



Announcement

23 November 2005

Chairman's Address

At CFCL's Annual General Meeting held on Wednesday 23 November 2005.

Welcome

On behalf of the Company's Board and management team I welcome you to our 2005 Annual General Meeting.

In 2004-5 the Company took important steps towards commercialising its fuel cells. We embraced the European market and increased our focus on products and customers.

We also welcomed a new Chief Executive Officer, Mr Brendan Dow, who joined CFCL in June 2005.

Enormous Opportunities

First, for some context, a reminder of the potential markets the Company is targeting.

A study by US-based CleanEdge Inc. estimates that the market for fuel cells and distributed hydrogen is projected to grow from US\$900 million (primarily for research contracts and demonstration and test units) to US\$15.1 billion over the next decade.¹

Now, solid oxide fuel cells (SOFC) will be only a part of that market, but clearly the sector is a significant growth opportunity.

We're also encouraged by signs that the capital markets are recognising the opportunities for 'clean technology'. For instance, the UK Carbon Trust has stated "*Clean technology may have the potential to replicate the growth stages of sectors such as biotech and telecoms....From a low base level in 2000, the clean technology sector has maintained a compound annual growth of annual inward capital flow of 30%.*"²

The challenge of course is for the Company to take advantage of these opportunities.

Commercialisation Strategy

Since Brendan Dow joined the Company, he and the management team, together with the Board, have reviewed and refreshed the Company's strategy and business plan.

We now have a clear strategy:

to be the supplier of choice for reliable and highly efficient solid oxide fuel cell products which manufacturers can easily integrate into micro generation appliances for the European market.

I'd like to expand on a couple of important points within that statement.

¹ CleanEdge Inc, March 2005, www.cleandedge.com

² The Carbon Trust, May 2005, www.thecarbontrust.co.uk

First, CFCL is focused on developing fuel cells that are highly efficient and suitable for high volume manufacture and assembly. We believe these factors can give us a competitive advantage over other forms of electricity generation, including other fuel cell types.

Second, CFCL's initial focus is on micro-CHP units at the small end of the stationary electricity market – from 0.5 to 5 kW. We believe this product size is ideal for the European domestic market. However in the medium term we expect to work with appliance makers on further applications, such as combined heat, power and cooling units, air conditioners, chillers and electricity generators.

Our strategy and business plan gives us a clear view of how the Company can benefit from the increasing demand for efficient and environmentally friendly energy.

Goals 2004-05

In last year's Annual Report we set ourselves a number of challenging goals for the 2004-05 financial year.

I'm pleased to report that we've made good progress against those goals, which fell into a few broad areas:

Micro CHP Units

We set ourselves two goals:

1. Complete the development of micro-CHP units; and
2. Conduct field trials in Australian and European markets.

I am pleased to report that we achieved both goals, thereby successfully integrating the Company's fuel cells into an appliance generating electricity and heat, operating in real world conditions.

Our first CHP demonstration unit was launched in June 2005. We have now built five CHP demonstration units.

We also signed contracts with four customers in the financial year (and a 5th in July 2005) to conduct field trials of all of these units, in Australia, New Zealand and Germany. Some of these units have already been delivered and commissioned, with the remaining units to be delivered in December 2005.

In October 2005 we launched NetGen™, the next iteration of pre-commercial unit, which is much smaller than the CHP demonstration units and is an important step toward a commercial appliance. Brendan Dow will talk about NetGen in more detail in his presentation later in the meeting.

Income Streams

Our goal was to establish income streams from field trial activities and other project work.

We achieved our goal for field trials, with income streams established and revenue received in the financial year.

We also made good progress toward developing other income streams.

We recently announced an alliance with US-based Precision Flow Technologies for them to make solid oxide fuel cell test equipment using CFCL's intellectual property and expertise. We flagged this as one of our potential income streams in last year's annual report, and the

alliance with PFT was the result of a lot of work during the financial year. We spoke to several potential partners, in detail, about a potential alliance, before settling on PFT. We think we've made the right decision. PFT are a high-quality company, focused on delivering excellent engineering solutions. We were impressed by their professionalism and their vision for expanding into the market for SOFC test equipment.

We think this alliance is a very positive deal for CFCL – it delivers a mix of up-front payments and ongoing revenue streams to the Company, in the 2005/06 year and the next several years, without requiring additional capital or labour and without unduly distracting our resources from our core strategic goals. It is just the sort of commercial opportunity we were aiming for when we set the goals last year.

We're also continuing to work towards generating revenue from our intellectual property regarding high quality zirconia powders, which is a key input into the Company's fuel cell production. Based on the work we've done – which has been supported by the CSIRO – we believe our intellectual property can be used to produce better quality powders, potentially at lower cost (or higher margin) than current processes.

One of our goals for 2005-06 is to establish a powder plant, and we are aiming to make further announcements about this in the first quarter of 2006.

Volume Manufacturing

Our goal last year was to engage with a manufacturing partner for the development of a volume manufacturing plant (or fuel cell 'foundry') for fuel cells in Europe.

This was a focus of a lot of work during the financial year.

We conducted extensive feasibility work, including plant designs and costings, with experts from Ceram Research Ltd and Sinclair Knight Merz. We now have comprehensive plans and designs for a volume fuel cell manufacturing plant, with hundreds of pages of detail, right down to the number of water taps and windows.

So far as we know we are the first company to reach this advanced stage of preparing for volume manufacture.

This is important, because on our analysis, for fuel cell companies to make decent long term returns, they absolutely have to make cells in large volumes at a low unit cost. We recognised this some time ago, which is why we're actively planning for a fuel cell foundry. This fundamental point is now also being recognised by other fuel cell companies and other industry observers - but we don't know of any other SOFC company that is closer than we are to being able to manufacture in real volume.

