

Notice of Annual General Meeting 2004

18 October 2004

Dear Investor

On behalf of my fellow directors of Ceramic Fuel Cells Limited, I have pleasure in inviting you to attend our first Annual General Meeting since going public, and enclose the Notice of Meeting.

The meeting will be held at the ASX Theatre, Stock Exchange Centre, 530 Collins Street, Melbourne on Monday, 22 November 2004 at 10.00 am.

If you are attending this meeting, please bring this letter and the enclosed proxy form with you to facilitate easy registration.

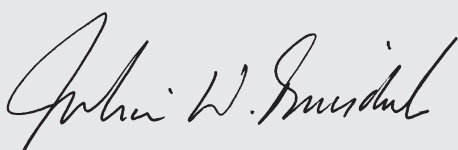
If you are unable to attend the meeting, you are encouraged to complete the proxy form and return it to our share registry before 10.00 am on 20 November.

Corporate shareholders will be required to complete a "Certificate of Appointment of Representative" to enable a person to attend on their behalf. A form of this certificate may be obtained from the Company's share registry.

On behalf of the Board I encourage you to receive our shareholder information online. This will not only save resources, printing and postage, it will ensure that you are immediately notified of significant company announcements. Please fill in the enclosed 'election' form as appropriate and return to our share registry.

I look forward to seeing you at our meeting and sharing news of our company

Yours sincerely



Julian Dinsdale

Executive Chairman

Ceramic Fuel Cells Limited (ACN 055 736 671)

(CFCL) will hold its Annual General Meeting at 10.00 am on Monday, **22 November 2004** at the Australian Stock Exchange Theatre, Ground Floor, 530 Collins Street, Melbourne, Victoria.

Business

Accounts

To receive and consider the financial report, directors' report and auditor's report for CFCL for the year ended 30 June 2004.

Election of Directors

To consider and, if thought fit, to pass the following resolutions:

1. That Dr Colin Adam, who retires as a director in accordance with Rule 78 of the Constitution, and, being eligible, offers himself for re-election, be re-elected as a director of CFCL.
2. That Mr David Carruthers, who was appointed as a director during the year in accordance with Rule 69(4) of the Constitution, and is required to stand for election at the Annual General Meeting and has offered himself for election, be elected as a director of CFCL.

Ms Sally Pitkin retires as a director in accordance with Rule 78 of the Constitution and has not offered herself for re-election.

Non-Executive Directors' Remuneration

To consider and, if thought fit, to pass the following resolution:

3. That, for the purposes of clause 70(1) of the Constitution and ASX Listing Rule 10.17, as remuneration for services each Non-Executive Director be paid the following amounts per year:
 - a. Each Non-Executive Director: \$45,000;
 - b. The Chairman of the Audit Committee:
an additional \$10,000;
 - c. The Chairman of the Technical Committee:
an additional \$10,000;
 - d. Non-Executive Chairman of the Board: \$90,000;
 - e. Plus statutory superannuation and any other statutory entitlements calculated on the above amounts,

Up to a maximum aggregate amount of \$450,000 per annum for all Non-Executive Directors.

Voting Exclusion Statement:

As required by the Listing Rules, CFCL will disregard any votes cast on resolution 3 by or on behalf of any director of CFCL or their associates. However CFCL need not disregard a vote if:

- ▲ it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- ▲ it is cast by the chairperson of the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Executive Chairman Remuneration

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

4. That approval be given for all purposes under the Listing Rules (including Listing Rule 10.14) for CFCL to offer to the Executive Chairman Mr Julian Dinsdale or his nominee up to 1,920,000 fully paid shares in CFCL on the terms set out in the explanatory note which accompanied the notice convening this meeting, and to issue or transfer fully paid ordinary shares in the number, at the time, upon the terms and subject to the conditions contained in the offer.

