

Company Registration No. 05075088

KleenAir Systems International Plc

ANNUAL REPORT

30 June 2011



LITTLEJOHN

KleenAir Systems International Plc

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KleenAir Systems International Plc

Officers and Advisers

DIRECTORS	J Gunn (Executive Chairman) S Pozner (Non - Executive Director)
SECRETARY	S Pozner
REGISTERED OFFICE	2nd Floor 31 Davies Street London W1K 4LP
REGISTERED NUMBER	05075088
AUDITORS	Littlejohn LLP Statutory Auditors 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	W H Ireland Limited 85-89 Colmore Row Birmingham B3 2BB
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 successfully 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 and recently appointed a new general manager with extensive experience in taking similar products from development stage to market. The Company intends to retain its interest in Inspirit Energy Limited as a long-term investment. In the meantime, the Board have continued to explore other opportunities and will make announcements once a suitable target has been identified.

Financial Results

The Financial Statements for the period to 30 June 2011 are set out below. The Financial Statements show revenue of £35,000 and administrative expenses have been reduced by 71%.

Changes to the Board of Directors

On 2 June 2011, David Pinckney was appointed as Non-Executive Chairman of the Board. David Pinckney's background as an auditor and his reputation in the green energy industry have been immensely beneficial to KleenAir. David Pinckney was joined by Alan McClue as an additional Non-Executive Director on 1 October 2011. Further to the appointment of Alan McClue, KleenAir announced that Guy Saxton had resigned from the Board of Directors with immediate effect. The board would like to thank Guy Saxton for his contribution and efforts.

However, the Board recently decided as part of its austerity measures to reduce the size of its Board until such time as a further acquisition has been identified. Accordingly, on 9 November 2011, David Pinckney and Alan McClue resigned from their positions on the Board. Both Directors have expressed an interest in being kept informed of KleenAir's progress with a view to joining the Board again at a later date once KleenAir is in a position to support Non-Executive Directors.

John Gunn, a shareholder and a Director of Inspirit Energy Limited and also stockbrokers, Global Investment Strategy UK Limited ("GIS") was appointed to the Board on 15 November 2011. John Gunn's background is primarily in broking but in recent years John Gunn has been involved with a number of green energy projects including solar parks in Italy, gasification and of course mCHP through his involvement with Inspirit Energy Limited. Given John Gunn's past experience in investment banking and the energy industry, he is well placed to seek alternative investments and achieve KleenAir's investing objectives. John Gunn has offered to waive his right to Directors fees.

Following the appointment of John Gunn as Executive Chairman, in order to uphold good standards of corporate governance and due to Sarah Pozner's external commitments, the Board felt it would be more appropriate for Sarah Pozner to take on the role of Non-Executive Director.

KleenAir Systems International Plc

Chairman's Statement

Grant of Options to Directors

In order to show its appreciation to its Directors and in lieu of Directors' fees, on 21 April 2011 KleenAir granted a total of 1,500,000 options to subscribe for new ordinary shares in KleenAir to Sarah Pozner, Guy Saxton and Miles Lewis

The options were granted at a conversion price of 4.875 pence being the mid-market price of the Company as at 26 April 2011

Loan Notes and Company Finance

In satisfaction of a debt of £5,910 by KleenAir to GIS, on 6 April 2011 KleenAir announced that under the secured loan note agreement dated 24 July 2009, GIS had exercised an option to subscribe for a further £5,910 convertible loan notes ("CLNs"), leaving the total number of CLNs over which GIS holds an option at a conversion price of £0.01 at zero

GIS retains an option to purchase up to a further £700,000 convertible loan notes created pursuant to a loan note instrument dated 22 June 2010 which have an exercise price of £0.027 or 10% discount to market based on the average previous five days trading, whichever is the lower

In addition, GIS have offered their financial support to KleenAir for at least the next twelve months, allowing KleenAir to continue as a going concern

It has been a promising period for KleenAir. We have finally resolved all of the historic corporate issues and have achieved some revenue for the first time since KleenAir completed its CVA

The Company continues to identify and evaluate other potential investments in line with the Investing Policy and plans to invest into a second company in due course



J Gunn
Executive Chairman

17 November 2011

KleenAir Systems International Plc

Directors' Report (Continued) For the year ended 30 June 2011

The Directors present their annual report and audited Financial Statements for the year ended 30 June 2011

