



*CERAMIC FUEL CELLS LIMITED*

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**Ceramic Fuel Cells Limited**

ABN 82 055 736 671

**Prospectus**

**Nine for Ten Non-Renounceable Rights Issue of Ceramic Fuel Cells Limited ordinary shares at an offer price of \$0.05 per new share**

**Offer closes 5 pm (Melbourne time) Wednesday 15 April 2009**

**The offer will raise a maximum of \$10,000,000**

**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 Qualifying Shareholder, 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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## Key Offer Details

Maximum number of New Shares to be issued under the Offer	200,000,000
Offer Price	\$0.05 per New Share
Qualifying Shareholders' Entitlement	Approximately 9 new shares for every 10 existing shares
Maximum amount to be raised under the Offer (before Offer costs)	\$10,000,000

## Important Dates

Lodgement of Prospectus with ASIC and announcement of Offer	12 March 2009
Record Date	20 March 2009
Opening Date	27 March 2009
Closing Date – last date for acceptance and payment in full	15 April 2009
Deferred trading commences	16 April 2009
Allotment and issue of New Shares	21 April 2009
Despatch date of holding statements	23 April 2009
Normal trading of New Shares	24 April 2009

*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.*

## Important Notice

This Prospectus is dated 12 March 2009 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 offered an Entitlement.

The New Shares being offered under the Prospectus are offered in New Zealand in reliance on the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand).

Ceramic Fuel Cells Limited will apply for the grant by ASX of official quotation of the New Shares issued 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 on the basis of this Prospectus after the expiry date, which is three months after the date of this Prospectus.

This is a Prospectus for an offer of continuously quoted securities (as defined in the Corporations Act) 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.

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 3 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.

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 **1800 850 505**, or the Company on + **61 3 9554 2300**. The Corporations Act prohibits any person from passing the Application 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, you will provide personal information to the Company and the Share 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 Share 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 2975  
Melbourne VIC 3001  
AUSTRALIA  
Telephone: 1300 850 505

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

## Offer at a glance

- ✓ A nine for ten Non-Renounceable Rights Issue of Ceramic Fuel Cells Limited ordinary shares at an offer price of \$0.05 per New Share to raise a maximum of \$10,000,000.
- ✓ Qualifying Shareholders will be entitled to apply for Additional Shares if not all Qualifying Shareholders take up their Entitlements.
- ✓ Offer closes at 5pm (Melbourne time) Wednesday 15 April 2009.
- ✓ Net proceeds of the Offer (together with proceeds from the Placing and Subscription, if approved by shareholders) will provide the Company with further working capital to facilitate the Company's continued commercialisation activities including:
  - ✓ Completing the construction of a fuel cell assembly plant in Germany
  - ✓ Developing and deploying fuel cell powered microgeneration products.

## Investment highlights

- ✓ Highly efficient distributed electricity generation – far more efficient than the current power grid
- ✓ Environmental benefits through high efficiency and lower carbon emissions
- ✓ Strong market forces and Government support for low emission energy technologies
- ✓ Developing products in Japan and Europe with leading utilities and appliance partners
- ✓ Plus large potential upside from new products and markets
- ✓ More than \$220 million invested to date, commercial production capability within 12 months
- ✓ Strong patent portfolio, all intellectual property Australian developed and wholly owned

## Financial position

FY09 Half Year to 31 December 2008

- Revenue: \$2.4 million (FY08 Interims \$1.8 million)
  - Field trial income up from \$0.3 million in FY08 to \$0.9 million in FY09
- Net operating cash outflow: \$7.3 million (FY08 Interims \$9.1 million)
- Net loss: \$32.6 million (FY08 Interims \$9.7 million)
  - Due to impairment charge of \$27.5 million for financial assets
  - Investments severely impacted by global financial crisis
  - Investments marked down to current selling price, \$6.9 million

## 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 other fundraising initiatives described in more detail below. This is common when companies raise capital by issuing new shares, particularly in the current market. The offer price relative to the market price of the Company's Shares is discussed in more detail in section 1.24.

## **Risks**

Risk factors that should be considered by Shareholders are outlined in section 3 of this Prospectus. You should consider these factors in the light of your personal circumstances (including financial and taxation issues). If you have any questions, you should seek professional advice from your stockbroker, accountant or other professional adviser before deciding to invest.

## Letter from the Chairman

Dear Shareholder

On behalf of the Directors, it is my pleasure to offer you an opportunity to participate in a nine for ten Non-Renounceable Rights Issue of Ceramic Fuel Cells Limited ordinary shares at an offer price of \$0.05 per New Share to raise up to \$10,000,000.

Qualifying Shareholders will also be entitled to apply for Additional Shares to the extent that other Qualifying Shareholders do not take up their full Entitlements under the Offer.

The purpose of this Offer, and other fundraising sources described below, is to provide working capital to continue to fund the Company's operations.

The background to the fundraising was set out in the Notice of Extraordinary General Meeting mailed to shareholders on 6 March 2009. The Notice explained that due to the impact of the global financial crisis on the Company's financial position, in particular on the value and liquidity of the Company's financial assets, the Company needed to raise additional funds. The Board and management pursued a range of options to secure additional funding.

During late February 2009, discussions with several cornerstone investors progressed to the point where the Company and its advisors were able to enter into agreements for a placing and subscription (described below).

As already announced, subject to Shareholder approval, the Company proposes to raise additional funds from the following sources:

- the issue by the Company of 201,060,637 new ordinary shares in the capital of the Company ("**Subscription Shares**") at 5 cents, or 2.2 pence per share, to various investors based in the United Kingdom, Europe and Australia to raise approximately £4,443,398 (or \$9,914,109) ("**Subscription**");
- a placing of 207,986,051 new ordinary shares in the capital of the Company ("**Placing Shares**") at 2.2 pence per share to raise £4,575,693 (or \$10,209,287) ("**Placing**"); and
- an offer to existing shareholders with registered addresses in the United Kingdom or the European Union to subscribe for up to 104,685,727 new ordinary shares in the capital of the Company ("**Overseas Offer Shares**") at 2.2 pence per share to raise a maximum of €2,500,000 (approximately £2,303,086) ("**Overseas Offer**").

