CERAMIC FUEL CELLS

Market Announcement

28 August 2013

Preliminary Results

12 months Ended 30 June 2013.

Ceramic Fuel Cells Ltd (AIM/ASX: CFU), a leading developer of small-scale electricity generators that use fuel cell technology to convert natural gas into electricity and heat at high efficiency for use in homes and other buildings, today announces its preliminary results for the year ended 30 June 2013.

Operational highlights in the period and year to date:

Sales

- CFCL is successfully selling commercialised products to both commercial and retail customers, directly and through a number of distribution partners.
- CFCL has focused its sales activities on Germany and the UK in order to take full advantage of the environmental and energy supply policies supported by a range of fiscal incentives in those countries.
- Due to delays in the formal confirmation of the incentives that were announced in March of this year, there has been a *reduction* in revenue from FY2012. Revenue for the year was AUD 4.3M (GBP 2.6M).
- The primary focus in the last year has been to concentrate on the key European markets, to continue to deliver our units and maximize revenue and cash flow. The number of units sold in this year was 147 compared with 169 in FY 2012.
- In excess of 380 units have now been sold.
- With the formal confirmation of the fiscal incentives in the European market and subsequently an ongoing build up of our sales and marketing resources we remain confident of a substantive increase in unit sales in the coming financial year. It will be necessary to continue to increase our revenue in order to fund the continuing operating costs. The company is addressing this issue by reviewing its pricing policy as well as rigorous management of the operating costs and is continuing to develop a number of options to secure additional working capital.

Product performance

- CFCL continues to have the most efficient technology for small-scale power generation. We remain confident that our technology has a significant advantage over other combined heat and power (CHP) products. The products' very high electrical generation efficiency, combined with an impressive overall CHP efficiency, can significantly reduce carbon emissions and can provide greater value to the customer through the reduction in the marginal cost of electricity.

- Combined total operational hours for our units are now in excess of 3.5 million and they have demonstrated high reliability and electrical efficiency. This has been verified through a number of ongoing independent studies world-wide where the units have been installed in homes, businesses and virtual power plant schemes, particularly in The Netherlands and Germany.

Manufacturing

- The CFCL assembly plant in Heinsberg, Germany, is successfully producing fuel cell stacks, the core component of the product. In addition, the manufacturing capability includes the assembly of complete Gennex fuel cell modules and BlueGen products. The plant is currently able to produce in excess of 160 units per month and capacity is readily scalable to meet future demands with limited investment and production/process reviews.

- CFCL and its furnace supplier have successfully commissioned a large sintering furnace. Over recent months the unit has proven its ability to satisfy rigorous quality and technical parameters and the significantly increasing number of stacks produced are being used for BlueGen customers. The unit has a current capacity of 14 stacks per week (expandable to 16 with minimal additional expenditure) and, together with additional sintering resources, the plant is able to produce 1,200-1,500 stacks per year utilising current operating regimes.

- In 2012 CFCL signed a manufacturing agreement for the production of fuel cell components. This was necessary to enable us to secure higher volume manufacturing capability and to achieve the associated cost reduction objectives. We are pleased to report that the relationship is working well and we are receiving high quality components for use in the BlueGen product. Based on this success we are now evaluating the supply of additional components.

- A major objective of CFCL is to achieve significant cost reductions to ultimately avoid the need for any form of fiscal support. We are continuing to reduce cost by a combination of re-engineering, process improvement and outsourcing of manufacturing to low cost but high quality suppliers. However, the main component of cost reduction will be achieved through higher volume manufacturing and we are currently exploring a number of options with potential supply partners.

Markets

- As previously mentioned, our current focus is on Europe and specifically Germany and the UK. The feed-in tariff formally confirmed at the end of 2012 in the UK and the North Rhine Westphalia (NRW) capital grant announced at the end of March 2013 are important in supporting the initial deployment of our units. In addition, the German CHP law, which is intended to assist in replacing nuclear power by 2020, offers significant opportunities throughout a number of other state governments in Germany. These additional market opportunities will be based on similar market introduction programmes to that of NRW and we are already active in developing them.