Principal Activities and Business Review

The principal activity of the Company during the year was that of a holding 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 2011/12 and reported on in the 2012 Directors' Report

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

Future Developments

The Company continues to identify and evaluate other potential investments in line with the Investing Policy and plans to invest into a second company in due course

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 and Other Interests

The following have been Directors of the Company since the start of or during the financial year ended 30 June 2011

W V Reid OBE	(resigned 13 December 2010)
L Simons	(resigned 3 August 2010)
G Saxton	(resigned 10 October 2011)
M Lewis	(resigned 13 December 2010)
S Pozner	(appointed 13 September 2010)
D Pinckney	(appointed 1 June 2011, resigned 9 November 2011)
A McClue	(appointed 10 October 2011, resigned 9 November 2011)
J Gunn	(appointed 15 November 2011)

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 (Continued) For the year ended 30 June 2011

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 2011, the number of creditor days in respect of trade creditors was 61 days.

Going Concern

After making appropriate enquiries, 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 – Shares and Options

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 at the beginning and end of the accounting year were:

	Ordinary shares Interest at end of year No.	Interest at start of year No.	Share options Interest at end of year No.	Interest at start of year No.
S Pozner	1,350,000	-	1,000,000	-
G Saxton	120,650	120,650	250,000	-

There have been no changes in the Directors' shareholding since 30 June 2011.

Details of Directors' options over ordinary shares are as follows:

	Number of options				At end of year	Exercise price	Market price on date of grant	Date from which exercisable
	At start of year	Granted during year	Exercised during year	Expired during year				
M Lewis	-	250,000	Nil	Nil	250,000	4 875p	4 500p	26 April 2012
S Pozner	-	1,000,000	Nil	Nil	1,000,000	4 875p	4 500p	26 April 2012
G Saxton	-	250,000	Nil	Nil	250,000	4 875p	4 500p	26 April 2012

KleenAir Systems International Plc

Directors' Report (Continued) For the year ended 30 June 2011

Major Shareholdings

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

	Ordinary shares	%
Userno Holdings	8,333,333	13.3
Rothschild Nominees Ltd	8,328,125	13.3
John Gunn*	7,290,160	11.6
Challis International Ltd	6,250,000	10.0
Basinco Holdings	5,972,215	9.5
Entavo Trading AG Ltd	5,750,000	9.2
Lynchwood Nominees Ltd	3,751,500	6.0
Otilia Investments Ltd	3,437,500	5.5

* John Gunn is a majority shareholder of Pinnacle Investment Management and Global Investment Strategy UK Limited, which hold 400,000 (0.7%) and 1,550,000 (2.5%) shares respectively. The aggregate total of shares controlled by John Gunn is 9,240,160 shares which represents 14.8% of the ordinary shares.

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 were appointed as auditors on 2 August 2011.

Littlejohn LLP has signified its willingness to continue in office as auditors, and a resolution that they be reappointed will be proposed at the Annual General Meeting.

On behalf of the Board

Director

J Gunn

17 November 2011

KleenAir Systems International Plc

Statement of Directors' Responsibilities For the year ended 30 June 2011

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 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,
- 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 2011

The Directors acknowledge the importance of the Principles set out in The Combined Code on Corporate Governance (recently renamed 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 provide only 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.

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

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 2011 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 2011 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)

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 auditors

1 Westferry Circus
Canary Wharf
London E14 4HD

17 November 2011

KleenAir Systems International Plc

Statement of Comprehensive Income For the year ended 30 June 2011

	Note	Year ended 30 June 2011		Year ended 30 June 2010	
		£	£	£	£
Continuing Operations					
Revenue	4	35,047		-	
Cost of sales		-		-	
		<u> </u>		<u> </u>	
Gross Profit			35,047		-
Administrative expenses		136,811		464,197	
Exceptional items					
Reduction in liabilities arising from creditor voluntary arrangements	7	-		(401,155)	
		<u> </u>	(136,811)	<u> </u>	(63,042)
Operating Loss	7		(101,764)		(63,042)
Finance income	8		219		-
Finance costs	8		(61,808)		-
			<u> </u>		<u> </u>
Loss before Tax			(163,353)		(63,042)
Tax	9		-		-
			<u> </u>		<u> </u>
Loss for the Year			(163,353)		(63,042)
Other comprehensive income			-		-
			<u> </u>		<u> </u>
Total Comprehensive Income for the Year			<u>(163,353)</u>		<u>(63,042)</u>
Total Comprehensive Income attributable to:-					
Owners of the company			<u>(163,353)</u>		<u>(63,042)</u>
Loss per share attributable to the owners of the company – basic and diluted (pence per share)	10		<u>(0 357)</u>		<u>(0 659)</u>

