Market Announcement

19 August 2014

Preliminary Results

12 Months ended 30 June 2014.

Ceramic Fuel Cells Ltd (AIM/ASX: CFU), a leading developer of small-scale electricity generators that use fuel cell technology to convert natural gas into electricity and heat at high efficiency for use in homes and other buildings, announces its preliminary results for the year ended 30 June 2014.

Operational highlights in the period and year to date:

Sales

- 210 units were sold in FY2014, a 43% increase over the 147 sold in FY2013.

- 45 units were sold for a virtual power plant initiative on the island of Ameland in the Netherlands. The Company believes that this type of project, which requires its BlueGEN to operate in tandem with solar and wind generated power, will provide further sales opportunities in the future.

- CFU has demonstrated the potential for its product in Germany, the Netherlands and the UK markets by selling directly to customers as well as through a number of distribution partners and installers.

- CFU focused its limited sales and marketing resources on Germany and the UK due to the fiscal incentives in those countries. In Germany, in addition to North Rhine Westphalia, the States of Hesse, Baden Wurttemberg, Saxony and Rhineland Palatinate recently announced subsidy programmes to support mCHP installations. In the UK large-scale project sales, principally in the social housing sector, are being targeted and a number are currently under negotiation

- In excess of 580 units have now been sold into 11 countries.

- Having reviewed its sales strategy, the company has moved to the development of larger scale projects rather than direct sales. This has resulted in a reduction in the sales resource/ cost base and allowed the team to pursue the project-based opportunities.

- CFU continues to apply major focus to reducing the standard cost of its unit in order to be able to reduce its sales price. This in turn could lead to greater market acceptance and open markets where currently the unit is not yet economically viable.

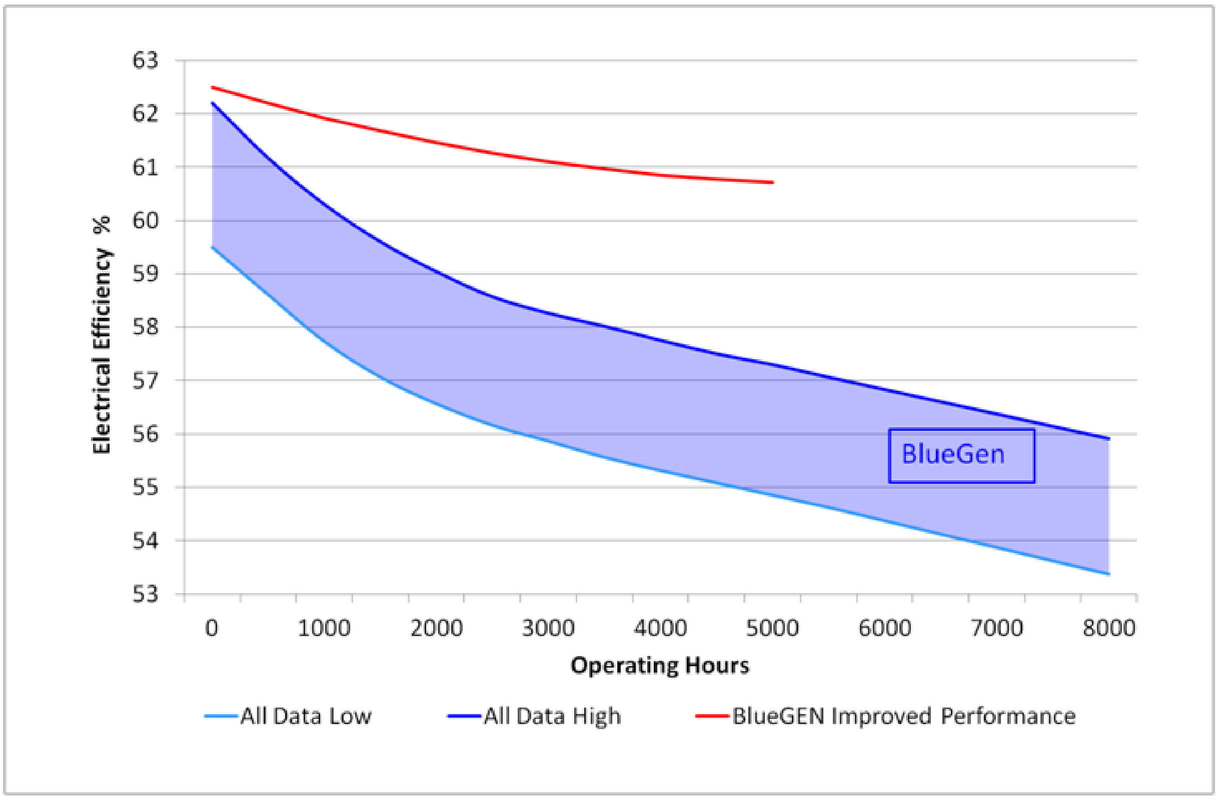
- The Company continues to investigate product distribution options with potential partners in Europe, North America, China, Korea and Japan.

