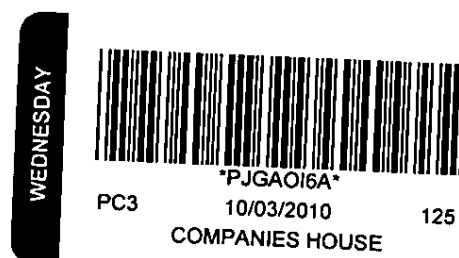


CLEAN POWER TECHNOLOGIES LTD
FINANCIAL STATEMENTS
for the year ended
31 August 2009



REEVES WILKINSON LIMITED
Chartered Certified Accountants & Statutory Auditor
41b Beach Road
Littlehampton
West Sussex
BN17 5JA

CLEAN POWER TECHNOLOGIES LTD

THE DIRECTOR'S REPORT

year ended 31 August 2009

The director presents his report and the financial statements of the company for the year ended 31 August 2009

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the period was the research and development of petrol/gasoline and steam hybrid power technology

The company is committed to developing hybrid fuel technology and alternative fuel for a range of applications including landfill sites, locomotives, heavy trucks and light cars. The Company's proprietary technology significantly reduces pollution through its Clean Energy Separation and Recovery ("CESAR") system, which takes otherwise wasted heat from the exhaust of a conventional combustion engine and modifies it through a heat recovery system to generate clean power for vehicles.

In August 2008, the Company entered into a collaboration agreement with Voith Turbo GmbH & Co KG to develop steam and heat energy recovery engines for Clean Power's proprietary heat recovery technology for refrigeration trailers for the grocery market. Under the terms of the collaboration agreement, Clean Power and Voith Turbo GmbH & Co KG will analyse data from the testing of an existing refrigeration engine, results from which will be used to build and test a new engine that incorporates Clean Power's proprietary heat recovery technology. Voith is a multi-national company with significant interest in the development of expanders in engine and braking systems. As part of its own drive systems and components development programme Voith Turbo GmbH & Co KG has already developed hybrid systems, waste recovery systems and expansion engines based on the internal combustion engine which is used on the road, on rail, on water and in other industries.

The first reefer engine system has been installed on the Company's truck, which was acquired and delivered during the year. The Rolling Road became fully operational in the quarter ended May 2009, with testing having commenced on the truck. This bespoke truck, fitted with a Detroit Diesel engine and Eaton transmission, is designed to be used on highways, hectic city streets, narrow roads and can also be driven off-road. The Rolling Road, which will be able to simulate all these conditions, will be a perfect test ground for the vehicle, and allow Clean Power to demonstrate how its CESAR technology improves the truck's fuel efficiency in these conditions. This vehicle has been installed with a Prototype 2 CESAR system.

For the reefer application, the Company expects to submit the CESAR technology for regulatory approval under various jurisdictions worldwide, including the US Environmental Protection Agency ("EPA") with the hopes of achieving full commercialization by 2011.

As part of the company's new development, they are concurrently developing a system for use in landfill site electrical power generation. This will be installed on existing generator engines at landfill sites and will produce a continuous flow of electrical power for supply to the national electricity grid, providing revenue at 'feed-in' tariff rates. These installations are not subject to the arduous operating environment of a vehicle, or the stringent regulatory approvals, hence it is anticipated that these will now be the 'first to market' applications of the CESAR technology.

The plan of operation is to further the research and development on technology resulting in an advanced prototype and commercial application in mid 2010. If successful, the company intend to license the technology or form partnerships for the use of the technology.

CLEAN POWER TECHNOLOGIES LTD

THE DIRECTOR'S REPORT *(continued)*

year ended 31 August 2009

RESULTS AND DIVIDENDS

The loss for the year amounted to £1,201,592. The director has not recommended a dividend.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company operates with funds provided by the parent company and by A Mitha, one of the directors.

The company is reliant on funds being provided to cover all operating costs.

RESEARCH AND DEVELOPMENT

The company is developing novel power trains for hybrid vehicles in which the alternative, auxiliary power is charged with exhaust heat otherwise dissipated in conventional combustion engines and regularly equivalent to two-thirds of the energy in the combusted fuel. This heat is recovered in part in a combined heat exchanger and energy reservoir using a saturated liquid, like water, as the energy storage medium, offering a potential fuel saving of up to fifty per cent compared with the conventional heat engine cycle.

