

Company Registration No. 05075088

KleenAir Systems International Plc

ANNUAL REPORT

30 June 2009



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KleenAir Systems International Plc

OFFICERS AND ADVISERS

DIRECTORS

W Reid (Chairman)
L.Simons
G.Saxton

SECRETARY

T. Fairlie

REGISTERED OFFICE

7th Floor
39 St James's Street
London
SW1A 1JD

REGISTERED NUMBER

05075088

AUDITORS

Jeffreys Henry LLP
Finsgate
5-7 Cranwood Street
London EC1V 9EE

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

W.H. Ireland Limited
85-89 Colmore Row
Birmingham
B3 2BB

KleenAir Systems International Plc

CHAIRMAN'S STATEMENT

Introduction

The last Chairman's Statement, issued on 20th July 2009, covered key business and corporate events throughout the nine month period ended 30th June 2009, the period to which these accounts relate.

Board Changes

On 5th August 2009, I was appointed as an Executive Director of KleenAir Systems International Plc ("KleenAir" or the "Company") and was appointed Executive Chairman on 11th August 2009, Mr Lionel Simons having stepped down from that position, but remaining an Executive Director.

Mr Anthony Rentoul and Mr Peter Newell, both non-executive Directors, announced their resignations from the Board on 22nd July 2009. Mr Robert Hayim, also a non-executive Director, announced his resignation from the board on 4th August 2009. The Board wishes to thanks to these three former Directors of the Company for the work they did during their tenure.

Financial Results

The accounts for the period to 30th June 2009 show an operating loss of £252,265.

Business and Corporate Review

The Company's Ordinary Shares resumed trading on AIM on 5th August 2009, following publication of the accounts for the year ended 30th September 2008 and the issue of the interim results for the six months period ended 31st March 2009.

The Company announced, on 5th August 2009, that it had received £200,000 (after expenses) under a secured convertible loan note (the "Loan Note") to support its working capital requirements going forward. The Loan Note was issued to Global Investment Strategy UK Limited ("GIS" – an FSA authorised and regulated company registered in England) on 29th July 2009, convertible into 2,200,000 1p Ordinary Shares ("Shares") at a conversion price of 10 pence per Share; the conversion rights to expire on 28th January 2011.

The Company announced, on 13th November 2009, that GIS had converted £30,000 of the Loan Note into 300,000 Shares, representing 51.4 per cent. of the enlarged issued share capital of the Company. These Shares have been placed with unconnected third parties.

The Company announced, on 20th November 2009, that GIS had converted a further £30,000 of the Loan Note into 300,000 Shares, representing 33.9 per cent. of the enlarged issued capital of the Company. These Shares have also been placed with unconnected third parties.

On 8th September 2009, the Company announced that it had entered into an Exclusivity and Co-Operation Agreement with Argosec Pty Ltd ("Argosec" - a South African limited liability company) and with Argosec's parent undertaking, GlobalTech Marketing Limited ("GlobalTech" - a New Zealand limited liability company), with regard to future co-operation between the parties to establish and develop a coal briquetting business for Argosec in South Africa.

The Company also announced on the same date that it had entered into a £3,000,000 credit facility agreement (the "Facility Agreement") with GIS under which KleenAir has the right to draw down funds periodically up to an aggregate amount of £3,000,000 against the issue of new KleenAir Shares. The price of the Shares which may be issued to GIS under the Facility Agreement would be 85% of the rolling average closing mid-market price of KleenAir's shares over a period of five dealing days, commencing two business days prior to a drawdown notice by KleenAir and ending two business days after the date of the drawdown notice.

KleenAir Systems International Plc

CHAIRMAN'S STATEMENT (Continued)

The Facility Agreement provides that funds may be drawn in one or several tranches (at the discretion of the Company) provided that no tranche shall result in GIS holding more than 29.9 per cent. of the voting rights in the Company as a result of new Shares pursuant to Facility Agreement (save as permitted by the Takeover Panel under a Rule 9 waiver) and GIS is not obliged to subscribe for Shares which, when aggregated with its existing holding, would result in it holding more than 29.9 per cent. (save as permitted by the Takeover Panel).

The purpose of the Facility Agreement is to enable KleenAir to have prompt access to funding when required to investigate growth opportunities and for general working capital.

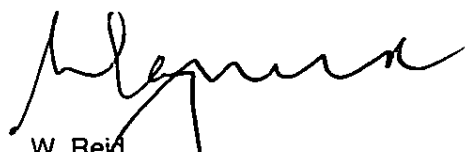
The Company announced, on 3rd November 2009, that it had entered into a Call Option Agreement ("Call Option") with GlobalTech for the purchase from GlobalTech of 74% of the issued share capital of Argosec, thereby further formalised and protected its relationship with Argosec. The balance of 26% of the issued share capital of Argosec is intended to be transferred to a South African Black Economic Empowerment Entity on or prior to exercise by the Company of the Call Option. KleenAir is under no obligation to exercise the Call Option over the Argosec shares; the Company has, however, paid a refundable deposit of £25,000 to GlobalTech in consideration of the grant of the Call Option. KleenAir does not currently intend to exercise the Option unless and until GlobalTech has finalised sufficient long-term financing to enable Argosec to establish substantial commercial production of the coal briquetting business. The long stop date for exercise of the Call Option is 31st December 2010.