The accounting policies and notes on pages 15 to 32 form part of these Financial Statements

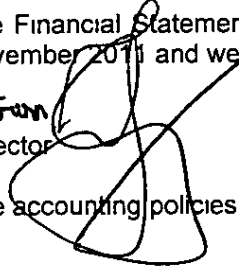
KleenAir Systems International Plc

Statement of Financial Position As at 30 June 2011

Company Registration Number. 05075088

	Note	2011 £	2010 £ (restated)	2009 £
Assets				
Non-Current Assets				
Investments	11	740,000	-	-
		<u>740,000</u>	<u>-</u>	<u>-</u>
Current Assets				
Trade and other receivables	12	61,365	4,495	-
Cash and cash equivalents	13	32,021	300,000	355
		<u>93,386</u>	<u>304,495</u>	<u>355</u>
Current Liabilities				
Borrowings	15	-	160,017	-
Trade and other payables	14	74,016	77,011	448,920
		<u>19,370</u>	<u>67,467</u>	<u>(448,565)</u>
Net Current Assets/(Liabilities)		<u>19,370</u>	<u>67,467</u>	<u>(448,565)</u>
Total Assets less Current Liabilities		<u>759,370</u>	<u>67,467</u>	<u>(448,565)</u>
Non-Current Liabilities				
Borrowings	15	449,516	262,399	-
		<u>309,854</u>	<u>(194,932)</u>	<u>(448,565)</u>
Equity				
Called up share capital	16	452,419	428,390	400,932
Share premium	16	3,671,231	3,030,353	2,778,737
Other reserves		127,724	124,492	86,891
Retained loss		(3,941,520)	(3,778,167)	(3,715,125)
		<u>309,854</u>	<u>(194,932)</u>	<u>(448,565)</u>
Total Equity		<u>309,854</u>	<u>(194,932)</u>	<u>(448,565)</u>

The Financial Statements were approved and authorised for issue by the Board of Directors on 17 November 2011 and were signed on its behalf by


J. Gan
Director

The accounting policies and notes on pages 15 to 32 form part of these Financial Statements

KleenAir Systems International Plc

Statement of Changes in Equity For the year ended 30 June 2011

	Share Capital £	Share Premium £	Shares to be issued £	Other Reserves £	Retained Loss £	Total £
At 1 July 2010 (restated)	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 transactions with owners	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 2009	400,932	2,778,737	-	86,891	(3,715,125)	(448,565)
Transactions with owners						
Convertible loan – equity component	-	-	-	37,601	-	37,601
Conversion of convertible loan	27,408	251,616	-	-	-	279,024
Creditors voluntary arrangement	50	-	-	-	-	50
Total transactions with owners	27,458	251,616	-	37,601	-	316,675
Total comprehensive income for the year	-	-	-	-	(63,042)	(63,042)
At 30 June 2010 (restated)	428,390	3,030,353	-	124,492	(3,778,167)	(194,932)

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 32 form part of these Financial Statements

KleenAir Systems International Plc

Statement of Cash Flows For the year ended 30 June 2011

	Note	Year ended 30 June 2011 £	Year ended 30 June 2010 £
Cash Flows from Operating Activities			
Loss before tax		(163,353)	(63,042)
Finance income		(219)	-
Finance costs		61,808	-
Employee share options charge		3,232	-
Increase in receivables		(56,870)	(4,494)
Decrease in payables		(15,243)	(366,909)
Net Cash used in Operating Activities		(170,645)	(434,445)
Cash Flows from Investing Activities			
Interest received		219	-
Interest paid		(394)	-
Payment to acquire investments		(740,000)	-
Net Cash used in Investing Activities		(740,175)	-
Cash Flows from Financing Activities			
Proceeds from issue of shares		728,500	-
Share issue costs		(85,659)	-
Issue of convertible loan notes		-	734,090
Net cash from Financing Activities		642,841	734,090
Net cash (outflow)/inflow		(267,979)	299,645
Cash and cash equivalents at beginning of year		300,000	355
Cash and cash equivalents at end of year	13	32,021	300,000

Major non cash transactions

Convertible loans of £18,506 were converted into shares during the year ended 30 June 2011 (2010 - £279,074). In total 1,805,555 new shares were issued with a total value including share premium of £18,056.