The reduction in local and global pollution consequential from this fuel saving in the hybrid vehicle is maximized by joint operation of the main and auxiliary power systems but is further enhanced by the ability of the energy reservoir to provide for significant periods totally non-polluting power in a closed vapour cycle in urban and other statutorily controlled areas, this is like the electric battery in other hybrid vehicles, but unlike the battery, with a high power availability and without further inefficient fuel consumption for charging. The company has prototype hybrid vehicles under active development using this Clean Energy Storage and Recovery System (CESARS) which is applicable to all forms of transport from light cars through heavy trucks to locomotives and marine transportation.

The objective is to optimize fuel consumption and to minimize pollution. CPTI technology is also oil company friendly and it will help reduce oil dependency problem, a concern that is expressed universally by all nations.

DIRECTOR

The director who served the company during the year was as follows:

A A Mitha

POLICY ON THE PAYMENT OF CREDITORS

The company's normal practice is to pay its suppliers within 30 working days.

CLEAN POWER TECHNOLOGIES LTD

THE DIRECTOR'S REPORT *(continued)*

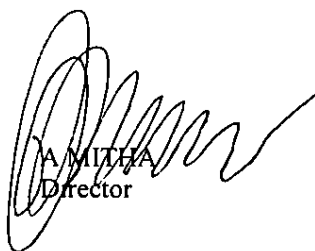
year ended 31 August 2009

AUDITOR

Reeves Wilkinson Limited are deemed to be re-appointed under section 487(2) of the Companies Act 2006

Registered office
Wiston House
1 Wiston Avenue
Worthing
West Sussex
BN14 7QL

Signed by order of the director



A. MITHA
Director

Approved by the director on 15 February 2010

CLEAN POWER TECHNOLOGIES LTD

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

year ended 31 August 2009

The director is responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the director 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 of the company for that period. In preparing those financial statements, the director is required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, 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 director is 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 him to ensure that the financial statements comply with the Companies Act 2006. He is 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.

In so far as the director is aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

CLEAN POWER TECHNOLOGIES LTD

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CLEAN POWER TECHNOLOGIES LTD

year ended 31 August 2009

We have audited the financial statements of Clean Power Technologies Ltd for the year ended 31 August 2009 which comprise the Profit and Loss Account, Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's shareholders, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTOR AND AUDITOR

As explained more fully in the Director's Responsibilities Statement set out on page 4, the director is 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 (APB'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 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 31 August 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Going concern

Without qualifying our opinion, we draw attention to note 1 in the financial statements which indicates that the company incurred a net loss of £1,201,592 during the year ended 31 August 2009 and as of that date, the company had net current liabilities of £111.682. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

CLEAN POWER TECHNOLOGIES LTD

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CLEAN POWER TECHNOLOGIES LTD *(continued)*

year ended 31 August 2009

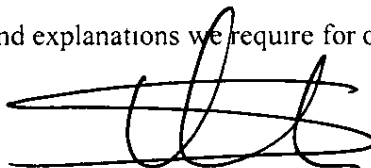
OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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 director's remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



SIMON WILKINSON (Senior
Statutory Auditor)
For and on behalf of
REEVES WILKINSON LIMITED
Chartered Certified Accountants
& Statutory Auditor

41b Beach Road
Littlehampton
West Sussex
BN17 5JA

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CLEAN POWER TECHNOLOGIES LTD**PROFIT AND LOSS ACCOUNT****year ended 31 August 2009**

	Note	2009 £	2008 £
TURNOVER		—	—
Cost of sales		728,046	364,504
GROSS LOSS		(728,046)	(364,504)
Distribution costs		1,060	2,136
Administrative expenses		473,128	311,095
OPERATING LOSS	2	(1,202,234)	(677,735)
Interest receivable and similar income		644	760
Interest payable and similar charges	5	(2)	(27)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,201,592)	(677,002)
Tax on loss on ordinary activities	6	—	(14,903)
LOSS FOR THE FINANCIAL YEAR		(1,201,592)	(662,099)
Balance brought forward		(1,227,878)	(565,779)
Balance carried forward		<u>(2,429,470)</u>	<u>(1,227,878)</u>

All of the activities of the company are classed as continuing

The company has no recognised gains or losses other than the results for the year as set out above

