

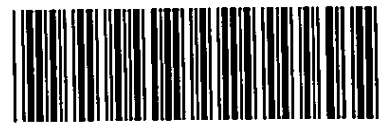
Company Registration No. 05075088

KleenAir Systems International Plc
("KleenAir" or "the Company")

ANNUAL REPORT

30 June 2012

THURSDAY



A1NPBOOH

A05

13/12/2012

#199

COMPANIES HOUSE

LITTLEJOHN

KleenAir Systems International Plc

Contents

| | Page |
|--|-------------|
| Officers and Advisers | 2 |
| Chairman's Statement | 3 |
| Directors' Report | 4 |
| Statement of Directors' Responsibilities | 7 |
| Corporate Governance | 8 |
| Independent Auditors' Report | 9 |
| Statement of Comprehensive Income | 11 |
| Statement of Financial Position | 12 |
| Statement of Changes in Equity | 13 |
| Statement of Cash Flows | 14 |
| Notes to the Financial Statements | 15 |

KleenAir Systems International Plc

Officers and Advisers

| | |
|--------------------------|--|
| DIRECTORS | J Gunn (Executive Chairman) J Nazhat (Non - Executive Director) |
| SECRETARY | J Nazhat |
| REGISTERED OFFICE | 2nd Floor 2 London Wall Buildings London EC2M 5PP |
| REGISTERED NUMBER | 05075088 |
| AUDITOR | Littlejohn LLP Statutory Auditor 1 Westferry Circus Canary Wharf London E14 4HD |
| REGISTRARS | Share Registrars Limited Craven House West Street Farnham Surrey GU9 7EN |
| SOLICITORS | Nabarro LLP Lacon House 84 Theobald's Road London WC1X 8RW |
| NOMINATED ADVISER | Westhouse Securities Limited One Angel Court London EC2R 7HJ |
| WEBSITE | www.kleenair-systems.com |

KleenAir Systems International Plc

Chairman's Statement

Introduction

Since KleenAir's interim results, the Board has been primarily focused on ensuring the business reduced its overheads and continued to implement its investing policy in order to generate returns to shareholders

Continued Research into Investment Opportunities

KleenAir continues to hold a 17.05% stake in Inspirit Energy Limited, a company in the final stages of development of a micro combined heat and power appliance. Inspirit Energy Limited continues to make good progress.

Financial Results

The Financial Statements for the year to 30 June 2012 are set out in the following pages. The Financial Statements show revenue of £26,446 and administrative expenses have been reduced by 4%.

Changes to the Board of Directors

On 10 January 2012 Sarah Pozner resigned from her position as Non-Executive Director and Company Secretary. The Board would like to thank Sarah Pozner for her contribution and efforts.

On 12 January 2012 Jubeenh Nazhat was appointed as Non-Executive Director and Company Secretary. Ms Nazhat is a corporate solicitor with over 10 years experience of working in top city law firms and in-house for the public sector. Ms Nazhat's background is mainly corporate law but extends to the fields of projects, construction and finance. Given Ms Nazhat's past experience she is well placed to take on the role of Company Secretary and Non-Executive Director.

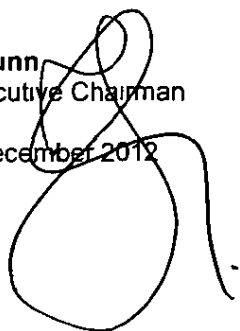
Loan Notes and Company Finance

Global Investment Strategy UK Limited ("GIS") has two loan note instruments dated 22 June 2010 and 22 November 2009 under which some of the debt owing to GIS has been converted into shares in KleenAir during the year ended 30 June 2012. The undiscounted debt outstanding on each of the loan note instruments is £75,141 and £147,871 respectively. The total undiscounted debt outstanding to GIS is £223,012, excluding interest.

GIS has confirmed their financial support to KleenAir for at least the next twelve months, allowing KleenAir to continue as a going concern.

J Gunn
Executive Chairman

5 December 2012



5/12/12

KleenAir Systems International Plc

Directors' Report

For the year ended 30 June 2012

The Directors present their annual report and audited Financial Statements for the year ended 30 June 2012

Principal Activities and Business Review

The principal activity of the Company during the year was that of an investment company which aims to invest in disruptive products or technologies that are either proven or at the latter stages of development, which own or have exclusive licence to the relevant intellectual property and may benefit from feed-in tariffs or other renewable energy incentives

The Business Review is included in the Executive Chairman's statement on page 2

Key Performance Indicators (KPIs)

The primary performance indicator applicable to the Company is a return based on targeting suitable investments. With an initial investment made during the year ended 30 June 2011, this was not a key performance indicator in the period, however, it will be assessed during 2012/13 and reported on in the 2013 Directors' Report

There are no non-financial performance indicators being used at present

Future Developments

The Company continues to evaluate potential investments in line with its Investing Policy

Risk and Uncertainties

The main risks and uncertainties that the Company faces are to find suitable acquisition opportunities, in line with the Company's business development strategy, and liquidity risk (see Note 3 to the Financial Statements)

Results and Dividends

The results for the Company for the year are set out in the Statement of Comprehensive Income on page 11. The Directors do not recommend the payment of a dividend

Directors

The following have been Directors of the Company since the start of or during the financial year ended 30 June 2012 and up to the date of approval of these Financial Statements

| | |
|------------|---|
| G Saxton | (resigned 10 October 2011) |
| S Pozner | (resigned 10 January 2012) |
| D Pinckney | (resigned 9 November 2011) |
| A McClue | (appointed 10 October 2011, resigned 9 November 2011) |
| J Gunn | (appointed 15 November 2011) |
| J Nazhat | (appointed 12 January 2012) |

Indemnity of Officers

The Company may purchase and maintain, for any director or officer, insurance against any liability. The Company does maintain appropriate insurance cover against legal action brought against its Directors and officers

KleenAir Systems International Plc

Directors' Report

For the year ended 30 June 2012

Company's Policy on Payment of Creditors

It is the Company's normal practice to make payments to suppliers in accordance with agreed terms provided that the supplier has performed in accordance with the relevant terms and conditions. At 30 June 2012, the number of creditor days in respect of trade creditors was 50 days.

