CLEAN AIR POWER LIMITED

Interim Report Six Months Ended 30 June 2008

Contents

Highlights

2008 Half-Year Highlights

Clean Air Power Ltd (AIM:CAP), the developer of Dual-Fuel™ combustion technology for heavy-duty diesel engines, today announces its results for the six month period ended 30 June 2008.

Financial Highlights

- 57% increase in revenue to £2.9m (£1.9m for 6 months to June 2007).
- 31% increase in gross profit to £1.4m (£1.0m for 6 months to June 2007).
- Losses after tax reduced to £1.2m (£1.4m for 6 months to June 2007).
- 130% increase in Vehicle Conversion sales to £2.2m (£1.0m for 6 months to June 2007).

Operational Highlights

- £0.5m order for further Dual-Fuel™ vehicle systems placed by Mitchells for delivery in 2008.
- Development of second demonstration Dual-Fuel™ vehicle, produced for and exhibited by the Volvo Group in the United States.
- New intellectual property rights granted in key commercial regions.
- Delivery of Robert Wiseman Dairies order stimulating the Dual-Fuel™ concept in UK.
- Strong underlying business drivers as fuel costs rise and more efficiency demanded in the transport sector.
- Progress made in continuing discussions with truck manufacturers in relation to co-operation agreements.
- Order book for Emissions Reduction business has improved significantly in 2008; £0.5m orders have already been confirmed for the second half of 2008.

Commenting on the results, John Pettitt, Chief Executive of Clean Air Power said:

“The cost of fuel to both domestic and business consumers has been under the spotlight over the past year with large increases in the oil price driving fuel prices. Clean Air Power addresses this issue directly, which the Board believe is one of the solutions companies can adopt to offset these issues. Our Dual-Fuel™ technology and other efficiency and environmentally driven technologies are seeing high levels of interest in a number of market sectors and over the coming year we are confident that this will contribute to increases in revenues.”

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Chief Executive's Half-Year Statement

John Pettitt

Outlook

2008 is proving to be an exciting year for Clean Air Power. The first phase of our large contract with the Mitchell Corporation in Australia has now been completed, helping to produce an excellent 57% increase on last year's sales. In addition we have relocated our Manufacturing and R&D centre in San Diego and agreed a financing package to raise up to £5m for the Company.

The fundamental drivers for the adoption of Dual-Fuel™ remain very persuasive. The Company is ideally placed to take advantage of two significant and high profile global issues being, increasing fuel costs and growing concern over harmful emissions and CO2. Clean Air Power technology delivers a marked improvement in both of these areas and has been proven on over 1,600 trucks worldwide. Some of these Dual-Fuel™ vehicles have run for more than seven years and some have completed more than 1,000,000 km.

The ultimate goal of the Company is to enter into co-operation agreements with major automotive manufacturers. The recent increases in oil prices and concerns about security of supply have stimulated greater interest from the truck manufacturers to provide alternative fuel solutions. Discussions are continuing with several world players and we are encouraged by the progress that is being made.

We have recruited new staff to strengthen the engineering teams and new product development is under way for both the European and Australian markets.

Financial Review

During the six months to 30 June 2008 Clean Air Power has seen revenue increase 57% to £2.9m from £1.9m in the same period in 2007.

The 2008 gross margin to date of 46% is lower than the 55% achieved up until June 2007. The main cause has been the lower weighting of the component business in the sales mix and the release of unutilised warranty provisions for vehicles in 2007. The gross profit of £1.4m earned compares favourably with £1.0m up to June 2007, a 31% increase. This has contributed to reducing the operating loss by over 27% to £1.1m which represents an improvement on the £1.6m loss from the same period in 2007.

The overall net loss of £1.2m in the period to 30 June 2008 is a £0.2m improvement on the £1.4m loss reported in the period to 30 June 2007. This positive variance is partly explained by gross profit increasing by £0.3m, whilst maintaining strong control on overheads, which at £2.5m are only slightly above the £2.4m for the same period in 2007.

Business Review

A considerable sales increase in Australia was the most important factor in Clean Air Power's increased revenue and reduced net loss. Significant progress has also been made as a result of our marketing efforts with a view to reaching a co-operation agreement with a major automotive manufacturer.

Clean Air Power has 3 commercial divisions; Vehicle Conversions, Components and Emissions Reduction systems.

1) Vehicle Conversions

The core technology of the Group gives rise to Clean Air Power's patented Dual-Fuel™ system which allows a heavy duty diesel truck engine to run on a combination of both diesel and natural gas, thereby generating significant reductions in NOx, particulate and CO_2 emissions as well as generating cost savings for the operator.