The Company announced, on 27th November 2009, that under the secured loan note agreement dated 29th July 2009 ("the Agreement") pursuant to a loan note instrument dated 29 July 2009 ("the Loan Note Instrument"), Global Investment Strategy (UK) Ltd ("GIS") has exercised its option to subscribe for a further 32,248 £1 convertible loan notes of the Company. These notes are to be issued on the same terms and conditions as set out in the Loan Note Instrument. The subscription for the further convertible loan notes will yield £29,317 (after expenses) for the Company and the number of loan notes over which GIS holds an option to subscribe at £1 will reduce to 190,683 which includes a commission of 10% payable to GIS in the form of loan notes.

The Company is developing a strategy within the resources sector addressing related environmental issues. The arrangements with Argosec and the potential opportunity in coal briquetting production is the first step towards fulfilling this strategy. Furthermore the Company is examining a range of other relevant opportunities and will make announcements with regard to any new developments at the appropriate time.

We are still evaluating the opportunity with Argosec to establish its commercial value we expect to be able to update shareholders with progress in the new year.

We have deferred putting in motion the change of name for the company at the general meeting but instead have recommended that the articles being changed to empower the directors to do so if it becomes appropriate.



W. Reid
Executive Chairman

KleenAir Systems International Plc

Directors' Report

The directors present their annual report and audited financial statements for the nine months ended 30 June 2009.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the period was that of a holding company with investments in companies whose principal activity was the development of vehicle emission reduction devices.

The company initiated a Company Voluntary Arrangement "CVA" process on 12 May 2009 which was approved by creditors on 19 June 2009 and by members on 24 June 2009. Under the CVA, shares will be issued to satisfy all obligations in full and final settlement.

The business review is included in the chairman's statement on page 2.

SUMMARY OF KEY PERFORMANCE INDICATORS

Since the company had no turnover, there are no performance indicators relative to revenue and gross margin.

There was no significant capital expenditure in the period.

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

RISK AND UNCERTAINTIES

The main risks and uncertainties that the company face are to find suitable acquisition opportunities in line with the company's business development strategy.

RESULTS AND DIVIDENDS

The results for the company for the period are as set out in the income statement on page 10. The directors do not recommend the payment of a dividend.

DIRECTORS AND OTHER INTERESTS

The following directors have held office since 1 October 2008:

W. Reid OBE (Chairman) (Appointed 5 August 2009)
L Simons
P.M.Newell (resigned 21 July 2009)
A.M.Rentoul (resigned 21 July 2009)
G.Saxton
R.Hayim (appointed 26 February 2009)
(resigned 4 August 2009)

The interests of the directors who were in office as at 30 June 2009 in the shares of the company were as follows:

	Ordinary shares of 1p**	
	30.06.09	30.09.08
L Simons	44,092	44,092

KleenAir Systems International Plc

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 9 November 2009, the company had been notified of the following beneficial interests in 3% or more of the issued share capital:

Ordinary 1p shares***	No of Ordinary shares	% of issued share capital
JIM Nominees Limited*	53,419	18.8%
Pershing Nominees Limited	40,635	14.3%
KleenAir Systems Inc**	30,000	10.6%

*Included within JIM Nominees Ltd are the beneficial interests of L Simons held through Bramley Limited of 4,082 shares and Guideline Securities Inc of 10,000 shares.

** L Simons is also the beneficial holder of KleenAir Systems Inc.

***Subsequent to 30 June 2009, there was a share reorganisation whereby ordinary shares of 1p were consolidated into shares of £1 each and subsequently split into ordinary shares of 1p and deferred shares of 99p.

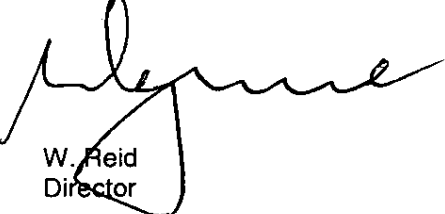
DIRECTORS' RESPONSIBILITIES

STATEMENT OF DISCLOSURE TO AUDITORS

So far as the directors are aware

- (a) there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware; and
- (b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



W. Reid
Director

21/12/2009

KleenAir Systems International Plc

Directors' Report

DIRECTORS AND THEIR INTERESTS (CONTINUED...)

*L Simons is the beneficial holder of shares held by KleenAir Systems Inc (30,000), Guideline Securities Inc (10,000) and Bramley Ltd (4,082).