Voting Exclusion Statement:

As required by the Listing Rules, CFCL will disregard any votes cast on resolution 4 by or on behalf of Mr Dinsdale and any of his associates, which for this purpose includes any other director of CFCL. However, CFCL need not disregard a vote if:

- ▲ it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- ▲ it is cast by the chairperson of the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

By order of the Board

Secretary

Andrew D. Neilson
14 October 2004

Proxy and Voting Information

Proxies

If you are unable to attend the Annual General Meeting, please note that a shareholder entitled to attend and vote at the Annual General Meeting has the right to appoint a proxy (which may be an individual or a body corporate). A proxy need not be a member of CFCL. A shareholder entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. (If proportions or numbers are not specified, each proxy may exercise half the available votes.)

A Proxy Form accompanies this Notice of Annual General Meeting.

For the appointment of a proxy to be effective, you must return the completed Proxy Form (and, if the appointment is signed by the appointor's attorney, the authority under which the appointment was signed or a certified copy of the authority) to ASX Perpetual Registrars Limited at least 48 hours before the meeting.

You can send your proxy form to ASX Perpetual Registrars by using the Reply Paid Envelope or doing any of the following:

- ▲ faxing it to +613 8614 2909;
- ▲ posting it to GPO Box 1736, Melbourne VIC 3001, Australia; or
- ▲ delivering it to Level 4, 333, Collins Street, Melbourne, Victoria, Australia.

Corporate Representatives

Corporate shareholders wishing to appoint a representative to attend the meeting on their behalf must provide that person with a properly executed letter confirming that they are authorised to act as the company's representative. The authorisation may be effective either for this meeting only or for all meetings of CFCL and should be produced prior to admission.

Eligibility for vote at the meeting

CFCL has determined, for the purposes of voting at the meeting, that CFCL shares are taken to be held by those shareholders registered at 10.00am (AEST) on Saturday 20 November 2004.

Registration

If you are attending the meeting, please bring your personalised proxy form with you. The barcode at the top of the form will make it easier for you to register to vote. If you do not bring your form, you will still be able to attend the meeting, but representatives from CFCL or ASX Perpetual Registrars will need to verify your identity when registering.

Undirected Proxies

The Executive Chairman of CFCL will chair the meeting and will vote undirected proxies in favour of all resolutions. CFCL encourages all shareholders who submit proxies to direct their proxy how to vote on each resolution.

Explanatory Notes to the Resolutions:

Resolution 1

Re-election of Dr Colin Adam

Dr Colin Adam (BMetEng(Hons), PhDMet, FTSE) is a Non-Executive Director and has been a member of the Board since 1992. Dr Adam is Vice-Chairman of the Board, Chairman of the Technical Committee and a member of the Audit Committee. He is 61 years of age. Dr Adam is a company director, and Chairman of TeleIP Limited. Dr Adam is considered by the Board to be an independent Director. The Board considers that Dr Adam's involvement with of the Company over many years and his knowledge and experience, particularly in the area of technical risks, are important to the company at this stage in its development.

The Directors (other than Dr Adam) recommend that shareholders vote in favour of re-electing Dr Adam. The Chairman intends to vote undirected proxies in favour of this resolution.

Resolution 2

Election of Mr David Carruthers

The Board appointed Mr Carruthers (BComm, ACA, CFTP (Snr), MAICD Dip) as a Non-Executive Director on 1 September 2004, under Rule 69(4) of the Constitution. In accordance with that Rule, Mr Carruthers is eligible for election at this Annual General Meeting. Mr Carruthers is also Chairman of the Audit Committee. Mr Carruthers is a company director and a Director of Australian Red Cross Victoria. He is 57 years of age. Mr Carruthers has extensive experience in financial risk management and senior corporate management.

The Directors (other than Mr Carruthers) recommend that shareholders vote in favour of electing Mr Carruthers. The Chairman intends to vote undirected proxies in favour of this resolution.

Resolution 3

Non-Executive Directors' Remuneration

Clause 70 of CFCL's Constitution provides that each Director is to be paid an annual sum determined by the Company in general meeting. Listing Rule 10.17 also requires that shareholders approve any increase in the total amount of Directors' fees (other than the salary of an Executive Director).