The technology is currently available in two main variants; the interfaced product currently marketed in Australia and the Genesis product marketed in Europe.

The first half of the year has seen sales for this division increasing by 130% driven by success in Australia with the interfaced system under a contract with Mitchell Corp Australia Pty Ltd (Mitchells), a bulk logistics solutions provider. This was complemented in the UK by success with the Genesis system under the contract with Wiseman Dairies.

Interfaced vehicle system

In this solution, Clean Air Power's technology is interfaced with the manufacturer's electronic engine management system. It requires the co-operation of the manufacturer and maximises the benefits in terms of carbon emissions and fuel cost savings. The current product offering is certified to EPA 02 and it can be fitted as an after-market solution to vehicles in the Australian and South American markets along with markets of a number of developing countries. A new variant complying with the Australian ADR80/02 emissions standard regulation is planned for a late 2008 launch.

In order to access the important US and European markets with an interfaced product Clean Air Power will need to produce a new variant of this product which complies with the latest engine emission regulations. The current strategy envisages this new product being delivered under co-operation agreements with major manufacturers although potentially the company could develop and market its own engine to address opportunities in these key markets.

Demand for the solution is growing driven by the desire to reduce greenhouse emissions and by the fuel cost savings available to operators. 38 units were sold in the first half of 2008 compared with 7 in the same period of 2007.

June 2008 saw the announcement of a further order of 10 systems from Mitchells. This follows the completion in 2008 of Mitchell's initial order for 50 systems, which was followed by a further order for 20 systems. These repeat orders further confirm Mitchell's confidence in Clean Air Power's Dual-Fuel™ technology systems reducing emissions and providing considerable fuel cost savings. These orders highlight Clean Air Power's ability to prove its technology and achieve sales growth and can be viewed as a case study for other fleet operating companies in the future.

The Australian truck market is one of the most demanding in the world with very heavy gross vehicle weights and extreme ambient temperatures. The Company has recently completed the development of an optional secondary intercooler to deal with these extreme temperatures. The Company continues to view Australia as an important market with strong product awareness and strong financial benefits for the operators.

Genesis vehicle system

The 'Genesis' system was developed specifically to be a retro fitted product which can be installed without the need for formal co-operation of the engine manufacturers. The solution does not interface directly with the vehicles own engine management system and the emissions and fuel savings are therefore lower than would be expected on a fully interfaced system, but still considerable. However, the demonstrated reductions in carbon emissions and fuel costs have proved the product to be commercially attractive.

To date Clean Air Power has developed the Genesis solution for both DAF and Mercedes Euro III vehicles and is targeting major supermarket chains, logistics companies, parcel carriers and local authorities for its 'Genesis' product. We believe these types of organisation will appreciate the financial benefits of converting their vehicles to gas whilst also understanding that they will be reducing emissions of CO_2. During the first half of 2008 Clean Air Power completed the delivery of the remaining 18 units of an order from Robert Wiseman Dairies, one of the country's leading dairy product suppliers. This customer now has 22 Dual-Fuel™ vehicles which are delivering excellent fuel and emissions savings. In August 2008, following an initial successful trial, Sainsburys Supermarkets Ltd began operating one of its Mercedes Axor Euro III vehicles fitted with Clean Air Power's Genesis product. This vehicle travels daily between Sainsburys' distribution centre near Bristol and their store in Dartmouth. Importantly the vehicle uses biogas produced from landfill sites which is a 100% renewable fuel providing even greater emissions savings than natural gas.

In 2008 Clean Air Power continues to sell the Euro III Genesis solution. The Company is in the process of developing a Genesis solution that can be fitted to Euro V emission compliant trucks and plans for its implementation in early 2009.

Manufacturer Developments

Our main strategic goal is to work with vehicle and engine manufacturers to reach agreements whereby the Dual-Fuel™ technology is incorporated on their vehicle as a standard option and develop it further with their full co-operation. In this way the benefits of our technology can be maximised. The Group has been actively pursuing this route to market with a number of such organisations.

Clean Air Power are holding discussions with, and have submitted proposals to, a number of manufacturers based in Europe, the US and Asia which could lead to commercial agreements.