Further details in respect of the Subscription, Placing and Overseas Offer are set out in Section 1.19.

The Board feels strongly that our existing Australian and New Zealand shareholders should have the opportunity to participate in a capital raising process at the same price as was offered to new investors under the Subscription, Placing and Overseas Offer, and on similar terms.

The Board believes that together with the Subscription, Placing and Overseas Offer, the Offer achieves the fairest outcome for all shareholders in the current market environment and is in their best interests. 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 Jeff Harding**  
Chairman  
Ceramic Fuel Cells Limited

## 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.
- Qualifying Shareholders may also apply for more than their Entitlement by completing the 'Additional Shares' section on the Entitlement and Acceptance Form with the number of Additional Shares you wish to apply for, lodging the completed form and paying the applicable Application Monies.
- If you request Additional Shares then, subject to Ceramic Fuel Cell Limited's absolute discretion to scale back your allocation of Additional Shares (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 addressed envelope enclosed with this Prospectus to post the Entitlement and Acceptance Form to the Share Registry with full payment (if paying by cheque or bank draft). Payment by BPAY® is also available – instructions are set out on the Entitlement and Acceptance Form.
- The Entitlement and Acceptance Form with full payment must be received by the Registry by the Closing Date, 5pm (Melbourne time) Wednesday 15 April 2009. Applications received after that date may not be accepted.
- Further information on action required by Qualifying Shareholders is detailed in section 1 of this Prospectus.

<b>Contacts</b>	<b>Telephone</b>
Ceramic Fuel Cells Limited	+ 61 3 9554 2300
Share Registry - Computershare	1300 850 505 (callers within Australia) +61 3 9415 4000 (callers outside Australia)

## **1 Details of the Offer**

### **1.1 The Offer**

Ceramic Fuel Cells Limited is inviting Qualifying Shareholders to participate in a nine for ten Non-Renounceable Rights Issue of Ceramic Fuel Cells Limited ordinary shares at an offer price of \$0.05 per New Share to raise a maximum of \$10,000,000.

Under the Offer, Qualifying Shareholders are entitled to apply for approximately nine New Shares for every ten Shares purchased before the 'ex date' and still held as at 7.00pm (AEST) on the Record Date.

Qualifying Shareholders will also be entitled to apply for Additional Shares, to take up any shortfall created by other Qualifying Shareholders not taking up their full Entitlements under the Offer.

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) or your stockbroker or professional adviser.

A Qualifying Shareholder is a Shareholder who at the Record Date has a registered address in Australia or New Zealand. Ceramic Fuel Cells Limited reserves the right to reject any acceptance which it believes comes from a person who is not a Qualifying Shareholder.

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 Share Registry by no later than 5.00 pm (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 it is irrevocable and may not be varied or withdrawn except as allowed at law.

Qualifying Shareholders may elect to apply for all, some or none of the New Shares offered to them under the Offer.

Further information for Qualifying Shareholders on how to accept the Offer is set out in this Section 1.

### **1.2 Offer is non-renounceable**

The Offer is non-renounceable, which means that your Entitlement cannot be sold.

### **1.3 Offer is not underwritten**

The Offer is not underwritten.

### **1.4 What You May Do under the Offer – Choices Available**

Before taking any action in relation to the Offer, Qualifying Shareholders should read this Prospectus in its entirety including, but not limited to, Section 3 (Risk Factors).

The choices available to Qualifying Shareholders include:

- Take up their Entitlement in full (refer to Section 1.6);
- Take up part of their Entitlement (refer to Section 1.7);
- Do not take up any of your Entitlement (refer to Section 1.8);
- Apply for Additional Shares (refer to Section 1.9).

### **1.5 Avoid diluting your Shareholding**

The Offer is a pro rata offer to Qualifying Shareholders. Qualifying Shareholders who take up their full Entitlement will not have their percentage Shareholding in Ceramic Fuel Cells Limited diluted by the Offer. The percentage Shareholding of Qualifying Shareholders who do not take up all of their Entitlement will be diluted by the Offer. All Shareholders should be aware of the dilutionary impact of the Placing and Subscription, which is summarised in Section 1.21.

### **1.6 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 (being \$0.05 multiplied by the number of New Shares comprising your Entitlement).

### **1.7 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 they wish to take up (being less than their Entitlement as specified on the Entitlement and Acceptance Form), together with payment of Application Money for the full amount payable (being \$0.05 multiplied by the number of New Shares they wish to take up under their Entitlement).

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

If a Qualifying Shareholder **does not wish to take up** any of their Entitlement, you do not have to do anything in respect of the Entitlement you are not accepting, 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.

### **1.9 If you wish to apply for New Shares beyond your Entitlement**

Qualifying Shareholders may in addition to their Entitlement, apply for any number of Additional Shares 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 may be issued from any shortfall in subscriptions for New Shares under the Offer. The Company reserves the right to scale back or reduce to zero the number of Additional Shares applied for by any Qualifying Shareholder. Please note that New Shares in excess of Entitlements will only be allocated to Qualifying Shareholders if there are sufficient New Shares from Qualifying Shareholders who do not take up their full Entitlements, subject to any scale-back that Ceramic Fuel Cells Limited may apply (in its absolute discretion).