There is currently no cap on the total pool of funds that may be paid to Non-Executive Directors. The current remuneration of \$20,000 per year for Non-Executive Directors and \$25,000 per year for the Vice-Chairman, was approved by shareholders at CFCL's Annual General Meeting held on 27 November 2003.

It is proposed to increase these fees to reflect the significant additional burdens now that CFCL is a listed company. An independent review was conducted by external consultants in order to determine what level of directors fees would be appropriate in light of the increased workload and responsibilities of a listed company and in order to ensure the level of non-executive director remuneration is in keeping with other comparable listed companies. As a consequence, it is proposed to increase the fees for each non-executive director from \$20,000 to \$45,000 per annum, with an additional

\$10,000 per annum paid to each of the Chairman of the Audit Committee and the Technical Committee. The fee of \$25,000 for the Vice Chairman would no longer be payable. The resolution also proposes a fee of \$90,000 for any Non-Executive Chairman. (Although Mr Julian Dinsdale is currently Executive Chairman, the Directors believe it is prudent for the members to approve a fee that would be payable should Mr Dinsdale - or any other candidate - become a non-Executive Chairman.) Statutory superannuation and any other entitlements would be paid in addition to each of these amounts.

The fees are subject to an overall cap of \$450,000 per annum for all Non-Executive Directors. (It should be noted that this aggregate amount does not include any amounts paid to a superannuation fund for a Director, or any premiums paid on an insurance policy for Directors' liabilities.) This pool of funds would give the Board flexibility to plan its structure in advance and appoint additional Non-Executive Directors if considered necessary and appropriate to reflect the changing needs of the Company.

The directors do not make any recommendation in respect of this resolution given the interest of the Non-Executive Directors in the resolution. The Chairman intends to vote undirected proxies in favour of the resolution.

Resolution 4

Executive Chairman Remuneration

Under ASX Listing Rule 10.14, members must approve any issue of shares to a Director of CFCL.

At the General Meeting held on 14 February 2003, shareholders approved a remuneration package for Executive Chairman Mr Julian Dinsdale consisting of a mixture of cash and shares to be provided to Mr Dinsdale or his nominee.

The details of this remuneration package were disclosed in Section 9.4.6 of the Prospectus. As foreshadowed in the Prospectus, the Board and Mr Dinsdale have agreed that part of the second component of the package, namely the success fee relating to funds raised by the company, be provided to Mr Dinsdale or his nominee in the form of ordinary shares in the company. On 17 September 2004 the Board resolved to issue to Mr Dinsdale or his nominee 300,000 fully paid ordinary shares at an issue price of \$1.00 per share, representing 2% of the \$15,000,000 raised by the company in the initial public offering.

As anticipated in the Explanatory Notes to Shareholders distributed prior to the February 2003 General Meeting, the Board and Mr Dinsdale have reviewed the remuneration package with a view to agreeing any changes necessary having regard to the time commitment required of Mr Dinsdale and the funding needs of the Company. That review was also appropriate given that one of the elements of the package, namely the success fee relating to funds raised by the Company, was for the period ending 30 June 2004.

The Board and Mr Dinsdale have now agreed to the terms of a revised remuneration package, based on similar principles to the package approved in February 2003, but with greater emphasis on creating incentives for Mr Dinsdale to contribute to the long term success of the company.

The revised package consists of a mixture of cash and shares to be provided to Mr Dinsdale or his nominee, comprising the following elements:

(a) Base Pay:

\$20,000 per month together with the reimbursement of all reasonable travel, accommodation and other expenses incurred by Mr Dinsdale in attending meetings of the Company or the Board or of any Committees of the Board or whilst engaged on the business of the company. This is unchanged from the package approved in February 2003.

(b) Performance Bonus:

A performance bonus of up to 50% of the Base Pay for the period 1 July 2004 to 30 June 2005. The maximum amount of this bonus is \$120,000. The bonus would be payable in the form of cash and ordinary fully paid shares in the company, the actual proportion of which is to be determined by the Board after agreement with Mr Dinsdale. The maximum number of shares that may be issued for the Performance Bonus is 120,000, at an issue price of \$1.00 per share. The Performance Bonus would be payable at the discretion of the Board in recognition of the company achieving significant revenue, sales, technical and manufacturing objectives set out in the business strategy as disclosed in the prospectus, for the period to 30 June 2005.