During the financial year we also had detailed discussions with several potential manufacturing partners about teaming together on the plant.

As a result of these discussions and our extensive design work, we now believe the most appropriate ownership and operating structure of a plant is for the Company to build the manufacturing plant ourselves.

Therefore the Company intends to build and operate the plant itself however we will also consider selectively outsourcing some processes or components to appropriate operational partners, provided the balance of risk and reward is right for CFCL.

Application Partners

Another goal was to engage with application partners to incorporate our fuel cell technologies into end user appliances. This remains one of our key milestones.

During the financial year the Company held detailed discussions with a number of potential application partners, including major boiler manufacturers. Several major utilities from Australia and Europe and potential application partners, including from Europe, have visited CFCL's Melbourne headquarters.

Although the Company had hoped to formally engage with an application partner during the financial year, and it is disappointing that no contracts were signed during this time, the discussions indicated an encouraging level of interest in the Company's technology and products.

The Company expects potential partners to make commitments once further reliability of the fuel cell units has been demonstrated.

Engaging with application partners remains one of the Company's key goals for 2005-06.

Technology and Production

One of our goals last financial year – and indeed an ongoing goal – is to keep improving the performance of the Company's fuel cells.

During the year we continued to improve the design and performance of our fuel cell, including increasing the power produced by each cell. This is important as ultimately it can lead to smaller fuel cell 'stacks', which can reduce the cost of producing a given amount of electricity. One of the Company's key aims for 2006 is to keep improving the design and composition of our cells to maximise each cell's power output, as this will become increasingly important as the Company moves toward volume manufacture.

The Company also increased the output of fuel cells from its Melbourne plant, and continued to improve its production processes, resulting in improved yields in fuel cells production.

The Company also drastically reduced the size and complexity of our demonstration fuel cell generator units, from the CHP field trial units to the NetGen unit.

In 2004-5 CFCL was also granted a number of further patents over its technology. As at 30 June 2005 the Company had international patents (granted or pending) over 28 inventions.

Financial Management

In 2004-5 CFCL recorded its first customer revenue, which is a significant step along the road to commercialisation.

The net loss for the year was \$17.2 M. The Company's Board and management are focused on ensuring shareholder's funds are spent prudently. The Company believes it is spending less than other fuel cell companies, to generate technology and products that compare very favourably.

Fundraising Update

One of the Company's goals last year was to explore and if appropriate implement dual listing of the Company on the Alternative Investment Market (AIM) of the London Stock Exchange.

There are a significant number of investors interested in the fuel cell industry located in Europe and the northern hemisphere and the intent of this dual listing is to obtain access to these European capital markets.

The Company spent some time early in the financial year exploring the AIM listing. Our original intent was to list on AIM without raising further capital, in late 2004 / early 2005. However due to market conditions we decided to first raise a small amount of additional capital in the Australian market, via the Convertible Notes issued in August 2005, before a more significant raising in Europe.

Shortly after the Convertible Notes were issued we began work on the secondary raising and AIM listing. In September, CFCL management and its advisors conducted a series of presentations to specialist UK brokers with expertise in small and mid cap companies and the fuel cell industry.

The Company has recently engaged Libertas Capital Group as Nominated Advisor (Nomad) and joint broker to advise CFCL on the raising and AIM listing. CFCL has also retained Ambrian Partners as joint broker to the issue.

In connection with the AIM listing, the Company intends to raise funds in Australia and the UK and European markets, sufficient to:

- fund the equity portion of the Company's planned European fuel cell manufacturing plant; and
- take the Company through its current commercialisation and field trial phase, into volume production and revenue generation.

In addition to being joint broker, Libertas Capital will also provide institutional research on the Company.

The Company is now working with Libertas Capital and Ambrian, as well as Inteq Limited, CFCL's corporate advisors in Australia, on finalising the details of the raising.

The Company's current intention is to raise the funds via a pro-rata non-renounceable Rights Issue to existing shareholders, with the shortfall being placed to UK and European investors by Libertas Capital and Ambrian.

The shortfall would be allocated to UK and European investors at the same price as offered to existing shareholders under the Rights Issue. The quantum and pricing of the raising will be set in consultation with Libertas Capital and Ambrian after marketing to potential investors.

The Company intends to obtain firm commitments for the shortfall before offering the Rights Issue to existing shareholders.

The Company believes a Rights Issue is an appropriate structure as it gives existing shareholders the opportunity to invest in the Company at the same price as new investors.

Although the timing of the raising and listing depends on market conditions and the final structure of the raising, the current intention is to begin marketing to potential investors early in the New Year and complete the raising and AIM listing in the early part of 2006.

The Board is mindful of the need to raise capital in a timely manner – whilst also raising capital at an appropriate price and from an appropriate investor base. The Board will remain

open to other opportunities to raise funds if they are in the Company's best interests, however the clear focus is on the AIM listing.

We are cautious about giving firm commitments to a timetable when many of the factors affecting the timing are not within our control, however we are working through the process with our advisors and brokers, and we are confident of a successful raising and listing in the coming months.

Directors

During the financial year the Company farewelled several directors. On behalf of the Board, I'd like to thank those directors for their service and contribution to the Company.

The Board intends to appoint additional Directors early in 2006. Given the Company's plans to list on the UK AIM market, and with our strategic focus on Europe, the Board considers it appropriate to appoint at least one European-based Director.

Conclusion

In conclusion, CFCL has made some significant steps in 2004-5. It has gone from an R&D company with potential to a company with commercial contracts, working demonstration products, agreements with major utilities, a European subsidiary and a growing international profile.

The Board and management look forward to further achievements and growth in 2005-6.

Julian Dinsdale
Chairman