The notes on pages 9 to 14 form part of these financial statements

CLEAN POWER TECHNOLOGIES LTD

BALANCE SHEET

31 August 2009

	Note	£	2009 £	2008 £
FIXED ASSETS				
Tangible assets	7		<u>457,603</u>	<u>238,208</u>
CURRENT ASSETS				
Debtors	8	80,858		21,150
Cash at bank and in hand		<u>3,021</u>		<u>39,561</u>
		83,879		60,711
CREDITORS: Amounts falling due within one year	9	<u>195,561</u>		<u>64,268</u>
NET CURRENT LIABILITIES			<u>(111,682)</u>	<u>(3,557)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>345,921</u>	<u>234,651</u>
CREDITORS: Amounts falling due after more than one year	10		<u>2,775,388</u>	<u>1,462,526</u>
			<u>(2,429,467)</u>	<u>(1,227,875)</u>
CAPITAL AND RESERVES				
Called-up equity share capital	14		3	3
Profit and loss account			<u>(2,429,470)</u>	<u>(1,227,878)</u>
DEFICIT	15		<u>(2,429,467)</u>	<u>(1,227,875)</u>

These financial statements were approved and signed by the director and authorised for issue on 15 February 2010


A. MITHA

Company Registration Number 5812360

The notes on pages 9 to 14 form part of these financial statements

CLEAN POWER TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS

year ended 31 August 2009

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

As permitted by FRS8, transactions between group companies have not been disclosed

Going Concern

At 31 August 2009, the company had not yet achieved profitable operations, has accumulated losses of £2,429,470, since inception, net liabilities of £2,429,467, and expects further costs in the development of the business, all of which casts doubt about the company's ability to continue as a going concern

At the year end the company was supported by loans from its parent company Clean Power Technologies Inc

The Group's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or obtain the necessary financing to meet its obligations and repay its liabilities arising from the normal business operations, when they become due. The group does not presently have sufficient funds to complete the development of the technology. Management is seeking alternative sources of funding either by way of equity financing or loans, however, there is no assurance of additional funding being available.

The group have an equity line of credit sufficient to provide adequate working capital for a period of approximately twelve months, from the date the accounts are approved.

The financial statements have been prepared on a going concern basis which assumes that adequate support will continue to be available from Clean Power Technologies Inc.

Cash flow statement

The director has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Fixed assets

All fixed assets are initially recorded at cost.

CLEAN POWER TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS

year ended 31 August 2009

1. ACCOUNTING POLICIES *(continued)*

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 Property	-	over the lease period
Plant & Machinery	-	over 4 years
Fixtures & Fittings	-	15% reducing balance
Motor Vehicles	-	over 4 years
Equipment	-	between 2 and 5 years

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

Deferred taxation

The charge for taxation takes into account taxation deferred as a result of timing differences between the treatment of certain items for taxation and accounting purposes. In general, deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. However, 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. In accordance with FRS19, deferred tax is not recognised on revaluation gains. Deferred taxation is measured on a non-discounted basis at the rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

CLEAN POWER TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS

year ended 31 August 2009

2. OPERATING LOSS

Operating loss is stated after charging

	2009	2008
	£	£
Research and development expenditure written off	150,101	68,011
Depreciation of owned fixed assets	157,640	76,049
Operating lease costs		
- Other	72,927	45,593
Net loss on foreign currency translation	9,552	154
Auditor's remuneration	3,000	3,000

3. PARTICULARS OF EMPLOYEES

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

	2009	2008
	No	No
Number of administrative staff	2	1
Number of research and development staff	15	9
	<u>17</u>	<u>10</u>

The aggregate payroll costs of the above were

	2009	2008
	£	£
Wages and salaries	527,187	280,535
Social security costs	59,450	29,943
	<u>586,637</u>	<u>310,478</u>

4. DIRECTOR'S REMUNERATION

The director's aggregate remuneration in respect of qualifying services were

	2009	2008
	£	£
Remuneration receivable	<u>29,453</u>	<u>133,923</u>

CLEAN POWER TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS

year ended 31 August 2009

5 INTEREST PAYABLE AND SIMILAR CHARGES

	2009	2008
	£	£
Interest payable on bank borrowing	<u>2</u>	<u>27</u>

6 TAXATION ON ORDINARY ACTIVITIES

Analysis of charge in the year

	2009	2008
	£	£
Deferred tax		
Origination and reversal of timing differences		
Capital allowances	<u>-</u>	<u>(14,903)</u>