Going Concern

In the light of the continuing financial support from GIS (see Chairman's Statement), the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Financial Statements.

Financial Risk Management

The principal financial risks faced by the Company are liquidity and credit risk. The Company's financial instruments included borrowings and cash which it used to finance its operations, but it had no bank borrowings at the year end. More information is given in Note 3 to the Financial Statements. The Company has no significant concentrations of credit risk.

Directors' Interests

The Directors who held office in the period up to the date of approval of the Financial Statements and their beneficial interests in the Company's issued share capital and share options at the beginning and end of the accounting year were:

| | Ordinary shares | Interest at end of year | Interest at start of year or date appointed | Share options | Interest at end of year | Interest at start of year or date appointed |
|----------|--------------------|-------------------------------|--|------------------|-------------------------------|--|
| | No. | No. | No. | No. | No. | No. |
| J Gunn | 7,290,160 | 7,290,160 | - | - | - | - |
| J Nazhat | - | - | - | - | - | - |

There have been no changes in the Directors' shareholding since 30 June 2012.

Major Shareholdings

Shareholders holding more than 3% of the shares of the Company at the date of this report were:

| | Ordinary shares | % |
|-------------------------------|--------------------|------|
| Vidacos Nominees Limited | 14,305,545 | 22.1 |
| Rothschild Nominees Limited | 8,328,125 | 12.8 |
| John Gunn* | 7,290,160 | 11.2 |
| Challis International Limited | 6,250,000 | 9.6 |
| Entavo Trading AG Limited | 5,750,000 | 8.9 |
| Lynchwood Nominees Limited | 3,751,500 | 5.8 |
| Otilia Investments Limited | 3,437,500 | 5.3 |

KleenAir Systems International Plc

Directors' Report

For the year ended 30 June 2012

* John Gunn is a majority shareholder of Pinnacle Investment Management and Global Investment Strategy UK Limited, which hold 400,000 (0.6%) and 1,550,000 (2.4%) shares respectively. The aggregate total of shares controlled by John Gunn is 9,240,160 shares which represents 14.3% of the ordinary shares.

Post year end events

Details of post year end events are set out in Note 22 to the Financial Statements.

Provision of Information to Auditors

So far as each of the Directors is aware at the time this report is approved:

- there is no relevant audit information of which the Company's auditors are unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

Littlejohn LLP has signified its willingness to continue in office as auditors.

On behalf of the Board

Director

5 December 2012

J Gunn

5/12/12

KleenAir Systems International Plc

Statement of Director's Responsibilities For the year ended 30 June 2012

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Company Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

In preparing these Financial Statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether the Financial Statements comply with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements,
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements may differ from legislation in other jurisdictions.

KleenAir Systems International Plc

Corporate Governance

For the year ended 30 June 2012

The Directors acknowledge the importance of the Principles set out in the UK Corporate Governance Code. Although the Corporate Governance disclosures are not compulsory for AIM companies, the Directors have applied the Principles as far as practicable and appropriate for a relatively small public company as follows

The Board of Directors

The Board is responsible for strategy and performance, approval of major capital projects and the framework of internal controls. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Audit Committee and Remuneration Committee

The Audit Committee and the Remuneration Committee consists of one Non-Executive Director and one Executive Director. The Audit Committee receives and reviews reports from management and the company's auditors relating to the annual and interim accounts and the accounting and internal control systems of the Company. The Audit Committee has unrestricted access to the Company's auditors.

The Remuneration Committee reviews the performance of the Executive Directors, sets their remuneration, determines the payment of bonuses to Executive Directors and considers the allocation of share options to Directors and employees.

Internal Financial Control

The Board is responsible for establishing and maintaining the Company's system of internal financial control and places importance on maintaining a strong control environment. The key procedures which the Directors have established with a view to providing effective internal financial control are as follows:

- The Company's organisational structure has clear lines of responsibility
- The Board is responsible for identifying the major business risks faced by the Company and for determining the appropriate courses of action to manage those risks
- The Board is involved with structured operational reporting requirements

The Directors recognise, however, that such a system of internal financial control can only provide reasonable, not absolute, assurance against material misstatement or loss. The Directors have reviewed the effectiveness of the system of internal financial control that will be operated by the Company, and have concluded it is appropriate to the current level of operations.

Relations with Shareholders

Communications with shareholders are given high priority. The Board uses the Annual General Meeting to communicate with investors and welcomes their participation. The Chairman aims to ensure that the Directors are available at Annual General Meetings to answer questions.

Statement by Directors on Compliance with the Provisions of the UK Corporate Governance Code

The Board considers that it has complied with the provisions of the UK Corporate Governance Code, as far as practicable and appropriate for a public company of this size.