**Subsequent to 30 June 2009, there was a share reorganisation whereby ordinary shares of 1p were consolidated into shares of £1 and subsequently split into ordinary shares of 1p and deferred shares of 99p.

POLITICAL AND CHARITABLE DONATIONS

The company made no political or charitable contributions during the period.

PAYMENT OF CREDITORS

Although the company does not follow a formal code, the company's policy is to negotiate payment terms with its suppliers in all sectors to ensure that they know the terms on which payment will take place when the business is agreed, and, unless the payment is in dispute, to abide by those terms of payment.

CORPORATE GOVERNANCE

The board has an audit committee comprising two directors and a remuneration committee also comprising two directors. The audit committee normally meets twice yearly and is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported on, and for meeting the auditors and reviewing their reports relating to the group's accounts and internal control systems.

The remuneration committee normally meets twice yearly and is responsible for reviewing the performance of the executive directors and other senior executives and for determining appropriate levels of remuneration.

The directors do not consider it appropriate to appoint a nomination committee but keep the possibility under review. Appointments of directors and senior staff are approved by the board.

The board regularly reviews key business risks in addition to the financial risks facing the group in the operation of its business.

FINANCIAL INSTRUMENTS

The principal financial risks faced by the company are liquidity and credit risk. The company's financial instruments included variable borrowings and cash which it used to finance its operations, but it had no borrowings at the period end.

The company has no significant concentrations of credit risk.

AUDITORS

In accordance with Section 406 of the Companies Act 2006, a resolution to appoint Jeffrey's Henry LLP as auditors will be put to the members at the annual general meeting.

POST BALANCE SHEET EVENTS

Since the period end, it was announced that the company entered into an exclusive collaboration and co-operation agreement with a South African company, details of which are disclosed in Note 20 of the accounts.

KleenAir Systems International Plc

Directors' Report

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Reporting Standards as adopted for use in the European Union.

Under the 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 loss of the company for that period.

In preparing those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether the company financial statements have been prepared in accordance with IFRS as adopted by the European Union subject to any material departures disclosed and explained in the financial statements.
- d. prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company to enable them to ensure that the financial statements comply with the requirements of 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.

INDEMNITY OF OFFICERS

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

Independent Auditors' Report to the members of KleenAir Systems International Plc

We have audited the financial statements of KleenAir Systems International Plc for the period ended 30 June 2009 which comprise the income statement, statement of changes in equity, balance sheet, cash flow statement, and the related notes on pages 14 to 26.

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 and in accordance with provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body in accordance with Section 495 and 496 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 auditors' 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 Director's Responsibilities Statement set out on page 6 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 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.

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 2009 and of its loss for the period 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 matters 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.

Independent Auditors' Report to the members of KleenAir Systems International Plc

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 and the part of the Directors' Remuneration Report to be audited 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.

Sanjay Parmar
(Senior Statutory Auditor)

For and on behalf of
Jeffreys Henry LLP,
Chartered Accountants and
Registered Auditors

21 December 2009

Finsgate
5-7 Cranwood Street
London EC1V 9EE

KleenAir Systems International Plc

INCOME STATEMENT

for the nine months ended 30 June 2009

	Notes	Period to 30 June 2009 £	Year to 30 September 2008 £
REVENUE	4		
Cost of sales		-	-
GROSS PROFIT		<u>-</u>	<u>-</u>
Administrative expenses		252,265	(323,129)
OPERATING LOSS		<u>(252,265)</u>	<u>(323,129)</u>
Provisions against assets		-	(2,756,376)
Other interest receivable		-	1,324
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	7	<u>(252,265)</u>	<u>(3,078,181)</u>
Taxation	8	<u>-</u>	<u>-</u>
LOSS FOR THE PERIOD		<u><u>(252,265)</u></u>	<u><u>(3,078,181)</u></u>
LOSS PER ORDINARY SHARE – BEFORE EXCEPTIONAL	9	0.63p	0.23p
LOSS PER ORDINARY SHARE – AFTER EXCEPTIONAL	9	<u>0.63p</u>	<u>14.54p</u>

The income statement has been prepared on the basis that all operations are continuing operations.

KleenAir Systems International Plc

STATEMENT OF CHANGES IN EQUITY for the nine months ended 30 June 2009

	Share Capital £	Share Premium £	Other Reserve £	Retained Loss £
At 1 October 2007	206,885	1,985,074	86,891	(384,679)
Movement in shares issued	71,109	1,044,998	-	-
Issue costs of placing	-	(268,517)	-	-
Loss after tax for the period	-	-	-	(3,078,181)
At 30 September 2008	277,994	2,761,555	86,891	(3,462,860)
Movement in shares issued	818	17,182	-	-
Loss after tax for the period	-	-	-	(252,265)
At 30 June 2009	<u>278,812</u>	<u>2,778,737</u>	<u>86,891</u>	<u>(3,715,125)</u>

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.