7. TANGIBLE FIXED ASSETS

	Leasehold Property £	Plant & Machinery £	Fixtures & Fittings £	Motor Vehicles £	Equipment £	Total £
COST						
At 1 Sep 2008	9,800	254,833	12,816	35,228	55,093	367,770
Additions	<u>153,445</u>	<u>166,986</u>	<u>16,134</u>	<u>-</u>	<u>40,470</u>	<u>377,035</u>
At 31 Aug 2009	<u>163,245</u>	<u>421,819</u>	<u>28,950</u>	<u>35,228</u>	<u>95,563</u>	<u>744,805</u>
DEPRECIATION						
At 1 Sep 2008	5,582	73,699	3,325	13,646	33,310	129,562
Charge for the year	<u>33,223</u>	<u>92,065</u>	<u>2,537</u>	<u>8,807</u>	<u>21,008</u>	<u>157,640</u>
At 31 Aug 2009	<u>38,805</u>	<u>165,764</u>	<u>5,862</u>	<u>22,453</u>	<u>54,318</u>	<u>287,202</u>
NET BOOK VALUE						
At 31 Aug 2009	<u>124,440</u>	<u>256,055</u>	<u>23,088</u>	<u>12,775</u>	<u>41,245</u>	<u>457,603</u>
At 31 Aug 2008	<u>4,218</u>	<u>181,134</u>	<u>9,491</u>	<u>21,582</u>	<u>21,783</u>	<u>238,208</u>

Capital commitments

	2009	2008
	£	£
Contracted but not provided for in the financial statements	<u>-</u>	<u>22,535</u>

CLEAN POWER TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS

year ended 31 August 2009

8. DEBTORS

	2009	2008
	£	£
VAT recoverable	23,740	8,274
Other debtors	5,476	2,850
Prepayments and accrued income	51,642	10,026
	<u>80,858</u>	<u>21,150</u>

9. CREDITORS: Amounts falling due within one year

	2009	2008
	£	£
Overdrafts	46,619	—
Trade creditors	64,530	48,697
Other creditors including taxation and social security		
PAYE and social security	40,752	10,748
Other creditors	<u>34,469</u>	<u>—</u>
	75,221	10,748
Accruals and deferred income	9,191	4,823
	<u>195,561</u>	<u>64,268</u>

10. CREDITORS: Amounts falling due after more than one year

	2009	2008
	£	£
Amounts owed to group undertakings	<u>2,775,388</u>	<u>1,462,526</u>

11. COMMITMENTS UNDER OPERATING LEASES

At 31 August 2009 the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings	
	2009	2008
	£	£
Operating leases which expire		
Within 1 year	33,694	18,000
Within 2 to 5 years	30,000	—
After more than 5 years	16,000	—
	<u>79,694</u>	<u>18,000</u>

12. TRANSACTIONS WITH THE DIRECTOR

The company operates from premises owned by M Burns. Rent of £18,000 has been charged on normal commercial terms

CLEAN POWER TECHNOLOGIES LTD

NOTES TO THE FINANCIAL STATEMENTS

year ended 31 August 2009

13. RELATED PARTY TRANSACTIONS

The company was under the control of A Mitha throughout the period Mr Mitha is the managing director

Transaction with related parties are shown under note 12 No other transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8

14 SHARE CAPITAL

Authorised share capital:

	2009	2008
	£	£
3 Ordinary shares of £1 each	<u>3</u>	<u>3</u>

Allotted, called up and fully paid:

	2009		2008	
	No	£	No	£
3 Ordinary shares of £1 each	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2009	2008
	£	£
Loss for the financial year	(1,201,592)	(662,099)
Opening shareholders' deficit	<u>(1,227,875)</u>	<u>(565,776)</u>
Closing shareholders' deficit	<u>(2,429,467)</u>	<u>(1,227,875)</u>

16. ULTIMATE PARENT COMPANY

Clean Power Technologies Inc is the company's immediate and ultimate parent undertaking

At 31 August 2009 A Mitha held 8,538,493 common shares directly, 2,000,000 common shares indirectly and 1,000,000 options directly in Clean Power Technologies Inc At 31 August 2009 the balance sheet of Clean Power Technologies Inc reflects notes payable to A Mitha of \$445 690 which amount reflects convertible loans totaling \$558,732, net an unamortised discount of \$113,042

Clean Power Technologies Inc is a publicly listed company trading on the Over the Counter Bulletin Board (OTCBB) and is also listed on the Frankfurt Stock Exchange

Clean Power Technologies Inc was incorporated in the State of Nevada in the United States It's principle place of business is Calgary, Alberta, Canada The consolidated accounts can be obtained from International Securities Group Inc, 1530 9th Avenue SE, Calgary, Alberta, T2G 0T7