We announced in October 2007 that Clean Air Power's technology was installed on a Euro V medium duty demonstration truck. The heavy duty Euro V diesel truck uses an improved version of Clean Air Power's Genesis retrofit technology installed onto a Volvo medium duty diesel engine. This was developed without direct access to the ECU software, but uses the Controller Area Network (CAN) communication protocol that was jointly developed to more closely integrate the Dual-Fuel™ controls with the truck's existing systems. This vehicle was displayed by the Volvo Group at a presentation in Stockholm before going on to similar demonstrations in Brussels and at trade shows in northern Europe. The vehicle was exhibited by Volvo in October 2007 at the RAI show in Amsterdam, the largest truck show in Europe.

In early March 2008, Clean Air Power produced a Dual-Fuel™ demonstration vehicle for the Volvo Group. A 13 litre heavy duty Mack truck was converted and exhibited by Volvo at WIREC 2008 (Washington International Renewable Energy Conference). Mack Trucks Inc. is owned by Volvo.

Clean Air Power believes that its technology could provide truck manufacturers, including Volvo, with a solution applicable to a number of different types of vehicles on a global basis. The key benefits of our technology are that:

- Minimal change to the base diesel engine means that it has the ability to run solely on diesel if gas is not available, essential in markets with an immature gas infrastructure
- The current installation cost means that we are not dependant on government or other funding, and the operator will normally benefit from an economic payback in less than two years
- It is easily adaptable to a manufacturer's production line
- Once adopted it can be readily rolled out across a family of engines

2) Components Division

Clean Air Power manufactures a number of the components that are used in the Group's Dual-Fuel™ technology. The Group also sells these components for spark ignited gas engines and certain other applications. Global demand for these engines is increasing as part of the overall shift towards alternative fuels. With sales mainly in Europe and the USA, strong margins and a customer base including international automotive manufacturers, this is an important contributor to the overall Clean Air Power business.

2008 sales of £0.4m to 30 June are significantly lower than the £0.8m achieved during the same period in 2007. However, supply chain issues and the relocation of our factory have affected the year to date figures and the Company has an order book of around £1m for delivery in the second half of 2008.

3) Emissions Reduction Division

This area of our business provides solutions to very large stationary diesel engines such as those used in pumping stations. Our current market is mainly in the USA and we provide a solution whereby the emissions from large stationary diesel engines are reduced, using Selective Catalytic Reduction technology and diesel particulate filtering, usually in response to the requirements of local legislation.

The business is mainly project based with a few large scale contracts generating the majority of the revenue, although a strategy is in place to develop revenue from smaller, more regular contracts. Order lead times for this division are typically much longer than for the other divisions of the company.

2007 saw the refocusing of this business under new management and in 2008 progress made is beginning to produce sales. The year to date sales of £0.3m show a considerable improvement on the £0.1m achieved to June 2007. Further orders in hand for 2008 delivery currently stand at £0.5m.

Outlook

We are very satisfied with the progress that has been made during this period and this is reflected in the increased revenues achieved. The sales further reflect the continued confidence and belief that customers have in our technology and highlight the huge benefits that our products offer to customers given the rising fuel costs and demand for greater efficiency in the transportation sector. Through our marketing efforts, we continue to make significant progress towards reaching a co-operation agreement with a major manufacturer and we aim to finalise such an agreement during the coming year.

John Pettitt
Chief Executive

9 September 2008

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	Note	**Unaudited**	Unaudited	Audited
				Year to
		6 months to	6 months to	31 December
	Note	**30 June 2008**	30 June 2007	2007
		£'000	£'000	£'000
Revenue	**7**	**2,926**	1,869	4,704
Cost of Sales		**(1,566)**	(833)	(2,677)
Gross profit		**1,360**	1,036	2,027
Administrative expenses		**(2,487)**	(2,434)	(4,933)
Share-based payments charge	**9**	**(10)**	(157)	(161)
Operating loss		**(1,137)**	(1,555)	(3,067)
Finance revenue		**30**	114	171
Finance costs		**(1)**	-	(4)
Loss on ordinary activities before taxation	**7**	**(1,108)**	(1,441)	(2,900)
Tax expense	**6**	**(56)**	-	-
Loss for the period		**(1,164)**	(1,441)	(2,900)
Basic and diluted loss per share		**(4.0p)**	(5.4p)	(10.8p)

All items dealt with in arriving at operating loss above relate to continuing operations.

CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Note	**Unaudited 6 months to 30 June 2008**	Unaudited 6 months to 30 June 2007	Audited Year to 31 December 2007
		£'000	£'000	£'000
Assets				
Non-current assets				
Plant and equipment	**8**	**410**	139	284
Intangible assets	**8**	**684**	781	715
		1,094	920	999
Current assets				
Inventories		**1,630**	1,450	1,488
Trade and other receivables		**841**	836	1,635
Cash and cash equivalents	**4**	**1,428**	3,672	1,814
		3,899	5,958	4,937
TOTAL ASSETS		**4,993**	6,878	5,936
Equity and liabilities				
Equity attributable to equity holders of the parent				
Ordinary share capital	**10**	**18**	15	15
Accumulated loss		**(40,305)**	(37,696)	(39,151)
Other reserves		**33,504**	33,410	33,504
Share premium	**10**	**9,796**	8,982	8,982
Translation reserve		**414**	490	391
Total equity		**3,427**	5,201	3,741
Non-current liabilities				
Other payables		**7**	-	7
		7	-	7
Current liabilities				
Trade and other payables		**1,104**	1,069	1,750
Provisions		**455**	608	438
		1,559	1,677	2,188
Total liabilities		**1,566**	1,677	2,195
TOTAL EQUITY AND LIABILITIES		**4,993**	6,878	5,936

Director

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Unaudited 6 months to 30 June 2008	Unaudited 6 months to 30 June 2007	Audited Year to 31 December 2007
	£'000	£'000	£'000
Cash flows from operating activities			
Loss before taxation	**(1,108)**	(1,441)	(2,900)
Adjustments for:			
Net finance income	**(29)**	(114)	(167)
Depreciation of plant and equipment	**51**	22	55
Amortisation of intangibles	**275**	68	311
Share-based payments	**10**	157	161
Decrease/(increase) in trade and other receivables	**794**	323	(334)
(Decrease)/increase in trade and other payables	**(702)**	(61)	503
Increase in inventories	**(142)**	(360)	(398)
Increase/(decrease) in provisions	**17**	(199)	(369)
Other non-cash movements	**-**	2	12
Net cash outflow from operating activities	**(834)**	(1,603)	(3,126)
Investing activities			
Interest received	**30**	114	171
Sale of plant and equipment	**35**	-	-
Payments to acquire plant and equipment	**(212)**	(53)	(226)
Payments to acquire intangible assets	**(244)**	(420)	(600)
Net cash outflow from investing activities	**(391)**	(359)	(655)
Financing activities			
Interest paid	**(1)**	-	(4)
Proceeds from the issue of ordinary share capital	**1,000**	-	-
Share issue costs	**(183)**	-	-
Net cash inflow / (outflow) from financing activities	**816**	-	(4)
Decrease in cash and cash equivalents	**(409)**	(1,962)	(3,785)
Effect of exchange rates on cash and cash equivalents	**23**	17	(18)
Cash and cash equivalents at the beginning of the year	**1,814**	5,617	5,617
Cash and cash equivalents at end of period	**1,428**	3,672	1,814

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Issued Capital £'000	Share Premium £'000	Translation Reserve £'000	Other Reserves £'000	Accumulated loss £'000	Total Equity £'000
Balance at 1 January 2007	**15**	**8,982**	**476**	**33,410**	**(36,412)**	**6,471**
Translation movements	-	-	14	-	-	14
Total income and expenses for the period recognised directly in equity	-	-	14	-	-	14
Loss for the period	-	-	-	-	(1,441)	(1,441)
Total income and expense for the period	-	-	14	-	(1,441)	(1,427)
Share-based payments	-	-	-	-	157	157
Balance at 30 June 2007	**15**	**8,982**	**490**	**33,410**	**(37,696)**	**5,201**
Translation movements	-	-	(99)	-	-	(99)
Foreign exchange movements	-	-	-	94	-	94
Total income and expenses for the period recognised directly in equity	-	-	(99)	94	-	(5)
Loss for the period	-	-	-	-	(1,459)	(1,459)
Total income and expense for the period	-	-	(99)	94	(1,459)	(1,464)
Share-based payments	-	-	-	-	4	4
Balance at 31 December 2007	**15**	**8,982**	**391**	**33,504**	**(39,151)**	**3,741**
Translation movements	-	-	23	-	-	23
Foreign exchange movements	-	-	-	-	-	-
Total income and expenses for the period recognised directly in equity	-	-	23	-	-	23
Loss for the period	-	-	-	-	(1,164)	(1,164)
Total income and expense for the period	-	-	23	-	(1,164)	(1,141)
Issue of share capital	3	997	-	-	-	1,000
Transaction costs	-	(183)	-	-	-	(183)
Share-based payments	-	-	-	-	10	10
Balance at 30 June 2008	**18**	**9,796**	**414**	**33,504**	**(40,305)**	**3,427**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The interim condensed consolidated financial statements of Clean Air Power Limited for the six months ended 30 June 2008 were authorised for issue in accordance with a resolution of the directors on 9 September 2008. Clean Air Power Limited is a public limited Company incorporated in Bermuda whose shares are publicly traded.