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

Ceramic Fuel Cells Limited will treat Qualifying Shareholders as applying for as many New Shares as their payment will pay for in full. Any amount received by Ceramic Fuel Cells Limited in excess of the amount required to be paid by a Qualifying Shareholder to apply for its Entitlement (“**Excess Amount**”) may be treated by Ceramic Fuel Cells Limited as an application for as many Additional Shares as that Excess Amount will pay for.

Additional Shares will not be issued to Qualifying Shareholders if to do so would involve a breach of the Listing Rules or any applicable law.

### **1.10 Payment**

The Offer Price of \$0.05 per New Share accepted is payable on acceptance of a Qualifying Shareholder's Entitlement (whether in whole or in part) or application for Additional Shares.

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 Limited – Allotment Account” 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 envelope provided with this Prospectus.

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.

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 envelope enclosed with this Prospectus, please send or deliver your Entitlement and Acceptance Form and payment to the Share Registry at:

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

Entitlement and Acceptance Forms will not be accepted at Ceramic Fuel Cell Limited's registered office or Computershare Investor Services Pty Ltd's offices.

### **1.11 Application Monies**

Application Monies received from Qualifying Shareholders will be held in a bank account established and kept by Computershare 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 takes place. If quotation of the New Shares is not granted by ASX, no New Shares will be allotted and Application Monies will be refunded to Applicants without interest within the time prescribed under the Corporations Act.

### **1.12 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.

Your completed Entitlement and Acceptance Form and payment must reach the Registry no later than 5pm (Melbourne time) on Wednesday 15 April 2009.

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 15 April 2009 may be rejected and Application Monies refunded without interest.

### **1.13 Brokerage, commission and stamp duty**

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

### **1.14 ASX quotation**

The Company will apply for the quotation of all New Shares on ASX and AIM. If official quotation of the New Shares is not granted by ASX and AIM 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.

### **1.15 CHESS**

The New Shares will participate from the date of commencement of quotation in the Clearing House Electronic Subregister System (**CHESS**), operated by ASX Settlement and Transfer Corporation Pty Limited. They must be held in uncertificated form (i.e., no share 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.

### **1.16 Allotment of New Shares**

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

If permission is granted, it is expected the New Shares will be allotted on 21 April 2009 and confirmation of the issue of the New Shares will be despatched on 23 April 2009. All New Shares will rank equally with the Shares already on issue.

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

### **1.17 Purpose of the Offer**

The purpose of this Offer is to advance the Company's commercialization and product development activities by supplementing existing working capital.

### **1.18 Use of funds**

Proceeds from the Offer will provide the Company with further working capital to facilitate the Company's continued commercialisation activities including completing the construction of a fuel cell plant in Germany and developing fuel cell powered microgeneration products.

The Directors reserve the right to vary the application of funds in the best interests of all Shareholders.

The proceeds from the Offer will supplement the proceeds to be received by the Company from the Placing and Subscription. If approved by shareholders, the Placing and Subscription will provide the Company with funding of approximately \$20.1 million. As set out in the Notice of Meeting, based on current forecasts, the Directors believe these funds will be sufficient to fund the Company's operations for at least the next 12 months – even if no funds are raised under the Overseas Offer or this Offer.

In addition, if approved by shareholders, the Overseas Offer may raise up to €2,500,000. Proceeds from the Overseas Offer and this Offer will 'top up' proceeds from the Placing and Subscription, and give the Company further funding with which to commercialise its fuel cell products.

As set out in the Notice of Meeting, if the Placing and Subscription is not approved by shareholders, then based on the extensive work done from October 2008 to February 2009 – and the continuing very difficult markets for raising capital - the Directors believe it is unlikely that the Company would be able to secure sufficient funding from other sources in the time needed to continue as a going concern.

As the EGM is scheduled for 6 April 2009, before the Offer closes, shareholders will know whether the Placing, Subscription and Overseas Offer have been approved before the closing date of this Offer. If the Company receives any acceptances for this Offer before the EGM, and the Placing, Subscription and Overseas Offer are not approved at that meeting (or any adjournment of that meeting) then the acceptances will not be processed and the Company will return any Application Monies already paid.

### **1.19 Subscription, Placing and Overseas Offer**

In connection with the Subscription, various investors have entered into Subscription Agreements with the Company which is conditional on, amongst other things, approval by the Company's shareholders of the proposed issue and allotment of the Subscription Shares at the Extraordinary General Meeting of the Company to be held on 6 April 2009. Collectively the Subscription investors have agreed to subscribe for 201,060,637 Shares. If approved, the Subscription will raise approximately \$9,914,109.

The Placing Shares have been placed by Nomura Code on behalf of the Company in accordance with the terms of a Placing Agreement between the Company and Nomura Code. The Placing shares have been placed with UK and European institutional investors. Collectively 207,986,051 Shares have been placed with these investors. If approved, the Placing will raise approximately \$10,209,287.

The Overseas Offer Shares, which will not exceed 104,685,727, will be allotted pursuant to the Overseas Offer under a circular. The amount of the Overseas Offer is capped at €2,500,000 (approximately £2,303,086). The Company intends to send the circular to United Kingdom and European shareholders at about the same time as it lodges this Prospectus. The timetable for the Overseas Offer is set out in the circular.

## 1.20 Capital structure after Offer

The following table sets out the Company's current capital structure and its capital structure immediately following the successful completion of the Offer, assuming that no existing options are exercised prior to the Record Date.

<b>Share capital</b>	<b>Shares</b>
Ordinary shares on issue at the date of this Prospectus	344,745,674
Ordinary shares proposed to be issued under the Subscription	201,060,637
Ordinary shares proposed to be issued under the Placing	207,986,051
Maximum number of Ordinary shares proposed to be issued under the Overseas Offer	104,685,727
Maximum number of New Shares offered under this Prospectus	200,000,000
<b>Shares on completion of Offer<sup>1</sup></b>	<b>1,058,478,089</b>

<sup>1</sup> Assumes maximum number of shares allotted under the Offer and the Overseas Offer, and approval by shareholders of the issue of shares by Ceramic Fuel Cells Limited under the Subscription, Placing and Overseas Offer.