Product performance

- CFU continues to have the most efficient technology for small-scale power generation and it remains confident that its technology has a significant advantage over other combined heat and power (CHP) products. The product's very high electrical generation efficiency, combined with an impressive overall CHP efficiency, is able to significantly reduce carbon emissions and can provide greater value to the customer through the reduction in the marginal cost of electricity.

- On 30 June 2014 the Company announced substantial reductions in stack degradation rates following the introduction of patented improvements to its BlueGEN product. Extensive in-house and in-field testing demonstrated reductions of up to 70% of the average degradation rate experienced in current customer BlueGEN products.

- This substantial decrease in the degradation rates significantly improves the efficiency of the product over the life of the stack as demonstrated by the following graph. The blue shaded section in the graph is representative of the BlueGEN degradation band before the implementation of the patented solution, which is illustrated by the red line.



These improvements are presently being introduced into the supply chain and will then be incorporated into routine stack production. It is envisaged that these improvements will significantly reduce the annual maintenance cost and the magnitude of the future warranty provisions.

- The 30 June announcement has led to significant interest in CFU's technology and the Company has been approached to develop both larger and smaller units for different geographical markets, in particular North America, Japan and China. At this time, due to limited resources, the Company is not yet able to undertake these development projects unless appropriate financial support can be secured.

- Combined total operational hours for CFU's units are now in excess of 4.8 million and the units continue to demonstrate high reliability and electrical efficiency.

- The Research and Product Development team continues to refine the product in order to improve both its robustness to thermal cycling events and the unit's ability to continuously power modulate across the entire operating range. In-house validation testing of enhanced stack technology has demonstrated successful thermal and power cycling under a range of operating conditions. Significant progress continues to be made to fully validate and deliver these refinements into production.

Manufacturing and supply chain

- CFU continues to assemble a low volume of BlueGEN units in Heinsberg, Germany. The plant is currently able to produce 1,700 stacks per annum. This capacity is able to be increased substantially, with limited capital outlay, once unit sales ramp up.

- The Company continues to review its supply chain and raw materials from alternative suppliers are being evaluated in order to establish second suppliers so that the Company does not become exposed to supply chain restrictions

- The Company's relationship with its fuel cell supplier remained strong throughout the year. The quality of the components sourced from them remains very high. They are now being tasked with the development and production of other stack components.

- From June 2012 to June 2014 CFU has reduced the unit's standard cost by 29%. This remained a major focus during the year. The Company remains confident that further cost reductions will ensue through the placement of volume orders for components as well as a combination of value engineering, process efficiency improvements and the outsourcing of manufacturing.

Financial Results

Year to 30 June 2014 (unaudited FY14 results)

- Net Loss after Tax: AUD 21.4M (GBP 11.8M) (increase of 8% from FY13)
- Revenue from Operations: AUD 6.1M (GBP 3.4M) (increase of 43% from FY13)
- Net Operating cash outflow: AUD 18.2M (GBP 10.0M) (increase of 9% from FY13)
- Cash balance at 30 June 2014: AUD 5.3M (GBP 2.9M)

Revenue

The Group's total revenue increased during the year by 43 percent to AUD $6.1M (GBP 3.4M). The increase in revenue is due to 210 units being sold during the year compared to 147 in the prior year.

Cost of sales, service and warranty

The total cost of units sold during the year was AUD 5.3M (GBP 2.9M). Reducing the standard cost of manufacture remains one of the key focus areas of the Company.

Service and support costs totalled AUD 1.2M (GBP 0.7M) and covered the costs associated with installation, system monitoring and provision of maintenance support and training. The increase in volume of units sold gave rise to the increase in these costs.

The Group adopts a conservative position in relation to potential warranty claims and replacement of parts under service contracts. The expense for the year totalled AUD 1.9M (GBP 1.0M) which compares to the prior year charge of AUD 3.2M (GBP 1.8M). This decrease in expenditure from the prior year is due to the conservative position taken by the Company in FY2013 when it increased the provision substantially. As previously mentioned, it is envisaged that the degradation improvements will reduce the magnitude of the required future warranty provision per unit.

Operating Expenses

Research and Product Development expenses were AUD 7.6M (GBP 4.2M) which is AUD 0.3M (GBP 0.2M) lower than last year. This reflects the restructure of the Group which took place in March of this year. The Company believes it is important to continue with its core research and product development activities to the extent that its financial resources allow. The company is also satisfied that the technical capabilities have been fully retained and that all future development opportunities can be appropriately managed.

General and administration expenses were AUD 8.5M (GBP 4.7M) which is AUD 0.2M (GBP 0.1M) higher than last year.

Manufacturing expenses were AUD 3.0M (GBP 1.7M) which is AUD 0.2M (GBP 0.1M) higher than last year. This is due to the increase in manufacturing that occurred prior to the slow down in March 2014.

Sales and marketing costs were AUD 3.5M (GBP 1.9M) which is AUD 1.1M (GBP 0.6M) greater than last year. This increase was due to the ramp up of the direct sales force in Germany which began in early FY2013. The restructure that occurred in March 2014 has led to a reduction in these resources over the past 4 months.