All of the revenues and operating assets relate to the Group's principal business activities, being vehicle conversion sales, sales of components and an emissions reduction business. Revenue is stated net of value added tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2008 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements are presented in sterling and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

The interim condensed consolidated financial statements do not constitute statutory accounts as defined under section 240 of the Companies Act 1985 and therefore do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2007, upon which the auditors issued an unqualified opinion.

Accounting Policies

The accounting policies adopted in preparation of the interim condensed financial statements are consistent with those followed in preparation of the Group's annual financial statements for the year ended 31 December 2007, except for the adoption of new Standards and Interpretations, noted below:

IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions*

This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments, to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The adoption of this interpretation did not have any effect on the financial position or performance of the Group.

3. RISKS AND UNCERTAINTIES

Management identify and assess risks to the business using a common model. The Group has a number of exposures which can be summarised as follows: manufacturer co-operation; in house product development; adaptation of core technology; gas supply; regulatory framework; competition/intellectual property; additional capital requirements; employees and trading risks. These risks and uncertainties facing our business were reported in detail in the 2007 Annual Report and Accounts and all of them are monitored closely by the Group. There have been no significant changes in the Group's risk and uncertainty factors during the review period, nor are any expected for the remainder of the year.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

4. Cash and cash equivalents

	Unaudited 6 months to 30 June	
	2008	2007
	£'000	£'000
Cash at bank and in hand	**1,428**	3,672
	1,428	3,672

5. Dividend Policy

In accordance with the Company's policy as set out in its admission document, the directors do not propose to declare a dividend.

6. Income tax

The major components of income tax expense in the interim consolidated income statement are:

	Unaudited 6 months to 30 June	
	2008	2007
	£'000	£'000
Current taxation		
Overseas tax	**56**	-
Income tax expense	**56**	-

7. Segmental analysis

Revenue by business segment:

For management purposes the Group is organised into business units based on their products and services, and has three reportable operating segments as follows:

The vehicle conversions segment allows a standard diesel engine to operate on natural gas without any major changes to the engine.

The components segment designs and delivers innovative hydraulic valves and natural gas injector components for natural gas engines that enable automotive and truck manufacturers to build low-emission gasoline, natural gas and diesel vehicles that meet worldwide emissions regulations.

The emissions reduction segment offers emissions reduction solutions that reduce regulated engine emissions by post combustion after-treatment of an engine's exhaust gasses.

	Unaudited 6 months to 30 June 2008				
	Vehicle Conversions	**Components**	**Emissions Reduction**	**Adjustments and Eliminations**	**Total**
Revenue					
Third party	2,197	403	326	-	2,926
Inter-segment	1,065	-	-	(1,065)	-
Total revenue	3,262	403	326	(1,065)	2,926
Results					
Depreciation and amortisation	312	12	4	(2)	326
Segment (loss)/profit	(1,284)	15	(75)	236	(1,108)
Assets					
Capital expenditure	380	76	-	-	456
Operating assets	2,970	818	246	(135)	3,899
Provisions	430	16	46	(37)	455
Operating liabilities	1,243	140	205	(22)	1,566

1. Inter-segment revenues are eliminated on consolidation.
2. Revenue from one customer amounted to £1,268,248 (2007: £61,917), arising from sales related to the vehicle conversions segment.
3. Adjustments and eliminations relate to consolidation eliminations and Holding Company items.

7. Segmental analysis - continued

	Unaudited 6 months to 30 June 2007				
	Vehicle Conversions	Components	Emissions Reduction	Adjustments and Eliminations	Total
Revenue					
Third party	957	795	117	-	1,869
Inter-segment	146	-	-	(146)	-
Total revenue	1,103	795	117	(146)	1,869
Results					
Depreciation and amortisation	80	8	2	-	90
Segment (loss)/profit	(1,411)	(43)	(118)	131	(1,441)
Assets					
Capital expenditure	458	15	-	-	473
Operating assets	4,960	841	167	(10)	5,958
Provisions	546	18	44	-	608
Operating liabilities	1,248	338	91	-	1,677

1. Inter-segment revenues are eliminated on consolidation.
2. Adjustments and eliminations relate to consolidation eliminations and Holding Company items.