## 1.21 Dilutionary Impact of Placing, Subscription, Overseas Offer (if fully subscribed) and Offer (if fully subscribed)

The issue of new ordinary shares in the Placing, Subscription and Overseas Offer will dilute your shareholding in the Company. If you do not participate in the Offer, then the issue of shares in the Offer may also dilute your shareholding.

The following table outlines the maximum dilution you will be subject to if you do not participate in the Offer, and assuming the Overseas Offer and this Offer are fully subscribed:

	<i>Maximum Dilution</i>
Following the Placing and Subscription	54.3%
Following the Fundraising <sup>1</sup>	67.4%

<sup>1</sup> Assuming full take up under the Overseas Offer and the Rights Issue.

## 1.22 Optionholders

The Company has 12,649,160 unlisted options currently on issue, of which 6,005,330 have vested and are exercisable. (An additional 2,011,900 options vest on 29 March 2009.) All these options have been issued to the Company's staff or Directors under the Company's Directors and Employee Benefits Plan or Share Option Plan.

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 they do so 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 5pm on the Record Date.

However, all of the options which have currently vested have exercise prices which are higher than the Offer Price.

### 1.23 Overseas Shareholders

The Offer is made only to those Shareholders with registered addresses in Australia or New Zealand. Only those Qualifying Shareholders will be offered an Entitlement and the opportunity to apply for Additional Shares.

All Shareholders who are not Qualifying Shareholders are Non-Participating Foreign Holders.

The Company has decided that it is unreasonable to make offers under this Prospectus to Non-Participating Foreign Holders, having regard to the number of Shareholders in those places, the number and value of the New Shares they would be offered and the cost of complying with the legal and regulatory requirements in those places. Accordingly, the Offer is not being extended to, and no New Shares will be issued to, Non-Participating Foreign Holders.

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.

### 1.24 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 price on the last day of trading before lodgement is set out below:

<b>3 month high</b>	<b>3 month low</b>	<b>Last market sale share price on 11 March 2009</b>
15.5 cents	4.9 cents	6.7 cents

<b>Month</b>	December 2008	January 2009	February 2009	March 2009 (up to 11 March)
<b>VWAP</b>	13.0 cents	7.8 cents	10.2 cents	7.4 cents

### 1.25 Investment risks

Investors should carefully read the section on risk factors in section 3 of the 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.

### 1.26 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.

### 1.27 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.

## **1.28 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 21 April 2009. Holding statements 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 5.2.

## 2 Overview of the Company and its operations

### 2.1 Background

Ceramic Fuel Cells Limited is a leader in developing solid oxide fuel cell (“**SOFC**”) technology to provide highly efficient and low-emission electricity from widely available natural gas (and other hydrocarbon fuels in the future).

The Company was established in 1992 and listed on the ASX in July 2004 and on the London AIM market in March 2006. The CFCL Group employs 96 staff at its head office in Melbourne and 13 staff in Europe.

A fuel cell is an electricity generator that converts gas (from mains or bottles) into electricity and heat through an electrochemical reaction, without combustion or noise. Fuel cells can provide significant environmental benefits through high efficiency and low emissions.

The Company’s fuel cell module generates electricity and heat and can be used as a component in appliances for domestic and commercial buildings.

The first product the Company is developing is a 1 - 2kW combined heat and power (m-CHP) unit for homes. The unit is designed to replace existing home heating systems, be connected to the existing natural gas network, to provide power and heat for the home and export excess power to the electricity network.

The Company is developing mCHP products with leading utility customers and appliance partners in Europe and Japan. More details about the Company’s product development projects are set out in the Directors’ Report released to ASX on 2 March 2009.

The Company’s fuel cells have recently achieved 60% electrical efficiency whilst exporting 1.5kW to the power grid. This level exceeds the commercial targets set by the Company’s partners and is far more efficient than the current electricity grid and all other microgeneration technologies currently available. So far as the Company is aware, an electrical efficiency of 60% where the power is used (ie there are no transmission or distribution losses) is the highest electrical efficiency of any generating technology, worldwide, using hydrocarbon fuels.

There is now widespread recognition that maximising electrical efficiency is the key to creating the most value from mCHP products, and the Directors believe the Company’s recent achievements can create a strong competitive advantage in this very large emerging market.

This very high efficiency means the Company’s fuel cell products can significantly reduce carbon dioxide emissions from power generation.

Apart from continuing to develop products with its existing European partners, the Company continues to assess a range of opportunities to enter new markets and develop additional products. The recent significant increase in the electrical efficiency of the Company’s technology opens up potential new products such as a ‘generator’ product, which the Company’s modelling indicates could generate significant carbon and water savings, especially compared to brown coal electricity generation. The Company is also working to leverage its experience in its initial European markets into new markets and is in discussions with potential partners in Europe, North America and Australia. The Company is also pursuing opportunities to obtain Government funding to help to develop and deploy its technology.

In February 2008 the Company announced that it would build a manufacturing plant in Heinsberg, Germany for the commercial production of its fuel cell systems. During 2008 the Company carried out extensive work on the site, conducted Factory Acceptance Tests on the three major equipment packages (the Ink Production Skid, the Robotic Dispensing and Assembly Stations and three Furnaces) with both the Ink Skid and Robotic equipment now delivered to site. The Company also awarded contracts for the Heating Ventilation and Air Conditioning (HVAC)

equipment, Gas Control/Distribution System and Electrical Installation with the HVAC design approved and the main pieces of equipment delivered to site.