KleenAir Systems International Plc

BALANCE SHEET

30 June 2009

	Notes	30 June 2009 £	30 September 2008 £
<i>Current Assets</i>			
Trade and other receivables	10	-	11,798
Cash and cash equivalents		355	1,864
		<u>355</u>	<u>13,662</u>
 CURRENT LIABILITIES			
Trade and other payables	11	(448,920)	(350,082)
 NET CURRENT ASSETS		<u>(448,565)</u>	<u>(336,420)</u>
 TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(448,565)</u>	<u>(336,420)</u>
 SHAREHOLDERS' EQUITY			
Called up share capital	12	400,932	277,994
Share premium account	13	2,778,737	2,761,555
Other reserve	13	86,891	86,891
Retained loss	13	(3,715,125)	(3,462,860)
 TOTAL EQUITY		<u>(448,565)</u>	<u>(336,420)</u>

Approved by the board and authorised for issue on 21 - 12 - 2009.

W Reid
Director

Company Registration Number: 05075088

KleenAir Systems International Plc

CASH FLOW STATEMENT

for the nine months ended 30 June 2009

	Notes	Period to 30 June 2009 £	Year to 30 September 2008 £
Net Cash utilised by		(19,511)	(922,848)
Investing activities			
Interest received		2	1,324
Net cash from activities		2	1,324
Cash Flows from Financing			
Net proceeds from issue of shares		18,000	847,590
Loan from Bramley Ltd		-	75,000
Net cash from financing		18,000	922,590
Net cash inflow/(outflow)		(1,509)	1,066
Cash and cash equivalent at beginning of period		1,864	798
Cash and cash equivalent at end of period		355	1,864
Notes to Cash Flow Statement			
Loss in period		(252,267)	(3,079,505)
Decrease in receivables		11,798	1,934,248
Increase in payables		220,958	144,056
Loss on write off of intangibles and investments		-	78,353
		(19,511)	(922,848)

KleenAir Systems International Plc

NOTES TO THE FINANCIAL STATEMENTS for the nine months ended 30 June 2009

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 company went into a CVA which was approved by the members on 24 June 2009. 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 (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB), as adopted by the European Union, and as applied in accordance with the provisions of the Companies Act 2006 applicable to companies preparing their accounts under IFRS. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statement, are disclosed within the accounting policies note.

Going Concern

- a) The directors believe that the company is a going concern on the basis that it has entered into a £3,000,000 credit facility agreement (the "Facility Agreement") with Global Investment Strategy (UK) Ltd ("GIS") a UK, FSA authorised and regulated company, under which the company will have the right to draw funds from time to time over the next 12 months up to an aggregate amount of £3,000,000 (the "facility") against the issued of new ordinary shares in the capital of KleenAir.

The price of the new shares which may be issued to GIS under the Facility Agreement would be 85% of the rolling average closing mid-market price of KleenAir's shares over a period of five dealing days, commencing two business days prior to a drawdown notice by KleenAir and ending two business days after the date of the drawdown notice. The Facility Agreement contains a number of warranties and undertakings from KleenAir in favour of GIS in relation to various matters relating to KleenAir and an indemnity from KleenAir in favour of GIS in respect of certain matters in relation to the agreement. The Facility Agreement, which terminates on 30 June 2010, is terminable by GIS in certain circumstances including if there is a material breach of the agreement by KleenAir or a material breach by KleenAir of any of the warranties. The Facility Agreement provides that the Facility may be drawn once or in tranches (at the discretion of the Company) provided that any tranche shall not result in GIS holding more than 29.9 per cent, of the voting rights in the Company as a result of it being issued new shares pursuant to Facility Agreement (save as permitted by the Takeover Panel). GIS are not obliged to subscribe for any number of new shares which when aggregated with its existing holding of shares in the capital of the Company would result in GIS holding 29.9 per cent or more of the issued voting share capital (save as permitted by the Takeover Panel).

The purpose of this facility is to enable KleenAir to have the ability to draw down funds promptly when required to explore growth opportunities and for general working capital.

KleenAir Systems International Plc

NOTES TO THE FINANCIAL STATEMENTS for the nine months ended 30 June 2009

2. ACCOUNTING POLICIES (Continued...)

- c) Following the agreement entered with Argosec Pty Ltd (Argosec) as announced on 8 September (see note 20A above), the company has entered, as the 3 November 2009, into a Call Option Agreement ("Call Option" with Globaltech Marketing Limited (GlobalTech) for the purchase from Global Tech of 74% of the issued share capital of Argosec, and thereby has further formalised and protected its relationship with Argosec. The balance of 26% of the issued share capital of Argosec is intended to be transferred to a South African Black Economic Empowerment Entity on or prior to exercise by the Company of the Call Option. A refundable deposit of £25,000 is payable to GlobalTech for grant of the Call Option.