(c) Fundraising Fee:

A success fee in relation to the total equity up to \$60,000,000 raised by the company prior to 30 June 2005 being an amount equal to 1.5% of such funds raised on terms acceptable to the Board payable on final closure. This success fee will be payable in a mixture of cash and ordinary fully paid shares in the company, the actual proportion of which is to be determined by the Board after agreement with Mr Dinsdale. The maximum number of shares that may be issued for the Fundraising Fee is 900,000, at an issue price of \$1.00 (assuming \$60,000,000 is raised and the Board and Mr Dinsdale agree that all of the 1.5% fee is payable in shares).

(d) Incentives:

Several tranches of incentives are payable at the discretion of the Board in recognition of the company achieving significant sustainable business success or appreciation in shareholder value. The incentives are payable as a mixture of cash and ordinary fully paid shares in the company, the actual proportion of which is to be determined by the Board after agreement with Mr Dinsdale. The maximum amounts of these fees, and indicative performance milestones, are set out below. (The Board retains discretion to pay the incentives, or part thereof, where it believes Mr Dinsdale has made a significant lasting contribution to the company achieving significant sustainable business success or appreciation in shareholder value, even if the indicative performance measures below have not been met.)

Milestone 1: Maximum Fee \$200,000

Indicative Measure: Application Development Partner/s secured with total contract revenue to CFCL greater than \$10M; or if the Company's closing share price on ASX is \$1.30 or greater (averaged over 20 business days) after 5 July 2005;

Milestone 2: Maximum Fee \$300,000

Indicative Measure: An announcement closing a Manufacturing Development Joint Venture with total contract revenue to CFCL greater than \$25M; or if the Company's closing share price on ASX is \$1.50 or greater (averaged over 20 business days) after 5 July 2006;

Milestone 3: Maximum Fee \$400,000

Indicative Measure: sales of units either directly or through development partners has exceeded 10MW; or if the Company's closing share price on ASX is \$2.00 or greater (averaged over 20 business days) after 5 July 2007.

The maximum number of shares that may be issued for the Incentive is 900,000, at an issue price of \$1.00 (assuming all the milestones are met and the Board and Mr Dinsdale agree that all of the fees are payable in shares).

The Incentives cease on 22 November 2007. If Mr Dinsdale ceases to be Executive Chairman of CFCL before this time (other than for poor performance or misconduct) the Board retains discretion to continue to award the payments to Mr Dinsdale or his nominee, if all other conditions for the payments are met.

The total amount of shares that may be issued under all components is 1,920,000, assuming all performance conditions are met and the Board and Mr Dinsdale agree that all of the fees are payable in shares. If all of these shares were issued, the approximate dilution effect on the Company shares (based on 110,136,448 issued shares as at October 2004) would be 1.7%.

For all components, ordinary fully paid shares in the company would be issued at a price of \$1.00 per share. Any shares to be issued as part of this package would be issued within three years of the date of the meeting approving the package, namely before 22 November 2007. The shares will be issued for no cash consideration. The company will not give Mr Dinsdale any loan or other financial assistance to acquire the shares.

If shareholders approve this resolution no separate approval will be needed under Listing Rule 7.1.

Details of any securities issued to Mr Dinsdale or his nominee under these terms will be published in each annual report of the Company. Any additional persons will not be entitled to receive securities under these terms unless shareholders approve the issue under Listing Rule 10.14.

The Board of CFCL recommends that you vote in favour of the resolution on the basis that it is in the best interests of CFCL's shareholders to secure the services of Mr Dinsdale on terms that create shared incentives between Mr Dinsdale and the company, and which are in line with the business objectives and fundraising requirements of the company. No CFCL Director other than Mr Dinsdale has an interest in the outcome of the resolution other than to secure the services of Mr Dinsdale on terms that are considered fair and reasonable. Mr Dinsdale makes no recommendation as he has a personal interest in the resolution.