Net Loss after Tax Attributable to Members

The net loss for the year after tax was AUD 21.4M (GBP 11.8M), an increase of AUD 1.6M (GBP 0.9M) over the prior year. A tax refund of AUD 4.0M (GBP 2.2M) was received relating to research and development expenditure incurred during the FY13 year. This was AUD 1.2M (GBP 0.7M) less than the amount received in FY13 for FY12's expenditure. It is anticipated that a refund will again be received in FY15 for the FY14 year, however, at this time it is too early to provide an indication as to the amount of any claim which may be lodged, or the timing of any such receipt.

The net loss after tax represents a loss of AUD 1.19 cents (GBP 0.65 pence) per share compared to a loss of AUD 1.31 cents (GBP 0.72 pence) in the prior year.

Cash flow

The Group's net cash outflow from operations was AUD 18.3M (GBP 10.1M), which was AUD 1.6M (GBP 0.9M) greater than last year. Of this AUD 1.2M (GBP 0.7M) was due to a lower tax refund receipt than in the prior year.

Cash inflow from investing activities was AUD 1.8M (GBP 1.0M) compared to an inflow of AUD 1.7M (GBP 1.0M) in the prior year. The inflow was mainly due to the sale of the powder plant assets.

Cash inflow from financing activities amounted to AUD 11.6M (GBP 6.93M). This mainly arose from issues of Equity that raised a net AUD 12.0M (GBP 6.6M) and the issue of Convertible Loan Notes that raised a net AUD 0.5M (GBP 0.3M).

At 30 June 2014 the Group had cash of AUD 5.3M (GBP 2.9M) which was held on deposit with banks.

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About Ceramic Fuel Cells Limited:

Ceramic Fuel Cells Limited is a world leader in developing fuel cell technology to generate highly efficient and low-emission electricity from widely available natural gas. Ceramic Fuel Cells Limited has sold its BlueGEN gas-to-electricity generator to major utilities and other foundation customers in Germany, the United Kingdom, Switzerland, The Netherlands, Italy, Japan, Australia, and the USA. Ceramic Fuel Cells Limited is also developing fully integrated power and heating products with leading energy companies E.ON UK in the United Kingdom, GdF Suez in France and EWE in Germany.

The company is listed on the London Stock Exchange AIM market and the Australian Securities Exchange (code CFU).

www.cfcl.com.au

Preliminary Consolidated Statement of Comprehensive Income

For the year ended 30 June 2014

	Note	2014 $	2013 $
Revenue from continuing operations	2	**6,102,440**	4,265,690
Cost of sales, service & warranty	4	**(8,426,115)**	(7,851,934)
Gross profit/(loss)		**(2,323,675)**	(3,586,244)
Other income	3	**530,199**	791,236
Research & Product Development	4	**(7,610,324)**	(7,869,834)
Manufacturing		**(2,951,980)**	(2,773,627)
General & Administration	4	**(8,487,767)**	(8,289,543)
Sales & Marketing	4	**(3,534,999)**	(2,369,200)
Impairment Reversal / (Charge)	4	**1,968,924**	(351,383)
Other Gains / (Losses) - Foreign exchange	4	**(1,954,819)**	(241,898)
Finance costs		**(1,085,103)**	(271,167)
Loss before income tax		**(25,449,544)**	(24,961,660)
Income tax benefit		**4,022,582**	5,184,044
Loss for the year entirely attributable to members of Ceramic Fuel Cells Limited	13(b)	**(21,426,962)**	(19,777,616)
Other comprehensive income			
Items which may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	13(a)	**230,214**	2,216,165
Other comprehensive income for the year, net of tax		**230,214**	2,216,165
Total comprehensive income/(expense) for the year entirely attributable to members of Ceramic Fuel Cells Limited		**(21,196,748)**	(17,561,451)
		Cents	*Cents*
Earnings per share for loss attributable to the ordinary equity holders of the company			
Basic and diluted earnings per share	14	**(1.19)**	(1.31)

The above preliminary consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Preliminary Consolidated Balance Sheet

As at 30 June 2014

	Note	2014 $	2013 $
ASSETS			
Current Assets			
Cash and cash equivalents	5	**5,310,161**	10,010,131
Trade and other receivables	6	**464,519**	1,355,437
Inventories	7	**10,431,490**	9,974,671
Other		**258,880**	825,506
Total Current Assets		**16,465,050**	22,165,745
Non-Current Assets			
Plant and equipment		**9,628,457**	10,923,676
Intangible assets		**1,000**	1,000
Other		**235,551**	235,551
Total Non-Current Assets		**9,865,008**	11,160,227
Total Assets		**26,330,058**	33,325,972
LIABILITIES			
Current Liabilities			
Trade and other payables		**1,733,660**	2,328,053
Borrowings	8	**348,275**	6,145,958
Derivative financial instruments	9	**-**	663,878
Provisions	10	**2,848,938**	3,356,904
Other liabilities	11	**1,274,918**	1,185,710
Total Current Liabilities		**6,205,791**	13,680,503
Non-Current Liabilities			
Borrowings	8	**7,481,203**	854,947
Derivative financial instruments	9	**759,574**	-
Provisions	10	**2,751,343**	1,682,678
Other liabilities	11	**1,216,609**	1,361,522
Total Non-Current Liabilities		**12,208,729**	3,899,147
Total Liabilities		**18,414,520**	17,579,650
Net Assets		**7,915,538**	15,746,322
EQUITY			
Contributed equity	12(b)	**301,728,180**	289,650,877
Reserves	13(a)	**3,846,117**	2,327,242
Retained profits/(losses)	13(b)	**(297,658,759)**	(276,231,797)
Total Equity		**7,915,538**	15,746,322

