Provisions	2,915,429	2,915,429
Other liabilities	2,051,392	2,051,392
<b>Total Current Liabilities</b>	<u>7,113,765</u>	<u>7,113,765</u>
<b>Non-Current Liabilities</b>		
Borrowings	917,143	6,466,171
Provisions	1,143,757	1,143,757
Other liabilities	1,409,253	1,409,253
<b>Total Non-Current Liabilities</b>	<u>3,470,153</u>	<u>9,019,181</u>
<b>Total Liabilities</b>	<u>10,583,918</u>	<u>16,132,946</u>
<b>Net Assets</b>	<u>20,364,494</u>	<u>21,019,315</u>
<b>EQUITY</b>		
Contributed equity	288,558,371	289,213,192
Reserves	869,586	869,586
Retained profits/(losses)	(269,063,463)	(269,063,463)
<b>Total Equity</b>	<u>20,364,494</u>	<u>21,019,315</u>

On 6 May 2013 the Company made an announcement to the ASX that included information in relation to the general terms and conditions applying to the issue of the Notes. That announcement noted, in part, the following statement:

*'It is intended that the Loan Notes are secured against the assets of the Company by way of a general security deed. The granting of this security is subject to shareholder approval and an Extraordinary General Meeting of the Company will be convened in order for this security to be granted. In the event that such shareholder approval is not obtained and the security deed is not made effective by 3 September 2013, the Loan Notes and accrued interest become immediately repayable.'*

The Company intends to issue the notice for an Extraordinary General Meeting (EGM) of shareholders shortly which will be accompanied by an explanatory memorandum that will inform shareholders of the issues and explain the resolutions to be put to the meeting and their likely implications.

For the purposes of this Statement it is important to note however that should the EGM reject the resolution for the granting of the general security deed, which would result in the Notes effectively remaining unsecured, then the Notes and accrued interest would become immediately repayable as described above. In such circumstances there is a high probability that the required repayment would place the solvency of the Company in doubt.

Also noted in the announcement on 6 May 2013 was the following statement:

*'Alasdair Locke, Chairman of CFCL, has agreed to subscribe for £200,000 of the Loan Notes (approximately 4.7 per cent. of the Loan Note issue). Under the rules of the Australian Securities Exchange his participation is subject to shareholder approval and an Extraordinary General Meeting of the Company will be convened in order for this approval to be granted.'*

If the EGM should not approve the participation of Mr Locke in the convertible loan note issue then this would reduce the amount of funds raised by £200,000 (approximately A\$300,000) and would reduce the amount of working capital available to the Company. This would not, however, be expected to materially impact the Company's view that it will have sufficient working capital to meet its needs through to the end of calendar year 2013.

#### 4. EFFECT OF THE ISSUE ON THE CAPITAL STRUCTURE OF THE COMPANY

The current issued capital of CFCL (before the issue of the Notes) is set out below:

Type of security	Securities prior to issue of the Notes	Securities following issue of the Notes
Shares	1,559,231,320	1,760,165,899
Options	18,770,665	18,770,665
Shares to be issued on conversion of the Notes	-	200,934,579

On conversion of the Notes (and assuming no other present dilutive securities are converted or exercised, such as options) 200,934,579 new Shares will be issued to the Noteholders, which will give the Noteholders a relevant interest in approximately 11.4% of the total number of Shares.

#### 5. TERMS OF THE NOTES

A summary of the terms of the Notes is set out below:

<b>Issuer</b>	Ceramic Fuel Cells Limited ACN 055 736 671.
<b>Issue Date</b>	Expected to be, 10 May 2013.
<b>Issue Price</b>	Each Note has a face value of £1.00. The aggregate issue price of the Notes is £1.00. Each Note will be paid for in full on issue.
<b>Maturity</b>	The Notes are repayable in full three years from the date of issue or, if the security terms noted below are not approved by shareholders and the security is not granted by 3 September, 2013, then they are repayable at that time. If an Event of Default occurs before the Maturity Date, the Notes may become repayable at that time.
<b>Conversion Price</b>	The Notes convert into Shares at a conversion price of £0.0214 per Share.
<b>Voluntary conversion</b>	The Noteholder may convert the Notes to Shares at any time between the issue date and the date three years after the issue date.
<b>Interest</b>	Interest will be charged at 9% per annum and will accrue daily. Interest will be payable in arrears on each of 1 August, 1 November, 1 February and 1 May.
<b>Security</b>	The Notes will be secured against the assets of the Company subject to receiving member approval at an Extraordinary General Meeting to be called as soon as practical after the issue of the Notes.
<b>Event of Default</b>	It is an event of default if the Company: (a) fails to pay within 21 days after the date when due any principal payable on repayment of any of the Notes, or fails to pay within 14 days after the due date for payment of any interest payable on any of the Notes; (b) if the Company breaches or fails to comply with any of its other material covenants, undertakings or obligations under or in connection with the