Financial Results

Year to 30 June 2013 (unaudited FY13 results)

- Net Loss after Tax AUD 19.8M (GBP 11.9M) (decrease of 34% from FY12)
- Revenue from Operations AUD 4.3M (GBP 2.6M) (decrease of 37% from FY12)
- Net Operating cash outflow AUD 16.7M (GBP 10.0M) (decrease of 32% from FY12)
- Cash balance at 30 June 2013 AUD 10.0M (GBP 6M)

Revenue

The Group's total revenue decreased during the year by 37 percent to AUD $4.3M (GBP 2.6M). The major reason for this decrease was a delay in the anticipated NRW funding programme which led to purchasers holding off buying in the 3rd quarter of the financial year. This led to a very low number of units sold (9) in that quarter compared to 43 in the 2nd quarter and 48 in the 4th. The number of units sold during the year was 147 compared to 169 in the prior year.

Cost of sales, service and warranty

The total cost of units sold during the year was AUD 3.6M (GBP 2.1M). The Group's purchasing strategy of higher volumes of components from specialist, lower cost producers has resulted in significant cost reductions in materials.

Service and support costs totaled AUD 1.1M (GBP 0.6M) and covered the costs associated with installation, system monitoring and provision of maintenance support and training.

The Group adopts a conservative position in relation to potential warranty claims and replacement of parts under service contracts. The expense for the year totaled AUD 3.2M (GBP 1.9M) which compares to the prior year charge of AUD 1.4M (GBP 0.9M). This increase is predominantly due to the increase in numbers of units that have been sold and installed as well as an increase in the length of service contracts.

Operating Expenses

Research and Product Development expenses were AUD 7.8M (GBP 4.7M) which is AUD 3.7M (GBP 2.2M) lower than last year. This reflects the restructure of the Group which took place in the 2nd quarter of FY13, as does the reduction in expenditure on core research and product development activities, which was AUD 7.4M (GBP 4.4M) compared to AUD 11.2M (GBP 6.7M) in the prior year. Expenditure in relation to intellectual property was AUD 0.44M (GBP 0.26M) which was 20% higher than the prior year's AUD 0.36M (GBP 0.22M) predominantly due to an increase in patenting costs.

General and administration expenses were AUD 11.1M (GBP 6.7M) which is AUD 2.1M (GBP 1.3M) lower than last year and occurred predominantly due to the Group's change in purchasing strategy, outsourcing of manufacturing, process improvements and corporate restructuring.

Sales and marketing costs were AUD 2.4M (GBP 1.4M) which, when the savings from closing Australian business development are offset against the increased cost of strengthening our European resources, are in line with the prior year's expenditure.

Net Loss after Tax Attributable to Members

The net loss for the year after tax was AUD 19.8M (GBP 11.9M), a decrease of AUD 10.4M (GBP 6.3M) over the prior year. A tax refund of AUD 5.2M (GBP 3.1M) was received relating to research and development expenditure incurred during the FY12 year. It is anticipated that a refund will again be received in FY14 for the FY13 year, however, at this time it is too early to provide an indication as to the amount of any claim which may be lodged, or the timing of any such receipt.

The net loss after tax represents a loss of AUD 1.31 cents (GBP 0.79 pence) per share compared to a loss of AUD 2.33 cents (GBP 1.40 pence) in the prior year.

Cash flow

The Group's net cash outflow from operations was AUD 16.7M (GBP 10.0M), which was AUD 7.8M (GBP 4.7M) less than last year. This reduced outflow was primarily due to the abovementioned income tax refund of AUD 5.2M (GBP 3.1M) and the savings in operating costs attributable to the previously mentioned restructure.

Cash inflow from investing activities was AUD 1.7M (GBP 1.0M) compared to an outflow of AUD 0.7M (GBP 0.4M) in the prior year. The inflow was mainly due to the release of a security deposit used to provide a bank guarantee in relation to the grant previously received from the NRW Government in Germany.