The above preliminary consolidated balance sheet should be read in conjunction with the accompanying notes.

Preliminary Consolidated Statement of Changes in Equity

For the year ended 30 June 2014

		Entirely attributable to owners of Ceramic Fuel Cells Limited			
	Note	***Contributed equity $***	***Reserves $***	***Retained earnings $***	***Total equity $***
Balance at 1 July 2012		277,282,387	68,950	(256,454,181)	20,897,156
Total comprehensive income for the year		-	2,216,165	(19,777,616)	(17,561,451)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	12(b)	12,111,270	-	-	12,111,270
Employee shares - value of employee services	12(b)	257,220	-	-	257,220
Employee share options - value of employee services	13(a)	-	42,127	-	42,127
Balance at 30 June 2013		289,650,877	2,327,242	(276,231,797)	15,746,322
Total comprehensive income for the year		**-**	**230,214**	**(21,426,962)**	**(21,196,748)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	12(b)	**12,083,823**	**-**	**-**	**12,083,823**
Employee shares - value of employee services	12(b)	**(6,520)**	**-**	**-**	**(6,520)**
Loss transferred to income statement on disposal of foreign subsidiary's assets	13(a)	**-**	**1,288,661**	**-**	**1,288,661**
Balance at 30 June 2014		**301,728,180**	**3,846,117**	**(297,658,759)**	**7,915,538**

The above preliminary consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Preliminary Consolidated Statement of Cash Flows

For the year ended 30 June 2014

	Note	2014 $	2013 $
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods & services tax)		**7,710,776**	6,485,852
Payments to suppliers and employees (inclusive of goods & services tax)		**(30,452,605)**	(28,994,350)
		(22,741,829)	(22,508,498)
Grant receipts/(payments)		**(28,490)**	-
Other receipts		**492,795**	668,075
Interest receipts/(payments)		**-**	(87,557)
Income tax refunds received/(taxes paid)		**4,022,582**	5,184,044
Net cash inflow (outflow) from operating activities		**(18,254,942)**	(16,743,936)
Cash Flows from Investing Activities			
Decrease/(increase) in security deposits (including restricted cash equivalents)		**14,189**	2,234,576
Payments for plant and equipment		**(188,485)**	(540,404)
Proceeds from sale of plant and equipment		**1,973,572**	490
Net cash inflow (outflow) from investing activities		**1,799,276**	1,694,662
Cash Flows from Financing Activities			
Proceeds from issue of shares		**12,677,790**	12,692,958
Share issue costs		**(626,922)**	(568,609)
Proceeds from borrowings – convertible loan notes		**612,684**	6,033,711
Convertible loan notes issue costs		**(114,890)**	(100,479)
Interest paid on borrowings – convertible loan notes		**(639,483)**	-
Repayment of borrowings – finance lease		**(328,249)**	(301,133)
Interest paid on borrowings – finance lease		**(64,010)**	(70,955)
Interest received		**67,314**	156,742
Net cash inflow from financing activities		**11,584,234**	17,842,235
Net increase (decrease) in cash and cash equivalents		**(4,871,432)**	2,792,961
Cash and cash equivalents at the beginning of the financial year		**10,010,131**	6,621,759
Effects of exchange rate changes on cash and cash equivalents		**171,462**	595,411
Cash and cash equivalents at the end of the year	5	**5,310,161**	10,010,131

The above preliminary consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2014

Note 1. Summary of Significant Accounting Policies

There have been no material changes in the Company's application of its significant accounting policies as presented in the Company's consolidated financial statements for the year ended 30 June 2013. Readers of this report should refer to Note 1, *Summary of Significant Accounting Policies*, in the afore-mentioned financial statements for details of these accounting policies.

Going Concern

Over the life of the Group it has incurred substantial operating losses and is yet to become cashflow positive at an operational level. The Directors are mindful of this and continue to closely monitor the level of the Company's cash resources.

The Group has commercialised its fuel cell technology into products and has begun to make sales, but it has not yet achieved sales and production levels that allow the Group to generate positive operating cashflow or profits. The Company is thus reliant on the further raising of capital (debt or equity) in order to enable it to continue its research and product development and to implement its sales and production strategies.