The company under no obligation to exercise the Call Option over the Argosec shares, and does not currently intend to exercise the Call Option unless and until GlobalTech has finalised sufficient long-term financing to enable Argosec to establish sustainable commercial production of the coal briquetting business. The long-stop date for exercise of the Call Option is 31 December 2010.

The consideration will be payable annually following the end of each of the 3 years following the commencement of full time commercial production of coal briquettes and calculated as an amount equal to 74% of Argosec's adjusted post-taxation earnings.

- d) The Company announced on 13 November 2009 that Global Investment Strategy (UK) Ltd had agreed to convert £30,000 of the outstanding debt into 300,000 ordinary shares of 1 pence each, representing 51.4 per cent, of the enlarged issued share capital of the Company. These shares have been placed with unconnected third parties.
- e) On 20 November 2009, Global Investment Strategy (UK) Limited converted a further £30,000 of the outstanding debt to 300,000 ordinary shares of 1 pence each.

(a) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

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 January 2009 or later periods, but the Company has not early adopted them:

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009).
- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).
- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting'.
- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009).

(b) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Company's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Company's operations:

KleenAir Systems International Plc

NOTES TO THE FINANCIAL STATEMENTS for the nine months ended 30 June 2009

2. ACCOUNTING POLICIES (Continued...)

- IFRS 1 (Amendment) 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009).
- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009).
- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendments to IFRS 1, 'First-time adoption')(effective from 1 July 2009).
- IFRS 8, 'Operating segments', (effective from 1 January 2009).
- IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009).
- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009).
- IAS 19 (Amendment), 'Employees benefits' (effective from 1 January 2009).
- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).
- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009).
- IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009).
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).
- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).
- IAS 31 (Amendment), 'Interest in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009).
- IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009).
- IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009).
- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009).
- IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2009).
- IFRIC 15, 'Agreements for construction of real estate' (effective from 1 January 2009).
- The minor amendments to IAS 20 'Accounting for government grants and disclosure of government assistance', and IAS 20, 'Financial reporting in hyperinflationary economies', IAS 40, 'Investment property', and IAS 41, 'Agriculture'.
- IFRIC16 Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008)
- IFRIC17 Distribution of Non-cash Assets to Owners (effective from 1 July 2009)
- IFRIC12 Service Concession Arrangements (effective from 1 January 2008)

KleenAir Systems International Plc

NOTES TO THE FINANCIAL STATEMENTS for the nine months ended 30 June 2009

2. ACCOUNTING POLICIES (Continued...)

(b) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Company's operations

- IFRIC14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective from 1 January 2008)

Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Pounds Sterling (£), which is the Company's functional and presentation currency.

Taxation

The taxation credit is based on the loss for the period and takes into account deferred taxation because of timing differences between the treatment of certain items for taxation and accounting purposes. Except where it is otherwise required by accounting standards, full provision is made for temporary timing differences which have arisen but not yet reversed at the balance sheet date.

Revenue

Revenue represents amounts receivable in the course of the company's ordinary activities arising from the supply of vehicle filters for use in the London Low Emission Zone, exclusive of VAT, and therefore, in one business segment and geographical region, the United Kingdom.

Intangible assets

Other tangible assets

Intellectual property rights are included at cost and amortised on a straight-line basis over their useful economic lives.

Amortisation

Amortisation is calculated so as to write off the cost of an asset over the useful economic life of that asset as follows: Intellectual Property Rights – 10 years.

Tangible Fixed Assets

All tangible fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold improvements	-	over the term of the lease
Plant and equipment	-	4 years straight line
Fixtures and fittings	-	4 years straight line

Investments

Investments are recorded at cost less provision for impairment.

KleenAir Systems International Plc

NOTES TO THE FINANCIAL STATEMENTS for the nine months ended 30 June 2009

2. ACCOUNTING POLICIES (Continued...)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax except that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet.

Where none of the contractual terms of share capital meets the definition of a financial liability then this is classed as an equity instrument.

Share-based payment

Equity-settled share based payment

All share-based payment arrangements granted since the company's incorporation on 16 March 2004 that had not vested prior to 1 October 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to "other reserve".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustments prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

Upon exercise of share options, the proceeds received net of attributable transaction cost would be credited to share capital, and where appropriate share premium.

KleenAir Systems International Plc

NOTES TO THE FINANCIAL STATEMENTS for the nine months ended 30 June 2009

2. ACCOUNTING POLICIES (Continued...)

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Trade payables

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

Provisions

A provision is recognised when:

- the company has a legal or constructive obligation as a result of a past event; and
- it is probable that an outflow of economic benefits will be required to settle the obligation; and
- the effect is material; and

Expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Equity instruments

Instruments that evidence a residual interest in the assets of the company after deducting all of its liabilities are classified as equity instruments. Issued equity instruments are recorded at proceeds received net of direct issue costs.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of value added tax, from the proceeds.