Cash inflow from financing activities amounted to AUD 17.8M (GBP 10.7M). This mainly arose from the issues of Equity that raised a net AUD 12.1M (GBP 7.3M) and the issue of Secured Convertible Loan Notes that raised a net AUD 5.9M (GBP 3.6M).
At 30 June 2013 the Group had cash of AUD 10.0M (GBP 6.0M) which was held on deposit with banks.

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About Ceramic Fuel Cells Limited:

Ceramic Fuel Cells Limited 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 Limited 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 Limited is also developing fully integrated power and heating products with leading energy companies E.ON UK in the United Kingdom, GdF Suez in France and EWE in Germany.

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

www.cfcl.com.au

CERAMIC FUEL CELLS LIMITED

Clean power for your home

ASX Preliminary Final Report

Year ended 30 June 2013

Lodged with the ASX under Listing Rule 4.3A

Contents

Results for announcement to the market

Year ended 30 June 2013

(Previous corresponding period: Year ended 30 June 2012)

	Movement	***%***		***$***
Revenue from continuing operations	Down	36.5	to	4,265,690
Loss after tax attributable to members	Down	34.5	to	19,777,616
Net Loss for the period attributable to members	Down	34.5	to	19,777,616

Dividend type	Amount per security	Franked amount per security
Final dividend	None	Not applicable
Interim dividend	None	Not applicable

No dividends were recommended, declared or paid during the period.

The Directors do not propose to recommend the payment of a dividend in respect of the period.

There is no dividend re-investment plan in operation.

Brief Explanation of Results

Refer to attached announcement.

Preliminary Consolidated Statement of Comprehensive Income

For the year ended 30 June 2013

	Note	2013 $	2012 $
Revenue from continuing operations	2	**4,265,690**	6,717,104
Cost of sales, service & warranty	4	**(7,851,934)**	(7,590,570)
Gross profit/(loss)		**(3,586,244)**	(873,466)
Other income	3	**791,236**	568,678
Research & Product Development	4	**(7,800,650)**	(11,539,261)
General & Administration	4	**(11,132,354)**	(13,225,527)
Sales & Marketing	4	**(2,369,200)**	(2,373,902)
Net foreign exchange gain/(loss)		**(241,898)**	(88,404)
Impairment charge	4	**(351,383)**	(2,576,718)
Finance costs		**(271,167)**	(89,123)
Loss before income tax		**(24,961,660)**	(30,197,723)
Income tax refund/(expense)		**5,184,044**	-
Loss for the year entirely attributable to members of Ceramic Fuel Cells Limited	11(b)	**(19,777,616)**	(30,197,723)
Other comprehensive income			
Items which may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	11(a)	**2,216,165**	325,475
Other comprehensive income for the year, net of tax		**2,216,165**	325,475
Total comprehensive income/(expense) for the year entirely attributable to members of Ceramic Fuel Cells Limited		**(17,561,451)**	(29,872,248)
		Cents	Cents
Earnings per share for loss attributable to the ordinary equity holders of the company			
Basic and diluted earnings per share	12	**(1.31)**	(2.33)

The above preliminary consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Preliminary Consolidated Balance Sheet

As at 30 June 2013

	Note	2013 $	2012 $
ASSETS			
Current Assets			
Cash and cash equivalents	5(a)	**10,010,131**	6,621,759
Cash and cash equivalents (restricted)	5(b)	**-**	2,224,419
Trade and other receivables		**1,355,437**	2,795,774
Inventories		**9,974,671**	9,328,366
Other		**1,061,057**	514,856
Total Current Assets		**22,401,296**	21,485,174
Non-Current Assets			
Plant and equipment		**10,923,676**	11,323,758
Intangible assets		**1,000**	1,000
Total Non-Current Assets		**10,924,676**	11,324,758
Total Assets		**33,325,972**	32,809,932
LIABILITIES			
Current Liabilities			
Trade and other payables		**2,328,053**	3,364,784
Borrowings	6	**6,145,958**	264,031
Derivative financial instruments	7	**663,878**	-
Provisions	8	**3,356,904**	3,390,648
Other liabilities	9	**1,185,710**	2,977,367
Total Current Liabilities		**13,680,503**	9,996,830
Non-Current Liabilities			
Borrowings	6	**854,947**	1,029,750
Provisions	8	**1,682,678**	886,196
Other liabilities	9	**1,361,522**	-
Total Non-Current Liabilities		**3,899,147**	1,915,946
Total Liabilities		**17,579,650**	11,912,776
Net Assets		**15,746,322**	20,897,156
EQUITY			
Contributed equity	10(b)	**289,650,877**	277,282,387
Reserves	11(a)	**2,327,242**	68,950
Retained profits/(losses)	11(b)	**(276,231,797)**	(256,454,181)
Total Equity		**15,746,322**	20,897,156