In December 2008, in order to reduce future cash outflow the Company deferred some of the planned expenditure on the plant and deferred the plant opening from June to October 2009. At 31 December 2008 the Company had spent €3.5 million on the project. The total project cost is expected to be less than the €12.4 million budget announced in February 2008.

The plant is designed for an initial capacity of 10,000 units per year, however the Company will further review the scale up in capacity to match its expected demand from customers and will consider a staged increase in capacity if this delivers significant cost savings.

Whilst the plant in Germany is being completed the Company continues to manufacture fuel cell modules at its Melbourne pilot production facility.

The Company has a broad portfolio of intellectual property, including 31 patent families (i.e. a single invention covered in multiple jurisdictions) that have been granted or are in the process of being examined in key global markets.

The Company has spent more than \$220 million in researching, developing and commercialising its technology.

## **2.2 Principal activities**

The principal activities of the CFCL Group are to develop and commercialise products based on its proprietary SOFC technology. The activities are largely conducted in Australia and Europe:

### ***Noble Park, Victoria (96 staff)***

- Head Office functions: Corporate, Finance and Administration, Technology and IP, Commercial, Investor Relations, Human Resources, Marketing and Product Development.
- Operations functions:
  - Fuel Cell Development – Developing the Company's core SOFC technology
  - Manufacturing – Production of fuel cell components and fuel cell stacks
  - Testing Services - Testing of fuel cells, fuel cell stacks and systems
  - Systems Engineering – Design, manufacture of components and integration of systems
  - Manufacturing Engineering – Developing commercial production
  - Purchasing and Supply Chain – Procurement and supply chain development
  - Quality Assurance – Document Control and Quality Control measures

### ***Bromborough, United Kingdom (5 staff)***

- Business Development for European and other markets
- Ceramic Powder plant: operation of a specialist ceramic powder manufacturing plant with output capacity of 20 Tonnes per annum. The plant makes high quality zirconia powders to be used in the Company's fuel cells (and potentially other products) using the Company's proprietary process and patented reactor technology.

### ***Heinsberg, Germany (4 staff)***

As discussed above, the CFCL Group is building a volume fuel cell module assembly plant in Germany.

The CFCL Group also has four staff working with utility customers and appliance partners in other locations in Europe.

### **3 Risk factors**

#### **3.1 Overview**

There are a number of factors, both specific to the Company and of a general nature, which may affect the future operating and financial performance of the Company, the industry in which it operates and the outcome of an investment in the Company. There can be no guarantee that the Company will achieve its stated objectives or that forward-looking statements will be realised. This section describes certain (but not all) risks associated with an investment in the Company. Each of the risks set out below could, if it eventuates, have a material adverse impact on the Company's operating performance, profits and the value of its Shares.

Before deciding to invest in the Company, potential investors should read the entire Prospectus and the risk factors that could affect the financial performance of the Company. Potential investors should specifically consider the factors contained within this section, in order to appreciate fully the risks associated with an investment in the Company. You should carefully consider these factors in light of your personal circumstances and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest.

#### **3.2 Specific risk factors**

In addition to the general risks set out in section 3.3, the Directors believe there are a number of specific factors that should be taken into account before investors decide whether or not to apply for New Shares.

##### **Early Stage**

An investment in the Company should be regarded as speculative given the current stage of development of the Company. 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 cost or performance targets, the Company's commercialisation plans will be delayed. The Company cannot guarantee that its commercialisation strategy will be successful.

##### **Utility and Appliance Manufacturer Partnerships**

The Company has entered into product development agreements with utility customers and appliance manufacturers to develop 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. The Company's customers and partners also have certain rights to terminate projects.

In particular, as announced in the Directors' Report released to the market on 2 March 2009, during February 2009 the Company and its partners in the Benelux market, Nuon and Remeha, began a review of their project, covering technical performance of the semi-integrated unit, commercial terms and strategic commitment to the next stages of the project. Also, on 24 February 2009 it was announced that Swedish utility Vatenfall has agreed to buy Nuon. The Company is confident that the semi-integrated unit has met or exceeded all the targets agreed for the project, however there is a risk that the project review, and/or Vatenfall's takeover of Nuon, will impact Nuon's commitment to the next stages of the project.

More generally, the Company's future revenues are to some extent dependant on the utility customers and appliance partners committing resources to develop and deploy products. If the Company's customers or partners suffer a deterioration in their own finances, or change their strategy for adopting new technologies, the Company's product development plans could be adversely impacted.

## **Manufacturing Expansion and Financing**

The Company currently manufactures its fuel cell stacks at its small-scale manufacturing plant in Melbourne. 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 is building a fuel cell stack manufacturing plant in Germany. The Company does not have experience manufacturing its products on a large scale commercial basis, and it may take the Company longer (and/or cost more) than expected to develop that experience (or hire people with that experience).

## **Core Technology**

The Company's future revenues are highly dependent upon the commercialisation of products based on its SOFC technology. There is no guarantee that the Company will be able to develop and demonstrate products that have reliability and lifetime performance sufficient to meet the requirements of commercial orders.

## **Market and Competition**

The Company faces competition from both conventional electricity generating technology producers and fuel cell technology companies. There can be no assurance that the Company will be able to compete successfully against its current and future competitors.

## **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 may not have operated its products over their projected useful life before entering commercial orders. Therefore there is a risk that the Company's products do not last as long as predicted, resulting in possible 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. The Company believes that it has implemented a sophisticated internal intellectual property management system to promote effective identification and protection of its inventions and processes, however, 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. The Company will continue to depend on key suppliers to develop and supply components for products using the Company's fuel cell stacks. 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. In addition, the Company's technology requires the supply of a suitable hydrocarbon fuel to convert into electricity. The Company's initial product focus is on natural gas fuelled systems. The commercialisation of the Company's technology will, in part, depend on end users being prepared to use natural gas to produce electricity. This will be influenced by various factors including the perceived security of supply and current and expected future pricing of natural gas relative to alternative fuel sources and generation technologies. If end users are unwilling to utilise natural gas, or another form of

hydrocarbon fuel on which the Company's technology can operate, then the Group's business, financial condition and results of operations may be adversely affected.

