



20 August 2010

Dear Shareholder

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

Ceramic Fuel Cells Limited (**Company**) has recently 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 ordinary shares at 18.25 cents each (**New Shares**).

All New Shares issued will rank equally in all respects from the date of allotment with the Company's shares currently quoted on ASX.

Qualifying Shareholders

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

The Company 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 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 every six ordinary shares held by each such shareholder at 7.00pm on 30 August 2010 (**Record Date**).

Entitlements will be rounded down to the nearest whole number and holdings on different registers or sub-registers will not be aggregated to calculate entitlements. The rights issue is non-renounceable, which means that entitlements cannot be sold or otherwise transferred.

Share capital

The Company's share capital is set out in the table below:

Share capital	Shares
Ordinary shares on issue at the date of the Prospectus	1,029,873,820
Ordinary shares issued under the Placing	95,238,096
Maximum number of Ordinary shares proposed to be issued under the Overseas Offer	19,625,390
Maximum number of New Shares offered under the Prospectus	117,400,000
Shares on completion of Offer¹	1,262,136,766

¹ Assumes maximum number of shares allotted under the Offer and the Overseas Offer.

The Company also has 16,019,644 unlisted options on issue of which 15,680,144 have vested. If these options are exercised prior to the Record Date, the optionholder may be entitled to participate in the rights issue. Notices were sent to optionholders on 20 August 2010 informing them of the rights issue. The table in the schedule to this letter lists the options currently on issue, assuming that none are exercised prior to the Record Date.

Further details

The rights issue is not underwritten and there are no brokers to the issue. Consequently, no underwriting fee is payable and no fee or commission is payable to any broker in respect of the rights issue.

Applications

The prospectus for the rights issue was lodged with ASIC on 20 August 2010 and will be sent to shareholders no later than 2 September 2010 accompanied by a personalised entitlement and acceptance form for Qualifying Shareholders to subscribe for new shares under the rights issue. 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.

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.

The prospectus has also been lodged with ASX and is available on both the ASX website (www.asx.com.au) and the Company's website (www.cfcl.com.au).

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.

Important dates

Event	Indicative timing
Lodge Prospectus with ASIC and ASX Despatch letter to option holders	20 August 2010
Despatch letter to shareholders	20 August 2010
Existing shares quoted 'ex' rights	24 August 2010
Record date for pro-rata offer	30 August 2010
Despatch of prospectus to shareholders as at record date and announce despatch	2 September 2010
Offer opens	3 September 2010
Offer closes	5.00pm 17 September 2010
Issue and allotment of new shares	23 September 2010
Despatch new holding statements to shareholders	24 September 2010
Normal trading resumes	27 September 2010

The dates above are indicative only and subject to the Listing Rules and the Corporations Act. The Company reserves the right to change any date, including to extend the closing date or to close the offer early without prior notice.

Additional information

If you have any queries at this time, please phone Computershare on 1300 708 429, or phone our office on +613 9554 2300 or send an email to investor@cfcl.com.au.

Yours sincerely



Mr Jeff Harding
Chairman
Ceramic Fuel Cells Limited

Schedule

Share Options issued under the CFCL Share Option Plan and Directors and Employee Benefits Plan as at 20 August 2010

Grant Date	Expiry Date	Exercise price \$ Note: prices adjusted following 2009 rights issue - see Appendix 3B dated 2 July 2009	Balance at 20 August 2010	Exercisable at 20 August 2010
23 Feb 2001	22 Feb 2011	1.49	1,000	1,000
27 Jul 2001	26 Jul 2011	1.49	3,000	3,000
6 May 2004	5 May 2014	2.00	170,000	170,000
1 Sep 2004	31 Aug 2014	0.76	30,000	30,000
12 Oct 2005	11 Oct 2015	0.57	339,500	-
24 Aug 2006	23 Aug 2016	0.58	556,000	556,000
26 Oct 2006	26 Oct 2010	0.2699	200,000	200,000
29 Aug 2007	28 Aug 2017	1.01	3,071,760	3,071,760
29 Aug 2007	28 Aug 2017	0.99	100,000	100,000
4 Dec 2007	3 Dec 2011	0.685	285,000	285,000
4 Dec 2007	3 Dec 2011	1.01	300,000	300,000
28 Mar 2008	27 Mar 2018	0.45	1,814,900	1,814,900
28 Aug 2008	27 Aug 2018	0.44	2,949,330	2,949,330
28 Aug 2008	27 Aug 2012	0.102	285,000	285,000
5 Dec 2008	20 Jun 2014 *	0.44	1,000,000	1,000,000
5 Dec 2008	5 Dec 2012	0.45	200,000	200,000
26 June 2009	25 June 2013	0.175	675,000	675,000
26 June 2009	25 June 2019	0.175	4,039,154	4,039,154
Total Number of Options			16,019,644	15,680,144

(* or earlier if the Board agrees to an earlier vesting date)