KleenAir Systems International Plc

Report of the Independent Auditors For the year ended 30 June 2012

Report of the Independent Auditors to the Members of KleenAir Systems International Plc

We have audited the Financial Statements of KleenAir Systems International Plc for the year ended 30 June 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the Financial Statements

- give a true and fair view of the state of the Company's affairs as at 30 June 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

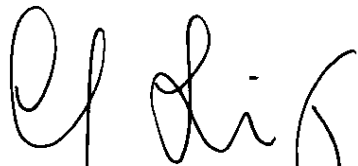
KleenAir Systems International Plc

Report of the Independent Auditors (Continued) For the year ended 30 June 2012

Matters on which we are required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the Financial Statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Mark Ling (Senior statutory auditor)
For and on behalf of Littlejohn LLP
Statutory auditor

1 Westferry Circus
Canary Wharf
London E14 4HD

5 December 2012

KleenAir Systems International Plc

Statement of Comprehensive Income

For the year ended 30 June 2012

| | | Year ended 30 June 2012 £ | Year ended 30 June 2011 £ |
|--|-------------|---------------------------------|---------------------------------|
| Continuing Operations | Note | | |
| Revenue | 4 | 26,446 | 35,047 |
| Cost of sales | | - | - |
| Gross Profit | | 26,446 | 35,047 |
| Administrative expenses | | (131,085) | (136,811) |
| Operating Loss | 7 | (104,639) | (101,764) |
| Finance income | 8 | 1,762 | 219 |
| Finance costs | 8 | (32,072) | (61,808) |
| Loss before Tax | | (134,949) | (163,353) |
| Tax | 9 | - | - |
| Loss for the Year | | (134,949) | (163,353) |
| Other comprehensive income | | - | - |
| Total Comprehensive Income for the Year | | (134,949) | (163,353) |
| Total Comprehensive Income attributable to:- | | | |
| Owners of the Company | | (134,949) | (163,353) |
| Loss per share attributable to the owners of the Company – basic and diluted (pence per share) | 10 | (0 221) | (0 357) |

The accounting policies and notes on pages 15 to 31 form part of these Financial Statements

KleenAir Systems International Plc

Statement of Financial Position For the year ended 30 June 2012

Company Registration Number 05075088

| | Note | 2012 £ | 2011 £ |
|--|------|------------------|----------------|
| Assets | | | |
| Non-Current Assets | | | |
| Investments | 11 | 740,000 | 740,000 |
| | | <u>740,000</u> | <u>740,000</u> |
| Current Assets | | | |
| Trade and other receivables | 12 | 52,528 | 61,365 |
| Cash and cash equivalents | 13 | 34 | 32,021 |
| | | <u>52,562</u> | <u>93,386</u> |
| Current Liabilities | | | |
| Borrowings | 15 | 227,482 | - |
| Trade and other payables | 14 | 188,511 | 74,016 |
| | | <u>(363,431)</u> | <u>19,370</u> |
| Net Current (Liabilities) Assets | | | |
| | | <u>376,569</u> | <u>759,370</u> |
| Total Assets less Current Liabilities | | | |
| Non-Current Liabilities | | | |
| Borrowings | 15 | - | 449,516 |
| | | <u>376,569</u> | <u>309,854</u> |
| Equity | | | |
| Called up share capital | 16 | 460,747 | 452,419 |
| Share premium | 16 | 3,887,762 | 3,671,231 |
| Other reserves | | 104,529 | 127,724 |
| Retained loss | | (4,076,469) | (3,941,520) |
| | | <u>376,569</u> | <u>309,854</u> |
| Total Equity | | | |
| | | <u>376,569</u> | <u>309,854</u> |

The Financial Statements were approved and authorised for issue by the Board of Directors on 5 December 2012 and were signed on its behalf by

Director


The accounting policies and notes on pages 15 to 31 form part of these Financial Statements

KleenAir Systems International Plc

Statement of Changes in Equity For the year ended 30 June 2012

| | Share Capital £ | Share Premium £ | Shares to be issued £ | Other Reserves £ | Retained Loss £ | Total £ |
|---|-----------------------|-----------------------|-----------------------------|------------------------|-----------------------|------------|
| At 1 July 2010 | 428,390 | 3,030,353 | - | 124,492 | (3,778,167) | (194,932) |
| Transactions with owners | | | | | | |
| Conversion of convertible loan | 1,806 | 16,250 | - | - | - | 18,056 |
| Shares issued | 18,212 | 710,287 | - | - | - | 728,499 |
| Share issue costs | - | (85,659) | - | - | - | (85,659) |
| Share based payments | - | - | 3,232 | - | - | 3,232 |
| Creditors voluntary arrangement | 4,011 | - | - | - | - | 4,011 |
| Total contributions by and distributions to owners of the Company | 24,029 | 640,878 | 3,232 | - | - | 668,139 |
| Total comprehensive income for the year | - | - | - | - | (163,353) | (163,353) |
| At 30 June 2011 | 452,419 | 3,671,231 | 3,232 | 124,492 | (3,941,520) | 309,854 |
| At 1 July 2011 | 452,419 | 3,671,231 | 3,232 | 124,492 | (3,941,520) | 309,854 |
| Transactions with owners | | | | | | |
| Conversion of convertible loan | 8,328 | 216,531 | - | (23,195) | - | 201,664 |
| Total contributions by and distribution to owners of the Company | 8,328 | 216,531 | - | (23,195) | - | 201,664 |
| Total comprehensive income for the year | - | - | - | - | (134,949) | (134,949) |
| At 30 June 2012 | 460,747 | 3,887,762 | 3,232 | 101,297 | (4,076,469) | 376,569 |

Share capital is the amount subscribed for shares at nominal value

Share premium represents the excess of the amount subscribed for share capital over the nominal value of the respective shares

Retained loss represents the cumulative loss of the Company attributable to equity shareholders

Other reserves represent the equity component of convertible loans and the share option reserve

The accounting policies and notes on pages 15 to 31 form part of these Financial Statements