### **Growth in the Business**

The Company is projecting considerable future growth in its business. Whilst the Company has developed internal management strategies to deal with the anticipated growth, the Company will have to maintain close co-ordination among its technical, accounting, sales and marketing and research and development departments and maintain adequate control systems.

### **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, particularly to a competitor, 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 cashflow positive. The Company expects to continue to incur losses until the Company can produce and sell products on a large scale and cost effective basis, to produce sufficient revenue to cover the Company's costs. The Company cannot give an assurance when it will operate profitably, if ever.

If the Company requires access to further funding at any stage in the future, the Company may be adversely affected in a material way if, for any reason, access to capital or debt is not available at all or on commercially acceptable terms. There can be no assurance that additional funds will be available. If additional funds should be raised by issuing equity, this might result in dilution to the existing Shareholders at that time. The pricing of future share issues will also depend upon the results of the Company's activities, market factors, investor demand for shares and the need for capital by either debt or equity capital raisings.

### **Financial Investments**

As described in the Interim Accounts, the Company has a range of financial assets which during the second half of 2008 were severely impacted by the global financial crisis. In the Interim Accounts the value of those investments was written down to \$6.9 million on the basis of indicative selling values obtained by the Company in late February 2009. However the current market environment for these investment securities is neither deep nor liquid. If the market value of the investments falls further the Company may incur further losses on these investments.

### **Exchange rates**

Substantially all the Company's expenses and liabilities, including those related to research and development, are denominated in Australian dollars and its revenues are (currently) substantially in Pounds Sterling, Euros and US dollars. 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.

### **3.3 General risk factors**

#### **Share market**

On completion of the Offer, the New Shares may trade on ASX at higher or lower prices than the Offer Price. Investors who decide to sell their New Shares after quotation on ASX may not receive the amount of their original investment. There can be no guarantee that the price of the New Shares will increase after quotation. The price at which the New Shares trade on ASX may be affected by the financial and product performance of the Company and by external factors over which the Directors and the Company have no control. These factors include movements on international share and commodity markets, local interest rates and exchange rates, domestic and international economic conditions, government taxation, market supply and demand and other legal, regulatory or policy changes.

#### **Liquidity and realisation risk**

There can be no guarantee that an active market in the Shares on ASX will exist at all times. There may be relatively few or many potential buyers or sellers of the Shares on ASX at any given time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less or more than the Offer Price.

#### **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.

#### **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.

#### **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 CFCL Group'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 or that future changes in laws or government policies affecting the Company's technology or products will not impose additional regulatory requirements on the Company, intensify competition in the fuel cell technology industry or otherwise have a material adverse effect on the Company's business, financial condition and results of operations.

#### **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.

## 4 Financial effect of the Offer on the Company

### 4.1 General

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

### 4.2 Effect on capital structure

A maximum of 200,000,000 New Shares may be issued under this Prospectus. Another 409,046,688 Shares will be issued under the Subscription and the Placing and a maximum of 104,685,727 Shares may be issued under the Overseas Offer. The following table sets out the Company's current capital structure and its capital structure immediately following the successful completion of the Offer, the Subscription, Placing and Overseas Offer:

<b>Share capital</b>	<b>Shares</b>
Ordinary shares on issue at the date of this Prospectus	344,745,674
Ordinary shares proposed to be issued under the Placing	207,986,051
Ordinary shares proposed to be issued under the Subscription	201,060,637
Maximum number of Ordinary shares proposed to be issued under the Overseas Offer	104,685,727
Maximum number of New Shares offered under this Prospectus	200,000,000
<b>Shares on completion of Offer<sup>1</sup></b>	<b>1,058,478,089</b>

*1 Assumes maximum number of shares allotted under the Offer and the Overseas Offer, and approval by shareholders of the issue of shares by Ceramic Fuel Cells Limited under the Subscription, Placing and Overseas Offer.*

Additionally, the Company has and will have on successful completion of the Offer the unlisted options on issue as set out in section 1.22 of this Prospectus.

The Company's actual position on completion of the Offer may differ from the position illustrated in the pro-forma capital structure table above as the Entitlements taken up cannot be determined until the Closing Date, and entitlements taken up under the Overseas Offer cannot be determined at the date of this Prospectus. Additionally, the issue of Shares under the Subscription, Placing and Overseas Offer are each conditional on obtaining the approval of Shareholders.

### 4.3 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 \$10 million (depending on the take up of the Offer) before payment of the expenses of the Offer.

#### **Basis of preparation**

To illustrate the effect of the Offer on the Company, the following pro-forma consolidated balance sheet of the Company has been prepared based on the Company's consolidated balance sheet as at 31 December 2008 lodged with ASX in its Appendix 4D on 28 February 2009 (**Interim Accounts**). The consolidated balance sheet was extracted from the Interim Accounts which were subject to an independent auditor's review by PricewaterhouseCoopers. The auditor's review was conducted in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*. A review is

substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and as such the auditor did not express an audit opinion. Accordingly the report should be treated as unaudited.

The accounting policies adopted in the preparation of the pro-forma consolidated balance sheet are consistent with the accounting policies adopted and described in the Company's Annual Report for the financial year ended 30 June 2008 and the half-year report for the period ended 31 December 2008 and should be read in conjunction with those reports.