KleenAir Systems International Plc

Notes to the Financial Statements For the year ended 30 June 2011

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 Company entered into a convertible secured loan note instrument dated 22 June 2010 under which 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 2011, GIS had subscribed to CLNs totalling £300,000 with £700,000 still available to be drawn down. The instrument constituting the CLNs (the "Instrument") provides that the CLNs will be redeemed on 22 December 2012 or earlier in the event of a material breach by Kleenair of any of the terms of the Instrument. The purpose of this facility will enable the Company to have the ability to draw down funds promptly when required to explore investment opportunities and for general working capital. On 22 May 2011, the original term date for the CLNs was extended from 22 December 2011 to 22 December 2012.

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 non repayment in cash of the outstanding CLNs. As reported in Note 22 of the Financial Statements, GIS has converted £224,859 of its CLNs into shares since the year end.

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.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2011

2. ACCOUNTING POLICIES (Continued...)

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 2010*

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 2010

An amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" relieves first-time adopters of IFRSs from providing the additional disclosures introduced in March 2009 by "Improving Disclosures about Financial Instruments" (Amendments to IFRS 7). This amendment is effective for periods beginning on or after 1 July 2010.

"Improvements to IFRSs" are collections of amendments to IFRSs resulting from the annual improvements project, a method of making necessary, but non-urgent, amendments to IFRSs that will not be included as part of another major project. These improvements have various implementation dates, for May 2010 improvements, the earliest is effective for periods beginning on or after 1 July 2010.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" clarifies the treatment required when an entity renegotiates the terms of a financial liability with its creditor, and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. This interpretation is effective for periods beginning on or after 1 July 2010.

An amendment to IFRS 2 "Share based Payment" clarifies the accounting for group cash-settled share-based payment transactions. This is effective for periods beginning on or after 1 January 2010.

- (ii) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2010 and not early adopted*

The Company's assessment of the impact of these new standards and interpretations is set out below.

Amendments to IFRS 1 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. This amendment is effective for periods beginning on or after 1 July 2011, subject to EU endorsement, and is not expected to have an impact on the Company's Financial Statements.

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 are effective for periods beginning on or after 1 January 2011, subject to EU endorsement. The Directors are assessing the possible impact of these amendments on the Company's Financial Statements.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2011

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 2010 and not early adopted (Continued)

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. In October 2010, the requirements for classification and measurement of financial liabilities were added to IFRS 9. The standard is effective for periods beginning on or after 1 January 2013, 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 amendment is effective for periods beginning on or after 1 January 2013, subject to EU endorsement, and is not expected to have an impact on the Company's Financial Statements.

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, and is not expected to have an impact on the Company's Financial Statements.

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. The Directors are assessing the possible impact of this standard on the Company's Financial Statements.

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. The Directors are assessing the possible impact of this standard on the Company's Financial Statements.

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. These amendments are effective for periods beginning on or after 1 January 2012, subject to EU endorsement, and are not expected to have an impact on the Company's Financial Statements.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2011

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 2010 and not early adopted (Continued)*

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 revised standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement The Directors are assessing the possible impact of this standard on the Company's Financial Statements

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 revised standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement The Directors are assessing the possible impact of this standard on the Company's Financial Statements

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) The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements These amendments are effective for periods beginning on or after 1 July 2012, subject to EU endorsement The Directors are assessing the possible impact of these amendments on the Company's Financial Statements

Amendments to IAS 19 "Employment Benefits" eliminate the option to defer the recognition of gains and losses, known as the "corridor method", streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income, and enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans These amendments are effective for periods beginning on or after 1 January 2013, subject to EU endorsement, and are not expected to have an impact on the Company's Financial Statements

An amendment to IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", on prepayments of a minimum funding requirement, applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements The amendment permits such an entity to treat the benefit of such an early payment as an asset This amendment is effective for periods beginning on or after 1 January 2011, and is not expected to have an impact on the Company's Financial Statements

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

IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" clarifies when production stripping costs should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods These 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 2011

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 entity'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 substantively 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 2011

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 their fair values, due to 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 2011

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 are 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 2011

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 2011

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. All income is generated in the United Kingdom.

