



20 August 2010

Dear Optionholder

Ceramic Fuel Cells Limited - pro-rata non-renounceable rights issue

Ceramic Fuel Cells Limited (**Company**) has announced to ASX that it is undertaking a pro-rata non-renounceable rights issue to raise a maximum of \$21.4 million (before costs of the issue) through the issue of 117,400,000 New Shares at 18.25 cents each.

Qualifying Shareholders

Only those shareholders with registered addresses in Australia and New Zealand will be entitled to participate in the rights issue (**Qualifying Shareholders**).

Ceramic Fuel Cells Limited has determined that it is unreasonable to make offers to shareholders under an Australian Prospectus other than to Qualifying Shareholders having regard to the number of shareholders outside of Australia and New Zealand, the number and value of the shares that would be offered and the cost of complying with legal and regulatory requirements outside of those countries.

In addition, the Company has also announced a limited offer proposed to its existing UK and European shareholders to raise a maximum of €2.5 million (**Overseas Offer**). On 19 August the Company completed a share placement with certain UK and European based investors and raised £10 million (**Placing**).

The rights issue

The rights issue is an offer to Qualifying Shareholders of approximately one new ordinary share at an issue price of 18.25 cents for each six ordinary shares held by each such shareholder at 7.00pm on 30 August 2010 (**Record Date**). The rights issue is non-renounceable, which means that entitlements cannot be sold or otherwise transferred.

Optionholders' participation in the rights issue

Optionholders cannot participate in the rights issue, with respect to their options, without exercising those options prior to the Record Date. Check the terms and conditions of your options to determine whether those options may be exercised prior to the Record Date.

Please note that if the Exercise Price of your options is higher than the current market price of the Company's shares, and the offer price under the Rights Issue, then if you exercise your options you will be required to pay more for your shares than the current market price.

However, if you wish to exercise your options in order to participate in the Rights Issue, please ensure a notice of exercise (together with payment) in accordance with the option terms is received by the Company before 5.00pm on 25 August 2010.

Applications

Optionholders who become shareholders by exercise of their options prior to the Record Date will be mailed a prospectus accompanied by a personalised entitlement and acceptance form to subscribe for New Shares under the rights issue. To participate in the rights issue, Qualifying Shareholders must complete and return the entitlement and acceptance form accompanied by the relevant payment to the Registry as described in the prospectus.

Purpose of the rights issue

The purpose of the rights issue is to raise funds for working capital to continue to commercialise the Company's products, including to scale up production of fuel cell modules and BlueGen gas-to-electricity products to meet expected future demand.

Additional information

If you have any queries at this time, please contact Andrew Neilson or Glenn Raines.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Harding', with a stylized flourish at the end.

Mr Jeff Harding
Chairman
Ceramic Fuel Cells Limited