The above preliminary consolidated balance sheet should be read in conjunction with the accompanying notes.

Preliminary Consolidated Statement of Changes in Equity

For the year ended 30 June 2013

	Note	Contributed equity $	Reserves $	Retained earnings $	Total equity $
		Entirely attributable to owners of Ceramic Fuel Cells Limited			
Balance at 1 July 2011		260,275,437	(483,853)	(226,256,458)	33,535,126
Total comprehensive income for the year		-	325,475	(30,197,723)	(29,872,248)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	10(b)	16,385,145	-	-	16,385,145
Employee shares - value of employee services	10(b)	621,805	-	-	621,805
Employee share options - value of employee services	11(a)	-	227,328	-	227,328
Balance at 30 June 2012		277,282,387	68,950	(256,454,181)	20,897,156
Total comprehensive income for the year		**-**	**2,216,165**	**(19,777,616)**	**(17,561,451)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	10(b)	**12,111,270**	**-**	**-**	**12,111,270**
Employee shares - value of employee services	10(b)	**257,220**	**-**	**-**	**257,220**
Employee share options - value of employee services	11(a)	**-**	**42,127**	**-**	**42,127**
Balance at 30 June 2013		**289,650,877**	**2,327,242**	**(276,231,797)**	**15,746,322**

The above preliminary consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Preliminary Consolidated Statement of Cash Flows

For the year ended 30 June 2013

	Note	2013 $	2012 $
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods & services tax)		**6,485,852**	6,835,632
Payments to suppliers and employees (inclusive of goods & services tax)		**(28,994,350)**	(32,442,172)
		(22,508,498)	(25,606,540)
Grant receipts		**-**	736,604
Other receipts		**668,075**	295,839
Interest receipts/(payments)		**(87,557)**	-
Income tax refunds received/(taxes paid)		**5,184,044**	-
Net cash inflow (outflow) from operating activities		**(16,743,936)**	(24,574,097)
Cash Flows from Investing Activities			
Decrease/(increase) in security deposits (including restricted cash equivalents)		**2,234,576**	776,917
Payments for plant and equipment		**(540,404)**	(1,481,846)
Proceeds from sale of plant and equipment		**490**	-
Net cash inflow (outflow) from investing activities		**1,694,662**	(704,929)
Cash Flows from Financing Activities			
Proceeds from issue of shares		**12,692,958**	16,988,336
Share issue costs		**(568,609)**	(584,691)
Proceeds from borrowings – convertible loan notes		**6,033,711**	-
Convertible loan note issue costs		**(100,479)**	-
Repayment of borrowings – finance lease		**(301,133)**	(248,849)
Interest received		**156,742**	278,027
Interest paid on borrowings – finance lease		**(70,955)**	(89,123)
Net cash inflow from financing activities		**17,842,235**	16,343,700
Net increase (decrease) in cash and cash equivalents		**2,792,961**	(8,935,326)
Cash and cash equivalents at the beginning of the financial year		**6,621,759**	15,852,905
Effects of exchange rate changes on cash and cash equivalents		**595,411**	(295,820)
Cash and cash equivalents at the end of the year	5(a)	**10,010,131**	6,621,759

The above preliminary consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Preliminary Consolidated Financial Statements
Year ended 30 June 2013

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Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2013

Note 1. Summary of Significant Accounting Policies

There have been no material changes in the company's application of its significant accounting policies as presented in the company's consolidated financial statements for the year ended 30 June 2012. Readers of this report should refer to Note 1, *Summary of Significant Accounting Policies,* in the afore-mentioned financial statements for details of these accounting policies.