The pro-forma financial information has not been subject to audit or review and has been prepared by the Company's management in accordance with the requirements of Australian Accounting Standards, Australian Accounting Interpretations and the Corporations Act as at 31 December 2008.

### **Assumptions and qualifications**

The pro-forma column two below is the unaudited balance sheet as at 31 December 2008 adjusted to reflect the following pro-forma transactions:

- The position as if the Offer was fully taken up and effected on 12 March 2009 and no Shares are issued pursuant to the exercise of existing options on or before the Record Date.
- Receipt of \$10,000,000 under the Offer from the issue of 200,000,000 New Shares.
- The payment of costs associated with the Offer of \$38,000.
- The receipt of \$20,123,396 under the Placing and Subscription from the issue of 409,046,688 fully paid ordinary shares at a price of 2.2 pence or 5 cents per share.
- The payment of costs associated with the Placing and Subscription of \$1,280,000.
- The receipt of \$4,924,689 under the Overseas Offer from the issue of 104,685,727 fully paid ordinary shares at a price of 2.2 pence per share (approximately 5 cents per share).
- The payment of costs associated with the Overseas Offer of \$39,000.

Transactions in Pounds Sterling have been converted to Australian dollars at the following exchange rates:

- The Placing and Subscription transactions at £1.00 = A\$2.2312;
- The Overseas Offer transactions at £1.00 = A\$2.1383.

There have been no changes in issued capital in the period since 31 December 2008 to the date of this Offer.

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 / (loss) and in the asset and liability levels during the period between 31 December 2008 and the date when the Offer is completed;
- The Company issuing shares (and receiving funds) as part of the Placing, Subscription and Overseas Offer, are subject to shareholder approval, at a general meeting called for 6 April 2009;
- The actual amounts raised by the Overseas Offer and this Offer will only be known when those offers have closed. The pro-forma capital structure and pro-forma balance sheet assume both offers are fully subscribed.

## Pro Forma Consolidated Balance Sheet

	Actual 31 December 2008 \$	Pro-Forma Balance \$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	4,666,311	<b>38,357,396</b>
Trade and other receivables	640,990	<b>640,990</b>
Financial assets	6,949,739	<b>6,949,739</b>
Other	468,010	<b>468,010</b>
Total Current Assets	<u>12,725,050</u>	<u><b>46,416,135</b></u>
<b>Non-Current Assets</b>		
Financial assets	-	-
Plant and equipment	18,589,056	<b>18,589,056</b>
Intangibles	1,000	<b>1,000</b>
Total Non-Current Assets	<u>18,590,056</u>	<u><b>18,590,056</b></u>
<b>Total Assets</b>	<u>31,315,106</u>	<u><b>65,006,191</b></u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	1,668,060	<b>1,668,060</b>
Provisions	974,013	<b>974,013</b>
Deferred revenue	716,142	<b>716,142</b>
Total Current Liabilities	<u>3,358,215</u>	<u><b>3,358,215</b></u>
<b>Non-Current Liabilities</b>		
Provisions	606,399	<b>606,399</b>
Total Non-Current Liabilities	<u>606,399</u>	<u><b>606,399</b></u>
<b>Total Liabilities</b>	<u>3,964,614</u>	<u><b>3,964,614</b></u>
<b>Net Assets</b>	<u>27,350,492</u>	<u><b>61,041,577</b></u>
<b>EQUITY</b>		
Contributed equity	199,583,570	<b>233,274,655</b>
Reserves	3,656,632	<b>3,656,632</b>
Retained losses	(175,889,710)	<b>(175,889,710)</b>
<b>Total Equity</b>	<u>27,350,492</u>	<u><b>61,041,577</b></u>

## **5 Additional information**

### **5.1 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 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. Accordingly, this Prospectus does not contain the same level of disclosure as an initial public offer prospectus.

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 during the Offer period:

- the annual financial report for the year ended 30 June 2008 (being the annual financial report most recently lodged with ASIC in relation to the Company before the issue of this Prospectus).
- the Interim Accounts (being the half-year financial report lodged with ASIC after lodgement of the annual financial report referred to above and before the lodgement with ASIC of a copy of this Prospectus).
- any continuous disclosure notices given by the Company after the lodgement with ASIC of the annual financial report referred to above and before the lodgement with ASIC of a copy of this Prospectus.

This Prospectus contains details specific to the Offer. If Shareholders require any further information in relation to the Company, the Directors recommend that those Shareholders take advantage of the ability to inspect or obtain copies of the documents referred to above.

### **5.2 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 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 ASTC Settlement Rules. The Company will provide a copy of its Constitution free of charge to any person on request during the application period in relation to this Prospectus. 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 ASX 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 ASTC 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, the 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. 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 one-third) and any other Director who has held office for three years or more must retire from office. The Managing Director is exempted from retirement by rotation. A retiring Director is eligible for re-election.

A Shareholder who holds 20 per cent or more of the issued share capital of the Company may appoint a director to the Board ("**Appointee Director**"). An Appointee Director may be removed or replaced at the discretion of the appointing Shareholder. If the appointing Shareholder ceases to hold at least 20 per cent. of the issued share capital of the Company, the Appointee Director ceases to hold office. In addition, pursuant to Share Subscription Agreements entered into in December 2001 between the Company and each of Energex Limited and Metasource Pty Ltd, each of those Shareholders may appoint a certain number of directors to the Board based on the number of Shares held by the relevant Shareholder. Based on the current number of Shares held by Energex Limited and Metasource Pty Limited, neither of them currently has the right, under the Share Subscription Agreement, to appoint a director to the Board. (Mr John Dempsey, Chairman of Energex Limited, was re-elected as a director of Ceramic Fuel Cells Limited at the Company's Annual General Meeting on 26 November 2008).