5. EMPLOYEES

	Year ended 30 June 2011 £	Year ended 30 June 2010 £
The average number of staff employed by the Company during the year amounted to		
Executive Directors	2	2
Non-executive Directors	1	2
Other employees	-	-
	3	4
Wages and salaries	1,250	-
Share options granted to Directors	3,232	-
	4,482	-

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2011

6 DIRECTORS' REMUNERATION

	Salary and Fees	
	Year ended 30 June 2011 £	Year ended 30 June 2010 £
S Pozner	38,000	-
L Simons	-	20,000
G Saxton	-	-
M Lewis	-	-
D Pinckney	1,250	-
W V Reid	-	-
	<u>39,250</u>	<u>20,000</u>

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

During the year ended 30 June 2010 L Simons was paid £10,000 in fees and £10,000 in respect of the termination of his service agreement

7. OPERATING LOSS

	Year ended 30 June 2011 £	Year ended 30 June 2010 £
Operating loss is stated after charging		
Auditors' remuneration in respect of audit services	10,000	7,050
	<u>10,000</u>	<u>7,050</u>
Exceptional Income		
Reduction in liabilities of the Company on settlement under creditor voluntary arrangements	-	401,155
	<u>-</u>	<u>401,155</u>

8. FINANCE INCOME AND COSTS

Interest Expense

Convertible loans (see below)	22,170	-
Convertible loans (Note 15)	39,246	-
Other interest	392	-
	<u>61,808</u>	<u>-</u>
Finance costs	61,808	-
	<u>61,808</u>	<u>-</u>
Finance Income		
Loan to related party	219	-
	<u>219</u>	<u>-</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 2011

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% (2010 - 21%)

	Year ended 30 June 2011 £	Year ended 30 June 2010 £
Loss on ordinary activities before taxation	(163,353)	(63,042)
Loss on ordinary activities multiplied by rate of tax	(32,671)	(13,239)
Unutilised losses	32,671	13,239
Total current tax	-	-

The Company has excess management expenses of £1,261,000 (2010 - £1,101,000) to carry forward, capital losses of £150,000 (2010 - £150,000) and excess capital allowances of £78,000 (2010 - £78,000) 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 £163,353 (2010 - £63,042). The weighted number of equity shares in issue during the year was 45,690,636 (2010 - 9,559,680).

The weighted average number of shares in issue and associated loss per share have been restated for all periods due to the sub division of the Company's share capital detailed in Note 16. The sub division of share capital was an adjustment to the number of ordinary shares in issue without a corresponding change in the Company's resources. Consequently, in accordance with IAS 33, the shares are treated as if the conversion took place at the beginning of the earliest period stated.

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 2011

11. INVESTMENTS

	30 June 2011 £	30 June 2010 £
As at 1 July	-	-
Additions	740,000	-
As at 30 June	740,000	-

During the year 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 2011 £	30 June 2010 £
Amount due from related parties	35,969	-
Other receivables	5,977	-
Prepayments and accrued income	19,419	4,495
	61,365	4,495

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 2011 £	30 June 2010 £
Cash held in escrow for the benefit of the Company	-	300,000
Cash at bank	32,021	-

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 2011

14. TRADE AND OTHER PAYABLES

	30 June 2011 £	30 June 2010 £
Trade payables	23,091	11,966
Amount due to related parties	16,039	-
Accruals and deferred income	33,636	35,578
Other payables	1,250	29,467
	74,016	77,011

15. BORROWINGS

Non-current		
Convertible loan	449,516	262,399
Current		
Convertible loan	-	160,017

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 24 July 2009 and 23 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. The loans dated 24 July 2009 mature 18 months from the date of the loan note instrument, the loans dated 23 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. No loan notes from this instrument were converted into shares during the years ended 30 June 2010 and 30 June 2011.

New convertible loans of £5,910 were created during the year ended 30 June 2011 in lieu of interest.

The values of the liability and equity conversion component were determined at the date the loan notes were issued.

