CERAMIC FUEL CELLS

Market Announcement

Wednesday 4 December 2013

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

Fundraising for working capital and to increase volume production

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, is pleased to announce a share purchase plan and overseas offer to certain existing investors to raise further working capital.

The share purchase plan will enable eligible shareholders in Australia and New Zealand to purchase up to A$15,000 of ordinary shares in the Company ("Ordinary Shares") per shareholder at a price of 3.84 cents (approximately 2.14p) per Ordinary Share (the "SPP"). The Company is seeking to raise up to approximately A$12 million (approximately £6.68 million) under the SPP. However, under the provisions of the Australian listing rules, the Company is able to accept applications totalling up to A$18.45 million should there be sufficient demand from eligible shareholders.

In addition to the SPP, the Company is offering existing shareholders with registered addresses in Europe the opportunity to subscribe for new Ordinary Shares at an issue price of 2.14 pence per Ordinary Share, to raise up to £4.14 million (approximately A$7.44 million) (the "Overseas Offer").

The subscription prices for the SPP and the Overseas Offer have been designed to give eligible shareholders the ability to subscribe for Ordinary Shares at the same price as the investors who subscribed for the equity issue and the convertible loan notes announced on 3 May 2013.

The subscription prices for the SPP and the Overseas Offer have been designed to be identical, subject to future exchange rate movements.

The purpose of this Fundraising is to provide the Company with further working capital in order to fund: the existing operations of the Company; an increase in volume production of the Company's products to leverage economies of scale and increase sales towards achieving a cashflow positive position; further value engineering to drive down manufacturing costs; the purchase of capital equipment in order to be able to

increase capacity at the high volume assembly plant at Heinsberg, Germany; and continuance of its research and product development programmes.

Eligible shareholders will receive either a set of SPP terms (and related documents) or an Overseas Offer circular, as applicable, in due course. More details about the offers are set out below.

Further Details:

The SPP

- The SPP enables each eligible shareholder who has a registered address in Australia or New Zealand at 7.00 p.m. (Melbourne time) on 3 December 2013 to purchase up to A$15,000 of Ordinary Shares at 3.84 cents per Ordinary Share without being required to pay brokerage fees or incurring additional transaction costs. The Company reserves the right to scale back allocations under the SPP in its absolute discretion.

- The Company intends to raise up to approximately A$12 million (approximately £6.68 million) under the SPP. However, under the provisions of the Australian listing rules, the Company is able to accept applications totalling up to A$18.45 million should there be sufficient demand from eligible shareholders from the SPP through the issue of up to 480,386,224 new Ordinary Shares.

- The SPP is not underwritten and the entitlement to participate in the SPP is non-renounceable and cannot be sold.

- Documents containing more information on the SPP will be sent to eligible shareholders in Australia and New Zealand on approximately 6 December 2013 and will also be available at www.cfcl.com.au.

- Eligible participants should consider all the information provided to them in the SPP documents when deciding whether to acquire the applicable shares and will need to complete the application form and follow the instructions contained in that document.

- The SPP closes at 5.00 p.m. (Melbourne time) on 20 December 2013.

The Overseas Offer

- A circular and application form relating to the Overseas Offer will be sent to existing Shareholders with registered addresses in Europe. Those shareholders entered on the register at 6.00 p.m. (London time) on 3 December 2013 will be entitled to participate in the Overseas Offer.

- The Company intends to raise funding of up to £4.14 million from the Overseas Offer through the issue of up to 193,542,793 new Ordinary Shares (the "Overseas Offer Shares").

- Such qualifying shareholders will be able to apply for any number of Overseas Offer Shares at 2.14 pence per Overseas Offer Share up to the maximum of 193,542,793 Overseas Offer Shares being issued under the Overseas Offer. However, if the aggregate amount raised under the Overseas Offer exceeds £4.14 million, shareholders will be scaled back at the directors' discretion.

- The Overseas Offer circular and application form are expected to be mailed to all qualifying shareholders today.

- The Overseas Offer closes at 11.00 a.m. (London time) on 20 December 2013.

- •The Overseas Offer will not be underwritten and the entitlement to participate in the Overseas Offer cannot be sold. The Overseas Offer will be subject to the Overseas Offer Shares being admitted to trading on AIM on 2 January 2014 (or such later date as the Company may determine, being not later than 16 January 2014).

The purpose of the SPP and the Overseas Offer (the "Fundraising") is to provide the Company with further working capital in order to fund:

- existing operations of the Company;

- an increase in volume production of the Company's products to leverage economies of scale and increase sales towards achieving a cashflow positive position;

- further value engineering to drive down manufacturing costs;

- the purchase of capital equipment in order to be able to increase capacity at the high volume assembly plant at Heinsberg, Germany; and

- continuance of its research and product development programmes.