### **Amending the Constitution**

In accordance with the Corporations Act, the Constitution may only be amended by a special resolution passed by at least 75 per cent of the shareholders present and voting 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.

## **5.3 Interests of Directors**

Except as disclosed in this Prospectus, 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.

## Remuneration

Directors' remuneration for the last two years was as follows:

*Year ended 30 June 2008*

<b>Name</b>	<b>Cash salary &amp; fees \$</b>	<b>Non- monetary benefits \$</b>	<b>Super- annuation \$</b>	<b>Options \$</b>	<b>Total \$</b>
<b>Managing Director</b>					
B L Dow	310,185	55,342	36,000	94,050	495,577
<b>Non-Executive Directors</b>					
J Harding (from 17/9/07)	-	-	96,830	14,583	111,413
D Carruthers (former director)	27,500	-	32,450	14,583	74,533
J P Dempsey	-	-	49,050	-	49,050
M B Dureau	-	-	59,950	14,583	74,533
R J Kennett (note)	107,191	-	-	14,583	121,774

*Note: R J Kennett's short term benefits of \$107,191 consists of director's fees of \$89,326 and consultancy fees of \$17,865 which were in relation to the May 2008 share placement. This cost has been taken to equity as share issue costs during the year ended 30 June 2008.*

*Year ended 30 June 2007*

<b>Name</b>	<b>Cash salary &amp; fees \$</b>	<b>Non- monetary benefits \$</b>	<b>Super- annuation \$</b>	<b>Options \$</b>	<b>Total \$</b>
<b>Managing Director</b>					
B L Dow	338,776	21,162	36,000	108,000	503,938
<b>Non-Executive Directors</b>					
J W Dinsdale (former director)	90,000	-	8,100	-	98,100
D Carruthers (former director)	-	-	59,950	-	59,950
J P Dempsey	-	-	49,050	-	49,050
M B Dureau	-	-	59,950	-	59,950
R J Kennett (24/8/2006-30/6/2007)	84,395	-	-	-	84,395

## Shareholdings and option holdings of Directors

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

<b>Director</b>	<b>Number of Shares</b>	<b>Number of Options</b>
B L Dow	-	1,970,000
M Dureau	-	100,000
J Harding	350,000	100,000
R J Kennett	-	100,000
J Dempsey	-	-
<b>Total</b>	<b>350,000</b>	<b>2,270,000</b>

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

### **Directors' intentions**

Each Director who holds Shares intends to fully take up all Entitlements in respect of Shares held directly and indirectly.

### **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.

### **5.4 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 and has received or has 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 Phillips Fox has acted as legal adviser to the Offer and have generally advised in relation to due diligence enquiries and are entitled to receive \$15,500 plus outlays and GST in respect of these services. Further amounts may be paid to DLA Phillips Fox in accordance with their usual time-based charge-out rates.

### **5.5 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 Phillips Fox 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 Ltd has consented in writing to be named in this Prospectus as the share 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 has not withdrawn that consent prior to this Prospectus being lodged with ASIC.

### **5.6 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 \$38,000.

### **5.7 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.

### **5.8 Expiry date**

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

### **5.9 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.

## 6 Glossary of terms

**Additional Shares** means New Shares that Eligible Shareholders may apply for under section 1.9 of this Prospectus that comprise any shortfall in subscriptions for New Shares under the Entitlement Offer.

**A-IFRS** means the Australian Equivalents of the International Financial Reporting Standards.

**Applicant** means a person who submits a valid Entitlement and Acceptance Form.

**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 and Transfer Corporation Pty Limited (ABN 49 008 504 532).

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

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

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

**Closing Date** means the date on which the Offer closes, being 15 April 2009 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.

**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 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.

**Entitlement** means the entitlement to apply for approximately nine New Shares for every ten Shares purchased before the 'ex date' and still held as at 7.00pm (AEST) on the Record Date.

**Interim Accounts** means the Directors' Report and Financial Report for the half year to 31 December 2008, lodged with ASX on 28 February 2009 and released to the market on 2 March 2009.

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

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

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

**Notice of Meeting** means the notice of Extraordinary General Meeting mailed to Shareholders on 6 March 2009.

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

**Offer Price** means \$0.05 per New Share.

**Placing** means a placing of 207,986,051 new ordinary shares in the capital of the Company at 2.2 pence per share.

**Prospectus** means this document (including any electronic form of this Prospectus), and any supplementary or replacement prospectus in relation to 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 20 March 2009.

**Registry** means Computershare Investor Services Pty Ltd.

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

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

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

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

**Subscription** means the issue by the Company of 201,060,637 new Shares to various investors based in the UK, Europe and Australia at 2.2 pence or 5 cents per share.

## CORPORATE DIRECTORY

### Board of Directors

Jeff Harding	(Non-Executive Chairman)
Brendan Dow	(Managing Director)
John Dempsey	(Non-Executive Director)
Robert (Bob) Kennett	(Non-Executive Director)
Prof. Michael Dureau	(Non-Executive Director)

### Company Secretary

Andrew Neilson

### Registered Office

170 Browns Road  
Noble Park, Victoria, 3174  
Australia  
Telephone +613 9554 2300  
Facsimile +613 9790 5600  
[www.cfcl.com.au](http://www.cfcl.com.au)

### ASX code: CFU

### Lawyers

DLA Phillips Fox  
Level 21  
140 William Street  
Melbourne, Victoria, 3000  
Australia

### Auditor

PricewaterhouseCoopers  
Freshwater Place  
Level 19  
2 Southbank Boulevard  
Southbank, Victoria, 3006  
Australia

### Share Registry

Computershare Investor Services Pty Limited  
Yarra Falls  
452 Johnston Street  
Abbotsford, Victoria, 3067  
Australia  
Telephone 1300 850 505  
[www.computershare.com](http://www.computershare.com)