Going Concern

Over the life of the Group it has incurred substantial operating losses and is yet to become cashflow positive at an operational level. The Directors are mindful of this and continue to closely monitor the level of the Company's cash resources.

The Group has commercialised its fuel cell technology into products and has begun to make sales, but it has not yet achieved sales and production levels that allow the Group to generate positive operating cashflow or profits. The company is thus reliant on the further raising of capital (debt or equity) in order to enable it to continue its research and product development and to implement its sales and production strategies.

These factors represent uncertainty about the ability of the Group to continue as a going concern. The Directors have considered these factors and believe it is appropriate to prepare the financial statements on a going concern basis given the following strategies:

Operational and business strategies

The Company continues its focus on increasing the number of sales orders received and has increased its production capacity to meet the anticipated sales demand. It has also made significant inroads in reducing the cost per unit and these cost savings will continue with the benefit of increasing production volumes.

In a significant announcement, the Government in the German state of North Rhine Westphalia (NRW) has established a funding programme to support the deployment of large and small scale CHP. The programme is due to run until the end of 2017. Within this programme a significant amount has been specifically set aside for innovative and highly efficient mCHP technologies less than 50kW electrical output, which the Company's products have been classed as. In mid-March 2013 the Company's units were approved for a capital subsidy under the programme. It is anticipated that this programme will assist the company in meeting its sales targets and will assist in reducing the net price of a BlueGen unit for the end user.

Management and the Board's recent focus has been to secure orders and deliver and install the products in order to convert these orders into revenue and cashflow. Management and the Board are taking steps to increase sales more quickly by implementing more aggressive marketing and pricing strategies.

In order to achieve profitable sales growth, the Company has continued to work on increasing its production capacity by bringing large furnaces into production at its manufacturing plant in Germany and now has the capacity to produce circa 1,500 fuel cell stacks per year, based on current operating procedures.

The Company has also taken measures to reduce the unit cost. These measures include: removing the need to internally produce the Group's fuel cells at its pilot plant facility in Melbourne by outsourcing this to an industrial scale ceramics manufacturer; placing higher volume orders and undertaking cost-down engineering work.

Financing strategies

The Company has been successful in raising funds in the past and in May 2013 raised $7.6M (GBP5M) before expenses via Secured Convertible Loan Notes and a Share Placement. The necessary approvals from shareholders were received at an Extraordinary General Meeting on 2 July 2013.

The company is currently pursuing several funding options to strengthen its balance sheet and to allow it to continue its research and product development whilst implementing its sales and production strategies.

The continuing viability of the company and its ability to continue as a going concern and meet its debts and commitments as they fall due is dependent on the successful conclusion of future fund raising activities and the ability to achieve profitable sales growth. As such, there is material uncertainty as to whether the Company will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The Directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2013. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2013 (continued)

	2013	2012
	$	$

Note 2. Revenue

	2013 $	2012 $
From continuing operations		
Sales revenue		
Fuel cell products	**3,397,301**	6,193,594
Service and support	**868,389**	522,420
Powder sales income	**-**	1,090
Total revenue from continuing operations	**4,265,690**	6,717,104

Note 3. Other Income

	2013 $	2012 $
Sundry income	**668,075**	294,925
Net interest revenue	**122,671**	273,753
Net gain on disposal of plant & equipment	**490**	-
Total other income	**791,236**	568,678

Note 4. Expenses

Profit/(loss) before income tax includes the following specific expenses:

	2013 $	2012 $
Cost Of Sales, Service & Warranty		
Cost of goods sold	**3,581,257**	5,358,028
Product warranty expense	**3,200,122**	1,451,003
Service and support costs	**1,070,555**	781,539
	7,851,934	7,590,570
Research & Product Development Expenses		
Depreciation – Plant and equipment	**922,817**	1,573,333
Amortisation – Leasehold improvements	**25,993**	98,736
General & Administration Expenses		
Depreciation – Plant and equipment	**847,770**	1,025,144
Amortisation – Leasehold improvements	**305,404**	580,153
Sales & Marketing Expenses		
Depreciation – Plant and equipment	**3,496**	1,056
Equity-based payments expense		
- Share-based expense	**28,095**	1,461,719
- Share options expense	**42,127**	227,328
	70,222	1,689,047
Impairment Charge		
Provision for impairment of receivables	**351,383**	-
Plant and equipment of UK powder production plant	**-**	2,576,718

Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2013 (continued)

	2013	2012
	$	$

Note 5. Current Assets - Cash and Cash Equivalents

(a) Cash and Cash Equivalents		
Cash at bank and on hand (balance as per statement of cash flows)	**10,010,131**	6,621,759

Cash at bank and on hand
Cash on hand is non-interest bearing. Cash at bank consists of multiple currencies in 'at call' accounts (bearing balance-dependent interest rates in accordance with individual account terms) and short-term deposits of up to 3 months duration.

(b) Cash Equivalents (Restricted)		
Bank term deposits	**-**	2,224,419

Note 6. Borrowings

Current		
Finance lease	**319,505**	264,031
Convertible loan notes	**5,826,453**	-
	6,145,958	264,031
Non-current		
Finance lease	**854,947**	1,029,750
(a) Finance lease liabilities		
Current	**319,505**	264,031
Non-current	**854,947**	1,029,750
	1,174,452	1,293,781

Finance lease

In December 2009 the Group entered into a sale-and-leaseback transaction for certain equipment located in the Group's plant in Germany. The transaction involved the sale of equipment with a cost of €3,057,698 (A$4,899,372 as at transaction date) to the German banking group Commerzbank. This equipment is included within the non-current asset, plant and equipment, in the balance sheet. The equipment is being leased back over 7 years with an up-front lease payment of 50% of the value of the equipment. The lease liability is secured against the leased asset.

(b) Convertible loan notes		
Current	**5,826,453**	-
Non-current	**-**	-
	5,826,453	-

Convertible loan notes

On 10 May 2013 Ceramic Fuel Cells Limited (the Company) issued 4,100,000 convertible loan notes (the Notes) for £4,100,000 ($6,752,306 as at 30 June 2013). The Notes are repayable in full on the maturity date of 10 May 2016 and bear fixed interest at a fixed rate of 9% per annum payable quarterly in arrears, commencing 1 August 2013. The noteholders may elect to convert their Notes into 191,588,785 fully paid ordinary shares in the Company at any time prior to the maturity date at an issue price of £0.0214 per share (approximately $0.0324 at issue date).

The maturity date of the Notes is 36 months after the date of issue, however shareholder approval for their issue had not been obtained by 30 June 2013 therefore the Notes have been classified as a current liability at 30 June 2013. Shareholder approval for their issue was obtained on 2 July 2013.

If, after 2 November 2014, the average of the mid-market AIM closing price of the Company's shares exceeds 10 pence over any period of 20 consecutive business days then the Company may redeem the Notes at any time prior to the maturity date after having given noteholders 10 days notice of such intention. The noteholders may elect to convert their Notes during this notice period.

The Notes are secured by a fixed and floating charge over the assets of the Company.

No Notes were converted from the date of issue to the end of the current reporting period.

Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2013 (continued)

Note 6. Borrowings (continued)

The Notes are reconciled to the amount included in the Balance Sheet as a current liability as follows:

	2013 $	2012 $
Face value of Notes issued (at issue date)	**6,300,907**	-
Borrowing costs – amortised balance	**(315,372)**	-
Derivative liability – value of conversion rights (refer Note 7)	**(663,878)**	-
Interest expense	**98,287**	-
Foreign exchange loss/(gain)	**406,509**	-
	5,826,453	-

With the exception of the Notes, the carrying amount of the Group's current and non-current borrowings approximates their fair values. The fair value of the Notes approximates the carrying value of the Notes, net of the borrowing costs and the amount attributed to the fair value of the conversion rights.