Refund from Taxation Office for expenditure on research and development

On 30 October 2013, in its Quarterly Cashflow Report, the Company announced that it had lodged its tax return for FY13 which included circa A$4M of research and development activities and that indications were that it would receive the refund in November. The Company confirmed, on 28 November 2013 that it has now received these funds.

The Board believes that raising funds through the Fundraising is in the best interests of all shareholders and can place the Company in a strong position to capitalise on the significant global opportunities for its products. If there is limited take-up under the Fundraising, the Company will have to secure other sources of

funding to be able to continue operations as a going concern and may have to reduce operational and capital expenditure across all of its facilities.

Background to the Company

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. CFCL has commercialised its technology into products and is now focused on selling these products to commercial customers in Europe.

CFCL was established in 1992, listed on the ASX in July 2004 and on AIM in March 2006. CFCL has a broad portfolio of wholly-owned intellectual property, including 27 patent families (i.e. a single invention covered in multiple jurisdictions) that have been granted in key global markets.

In October 2012, the Company realigned its corporate structure and operational activities to reduce overhead costs and to focus resources on the German, UK and the Benelux markets. The Company has reduced its direct sales investment in Australia, Japan and North America, and transferred a number of corporate activities to Europe.

Although the Company has adopted a narrower strategic focus, it may monitor the developments and opportunities presented in other geographic markets – particularly in China, Japan and North America. The Company would consider entering new markets if they presented significant near term sales opportunities and also provided opportunities to fund that market entry.

As a result of this restructure the Company has reduced its head count in Australia and increased its European sales and manufacturing teams. This reduction, along with the reduction of certain activities, is expected to result in a cost saving of approximately A$5 million (approximately £2.78 million) in a full year. The Company and its subsidiaries currently employ approximately 140 staff in Australia, the United Kingdom and Europe.

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 have achieved peak electrical efficiency of 60 per cent, 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 per cent. This very high electrical efficiency cuts carbon emissions by up to two-thirds compared to power

generated by coal fired power stations. The Company's products can maintain high electrical efficiency over a wide power modulation range.

The Company has installed and operated more than 380 units in 10 countries, for combined operation of more than 3.4 million hours.

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.

Sales and Revenue Growth

Sales activity is now focused in Europe with the primary markets being Germany, the UK and the Benelux region. In the first quarter of FY14, 49 units were sold with a further 29 in October and 33 sold in November.

Total revenue was down in FY13 compared to FY12 due to a delay in the announcement of anticipated state subsidies from the German State of North-Rhine Westphalia ("NRW") as well as the delay in implementing the direct sales strategy. This strategy could only meaningfully be implemented after the May 2013 capital raising was completed. The Company is progressing from low volume, early sales for field trial purposes, to higher volume sales to customers seeking an acceptable economic return. Since June 2012 the Company has successfully reduced the cost of manufacturing its products by approximately 25 per cent. This follows on from reductions that were made in the previous year.

In late October 2012, the NRW announced a subsidy scheme for mCHP products. Under the scheme the NRW Government pays a capital subsidy to commercial customers and energy service companies who install highly efficient mCHP products of less than 50 kilowatts. The Company's BlueGen and integrated mCHP products fall in this category and are strongly positioned to take full advantage of this scheme and an increase in applications for subsidies has been seen during October 2013 compared to September 2013.

The subsidy programme is part of a NRW Government funding programme of up to €250 million to support deployment of large and small scale CHP, and is due to run until the end of 2017. Based on the first applications that were approved in mid-March 2013, the Company can confirm that commercial customers will receive a subsidy of between €9,000 and €13,000 per unit, dependent on the size of their business. BlueGens is being targeted primarily at the SMEs and consequently will secure the higher subsidy.

In addition to the NRW subsidies, on 10 October 2013, the Company advised that the Government in the German state of Hesse had announced a funding programme to support mCHP installations. The level of subsidy per unit is comparable to that of the NRW programme at circa €13,000 per installed mCHP unit.

The Company also advised, on 30 October 2013, that the Government in the German state of Saxony had announced a €3 million funding programme for fuel cell products. Under the programme up to 75 per cent of the product and installation costs will be funded. The programme is expected to be in place until the end of 2014.

The Company anticipates that other German States will soon be announcing programmes to support clean energy. These subsidies are in addition to the German Federal Government feed-in tariff for mCHP products.

The Directors believe that these measures, in addition to the cost reduction measures currently being implemented by the Company, can bring the net price of a BlueGen unit down to a level where commercial customers with an appropriate level of energy use can achieve a payback period of between 4 and 7 years.

There is also policy support for our products in the United Kingdom. On 1 December 2012 the UK Government increased the feed-in tariff that applies to mCHP units that are accredited under the UK's Microgeneration Certification Scheme (MCS). The feed-in tariff is now 12.5 pence per kilowatt-hour (kWh) for all electricity generated plus an additional 4.5 pence per kWh for electricity not used on site and exported to the grid. 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 Directors believe that this policy will also have a positive impact on sales.