These factors represent uncertainty about the ability of the Group to continue as a going concern. The Directors have considered these factors and believe it is appropriate to prepare the financial statements on a going concern basis given the following strategies:

Operational and business strategies

The Company continues its focus on increasing the volume of sales and is actively targeting large-scale projects, particularly focussing on the social housing sector in the UK. The Company has restructured its sales team and is focussing on indirect sales via installers and distribution partners. The Company's limited sales and marketing resources continue to concentrate on Germany and the UK due to the fiscal incentives in those countries. In Germany, in addition to North Rhine Westphalia, the States of Hesse, Baden Wurttemberg, Saxony and Rhineland Palatinate announced subsidy programmes to support mCHP installations.

The Company continues to focus on reducing the standard cost of its unit in order to be able to reduce its sales price which in turn could lead to greater market acceptance and open markets where currently the unit is not economically viable. The cost reduction measures include: outsourcing production of components to high quality, lower cost, specialist manufacturers; placing higher volume orders; and undertaking cost-down engineering work.

The Company continues to investigate product distribution options with potential partners in Europe, North America, China, Korea and Japan.

The Company has reduced its production volumes in order to reduce its inventory, however, remains in a position to ramp up production as sales orders eventuate.

Financing strategies

The Company has been successful in raising funds in the past and in December 2013 raised $5.8M (£3.2M) before expenses via a Share Purchase Plan and an Overseas Offer. In April 2014 the Company raised A$6.1M (£3.3M) before expenses from an equity placement and entered into a subscription agreement for a minimum US$3.0M (A$3.2M or £1.7M) and up to US$8.5M (A$9.0M to £5.0M) to the end of February 2015. To 30 June, under the investor agreement, equity to the value of US$0.7M (A$0.7M, £0.4M) has been issued as well as US$0.25M (A$0.26M, £0.1M) of convertible notes. Under this agreement further equity of US$0.2M (A$0.2M, £0.1M) and convertible notes of US$0.35M (A$0.37, £0.2M) were issued in July.

The Company was also successful in selling the assets of its UK Powder Plant in December 2013 for £1.1M (A$2.0M). The powder produced by the plant was no longer being used by the Company and hence a decision was made to realise a surplus` asset.

The Company is currently pursuing several funding options to strengthen its balance sheet and to allow it to continue its research and product development programme whilst it implements its sales and production strategies.

The continuing viability of the Company and its ability to continue as a going concern and meet its debts and commitments as they fall due is dependent on successfully raising capital in the coming months and its ability to achieve profitable sales growth. As such, there is material uncertainty as to whether the Company will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The Directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2014. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2014 (continued)

	2014	*2013*
	$	*$*

Note 2. Revenue

From continuing operations		
Sales revenue		
Fuel cell products	**5,879,551**	3,397,301
Service and support	**209,994**	868,389
Licensing income	**12,895**	-
Total revenue from continuing operations	**6,102,440**	4,265,690

Note 3. Other Income

Sundry income	**464,305**	668,075
Net interest revenue	**65,892**	122,671
Net gain on disposal of plant & equipment	**2**	490
Total other income	**530,199**	791,236

Note 4. Expenses

Profit/(loss) before income tax includes the following specific expenses:

Cost Of Sales, Service & Warranty		
Cost of goods sold	**5,315,543**	3,581,257
Product warranty expense	**1,920,602**	3,200,122
Service and support costs	**1,189,970**	1,070,555
	8,426,115	7,851,934
Research & Product Development Expenses		
Depreciation – Plant and equipment	**311,251**	922,817
Amortisation – Leasehold improvements	**2,701**	25,993
General & Administration Expenses		
Depreciation – Plant and equipment	**1,109,300**	848,507
Amortisation – Leasehold improvements	**205,869**	305,404
Sales & Marketing Expenses		
Depreciation – Plant and equipment	**-**	3,496
Equity-based payments expense		
- Share-based expense	**(14,017)**	28,095
- Share options expense	**-**	42,127
	(14,017)	70,222
Impairment Charge/(Reversal)		
Plant and equipment of UK powder production plant	**(2,032,878)**	-
Provision for impairment of receivables	**63,954**	351,383
	(1,968,924)	351,383
Other Losses/(Gains) – Foreign Exchange		
Loss on disposal of assets of foreign subsidiary	**1,288,661**	-

Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2014 (continued)

	2014	2013
	$	$

Note 5. Current assets - Cash and cash equivalents

(a) Cash and cash equivalents

Cash at bank and on hand (balance as per statement of cash flows)	**5,310,161**	10,010,131

Cash at bank and on hand
Cash on hand is non-interest bearing. Cash at bank consists of multiple currencies in 'at call' accounts (bearing balance-dependent interest rates in accordance with individual account terms) and short-term deposits of up to 3 months duration.

Note 6. Current assets – Trade and other receivables

Trade and other receivables	**931,711**	1,749,114
Provision for impairment of receivables	**(467,192)**	(393,677)
	464,519	1,355,437

Note 7. Current assets - Inventories

Raw materials and stores	**4,270,018**	3,816,980
Work in progress	**1,981,651**	3,637,666
Finished goods	**4,179,821**	2,520,025
	10,431,490	9,974,671

Inventory expense
Write-downs of inventories to net realisable value recognized as an expense during the year ended 30 June 2014 amounted to $Nil (2013 – $Nil).