KleenAir Systems International Plc

Statement of Cash Flows

For the year ended 30 June 2012

| | Note | Year ended 30 June 2012 £ | Year ended 30 June 2011 £ |
|---|------|------------------------------------|------------------------------------|
| Cash Flows from Operating Activities | | | |
| Loss before tax | | (134,949) | (163,353) |
| Finance income | | (1,762) | (219) |
| Finance costs | | 32,072 | 61,808 |
| Employee share options charge | | - | 3,232 |
| Decrease/(increase) in receivables | | 10,120 | (56,870) |
| Increase/(decrease) in payables | | 62,053 | (15,243) |
| | | <hr/> | <hr/> |
| Net Cash used in Operating Activities | | (32,466) | (170,645) |
| | | <hr/> | <hr/> |
| Cash Flows from Investing Activities | | | |
| Interest received | | 479 | 219 |
| Interest paid | | - | (394) |
| Payment to acquire investments | | - | (740,000) |
| | | <hr/> | <hr/> |
| Net Cash used in Investing Activities | | 479 | (740,175) |
| | | <hr/> | <hr/> |
| Cash Flows from Financing Activities | | | |
| Proceeds from issue of shares | | - | 728,500 |
| Share issue costs | | - | (85,659) |
| | | <hr/> | <hr/> |
| Net cash from Financing Activities | | - | 642,841 |
| | | <hr/> | <hr/> |
| Net cash outflow | | (31,987) | (267,979) |
| Cash and cash equivalents at beginning of year | | 32,021 | 300,000 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at end of year | 13 | 34 | 32,021 |
| | | <hr/> | <hr/> |

Major non cash transactions

Convertible loans of £224,859 were converted into shares during the year ended 30 June 2012 (2011 - £18,506). In total 8,328,125 new shares were issued with a total value including share premium of £224,859.

The accounting policies and notes on pages 15 to 31 form part of these Financial Statements

KleenAir Systems International Plc

Notes to the Financial Statements For the year ended 30 June 2012

1. GENERAL INFORMATION

KleenAir Systems International Plc is a Company incorporated in England & Wales. The Company's shares are traded on AIM, a market operated by the London Stock Exchange. The address of the registered office is disclosed on page 1 of the Financial Statements. The principal activities of the Company are described in the Directors' Report.

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations issued by the International Accounting Standards Board (IASB), as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements have been prepared under the historical cost convention. The Financial Statements are presented in pounds sterling, rounded to the nearest pound. Sterling is the functional currency of the Company.

The preparation of Financial Statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in Note 2.16 to these Financial Statements.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement. In addition, Note 3 to the Financial Statements include the Company's financial risk management objectives and policies for managing its capital.

The convertible loan note instrument dated 22 June 2010 was redeemable on 22 December 2012. Under this loan note instrument the Company may issue up to £1 million of secured convertible loan notes ("CLNS") to Global Investment Strategy UK Limited ("GIS"). As at 30 June 2012, GIS had subscribed to CLNs totalling £300,000, of which £224,859 was converted in the year, leaving a year end undiscounted debt of £75,141. A further £15,900 has been converted since the year end. An amount of £700,000 is still available to be drawn down.

The convertible loan note instrument dated 22 November 2009 was also redeemable on 22 December 2012. As at 30 June 2012 the outstanding undiscounted debt under this loan note instrument was £147,871.

On 10 October 2012, the Company entered into a Discretionary Drawdown Facility ("DDF") with GIS which provides the Company with an equity facility up to a maximum aggregate limit of £500,000. The facility is available for drawdown at any time, and for any specified amount at the Company's discretion, up to 30 June 2014. GIS is entitled to commission at 7.5% of the amount called down by the Company in accordance with the terms of the facility.

The Company has received a letter of financial support from GIS for a period of at least twelve months from the date of approval of the Financial Statements. The support includes supplying sufficient funds to enable the Company to meet its operating requirements and not requiring repayment in cash of the outstanding CLNs due for redemption on 22 December 2012, following an extension to the redemption date to 22 December 2013.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

2. ACCOUNTING POLICIES (Continued...)

Going Concern (Continued. .)

The Company's Directors have a reasonable expectation that GIS will be in a position to continue to support the Company, and therefore the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the Financial Statements.

2.2 Changes in Accounting Policy and Disclosures

(i) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 July 2011

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 July 2011 or later periods, but not currently relevant to the Company.

A revised version of IAS 24 "Related Party Disclosures" simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. These revisions apply to annual periods beginning on or after 1 January 2011.

Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" replace references to a fixed date of 1 January 2004 with "the date of transition to IFRSs", thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs, and provide guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

Amendments to IFRS 7 "Financial Instruments: Disclosures" are designed to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. These amendments apply to annual periods beginning on or after 1 July 2011.

(ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2011 and not early adopted

The Directors are assessing the possible impact of the following standards on the Company's Financial Statements.

IFRS 9 "Financial Instruments" specifies how an entity should classify and measure financial assets, including some hybrid contracts, with the aim of improving and simplifying the approach to classification and measurement compared with IAS 39. This standard is effective for periods beginning on or after 1 January 2015, subject to EU endorsement.

IFRS 10 "Consolidated Financial Statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

2. ACCOUNTING POLICIES (Continued...)

2.2 Changes in Accounting Policy and Disclosures (Continued...)

(ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2011 and not early adopted (Continued)

IFRS 11 "Joint Arrangements" provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement.

IFRS 12 "Disclosure of Interests in Other Entities" is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement.

IFRS 13 "Fair Value Measurement" improves consistency and reduces complexity by providing, for the first time, a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. It does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement.

Amendments to IAS 12 "Income Taxes" introduce a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 "Investment Property" will normally be through sale. The amendments are effective for periods beginning on or after 1 January 2012, subject to EU endorsement.