The Company's sales channel strategy is to use both direct and indirect sales channels to sell its products. In December 2012 the Company established a direct sales force in Germany to focus on the opportunities presented in NRW. The direct sales approach has resulted in additional resources being recruited in Germany and the UK and this strategy is beginning to gain traction. The Company is also working to increase its indirect sales channels through partnering with utilities and installers.
In order to drive sales growth, from late 2012 the Company's marketing communication function has been fully managed in Europe. The Company is increasing its investment in this area, and has recently recruited a communications manager to raise the profile of both the BlueGen and Ceramic Fuel Cells brands in the key product markets of Germany, UK and Benelux.

Recent sales successes the Company announced were:

- on 10 October 2013 – the installation of the second tranche of mCHP units under the Soft-Pact project in the first quarter of CY 2014;

- on 30 October 2013 – the awarding of a tender to supply 12 units to the Local Gas and Heating Institute's "Innovation City Ruhr", in NRW, Germany;

- on 13 November 2013 – the funding approval for the installation of 45 units for the Dutch Island of Ameland's virtual power plant;

- on 13 November 2013 – the agreement with National Grid Affordable Wealth Solutions to deliver 10 units for installation in selected Housing Associations; and

- on 28 November 2013 – the appointment of Synergy International OU ("SI") as distributor for the Baltic and Scandinavian regions and the sale of a minimum of 1,000 BlueGEN m-CHP units over the next two calendar years. SI will purchase 500 units per calendar year on a take-or-pay basis. The total value of the units amounts to in excess of €20 million.

Manufacturing and Supply Chain

The Company has built an assembly plant in Heinsberg, Germany, to manufacture fuel cell stacks, the core of the Gennex fuel cell module, and to assemble complete BlueGen units. The individual fuel cell components are shipped to the Heinsberg plant (together with other components) to be assembled into fuel cell stacks.

During 2012, the Company began outsourcing the production of its fuel cell components to Chaozhou Three-Circle (Group) Co., Ltd ("CCTC") in China. Under this supply arrangement CCTC is responsible for making the fuel cell parts to CFCL's design and specification. The outsourcing of cell production to CCTC has resulted in a significant reduction in cell costs whilst maintaining high quality standards. CCTC has invested several million dollars in its plant to service the Company's cell production requirements. A strategy is in place to undertake further manufacturing of components in China which will further reduce the cost of production. In addition, our major suppliers have indicated that there will be significant cost savings once production volumes increase to reasonable levels.

The Company works closely with its key supply chain partners and believes that they are both ready and capable of meeting the Company's future production plans.

The Company's 4X4 furnace, at its Heinsberg manufacturing facility, is ramped up to produce 14 stacks per firing and the Company now has a combined capacity of approximately 30 fuel cell stacks per week or 1,500 fuel cell stacks per year, based on current operating procedures.

The plant's production throughput can be increased above 1,500 units per year without additional capital spending, by operational efficiencies (such as improving processes and production flow, reducing furnace cycle times, loading and unloading times, robot optimisation), more flexible work practices (the plant is currently operating on a single shift); and by continuing to outsource the manufacturing and assembly of components and sub-assemblies. Modest investments in multiple tooling will also increase production levels.

To further increase production (funds permitting) the Company intends to make further capital expenditures to increase furnace capacity to circa 4,000 – 4,800 stacks per year. It is expected that this capital expenditure would cost approximately A$5 million.

In December 2012 the plant in Heinsberg successfully underwent its first annual accreditation review for the UK Microgeneration Certification Scheme (MCS). The successful completion of this audit review is necessary to ensure that BlueGen units made at the plant are allowed to carry the MCS Certificate which in turn is required to earn the feed-in tariff in the UK.

From June 2012 to October 2013 the Company has reduced the unit standard costs of the BlueGen product by approximately 25 per cent, down to approximately €16,650 per unit. We are pursuing several options to continue to further reduce unit costs including redesigning some high value components, outsourcing selected manufacturing and sub-assembly operations and internal process improvements.

As a reasonableness test of the Company's internal cost projections it has sought to benchmark itself against the experience of other industries employing similar manufacturing processes to those required for the Company's products. Based on this work, the Company believes that it should be possible to achieve further reductions in the total manufactured cost of the product for each doubling of output volume. This reduction in costs will be achieved by outsourcing a greater volume of components to China as well as direct delivery from China to Heinsberg.

The Board believes that raising funds through the Fundraising is in the best interests of all shareholders and can place the Company in a strong position to capitalise on the significant global opportunities for its products. Further details of the use of funds, and the impact of the fundraising on the Company's operations and finances, will be set out in the documents posted to eligible shareholders.

More information about the Company and our recent activities, including our announcements and financial reports, is available at the Company's website, www.cfcl.com.au.

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Ceramic Fuel Cells Limited

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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 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