Note 8. Current & Non-current liabilities - Borrowings

Current		
Finance lease	**348,275**	319,505
Convertible loan notes (secured)	**-**	5,826,453
	348,275	6,145,958
Non-current		
Finance lease	**530,070**	854,947
Convertible loan notes (secured)	**6,709,600**	-
Convertible loan note (unsecured)	**241,533**	-
	7,481,203	854,947
(a) Finance lease liabilities		
Current	**348,275**	319,505
Non-current	**530,070**	854,947
	878,345	1,174,452

Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2014 (continued)

Note 8. Current & Non-current liabilities - Borrowings (continued)

Finance lease

In December 2009 the Group entered into a sale-and-leaseback transaction for certain equipment located in the Group's plant in Germany. The transaction involved the sale of equipment with a cost of €3,057,698 (A$4,899,372 as at transaction date) to the German banking group Commerzbank. This equipment is included within the non-current asset, plant and equipment, in the balance sheet. The equipment is being leased back over 7 years with an up-front lease payment of 50% of the value of the equipment. The lease liability is secured against the leased asset.

	2014	*2013*
	$	*$*
(b) Convertible loan notes (secured and unsecured)		
Current	**-**	5,826,453
Non-current	**6,951,133**	-
	6,951,133	5,826,453

Convertible loan notes

Secured

On 10 May 2013 Ceramic Fuel Cells Limited (the Company) issued 4,100,000 convertible loan notes (the Notes) denominated in British pounds sterling with a face value of £4,100,000, being the amount received. If not converted prior, the Notes are repayable in full on the maturity date of 10 May 2016. The Notes bear fixed interest at a fixed rate of 9% per annum payable quarterly in arrears. Interest payments commenced on 1 August 2013.

The Notes are secured by a first, fixed and floating charge over the assets of the Company.

On 22 August 2013 a further 200,000 Notes were issued to Mr Alasdair Locke, Chairman, for £200,000.

Shareholder approval for the issue of all 4,300,000 Notes was obtained on 2 July 2013 hence the Notes, which had previously been classified as a current liability as at 30 June 2013, are now classified as a non-current liability as at 30 June 2014.

On 24 October 2013 Mr Locke's 200,000 Notes were converted into 9,345,794 fully paid ordinary shares.

A total of 4,100,000 Notes remain on issue as at 30 June 2014.

The noteholders may elect to convert their Notes into 191,588,785 fully paid ordinary shares in the Company at any time prior to the maturity date at an issue price of £0.0214 per share (approximately $0.0324 at issue date).

The fully paid ordinary shares issued upon any such conversion will rank *pari passu* with existing fully paid ordinary shares.

If, after 2 November 2014, the average of the mid-market AIM closing price of the Company's shares exceeds 10 pence over any period of 20 consecutive business days then the Company may redeem the Notes at any time prior to the maturity date, after having given noteholders 10 days notice of such intention. The noteholders may elect to convert their Notes during this notice period.

Unsecured

On 24 March 2014 the Company issued a convertible loan note (First Convertible Security), denominated in American dollars, with a face value of US$375,000 (the Principal Amount). The amount received for the First Convertible Security was US$250,000. If not converted prior, the First Convertible Security is repayable in full on the maturity date of 24 March 2016. The First Convertible Security does not bear interest.

Entirely at the noteholder's discretion, the First Convertible Security shall be convertible into new ordinary shares in the Company determined by dividing the Principal Amount by the lesser of:

(a) 90% of the average of the three daily VWAPs per share during a specified period prior to the conversion date of the note; and
(b) 130% of the average of the daily VWAPs per share during the 20 trading days prior to 24 March 2014, being A$0.0378.

The fully paid ordinary shares issued upon any such conversion will rank *pari passu* with existing fully paid ordinary shares.

The First Convertible Security does not carry any voting rights at meetings of shareholders of the Company and carries no right of participation in any rights issue which may be undertaken by the Company prior to its conversion.

No portion of the First Convertible Security was converted from the date of issue to the end of the current reporting period.

Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2014 (continued)

	2014 $	2013 $

Note 8. Current & Non-current liabilities - Borrowings (continued)

Reconciliation

Convertible notes (secured)

The Notes are reconciled to the amount included in the Balance Sheet as a non-current liability (2013 – current liability) as follows:

	2014 $	2013 $
Face value of Notes issued (at issue date)	**6,600,222**	6,300,907
Notes converted	**(335,514)**	-
Borrowing costs – amortised balance	**(263,887)**	(315,372)
Derivative liability – value of conversion rights (refer Note 9)	**(744,699)**	(663,878)
Interest expense	**960,280**	98,287
Foreign exchange loss/(gain)	**493,198**	406,509
	6,709,600	5,826,453

Convertible notes (unsecured)

The First Convertible Security is reconciled to the amount included in the Balance Sheet as a non-current current liability as follows:

	2014 $	2013 $
Face value of Notes issued (at issue date)	**275,300**	6,300,907
Borrowing costs – amortised balance	**(24,208)**	(315,372)
Derivative liability – value of conversion rights (refer Note 9)	**(14,875)**	(663,878)
Interest expense	**14,413**	98,287
Foreign exchange loss/(gain)	**(9,097)**	406,509
	241,533	5,826,453

With the exception of the convertible notes, the carrying amount of the Group's current and non-current borrowings approximates their fair values. The fair value of the convertible notes approximates the carrying value of the notes, net of the borrowing costs and the amount attributed to the fair value of the conversion rights.