IAS 27 "Separate Financial Statements" replaces the current version of IAS 27 "Consolidated and Separate Financial Statements" as a result of the issue of IFRS 10 (see above). This standard applies to annual periods beginning on or after 1 January 2013, subject to EU endorsement.

IAS 28 "Investments in Associates and Joint Ventures" replaces the current version of IAS 28 "Investments in Associates" as a result of the issue of IFRS 11 (see above). This standard applies to annual periods beginning on or after 1 January 2013, subject to EU endorsement.

Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" require that first-time adopters apply the requirements in IFRS 9 "Financial Instruments" and IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" prospectively to government loans existing at the date of transition to IFRSs. The amendments are effective for periods beginning on or after 1 January 2013, subject to EU endorsement.

Amendments to IFRS 7 "Financial Instruments: Disclosures" require disclosure of information that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods, subject to EU endorsement.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

2. ACCOUNTING POLICIES (Continued...)

2.2 Changes in Accounting Policy and Disclosures (Continued .)

(iii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2011 and not early adopted (Continued)

Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments Disclosures" require entities to apply IFRS 9 for annual periods beginning on or after 1 January 2015 instead of on or after 1 January 2013, subject to EU endorsement. The amendments also require additional disclosures on transition from IAS 39 "Financial Instruments: Recognition and Measurement" to IFRS 9.

Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" clarify the IASB's intention when first issuing the transition guidance in IFRS 10, provide similar relief in IFRS 11 and IFRS 12 from the presentation or adjustment of comparative information for periods prior to the immediately preceding period, and provide additional transition relief by eliminating the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied. The amendments are effective for periods beginning on or after 1 January 2013, subject to EU endorsement.

Amendments to IAS 1 "Presentation of Financial Statements" require items that may be reclassified to the profit or loss section of the income statement to be grouped together within other comprehensive income (OCI). These amendments apply to annual periods beginning on or after 1 July 2012.

"Annual Improvements 2009 – 2011 Cycle" sets out amendments to various IFRSs and provides a vehicle for making non-urgent but necessary amendments to IFRSs.

- An amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" clarifies whether an entity may apply IFRS 1:
 - (a) if the entity meets the criteria for applying IFRS 1 and has applied IFRS 1 in a previous reporting period, or
 - (b) if the entity meets the criteria for applying IFRS 1 and has applied IFRSs in a previous reporting period when IFRS 1 did not exist.The amendment also addresses the transitional provisions for borrowing costs relating to qualifying assets for which the commencement date for capitalisation was before the date of transition to IFRSs.
- An amendment to IAS 1 "Presentation of Financial Statements" clarifies the requirements for providing comparative information:
 - (a) for the opening statement of financial position when an entity changes accounting policies, or makes retrospective restatements or reclassifications, and
 - (b) when an entity provides financial statements beyond the minimum comparative information requirements.
- An amendment to IAS 16 "Property, Plant and Equipment" addresses a perceived inconsistency in the classification requirements for servicing equipment.
- An amendment to IAS 32 "Financial Instruments: Presentation" addresses perceived inconsistencies between IAS 12 "Income Taxes" and IAS 32 with regard to recognising the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.
- An amendment to IAS 34 "Interim Financial Reporting" clarifies the requirements on segment information for total assets and liabilities for each reportable segment.

The amendments are effective for periods beginning on or after 1 January 2013, subject to EU endorsement.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

2. ACCOUNTING POLICIES (Continued ..)

2.3 Investments

Equity investments not held for trading are stated at cost as they are unlisted and their fair values cannot be reliably determined

2.4 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of corporate services in the ordinary course of the Company's activities. Revenue is shown net of Value Added Tax.

2.5 Current and Deferred Tax

The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period based on the profit or loss for the period.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.6 Operating Leases

Payments made under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

2.7 Segment Reporting

The Company currently has one segment, being an investment holding company. All activities are within the United Kingdom.

2.8 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and at bank.

2.9 Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

2.10 Trade and Other Payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

2. ACCOUNTING POLICIES (Continued...)

2.11 Financial Instruments

Financial assets comprise investments in equity securities (available for sale), trade and other receivables (loans and receivables) and cash and cash equivalents. Financial liabilities comprise trade and other payables (at amortised cost).

A financial instrument is recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

2.12 Compound Financial Instruments

Compound financial instruments issued by the Company comprise convertible loan notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

Where material, the liability component of a compound financial instrument is measured initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability in cash for at least 12 months after the end of the reporting period.

2.13 Fair Values

The carrying amounts of the financial assets and liabilities such as cash and cash equivalents, receivables and payables of the Company at the reporting date approximate to their fair values, due to the relatively short term nature of these financial instruments.

2.14 Share-based Compensation

The fair value of the employees', Directors' and suppliers' services received in exchange for the grant of the options are recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

2. ACCOUNTING POLICIES (Continued...)

2.14 Share-based Compensation (Continued...)

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised

2.15 Share Capital

Equity instruments issued by the Company are recorded at the proceeds received, net of any direct issue costs

Ordinary shares are classified as equity

The B ordinary shares rank *pari passu* in all respects with the ordinary shares, save that the holder or holders of B ordinary shares shall not have the right to attend and vote at general meetings of the company (save in respect of resolutions to vary the rights attaching to the B ordinary shares). Holders of B ordinary shares have the option to convert their interests in B ordinary shares at any time, and from time to time, into ordinary shares on a 1 for 1 basis

Deferred shares have no righting votes and have no rights to dividends. Deferred shares only have very limited rights on a return of capital and are not freely transferable

2.16 Critical Accounting Judgements

The preparation of Financial Statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below

(a) Impairment of investments

Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates. There have been none in the year

(b) Interest rate applicable to financial instruments of comparable credit status

In order to calculate the split for convertible loans between the financial liability and equity components, management is required to discount the contractual stream of future cash flows under the convertible loan note instrument at an estimated rate of interest applicable to instruments which do not have any associated conversion option

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

2. ACCOUNTING POLICIES (Continued...)

2.16 Critical Accounting Judgements (Continued. .)

(c) Share-based Compensation

The fair value of options are determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. In accordance with IFRS 2 'Share Based Payments' the Company has recognised the fair value of options, calculated using the Black-Scholes option pricing model. The Directors have made assumptions particularly regarding the volatility of the share price at the grant date in order to reach a fair value. Further information is disclosed in Note 17.