3. RISK AND SENSITIVITY ANALYSIS

The company's activities expose it to a variety of financial risks: interest rate risk, liquidity risk and capital risk. The company's overall risk management programme focuses on unpredictability and seeks to minimise the potential adverse effects on the company's financial performance. The board reviews key risks on a regular basis and, where appropriate, action is taken to mitigate the key risks identified.

3.1. Interest rate risk

The company does not have formal policies on interest rate risk. However, the company's exposure in these areas as at the balance sheet date was minimal.

3.2. Liquidity risk

The company prepares periodic working capital forecasts for the foreseeable future, allowing an assessment of the cash requirements of the company, to manage liquidity risk. The directors have considered the risk posed by liquidity and are satisfied that there is sufficient growth and equity in the company.

3.3. Capital risk

The company's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

4. REVENUE

There was no income earned during the period.

KleenAir Systems International Plc

NOTES TO THE FINANCIAL STATEMENTS for the nine months ended 30 June 2009

5 PARTICULARS OF EMPLOYEES

	Period to 30 June 2009 £	Year to 30 September 2008 £
--	-----------------------------------	--------------------------------------

The average number of staff employed by the company during the financial period amounted to:

Executive directors	2	2
Non-executive directors	4	5
	<u>6</u>	<u>7</u>

The aggregate payroll cost of the above were:

	Period to 30 June 2009 £	Year to 30 September 2008 £
Wages and salaries	-	289,790
	<u>-</u>	<u>289,790</u>

6. DIRECTORS

Remuneration in respect of directors was as follows:-

	Period to 30 June 2009 £	Year to 30 September 2008 £
Emoluments receivable	-	136,268
	<u>-</u>	<u>136,268</u>

No options were granted to any director of KleenAir Systems International Plc during the period (2008: nil).

7. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	Period to 30 June 2009 £	Year to 30 September 2008 £
Loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration in respect of audit services	10,400	8,000
Amortisation	-	10,000
	<u>10,400</u>	<u>18,000</u>

KleenAir Systems International Plc

NOTES TO THE FINANCIAL STATEMENTS for the nine months ended 30 June 2009

8. TAXATION

Due to the losses in the period, 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 21% (2008-20%).

	Period to 30 June 2009 £	Year to 30 September 2008 £
Loss on ordinary activities before taxation	(252,265)	(3,078,181)
Loss on ordinary activities by rate of tax	(52,976)	(615,636)
Other tax adjustments	52,976	615,636
Total current tax	-	-

The Company has excess management excess of £725,936 (2008:£473,669) to carry forward, capital loss of £150,000 (2008-£150,000) and excess capital allowances of £78,334 (2008-£78,334) to carry forward. No deferred tax asset has been provided on any of them due to uncertainty of recovery.

9. 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 basis and diluted earnings per share for the year are based upon a loss after tax of £252,265 (2008: loss of £3,078,181).

The weighted number of equity shares used in the basic calculation is 40,080,655 (2008: 21,174,748). The weighted average number of shares used in the dilution calculation is 40,080,655 (2008 - 21,174,748). As the potential ordinary shares to be issued are deemed anti-dilutive, for the purpose of the dilution they have been excluded from the calculation of the weighted number of shares.

10. RECEIVABLES

	Period to 30 June 2009 £	Year to 30 September 2008 £
Other receivables	-	3,928
Prepayments and accrued income	-	7,870
	-	11,798

KleenAir Systems International Plc

NOTES TO THE FINANCIAL STATEMENTS for the nine months ended 30 June 2009

11. PAYABLES: Amounts falling due within one year	Period to 30 June 2009 £	Year to 30 September 2008 £
Trade payables	-	73,312
Accruals and deferred income	448,920	101,770
Other payables	-	175,000
	<u>448,920</u>	<u>350,082</u>

Under the CVA which was approved by creditors on 19th June 2009 and by members on 24th June 2009, in order to eliminate the company's indebtedness the creditors were offered new Ordinary Shares, and in certain cases B Ordinary Shares, in satisfaction of amounts owed to them by the company.

The creditors and the supervisor have, in aggregate, been offered 40,615,000 new Ordinary Shares and 12,212,000 B Ordinary Shares in full and final settlement of their claim against the company.

The 12,212,000 B ordinary shares were issued in the period to 30 June 2009. Included in accruals is an amount of £401,155 relating to shares yet to be issued.

12. SHARE CAPITAL

	Period to 30 June 2009 £	Year to 30 September 2008 £
Authorised		
100,000,000 ordinary shares of £0.01	-	1,000,000
87,788,000 ordinary shares of £0.01	877,880	-
12,212,000 'B' ordinary shares of £0.01	122,120	-
	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid		
27,799,424 ordinary shares of £0.01	-	277,994
27,881,242 ordinary shares of £0.01	278,812	-
12,212,000 "B" ordinary shares of £0.01	122,120	-
	<u>400,932</u>	<u>277,994</u>

On 12 December 2008, the company allotted 81,818 ordinary shares at 22p raising £18,000 before expenses.