Note 9. Current & Non-current liabilities - Derivative financial instruments

	2014 $	2013 $
Current		
Convertible loan notes (secured) – conversion rights	**-**	663,878
Non-current		
Convertible loan notes (secured) – conversion rights	**744,699**	-
Convertible loan notes (unsecured) – conversion rights	**14,875**	-
	759,574	-

The secured Notes were issued in British pounds sterling and the First Convertible Security was issued in American dollars, whereas the Group's functional currency is the Australian dollar. Therefore, the values attributed to the conversion rights do not meet the definition of an equity instrument. As such, both conversion rights have been classified as a derivative financial instrument and are recognised as liabilities at their fair values. Management estimated the fair values of the conversion rights at the dates of issue based on the difference between the face values of the notes and the estimated fair values of identical notes without conversion features. Any changes to the fair values of the conversion rights will be recognised in the income statement.

Notes to the Preliminary Consolidated Financial Statements
Year ended 30 June 2014 (continued)

	2014	*2013*
	$	*$*

Note 10. Current & Non-current liabilities - Provisions

	2014 $	2013 $
Provisions for employee benefits: annual and long service leave		
Current	**1,536,575**	1,460,344
Non-current	**39,244**	46,696
	1,575,819	1,507,040
Provisions for product warranty		
Current	**881,059**	1,754,496
Non-current	**2,436,496**	886,496
	3,317,555	2,640,992
Provisions for leased property reinstatement		
Current	**431,304**	142,064
Non-current	**107,745**	536,179
	539,049	678,243
Provisions for operating leases		
Non-current	**167,858**	213,307
	167,858	213,307

Reconciliation

	2014 $	2013 $
Current Liabilities		
Provisions for employee benefits	**1,536,575**	1,460,344
Provisions for product warranty	**881,059**	1,754,496
Provisions for leased property reinstatement	**431,304**	142,064
	2,848,938	3,356,904
Non-current Liabilities		
Provisions for employee benefits	**39,244**	46,696
Provisions for product warranty	**2,436,496**	886,496
Provisions for leased property reinstatement	**107,745**	536,179
Provisions for operating leases	**167,858**	213,307
	2,751,343	1,682,678

Movements in provisions

Movements in each class of provision during the year ended 30 June 2014 were as follows:

	Employee benefits	**Product warranty**	**Leased property reinstate-ment**	**Operating leases**	**Total**
Carrying amount at start of year	1,507,040	2,640,992	678,243	213,307	5,039,582
Charged/(credited) to profit or loss					
- additional provisions recognized	610,174	1,920,602	-	-	2,530,776
- unused amounts reversed	(39,851)	-	(155,959)	-	(195,810)
Amounts used during the year	(504,633)	(1,244,039)	-	(51,286)	(1,799,958)
Increase/(decrease) on translation	3,089	-	16,765	5,837	25,691
Carrying amount at end of year	**1,575,819**	**3,317,555**	**539,049**	**167,858**	**5,600,281**

Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2014 (continued)

Note 11. Current & Non-current liabilities - Other Liabilities

	2014	*2013*
	$	*$*
Deferred revenue		
Current	**262,064**	377,159
	262,064	377,159
Government grants		
Current	**1,012,854**	808,551
Non-current	**1,216,609**	1,361,522
	2,229,463	2,170,073
Reconciliation		
Current Liabilities		
Deferred revenue	**262,064**	377,159
Government grants	**1,012,854**	808,551
	1,274,918	1,185,710
Non-current Liabilities		
Government grants	**1,216,609**	1,361,522
	1,216,609	1,361,522

Government grants

NRW

In recognition of the construction of its German fuel cell assembly plant and the concomitant hiring of employees, the Group was awarded €966,000 of the €1,386,000 regional development grant originally received in December 2009 from the Government of North Rhine Westphalia in Germany. The balance of €420,000 was repaid, hence the remaining €966,000 ($1,398,784 as at 30 June 2014) has continued to be treated as deferred revenue and will be brought to account in a future period in line with the satisfaction of the remaining obligation, which is to maintain the number of jobs created through to December 2017.

The Group's satisfaction of the grant conditions is required to be assessed annually in December. Failure to satisfy the grant conditions in any year may result in a refund of some, or all, of the grant.

EU Grant

In January 2012 the Group received a European Union grant of €573,667 ($830,679 as at 30 June 2014) for the development and field trial of ceramic fuel cell micro-CHP units. At reporting date the full amount of the grant has been treated as deferred revenue and will be brought to account in a future reporting period in line with the satisfaction of the obligations.

Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2014 (continued)

Note 12. Contributed Equity

(a) Share capital

The share capital account of Ceramic Fuel Cells Limited (the Company) consists of 2,507,761,565 fully paid up, ordinary shares as at 30 June 2014.

(b) Movements in ordinary share capital

Movements in ordinary share capital of the Company during the past two years were as follows:

Date	Details	Number of shares	Issue price	Amount $
1-7-2012	Opening balance	1,366,298,863		277,282,387
25-9-2012	Placing and subscription	99,500,000	$0.060	5,970,000
25-9-2012	Overseas offer	23,254,556	$0.060	1,444,607
25-9-2012	Australia and New Zealand rights issue	69,677,901	$0.060	4,180,675
	Add: Employee services provided	-		257,220
1-11-2012	Placing and subscription	500,000	$0.060	30,000
10-5-2013	Placing and subscription	32,710,300	$0.033	1,067,676
	Less: Transaction costs arising on share issues			(581,688)
30-6-2013		1,591,941,620		289,650,877
24-10-2013	Conversion of secured convertible loan notes	9,345,794	$0.0359	335,514
30-12-2013	Australia and New Zealand share purchase plan	109,302,848	$0.0384	4,197,227
30-12-2013	Overseas offer	41,134,062	$0.0384	1,608,973
24-3-2014	Investor Agreement	9,800,000	$0.00	-
24-3-2014	Investor Agreement	10,000,000	$0.019	186,077
24-4-2014	Investor Agreement	13,406,250	$0.016	218,914
29-4-2014	Placing and subscription	672,000,000	$0.009	6,089,738
28-5-2014	Investor Agreement	21,677,900	$0.010	216,404
27-6-2014	Investor Agreement	29,153,091	$0.011	323,172
	Add: Employee services provided	-		(6,520)
	Add: Proceeds from sale of forfeited shares	-		23,363
	Less: Transaction costs arising upon the issuing, and cancellation, of shares			(1,115,559)
30-6-2014	Balance	**2,507,761,565**		**301,728,180**

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends, and the proceeds on winding up of the Company, in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting of the Company, either personally or by duly authorised representative, proxy or attorney, is entitled to one vote, and upon a poll each share is entitled to one vote.

Notes to the Preliminary Consolidated Financial Statements

Year ended 30 June 2014 (continued)

Note 13. Reserves and Retained Profits/(Losses)

	2014 **$**	2013 $
(a) Reserves		
Share-based payments reserve	**4,750,262**	4,750,262
Foreign currency translation reserve	**(904,145)**	(2,423,020)
Total reserves	**3,846,117**	2,327,242
Share-based payments reserve		
Balance at 1 July	**4,750,262**	4,708,135
Option expense	**-**	42,127
Balance at 30 June	**4,750,262**	4,750,262
Foreign currency translation reserve		
Balance at 1 July	**(2,423,020)**	(4,639,185)
Currency translation differences arising during the year	**230,214**	2,216,165
Transferred to income statement on disposal of subsidiary's assets	**1,288,661**	-
Balance at 30 June	**(904,145)**	(2,423,020)
(b) Retained profits/(losses)		
Movements in retained profits/(losses) were as follows:		
Balance at 1 July	**(276,231,797)**	(256,454,181)
Net profit/(loss) for the year	**(21,426,962)**	(19,777,616)
Balance at 30 June	**(297,658,759)**	(276,231,797)

Note 14. Earnings Per Share

	Cents	*Cents*
Basic and diluted earnings per share	**(1.19)**	(1.31)
	Number	*Number*
Weighted average number of shares		
Weighted average number of shares used as the denominator in calculating basic and diluted earnings per share	**1,797,350,601**	1,513,723,279
	$	$
Earnings used in calculating basic and diluted earnings per share		
Profit/(loss) attributable to the ordinary equity holders of the company	**(21,426,962)**	(19,777,616)

Note 15. Event occurring after the reporting period

Issue of unsecured convertible note

On 2 July 2014 the Company issued an unsecured, convertible loan note (Second Convertible Security), denominated in American dollars, with a face value of US$450,000. The amount received for the Second Convertible Security was US$350,000. If not converted prior, the Second Convertible Security is repayable in full on the maturity date of 24 March 2016. The Second Convertible Security does not bear interest.

The terms by which the number and price of shares to be issued upon conversion are identical to those for the First Convertible Security (refer Note 8(b)).

Net tangible asset backing

	Consolidated	
	2014	*2013*
	cents	*cents*
Net tangible asset backing per ordinary share	**0.3**	1.0

Control over other entities

No control was gained or lost over any entity during the period.

Associates and joint venture entities

The Company has no associates, nor has it formed any joint ventures with any other entity/s during the period.

Compliance statement

This report is based on accounts which are in the process of being audited. The independent audit report is expected to contain an emphasis of matter related to the material uncertainty as to whether the Company will continue as a going concern, as described in Note 1 to the Preliminary Consolidated Financial Statements. The final audit report will be made available with the Company's full Financial Report.

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