	<p>Loan Note Instrument and associated conditions and such breach (where capable of remedy) has not been remedied within 10 Business Days after service of notice on the Company by the Noteholder requiring its remedy; (c) any warranty or statement which is made by the Company in the Loan Note Instrument or associated document proves to be incorrect; (d) it being unlawful for the Company to perform or comply with any of its obligations under the Loan Note Instrument; (e) where the Company sells, transfers, leases or otherwise disposes of all or a substantial part of its business or assets; (f) where any indebtedness of the Company in an aggregate amount of £50,000 or more is not paid when due; (g) is wound up; (h) an encumbrancer takes possession of, or a trustee, receiver, administrative receiver, manager or similar officer is appointed, or an administration order is made in respect of, the Company or in respect of the whole or any substantial part of the assets, rights or revenues of the Company; (i) any attachment, sequestration, distress, execution or other legal process is used, levied or put in force against the whole or any substantial part of the assets, rights or revenues of the Company; (j) the Company makes an arrangement or composition with its creditors generally or an application to a court of competent jurisdiction for protection of its creditors generally; (k) the Company stops (or threatens to stop) payment of its debts generally or ceases (or threatens to cease) to carry on its business or a substantial part of its business, or any other loan notes, loan stock or indebtedness other than trade debts of the Company becomes repayable before the due date by reason of the Company's default; (l) or the Company suffers any event analogous to any of the foregoing in any jurisdiction to which the Company is resident or subject.</p>
<p><b>Ranking on Conversion</b></p>	<p>Each Share issued on conversion will rank equally with all existing Shares then on issue.</p>

## 6. RIGHTS AND LIABILITIES ATTACHING TO NEW SHARES

The New Shares will rank equally in all respects with existing fully paid ordinary Shares in the Company at the conversion date.

The following is a summary of the principal rights attaching to Shares in the Company:

<p><b>Voting</b></p>	<p>Subject to the Constitution and to any rights and restrictions attaching to any class of shares, at meetings of Shareholders or other classes of shareholder, each shareholder entitled to attend and vote may attend and vote in person or by proxy or by attorney and, where the shareholder is a body corporate, by representative.</p> <p>On a show of hands every Shareholder present having the right to vote at the meeting has one vote. On a poll every Shareholder present has one vote for each fully paid Share and, in the case of partly paid Shares or Share held by the Shareholder, a fraction of a vote equivalent to the proportion of the amount paid up or agreed to be considered as paid up on the total issue price of that Share at the time the poll is taken.</p>
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<b>General Meetings</b>	Each Shareholder is entitled to receive notice of and to attend all meetings of members of the Company. Shareholders are also entitled to all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the <i>Corporations Act</i> and the ASX Listing Rules.
<b>Dividends</b>	Subject to the <i>Corporations Act</i> and to any special rights or restrictions attached to any Shares, Directors may from time to time authorise the Company to pay interim and final dividends.
<b>Transfer of Shares</b>	Subject to the Company's constitution, the <i>Corporations Act</i> and the ASX Listing Rules, the Shares are freely transferrable.  Transfer of Shares may be effected by an instrument of transfer in accordance with any computerised or electronic system recognised by the ASX Listing Rules or the <i>Corporations Act</i> including transfers effected in accordance with the ASX Settlement Operating Rules or by an instrument of transfer in any usual or common form approved by the Directors or recognised by the <i>Corporations Act</i> or the ASX Listing Rules.
<b>Variation of rights</b>	The rights attached to any class of share of the Company may, unless their terms of issue state otherwise, be varied or cancelled with the written consent of the holders of three quarters of the issued shares of the class or by a special resolution passed at a separate meeting of the shareholders of the class.
<b>Winding up</b>	If the Company is wound up the liquidator may, subject to a special resolution of the Company, divide the assets of the Company amongst the holders of Shares and may determine how the division will be carried out as between different classes of shares.

## 7. COMPLIANCE WITH CONTINUOUS DISCLOSURE OBLIGATIONS

The Company is a disclosing entity for the purposes of the *Corporations Act* and, as such, subject to regular reporting and disclosure obligations. These obligations include compliance with the requirements of the ASX Listing Rules and the *Corporations Act* concerning notification of information to the ASX. Copies of documents lodged with the Australian Securities and Investments Commission (**ASIC**) in relation to the Company may be obtained from or inspected at an office of ASIC. Copies of announcements made to the ASX by the Company may be viewed on the ASX website.