3. FINANCIAL RISK MANAGEMENT

General Objectives, Policies and Processes

The Board has overall responsibility for the determination of the Company's risk management objectives and policies. The Company operates informal treasury policies which include ongoing assessments of interest rate management and borrowing policy.

The Company is exposed through its operations to the following financial risks:

- Liquidity risk, and
- Credit risk

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's flexibility. There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note. Further details regarding these policies are set out below.

Principal Financial Instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- Trade and other receivables,
- Cash and cash equivalents,
- Trade and other payables,
- Convertible loan notes

Liquidity Risk

The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain readily available cash balances to meet expected requirements for a period of at least 60 days. The Company's current borrowings are all in the form of fixed interest convertible loan notes.

Rolling cash forecasts identifying the liquidity requirements of the Company are produced frequently. These are reviewed regularly by management and the Board to ensure that sufficient financial headroom exists for at least a twelve month period.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

3. FINANCIAL INSTRUMENTS (Continued...)

Credit Risk

Credit risk arises from cash and cash equivalents as well as outstanding receivables. Management does not expect any losses from non-performance of these receivables.

The amount of exposure to any individual counter party is subject to a limit, which is assessed by the Board.

The Company considers the credit ratings of banks in which it holds funds in order to reduce exposure to credit risk.

Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to make future investments and provide a return for shareholders. The Company monitors its level of cash resources available against future expenses and may issue new shares or create new convertible loan note instruments in order to raise further funds from time to time. No quantitative analysis is currently applicable based upon the Company's current operations.

4. REVENUE

Revenues during the year comprise the provision of corporate services to Inspirit Energy Limited and GIS. All income is generated in the United Kingdom.

5. EMPLOYEES

| | Year ended 30 June 2012 £ | Year ended 30 June 2011 £ |
|---|------------------------------------|------------------------------------|
| The average number of staff employed by the Company during the year amounted to | | |
| Executive Directors | 2 | 2 |
| Non-executive Directors | 1 | 1 |
| | <hr/> | <hr/> |
| | 3 | 3 |
| | <hr/> | <hr/> |
| Wages and salaries | 34,000 | 1,250 |
| Share options granted to Directors | - | 3,232 |
| | <hr/> | <hr/> |
| | 34,000 | 4,482 |
| | <hr/> | <hr/> |

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

6. DIRECTORS' REMUNERATION

| | Salary and Fees | |
|------------|------------------------------------|------------------------------------|
| | Year ended 30 June 2012 £ | Year ended 30 June 2011 £ |
| S Pozner | 13,591 | 38,000 |
| A McClue | - | - |
| G Saxton | - | - |
| D Pinckney | 5,000 | 1,250 |
| J Nazhat | 11,715 | - |
| J Gunn | - | - |
| | <u>30,306</u> | <u>39,250</u> |

The Company does not operate a pension scheme and no contributions were paid during the year

7. OPERATING LOSS

| | Year ended 30 June 2012 £ | Year ended 30 June 2011 £ |
|---|------------------------------------|------------------------------------|
| Operating loss is stated after charging | | |
| Auditors' remuneration in respect of audit services | 12,100 | 10,000 |
| Tax and other services | 1,050 | - |
| | <u>13,150</u> | <u>10,000</u> |

8. FINANCE INCOME AND COSTS

Interest Expense

| | | |
|-------------------------------|---------------|---------------|
| Convertible loans (see below) | 7,394 | 22,170 |
| Convertible loans (Note 15) | 24,678 | 39,246 |
| Other interest | - | 392 |
| | <u>32,072</u> | <u>61,808</u> |
| Finance costs | | |
| | <u>32,072</u> | <u>61,808</u> |
| Finance Income | | |
| Loan to related party | 1,762 | 219 |
| | <u>1,762</u> | <u>219</u> |

Interest on convertible loans, not split between liabilities and equity based on materiality, is included within accruals

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

9. TAXATION

Due to the losses in the accounting periods presented, no corporation tax liability has arisen

Factors affecting current tax charge:

The tax assessed on the loss on ordinary activities for the period is different from the standard rate of corporation tax in the UK of 20% (2011 - 20%)

| | Year ended 30 June 2012 £ | Year ended 30 June 2011 £ |
|---|------------------------------------|------------------------------------|
| Loss on ordinary activities before taxation | (134,949) | (163,353) |
| Loss on ordinary activities multiplied by rate of tax | (26,990) | (32,671) |
| Unutilised losses | 26,990 | 32,671 |
| Total current tax | - | - |

The Company has excess management expenses of approximately £1,216,000 (2011 - £1,112,000), capital losses of £150,000 (2011 - £150,000) and non-trade financial losses of approximately £92,000 (2011 - £62,000) to carry forward against future suitable taxable profits. No deferred tax asset has been provided on any of these losses due to uncertainty over the timing of their recovery.

10. LOSS PER SHARE

Loss per ordinary share has been calculated using the weighted average number of shares in issue during the relevant financial periods. The calculations of both basic and diluted loss per share for the year are based upon the loss for the year of £134,949 (2011 - £163,353). The weighted number of equity shares in issue during the year was 61,200,460 (2011 - 45,690,636).