Note 7. Derivative Financial Instruments

	2013 $	2012 $
Current		
Convertible loan notes – conversion rights	**663,878**	-

The Notes were issued in British pounds sterling, whereas the Group's functional currency is the Australian dollar. Therefore, the value attributed to the conversion rights does not meet the definition of an equity instrument. As such, the conversion rights have been classified as a derivative financial instrument and are recognised as a liability at their fair value. Management estimated the fair value of the conversion rights at the date of issue based on the difference between the face value of the Notes and the estimated fair value of an identical note without a conversion feature. Changes to the fair value of the conversion rights are recognised in the income statement.

Note 8. Provisions

	2013 $	2012 $
Provisions for employee benefits: annual and long service leave		
Current	**1,460,344**	1,728,191
Non-current	**46,696**	111,183
	1,507,040	1,839,374
Provisions for product warranty		
Current	**1,754,496**	1,065,571
Non-current	**886,496**	459,892
	2,640,992	1,525,463
Provisions for leased property reinstatement		
Current	**142,064**	563,424
Non-current	**536,179**	91,954
	678,243	655,378
Provisions for operating leases		
Current	**-**	33,462
Non-current	**213,307**	223,167
	213,307	256,629

Notes to the Preliminary Consolidated Financial Statements
Year ended 30 June 2013 (continued)

Note 8. Provisions (continued)

Reconciliation

	2013	*2012*
	$	*$*
Current Liabilities		
Provisions for employee benefits	**1,460,344**	1,728,191
Provisions for product warranty	**1,754,496**	1,065,571
Provisions for leased property reinstatement	**142,064**	563,424
Provisions for operating leases	**-**	33,462
	3,356,904	3,390,648
Non-current Liabilities		
Provisions for employee benefits	**46,696**	111,183
Provisions for product warranty	**886,496**	459,892
Provisions for leased property reinstatement	**536,179**	91,954
Provisions for operating leases	**213,307**	223,167
	1,682,678	886,196

Note 9. Other Liabilities

Deferred revenue		
Current	**377,159**	555,633
Non-current	**-**	-
	377,159	555,633
Government grants		
Current	**808,551**	2,421,734
Non-current	**1,361,522**	-
	2,170,073	2,421,734

Reconciliation

Current Liabilities		
Deferred revenue	**377,159**	555,633
Government grants	**808,551**	2,421,734
	1,185,710	2,977,367
Non-current Liabilities		
Deferred revenue	**-**	-
Government grants	**1,361,522**	-
	1,361,522	-

Government grants

NRW

In recognition of the construction of its German fuel cell assembly plant and the concomitant hiring of employees, the Group was awarded €966,000 of the €1,386,000 regional development grant originally received in December 2009 from the Government of North Rhine Westphalia in Germany. The balance of €420,000 was repaid, along with interest of €67,745 in February 2013. The remaining €966,000 ($1,361,522 as at 30 June 2013) has continued to be treated as deferred revenue and will be brought to account in a future period in line with the satisfaction of the remaining obligation, which is to maintain the number of jobs created that for a period of 5 years through to December 2017.

EU Grant

In January 2012 the Group received a European Union grant of €573,667 ($808,551 as at current reporting date) for the development and field trial of ceramic fuel cell micro-CHP units. At 30 June 2013 the full amount of the grant has been treated as deferred revenue and will be brought to account in a future reporting period in line with the satisfaction of the obligations.

Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2013 (continued)

Note 10. Contributed Equity

(a) Share capital

The share capital account of Ceramic Fuel Cells Limited (the company) consists of 1,591,941,620 fully paid up, ordinary shares as at 30 June 2013.