'B' ordinary shares

At a general meeting held on 24 June 2009, the company created new B ordinary shares by re-designating 12,212,000 ordinary shares into 12,212,000 new B ordinary shares; the rights attaching to them are set out in a new Article 3 of the company's existing articles of association.

KleenAir Systems International Plc

NOTES TO THE FINANCIAL STATEMENTS for the nine months ended 30 June 2009

12. SHARE CAPITAL (continued...)

The B ordinary shares are credited as fully paid and 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 meeting of the company (save in respect of resolutions to vary the rights attaching to the B ordinary shares) and 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.

Re-organisation of authorised and issued share capital

At a general meeting of the company held on 21 August 2009, the following changes were approved to the company's share capital:

- a) Increase in the authorised share capital
The authorised share capital was increased from £1,000,000 to £1,900,000.
- b) Capital re-organisation
The effect of the capital re-organisation was to consolidate every 100 existing ordinary shares into 1 new ordinary share and 1 deferred Share. The capital re-organisation consisted of the following steps:
 - i) The company's new authorised share capital was consolidated into ordinary shares of nominal value £1 each as a result of the issued ordinary shares of 1p each and B ordinary shares of 1p each being consolidated into ordinary shares of £1 B ordinary shares of £1, respectively, on the basis of 1 ordinary share of £1 for each ordinary shares of 1p;
- c) Capital re-organisation
 - ii) Each of the issued ordinary shares of nominal value of £1 arising by reason of (i) above was then sub-divided into one new ordinary share of 1 penny and one deferred share of 99p; and
 - iii) Each of the issued B ordinary shares of nominal value £1 arising by reason of (i) above was sub-divided into one new ordinary Share of 99p each.

The new ordinary shares replaced the existing ordinary shares under the newly approved company's articles of association.

The provisions in relation to the deferred shares are also contained in the company's articles of association.

The deferred shares have very limited rights and are effectively valueless. The deferred Shares have no voting rights, and have no rights as to dividends and only very limited rights on a return of capital. They are not freely transferable.

The new ordinary shares and new B ordinary shares have the same rights as those currently accruing to the existing respective ordinary shares under the company's articles of association, including those in respect of voting and entitlement to ordinary shares will not be affected.

KleenAir Systems International Plc

NOTES TO THE FINANCIAL STATEMENTS for the nine months ended 30 June 2009

12. SHARE CAPITAL (continued...)

The share capital of the company now comprises:

	Ordinary Shares of 1p each	B Ordinary Shares of 1p each	Deferred Shares of 99p each
Authorised	150,185,574	122,120	400,932
Issued	883,812	122,120	400,932

- (i) on 19th August 2009, 5,000 new ordinary shares of 1p each were issued to the supervisor of CVA.
- (ii) on 13 November 2009, 300,000 new ordinary shares were issued to unconnected third parties on conversion of a loan note.
- (iii) on 20 November 2009, 300,000 new shares were issued to unconnected third parties on the conversion of a loan note.

13. RESERVES

	Share premium account £	Other reserves £	Profit and loss account £
At 30 June 2008	2,761,555	86,891	(3,462,860)
Loss for the period	-	-	(252,265)
New equity share capital subscribed	17,182	-	-
At 30 June 2009	<u>2,778,737</u>	<u>86,891</u>	<u>(3,715,125)</u>

14. FINANCIAL COMMITMENT

Capital commitment

There was no capital expenditure that had been contracted for at the balance sheet date but not yet incurred.

15. CONTINGENT LIABILITIES

The company has no contingent liabilities.

A legal charge in favour of L Simons was created on 9 August 2008 and registered on 23 August 2008 over the company's patents and patent application. The charge was removed on the 10 November 2009.

16. ULTIMATE CONTROLLING PARTY

In the opinion of the directors, there is no controlling party at the balance sheet date.

KleenAir Systems International Plc

NOTES TO THE FINANCIAL STATEMENTS

for the nine months ended 30 June 2009

17. FINANCIAL INSTRUMENTS

The company has no significant derivatives or financial instruments other than bank accounts held with variable rates of interest. Where in the future the directors perceive exposure to financial risk regarding financial instruments, they will seek to obtain appropriate hedging instruments to limit the group's exposure to such risks.

18. CURRENCY EXPOSURE

The company has minimal business transactions in foreign currencies and therefore incurs minimal transactions risk. If commercially viable such risk will be hedged in the future. The company does not hold monetary assets in foreign currency. The company had no open foreign exchange contracts at the balance sheet date.

19. RELATED PARTY TRANSACTIONS

At the year end, the outstanding loan amount due to Bramley Limited was £nil (2008 - £185,000).

During the year, the company wrote off an amount of £27,296 (2008 - £2,525,068) from a loan to its subsidiary, KleenAir Systems Limited its liquidation on 17 March 2009.