In accordance with IAS 33, basic and diluted earnings per share are identical as the effect of the exercise of share options and convertible debt would be to decrease the loss per share and are therefore deemed anti-dilutive. Details of convertible loans and share options that could potentially dilute earnings per share in future periods are set out in Notes 15 and 17.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

11. INVESTMENTS

| | 30 June 2012 £ | 30 June 2011 £ |
|---------------|----------------------|----------------------|
| As at 1 July | 740,000 | - |
| Additions | - | 740,000 |
| | <hr/> | <hr/> |
| As at 30 June | 740,000 | 740,000 |
| | <hr/> | <hr/> |

During the year ended 30 June 2011, the Company purchased equity shares at a cost of £740,000 in Inspirit Energy Limited, an unlisted company registered in the United Kingdom operating in the Clean Tech and Renewables sector. The Company owns a total of 2,596,666 shares in Inspirit Energy Limited representing approximately 17% of the total shares in issue.

12. TRADE AND OTHER RECEIVABLES

| | 30 June 2012 £ | 30 June 2011 £ |
|---------------------------------|----------------------|----------------------|
| Amount due from related parties | 40,435 | 35,969 |
| Other receivables | 50 | 5,977 |
| Prepayments and accrued income | 12,043 | 19,419 |
| | <hr/> | <hr/> |
| | 52,528 | 61,365 |
| | <hr/> | <hr/> |

All trade and other receivables are denominated in Sterling. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security.

13. CASH AND CASH EQUIVALENTS

| | 30 June 2012 £ | 30 June 2011 £ |
|--------------|----------------------|----------------------|
| Cash at bank | 34 | 32,021 |
| | <hr/> | <hr/> |

All of the Company's cash at bank is held with institutions with an AA credit rating.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

14. TRADE AND OTHER PAYABLES

| | 30 June 2012 £ | 30 June 2011 £ |
|-------------------------------|----------------------|----------------------|
| Trade payables | 18,034 | 23,091 |
| Amount due to related parties | 132,784 | 16,039 |
| Accruals and deferred income | 35,654 | 33,636 |
| Other payables | 2,039 | 1,250 |
| | <hr/> | <hr/> |
| | 188,511 | 74,016 |
| | <hr/> | <hr/> |

15. BORROWINGS

| | | |
|--------------------|---------|---------|
| Non-current | | |
| Convertible loan | - | 449,516 |
| | <hr/> | <hr/> |
| Current | | |
| Convertible loan | 227,482 | - |
| | <hr/> | <hr/> |

Convertible Loans

During the year ended 30 June 2010, the Company issued 434,090 5% convertible loans at a par value of £434,090 under loan note instruments dated 29 July 2009 and 22 November 2009. Loan notes totalling £274,073 and £18,056 were converted into shares during the years ended 30 June 2010 and 30 June 2011 respectively. There were no conversions during the year ended 30 June 2012. All loans under the loan note instrument dated 29 July 2009 have been fully converted. The loans dated 22 November 2009 mature on 22 December 2012. Both series of loan notes have a conversion price of £0.01 per share.

During the year ended 30 June 2010, the Company issued 300,000 5% convertible loans at a par value of £300,000 under a loan note instrument dated 22 June 2010. The loans mature on 22 December 2012 and have a conversion price of £0.027 per share or at a 10% discount to the average market price based on the previous five days trading, whichever is the lower. Loan notes totalling £224,859 were converted into shares on 24 October 2011.

On 28 November 2012 the redemption date for both loan note instruments was extended to 22 December 2013.

The values of the liability and equity conversion component were determined at the date the loan notes were issued. All convertible loans were issued to Global Investment Strategy UK Limited.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible loan. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

15. BORROWINGS (Continued..)

The convertible loan recognised in the Statement of Financial Position is calculated as follows

| | 30 June 2012 £ | 30 June 2011 £ |
|--|----------------------|----------------------|
| At 1 July | 449,516 | 422,416 |
| Face value of convertible loans | - | 5,910 |
| | <hr/> | <hr/> |
| Liability component on initial recognition | 449,516 | 428,326 |
| Converted to ordinary shares | (246,712) | (18,056) |
| Interest expense (Note 8) | 24,678 | 39,246 |
| | <hr/> | <hr/> |
| Liability component at 30 June | 227,482 | 449,516 |
| | <hr/> | <hr/> |

The fair value of current and non-current borrowings equals their carrying amount

16. SHARE CAPITAL

| | Number | £ |
|-------------------------------|---------------|-----------|
| Authorised | | |
| 2011 and 2012 | | |
| Ordinary shares of £0.001 | 1,501,855,740 | 1,501,856 |
| 'B' Ordinary shares of £0.001 | 1,221,200 | 1,221 |
| Deferred shares of £0.99 | 400,932 | 396,923 |
| | <hr/> | <hr/> |
| | 1,503,477,872 | 1,900,000 |
| | <hr/> | <hr/> |

The 'B' Ordinary shares and Deferred shares have no voting rights

There has been no movement in the authorised share capital during the year

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

16. SHARE CAPITAL (Continued..)

On 13 December 2010 the Company subdivided its Ordinary and 'B' Ordinary share capital on the basis of 10 new shares for every 1 existing share. The new nominal value of one Ordinary and 'B' Ordinary share is £0.001.