(b) Movements in ordinary share capital

Movements in ordinary share capital of the company during the past two years were as follows:

Date	Details	Number of shares	Issue price	Amount $
1-7-2011	Opening balance	1,201,353,566		260,275,437
3-10-2011	Employee share scheme issue	6,663,850	$0.124	826,317
10-11-2011	Placing and subscription	54,559,999	$0.108	5,892,480
28-11-2011	Employee share scheme issue	1,051,170	$0.11	115,629
7-12-2011	Overseas offer	25,686,748	$0.108	2,781,636
12-12-2011	Australia and New Zealand rights issue	76,983,530	$0.108	8,314,220
	Less: Employee shares in escrow	-		(320,141)
	Less: Transaction costs arising on share issues			(603,191)
30-6-2012		1,366,298,863		277,282,387
25-9-2012	Placing and subscription	99,500,000	$0.06	5,970,000
25-9-2012	Overseas offer	23,254,556	$0.06	1,444,607
25-9-2012	Australia and New Zealand rights issue	69,677,901	$0.06	4,180,675
	Add: Employee services provided	-		257,220
1-11-2012	Placing and subscription	500,000	$0.06	30,000
10-5-2013	Placing and subscription	32,710,300	$0.033	1,067,676
	Less: Transaction costs arising on share issues			(581,688)
30-6-2013	Balance	**1,591,941,620**		**289,650,877**

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends, and the proceeds on winding up of the company, in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting of the company, either personally or by duly authorised representative, proxy or attorney, is entitled to one vote, and upon a poll each share is entitled to one vote.

Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2013 (continued)

Note 11. Reserves and Retained Profits/(Losses)

	2013	2012
	$	$
(a) Reserves		
Share-based payments reserve	**4,750,262**	4,708,135
Foreign currency translation reserve	**(2,423,020)**	(4,639,185)
Total reserves	**2,327,242**	68,950
Share-based payments reserve		
Balance at 1 July	**4,708,135**	4,480,807
Option expense	**42,127**	227,328
Balance at 30 June	**4,750,262**	4,708,135
Foreign currency translation reserve		
Balance at 1 July	**(4,639,185)**	(4,964,660)
Currency translation differences arising during the year	**2,216,165**	325,475
Balance at 30 June	**(2,423,020)**	(4,639,185)
(b) Retained profits/(losses)		
Movements in retained profits/(losses) were as follows:		
Balance at 1 July	**(256,454,181)**	(226,256,458)
Net profit/(loss) for the year	**(19,777,616)**	(30,197,723)
Balance at 30 June	**(276,231,797)**	(256,454,181)

Note 12. Earnings Per Share

	Cents	*Cents*
Basic and diluted earnings per share	**(1.31)**	(2.33)
	Number	*Number*
Weighted average number of shares		
Weighted average number of shares used as the denominator in calculating basic and diluted earnings per share	**1,513,723,279**	1,295,090,405
	$	$
Earnings used in calculating basic and diluted earnings per share		
Profit/(loss) attributable to the ordinary equity holders of the company	**(19,777,616)**	(30,197,723)

Note 13. Event occurring after the reporting period

Extraordinary General Meeting

As previously announced to the market, the Company held an Extraordinary General Meeting on 2 July 2013 at which the following resolutions were carried:

1. Approval of issue of Notes to Mr Alasdair Locke, the Company's non-executive Chairman;
2. Approval of financial assistance in connection with the issue of secured Notes; and
3. Ratification of issue of New Ordinary Shares and secured Notes.

The issue of the Notes was conditional upon obtaining shareholder approval. As this approval was not obtained until after 30 June 2013, the Notes have been classified as a current liability as at 30 June 2013. The Notes will be classified as a non-current liability in future reporting periods until such time as they are within 12 months of maturity, at which time they will again be reported as a current liability in the Balance Sheet.

Net tangible asset backing

	Consolidated	
	2013	2012
	cents	cents
Net tangible asset backing per ordinary share	**1.0**	1.5

Control over other entities

No control was gained or lost over any entity during the period.

Associates and joint venture entities

The company has no associates, nor has it formed any joint ventures with any other entity/s during the period.

Compliance statement

This report is based on accounts which are in the process of being audited. The independent audit report is expected to contain an emphasis of matter related to the material uncertainty as to whether the Company will continue as a going concern, as described in Note 1 to the Preliminary Consolidated Financial Statements. The final audit report will be made available with the Company's full Financial Report.