8. Plant, equipment & intangible assets

During the six months ended 30 June 2008, the Group acquired plant and equipment with a cost of £212,000 (2007: £53,000). Expenditure on product development for the six months ended 30 June 2008 was £244,000 (2007: £420,000).

9. Share-based payment

In May 2008, 1,612,000 share options were granted. The exercise price of the options of £0.19 was equal to the market price of the shares on the day of the grant. The vesting conditions relate only to the service periods of employees (non market related). The fair value of the options granted is estimated using a Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is 10 years. There are no cash settlement options. The fair values of options granted during the six months ended 30 June 2008 was estimated on the date of grant using the following assumptions.

Dividend yield (%)	Nil
Expected volatility (%)	45
Risk – free interest rate (%)	5.18
Expected Life (years)	3
Weighted average share price (£)	0.19

10. Financing

On 7 April 2008 the Company's shareholders at a Special General Meeting approved a private financing package with Endeavor Capital Management LLC and certain other investors to provide additional funds for the Company.

Financing details

The financing package will provide proceeds of up to around £5.0m for the Company between April 2008 and June 2009. Endeavor, a longstanding and major shareholder in the Company, currently holding 18.5% of the Company's shares, has agreed to provide up to £4.65m of the new funds, Endeavour is bound to provide at least £2.5m with an obligation to use its best efforts to raise the balance. The remaining funds will be provided by another institutional investor which has agreed to invest approximately £0.25m and the Company's management which is investing a further £0.10m.

The funds will be received in six tranches. The first tranche of £1m was received on 22 April 2008, the second tranche of £0.5m was received on 8 July 2008 and the third tranche will be received on 30 September 2008.

On 22 April 2008, the first tranche of £1.0m was received; this increased the ordinary share capital to £18,135 by the creation of an additional 5,714,343 Ordinary Shares with a nominal value of $US0.001 each and a market price of 17.5 pence per share. The difference between the consideration received of £1 million less costs of £0.183 million, and the nominal value of the shares £2,900 has been transferred to the share premium account.

On 8 July 2008, the second tranche of £0.5m was received; this increased the ordinary share capital to £19,505 by the creation of an additional 2,699,055 Ordinary Shares with a nominal value of $US0.001 each and a market price of 18.525 pence per share. The difference between the consideration received of £0.5 million less costs of £0.025 million, and the nominal value of the shares £1,370 will be transferred to the share premium account.

10. Financing - continued

The remainder of the financing package will be available to the Company through the exercise of call and put options granted to Endeavor and the Company respectively. The second three tranches will each be for £1m and will (if exercised) be received between 1 October 2008 and 30 June 2009 under a mutual call/put option structure.

For every two common shares subscribed for pursuant to the financing package, the Company will issue a warrant for the purchase of one additional common share, exercisable within three years, with an exercise price at a 40% premium to the issue price.

Endeavor is required to participate in each of the six tranches of the financing package, with the other institutional investor and management only investing in the first tranche. Depending on the movement in the share price prior to the closing of each tranche, and the exercise of the latter three tranches, Endeavor may acquire a majority interest in the Company.

The Company Bye-laws incorporate by reference various provisions of the City Code, including Rule 9 of the City Code. However, this requirement may be waived by an independent vote at a meeting of the Company shareholders and, consequently, a resolution, with regards to acquisition of Ordinary Shares by Endeavor or its Affiliates, was passed at a Special General Meeting.

CORPORATE INFORMATION

Directors

Non-Executive Chairman – Rodney Westhead # “

President & Chief Executive – John Pettitt

Financial Director – Peter Rowse

Non-Executive Director – Larry Wilson * + # “

Non-Executive Director – Dr Ulrich Wöhr * + # “

Non-Executive Director – Hans Gunnar Folkesson * #

Non-Executive Director – Bernard Lord + # “

* Member of the Audit Committee + Member of the Remuneration Committee # Member of the Nomination Committee “ Independent

Secretary

Evelou Mosley (appointed 1 January 2008)

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INDEPENDENT REVIEW REPORT TO CLEAN AIR POWER LIMITED

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the 6 months ended 30 June 2008 which comprises the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related explanatory notes I to I0. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with International Accounting Standard 34, “Interim Financial Reporting,” as adopted by the European Union.

As disclosed in note 2, the annual financial statements of the company are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting,” as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 6 months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Ernst & Young LLP
Manchester
9 September 2008