The Company will also provide a copy of any of the following documents free of charge, to any person on request:

Date	ASX Announcement	Pgs
06/05/2013	Fund Raising – GBP 5 million	4
30/04/2013	Cashflow Report for the quarter ended 31 <sup>st</sup> March 2013	11
30/04/2013	CFCL Funding Update	2
26/04/2013	Trading Halt	1
17/04/2013	CFCL receives order from EWE for 60 integrated mCHP units	2
15/04/2013	CFCL Funding Update	1



13/03/2013	CFC and Alliander plan broad deployment of BlueGEN systems	2
12/03/2013	BlueGEN Technology Receives Substantial State Subsidy	2
05/03/2013	CFC Temporarily Suspends Distribution Agreement with Sanevo	2
01/03/2013	S&P DJ Indices Announces March Quarterly Rebalance	8
27/02/2013	Half Yearly Report and Accounts	31
21/02/2013	CFCL signs distribution agreement with Solar Spirit	2
31/01/2013	Appendix 4C - quarterly	11
30/01/2013	Agreement signed with Energy Services Company iPower	2
02/01/2013	Appendix 3Z for Brendan Dow	2
02/01/2013	Appendix 3Z for John Dempsey	2
02/01/2013	Director Appointment/Resignation	1
02/01/2013	Director Appointment/Resignation	1
29/11/2012	UK Market Update	2
16/11/2012	Company Secretary Appointment/Resignation	1
13/11/2012	Board Changes	2
02/11/2012	Appendix 3B	13
30/10/2012	Final Director's Interest Notice - Rose	2
30/10/2012	Final Director's Interest Notice - Harding	2
30/10/2012	Cashflow Report for the quarter ended 30 September 2012	8
30/10/2012	Results of Annual General Meeting 2012	3
29/10/2012	2012 AGM Presentation by Managing Director Brendan Dow	21
29/10/2012	Chairman's Address to Shareholders	4
29/10/2012	CFU to benefit from German subsidy scheme	2
15/10/2012	CFU organisation change to focus on Europe	2
09/10/2012	UK market update	3
05/10/2012	Appendix 3Y - Kennett	2
03/10/2012	German Virtual Power Plant uses 25 BlueGen units	2
02/10/2012	CFU signs long term Powder Plant Project	1
01/10/2012	Notice of Annual General Meeting/Proxy Form	14
26/09/2012	Appendix 3Y - Dempsey	2
26/09/2012	Appendix 3Y - Dudenhausen	2
26/09/2012	Appendix 3Y - Binks	2
26/09/2012	Appendix 3Y - Hoey	2
26/09/2012	Appendix 3Y - Rose	2
26/09/2012	Appendix 3Y - Harding	2
26/09/2012	Appendix 3Y - Dow	2
26/09/2012	Change of Director's Interest Notice	2
24/09/2012	Appendix 3X - Initial Director's Interest Notice	2
24/09/2012	Director Appointment - Locke	2
21/09/2012	Annual Report FY2012	86
20/09/2012	Issue of shares and compliance notice 708A	2
20/09/2012	Issue of shares and compliance notice	2
20/09/2012	Results of Rights Issue, Overseas Offer and Subscription	2
20/09/2012	Appendix 3B - 20 09 2012	14
13/09/2012	Director Appointment/Resignation	2
11/09/2012	CFU secures strategic investor	2
06/09/2012	Extension to closing date for rights issue	2
03/09/2012	CFU products eligible for new Victorian feed-in tariff	2

31/08/2012	Preliminary Final Report - Correction	16
31/08/2012	Preliminary Final Report	18
15/08/2012	Extension to Closing Date for Rights Issue	2
25/07/2012	Letter to Shareholders	2
25/07/2012	Letter to Shareholders	4
24/07/2012	Appendix 3B	8
24/07/2012	Non-Renounceable Issue	39
24/07/2012	Fundraising for working capital and to maintain growth	3
24/07/2012	Cashflow Report for the June Quarter 2012	7
23/07/2012	BlueGen to benefit from increase in UK Feed in Tariff	2
12/07/2012	Shareholder update presentation	86
12/07/2012	Shareholder update 12/07/12	16
25/06/2012	Crest Nicholson installs BlueGen	4
19/06/2012	BlueGen to be used in VPP project in the Netherlands	3
21/05/2012	Victorian Government review supports FiT for fuel cells	2
10/05/2012	1 million hours of operation	2
08/05/2012	German market update	3
23/04/2012	Appendix 4C - quarterly	12

## 8. INFORMATION EXCLUDED FROM CONTINUOUS DISCLOSURE NOTICES

The Company is not aware of any other information that:

- has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules; and
- is information that investors and their professional advisers would reasonably require for the purposes of making an informed assessment of:
  - the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
  - the rights and liabilities attaching to the Notes.

## 9. CONSENT TO BE NAMED

PricewaterhouseCoopers has consented in writing to be named in this Cleansing Statement in the context of being the auditor for the Company and has not withdrawn that consent prior to this Cleansing statement being published to the ASX.



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Glenn Raines  
Company Secretary