No other transactions with related parties such as are required to be disclosed under International Financial Reporting Standard 24 'Related Party Disclosures' occurred.

20. POST BALANCE SHEET EVENTS

KleenAir Systems International Plc ("KleenAir" or the "Company") announced, on 5th August 2009, that it has received £200,000 (after expenses) under a secured convertible loan note (the "Loan Note") to support its working capital requirements going forwards. The Loan Note was issued to Global Investment Strategy UK Limited ("GIS" – an FSA authorized and regulated company registered in England) on 29th July 2009 and is convertible into 2,200,000 1p Ordinary Shares ("Shares") at a conversion price of 10 pence per Share; the conversion rights expire on 28th January 2011.

The Company announced, on 13th November 2009, that GIS had converted £30,000 of the Loan Note into 300,000 Shares, representing 51.4 per cent. of the enlarged issued share capital of the Company. These Shares have been placed with unconnected third parties.

The Company announced, on the 20th November 2009, that GIS had converted a further £30,000 of the Loan Note into 300,000 Shares, representing 33.9 per cent. of the enlarged issued capital of the Company. These Shares have been placed with unconnected third parties.

On 8th September 2009, the company announced that it had entered into an Exclusivity and Co-Operation Agreement with Argosec Pty Ltd ("Argosec" - a South African limited liability company) and with Argosec's parent undertaking, GlobalTech Marketing Limited ("GlobalTech" - a New Zealand limited liability company), with regard to future co-operation between the parties to establish and develop a coal briquetting business for Argosec in South Africa.

The Company also announced on the same date that it had entered into a £3,000,000 credit facility agreement (the "Facility Agreement") with GIS under which KleenAir has the right to draw down funds periodically up to an aggregate amount of £3,000,000 against the issue of new KleenAir Shares. The price of the Shares which may be issued to GIS under the Facility Agreement would be 85% of the rolling average closing mid-market price of KleenAir's shares

KleenAir Systems International Plc

NOTES TO THE FINANCIAL STATEMENTS for the nine months ended 30 June 2009

20. POST BALANCE SHEET EVENTS

over a period of five dealing days, commencing two business days prior to a drawdown notice by KleenAir and ending two business days after the date of the drawdown notice.

The Facility Agreement contains a number of warranties and undertakings ("Warranties") from KleenAir in favour of GIS in relation to various matters relating to KleenAir and an indemnity from KleenAir in favour of GIS in respect of certain matters in relation to the agreement. The Facility Agreement terminates on 30th September 2010 unless it has previously been terminated by GIS in certain circumstances including a material breach of the Facility Agreement by KleenAir or a material breach by KleenAir of any Warranties.

The Facility Agreement provides that funds may be drawn in one or several tranches (at the discretion of the Company) provided that no tranche shall result in GIS holding more than 29.9 per cent. of the voting rights in the Company as a result of new Shares pursuant to Facility Agreement (save as permitted by the Takeover Panel under a Rule 9 waiver) and GIS is not

obliged to subscribe for Shares which, when aggregated with its existing holding, would result in it holding more than 29.9 per cent. (save as permitted by the Takeover Panel).

The purpose of the Facility Agreement is to enable KleenAir to have prompt access to funding when required to investigate growth opportunities and for general working capital.

The Company announced, on 2nd November 2009, that it had entered into a Call Option Agreement ("Call Option") with GlobalTech for the purchase from GlobalTech of 74% of the issued share capital of Argosec, thereby further cementing its relationship with Argosec. The balance of 26% of the issued share capital of Argosec is intended to be transferred to a South African Black Economic Empowerment Entity on or prior to exercise by the Company of the Call Option. KleenAir is under no obligation to exercise the Call Option over the Argosec shares; the Company has, however, paid a refundable deposit of £25,000 to GlobalTech in consideration of the grant of the Call Option.

The Company announced, on 27 November 2009, that under the secured loan note agreement dated 29 July 2009 ("the Agreement") pursuant to a loan note instrument dated 29 July 2009 ("the Loan Note Instrument"), Global Investment Strategy (UK) Ltd ("GIS") has exercised its option to subscribe for a further 32,248 £1 convertible loan notes of the Company. These notes are to be issued on the same terms and conditions as set out in the Loan Note Instrument. The subscription for the further convertible loan notes will yield £29,317 (after expenses) for the Company and the number of loan notes over which GIS holds an option to subscribe at £1 will reduce to 190,683 which includes a commission of 10% payable to GIS in the form of loan notes.

21. INVESTMENTS

At 30 September 2008 KleenAir Systems International Plc held 100% of the issued ordinary share capital of the company named below.

	County of incorporation	Proportion of Share capital held	Nature of Business
KleenAir Systems Limited*	England and Wales	100% (direct)	In liquidation

*The company went into liquidation on the 17 March 2009.