| | Number of ordinary shares | Number of 'B' ordinary shares | Number of deferred shares | Ordinary shares £ | 'B' ordinary shares £ | Deferred shares £ | Share premium £ | Total £ |
|------------------------------------|---------------------------------|-------------------------------------|------------------------------------|-------------------------|--------------------------------|-------------------------|-----------------------|------------|
| Issued and Fully Paid | | | | | | | | |
| At 1 July 2010 | 3,024,546 | 122,120 | 400,932 | 30,245 | 1,221 | 396,923 | 3,030,353 | 3,458,742 |
| Issue of new shares | 5,117,500 | - | - | 18,212 | - | - | 710,288 | 728,500 |
| Share issue costs | - | - | - | - | - | - | (85,660) | (85,660) |
| Creditors voluntary arrangement | 401,155 | - | - | 4,012 | - | - | - | 4,012 |
| Subdivision of share capital | 43,926,309 | 1,099,080 | - | - | - | - | - | - |
| Conversion of convertible loan | 1,805,555 | - | - | 1,806 | - | - | 16,250 | 18,056 |
| At 30 June 2011 | 54,275,065 | 1,221,200 | 400,932 | 54,275 | 1,221 | 396,923 | 3,671,231 | 4,123,650 |
| Conversion of convertible loans | 8,328,125 | - | - | 8,328 | - | - | 216,531 | 224,859 |
| At 30 June 2012 | 62,603,190 | 1,221,200 | 400,932 | 62,603 | 1,221 | 396,923 | 3,887,762 | 4,348,509 |

On 24 October 2011, the Company issued 8,328,125 ordinary shares of 0.1 pence each at a price of 2.7 pence per share, following receipt of a conversion notice of certain convertible loan notes.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

17. SHARE OPTIONS

Share options are granted to selected Directors and employees

Share options outstanding at the end of the year have the following expiry dates and exercise prices

| Expiry date | Exercise price in £ per share | Number of Options | |
|---------------|-------------------------------|-------------------|------------------|
| | | 2012 | 2011 |
| 26 April 2021 | 0.04875 | 1,500,000 | 1,500,000 |
| | | <u>1,500,000</u> | <u>1,500,000</u> |

The options may only be exercised on or after 26 April 2012. The weighted average contractual life of the outstanding options at 30 June 2012 was 8.83 years (2011 – 9.83 years)

The fair value of the share options was determined using the Black Scholes valuation model. The parameters used are detailed below:

| | 2011 Options |
|---|---------------|
| Shares under option | 1,500,000 |
| Option granted on | 26 April 2011 |
| Option life (years) | 10 |
| Share price (pence per share) at grant date | 4.50 |
| Risk free rate | 3.71% |
| Expected volatility | 10% |
| Expected dividend yield | Nil |
| Marketability discount | 5% |
| Fair value per option granted (pence per share) | 1.254 |
| Exercise price (pence per share) | 4.875 |

The expected volatility is based on historical volatility for the 6 months prior to the date of granting. The risk free rate of return is based on zero yield government bonds for a term consistent with the option life.

18. CAPITAL COMMITMENT

There was no capital expenditure that had been contracted for at the end of the reporting period but not yet incurred.

19. CONTINGENT LIABILITIES

The Company has no contingent liabilities.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2012

20. ULTIMATE CONTROLLING PARTY

In the opinion of the Directors, there is no controlling party at the year-end date

21. RELATED PARTY TRANSACTIONS

During the year ended 30 June 2011, the Company entered into a loan agreement dated 23 May 2011 with Inspirit Energy Limited. Inspirit Energy Limited is beneficially owned and controlled by J Gunn, a substantial shareholder and Director of the Company. The Company advanced £30,000 to Inspirit Energy Limited under this unsecured sterling loan facility for working capital purposes. Interest on the loan at 7% per annum is payable to the Company and the loan is repayable not less than three months, but not more than three years, from the date of the agreement. As at 30 June 2012, the amount due to the Company from Inspirit Energy Limited was £14,465 (2011 - £30,000) together with accrued interest receivable of £1,502 (2011 - £219).

In addition, the Company charged Inspirit Energy Limited fees of £16,946 (2011 - £35,047) for the provision of corporate services during the year. An amount of £14,570 was receivable from Inspirit Energy Limited as at 30 June 2012 (2011 - £5,969).

Global Investment Strategy UK Limited ("GIS") is a company which is beneficially owned and controlled by J Gunn. At the year end the Company owed GIS £111,438 (2011 - £19,766) for the provision of rent, rates, office facilities, loan interest and funds advanced for working capital purposes. GIS owed the Company £11,400 (2011 - £nil) for the provision of corporate services. On 24 October 2011, GIS agreed to convert £224,859 of its outstanding convertible loan into 8,328,125 ordinary shares of 0.1 pence each.

J Gunn provided an unsecured loan of £45,000 to the Company during the year. The full amount is due to J Gunn as at 30 June 2012.

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 3 July 2012, GIS agreed to convert £15,900 of its outstanding convertible loan into 1,590,000 ordinary shares of 0.1 pence each. These shares were placed with unconnected third parties to GIS.

Also on 3 July 2012, the Company allotted 412,982 ordinary shares of 0.1 pence each to a financial advisor in settlement of fees.

On 19 September 2012, the Company allotted 200,000 ordinary shares of 0.1 pence each to a financial advisor in settlement of fees.

On 4 October 2012, the Company raised £50,000 through the placement of 3,333,333 ordinary shares of 0.1 pence each at a price of 1.5 pence per share.

On 10 October 2012, the Company entered into a Discretionary Drawdown Facility ("DDF") with GIS which provides the Company with an equity facility up to a maximum of aggregate limit of £500,000. The facility shall be available for drawdown at any time and for any specified amount at the Company's discretion up to 30 June 2014. GIS are entitled to commission at 7.5% of the amount called down by the Company in accordance with the terms of the facility.

On 28 November 2012 the redemption date for both convertible loan note instruments was extended from 22 December 2012 to 22 December 2013.