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 2011

15. BORROWINGS (Continued. .)

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

	30 June 2011 £	30 June 2010 £
At 1 July	422,416	-
Face value of convertible loans	5,910	734,090
Equity component	-	(37,601)
Liability component on initial recognition	428,326	696,489
Converted to ordinary shares	(18,056)	(274,073)
Interest expense (Note 8)	39,246	-
Liability component at 30 June	449,516	422,416

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

16. SHARE CAPITAL

	Number	£
Authorised		
2011		
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
	1,503,477,872	1,900,000
2010		
Ordinary shares of £0 01	150,185,574	1,501,856
'B' Ordinary shares of £0 01	122,120	1,221
Deferred shares of £0 99	400,932	396,923
	150,708,626	1,900,000

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 2011

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 2009	27,881,242	12,212,000	-	278,812	122,120	-	2,778,737	3,179,669
Consolidation of share capital	(27,592,430)	(12,089,880)	400,932	(276,025)	(120,899)	396,923	-	-
Conversion of convertible loan	2,740,734	-	-	27,408	-	-	25,616	279,024
Creditors voluntary arrangement	5,000	-	-	50	-	-	-	50
At 30 June 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	-	-	-	-	-	-	(85,659)	(85,659)
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	3,671,232	4,123,651

On 26 October 2010, the Company issued 1,455,000 ordinary shares of 1 pence each for cash at a placing price of 40 pence per share, before expenses.

On 11 November 2010, the Company issued 401,155 ordinary shares of 1 pence each in settlement of obligations under the creditors voluntary arrangement approved by shareholders on 24 June 2009.

On 8 March 2011, the Company issued 3,662,500 ordinary shares of 0.1 pence each at a price of 4 pence per share, before expenses.

On 20 April 2011, the Company issued 1,805,555 ordinary shares of 0.1 pence each at a price of 1 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 2011

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	
		2011	2010
26 April 2021	0.04875	1,500,000	-
		1,500,000	-

The options may only be exercised on or after 26 April 2012

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 2011

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, a company in which S Pozner is a Director. Inspirit Energy Limited is beneficially owned and controlled by J Gunn, a substantial shareholder 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 2011, the amount due to the Company from Inspirit Energy Limited was £30,000, together with accrued interest receivable of £219.

In addition, the Company charged Inspirit Energy Limited fees of £35,047 (2010 - £Nil) for the provision of corporate services during the year. An amount of £5,969 was receivable from Inspirit Energy Limited as at 30 June 2011 in respect of these fees.

Global Investment Strategy UK Limited ("GIS") is a company in which S Pozner was a Director until 10 May 2011. GIS is beneficially owned and controlled by J Gunn, a substantial shareholder of the Company. GIS subscribed for convertible loan notes of £Nil (2010 - £734,090) during the year ended 30 June 2011 in accordance with the Convertible Secured Loan Note Instruments disclosed in Note 15. The Company created a fixed and floating charge in favour of GIS, as trustee for the noteholders, under the terms of those Loan Note Instruments.

During the year GIS charged the Company £22,171 for rent, rates and office facilities, £233 for staff training and £14,167 for corporate finance services. In addition, the Company paid GIS commissions totalling £85,659 for funds raised in the year which has been charged to the share premium account. At 30 June 2011, the amount due from the Company to GIS was £16,039.

During the year ended 30 June 2010, GIS subscribed to convertible loan notes totalling £300,000 and placed the entire cash amount in escrow for the benefit of the Company. During the year ended 30 June 2011, GIS settled various expenses and liabilities on behalf of the Company from this escrow account. The amount held in escrow on behalf of the Company as at 30 June 2011 was £Nil.

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 24 October 2011, Global Investment Strategy UK Limited agreed to convert £224,859 of its outstanding convertible loan into 8,328,125 ordinary shares of 0.1 pence each.

23. PRIOR PERIOD ADJUSTMENTS

During the year ended 30 June 2010, issued convertible loans which are convertible into a fixed number of equity shares at the holder's option, were not split between liability and equity components in accordance with International Accounting Standard 32 Financial Instruments – Presentation. The material equity component of certain convertible loans issued during the year ended 30 June 2010, amounting to £37,601, has been reclassified from Non-Current Liabilities – Borrowings, to Other Reserves within equity.

KleenAir Systems International Plc

Notes to the Financial Statements (Continued) For the year ended 30 June 2011

23. PRIOR PERIOD ADJUSTMENTS (Continued...)

In addition, convertible loans of £160,017 as at 30 June 2010 had a maturity date due to expire within 12 months of that year-end. These convertible loans have been reclassified from non-current to current liabilities.

The restatements have no impact as at 1 July 2009 and there is no impact on basic or diluted loss per share. The amount of the restatement for each financial statement line item affected is as follows:

Statement of Financial Position	£
Current Liabilities	
Borrowings	160,017
Non-Current Liabilities	
Borrowings	(197,618)
Total liabilities	(37,601)
Equity	
Other reserves	37,601