

**Clean Air Power Limited**  
**(“Clean Air Power” or “Company”)**  
**Interim Results for six month period ended 30 June 2011**

30 September 2011

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 2011.

### **Financial Highlights**

- Revenue for the period: £2.1m (2010: £2.3m)
- Revenue in Dual-Fuel™ increased by 56% to £1.4m (2010: £0.9m), driven by sales in Dual-Fuel™ and development revenue
- Gross profit for the period: £1.2m (2010: £1.3m)
- Losses after tax for the period: £1.3m (2010: £1.2m)
- Gross margin for the period: 57% (2010: 56 %)
- Successful £1.5m equity raise in May 2011

### **Operational Highlights**

- Launch of European Manufacturer’s Interfaced product incorporating CAP Dual-Fuel™ technology
- Order for eleven Dual-Fuel™ systems delivered to Volvo Bus Corporation
- Genesis EDGE Dual-Fuel™ Euro 5 product launched in Australia
- Order received for fifteen Dual-Fuel™ units in Australia with an order value of £0.5m

### **Post Period End**

- Order received to deliver ten Genesis EDGE units to Arla Foods in 2011

John Pettitt, Chief Executive of Clean Air Power said:

“The launch of the European OEM product, incorporating our Dual-Fuel™ technology within its engine, follows the Supply and Development Agreement signed in July 2010. This represents a major achievement by the Company and a key milestone set out within our objectives at admission to AIM. We are confident that subject to the resumption of factory production for the European OEM product, all technical criteria are met and there are no further delays, the expected commencement of sales will provide us with a springboard from which the Company can begin to realise the full potential of our exciting technology, although timing and visibility of these sales continues to be difficult to predict.”

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## **Chief Executive's Statement**

The launch of a European factory produced Dual-Fuel™ truck incorporating Clean Air Power's technology was the key achievement for the Company during the first half of the year. The commencement of sales has been delayed by technical issues arising during fleet trials as announced on 15 September 2011. Although solutions have now been identified they are still subject to validation by the manufacturer. However, the Board is confident that these solutions will allow factory production to start and return to the original plan although we cannot yet confirm the timing of this resumption of factory production. We continue to work very closely with our European OEM partner to minimise any further delays and look forward to updating shareholders shortly with further clarification of production timing.

Our progress with a US OEM brings the opportunity of a product for the important US market closer and we continue to work towards a Product Development contract.

In May 2011 we launched our 'Genesis EDGE' Dual-Fuel™ Euro 5 product in Australia. The launch has been successful and the product is starting to gain traction with customers in Tasmania and Victoria with orders for nine units already received.

Clean Air Power's 'Genesis EDGE' product in Europe is gaining momentum due to the compelling drivers in the market place. The price of oil and the continued focus on reducing emissions is contributing to an increased focus and interest in the Dual-Fuel™ product. We recently received an order from Arla Foods to supply ten units and we have made further sales into European markets. However, the general uncertain economic climate is likely to affect total sales in the second half of the year.

Sales for the first six months in our key Dual-Fuel™ division have significantly outperformed last year, although they have fallen short of our expectations. Sales of our Components Division, as expected, have been lower than 2010 due to the loss of a major customer in 2010 as previously reported and the Emissions Reduction Division has seen lower sales following a delay in obtaining orders from a key customer.

Clean Air Power has three commercial divisions; Dual-Fuel™ Vehicle Installations, Components and Emissions Reduction systems.

### **1) Dual-Fuel™ Vehicle Installations**

The core technology of the Group gives rise to Clean Air Power's patented Dual-Fuel™ system which allows a diesel engine to run on a combination of diesel and natural gas, thereby generating significant reductions in NOx, particulate matter and CO<sub>2</sub> emissions as well as generating fuel cost savings for the operator.

The technology is currently available in two main variants; the interfaced product, where Clean Air Power's technology is incorporated into vehicles with the manufacturers' cooperation; and the Genesis product, where the technology is adapted and retro-fitted solely by Clean Air Power under its own brand.

The first half of the year has seen sales for this division increase by 56% to £1.4m (2010: £0.9m) compared to the period to 30 June 2010. This increase is due to the sale of early interfaced systems to the European OEM, improved Dual-Fuel™ sales in the Australian market and revenue derived from product development activity with our European OEM customer.

### **Genesis EDGE Vehicle System**

The 'Genesis' system was developed specifically to be a retro-fitted solution 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 around 50% - 60% of the diesel normally used by the vehicle is substituted with natural gas. The emissions and fuel savings are therefore lower than would be expected on a fully interfaced system, but still economically attractive in the target markets.

The agreement with the European OEM partner allowed Clean Air Power to develop its 'own brand' Genesis solution for a Euro 5 compliant vehicle. The newly improved 'Genesis EDGE' variant was introduced in June 2010. The Company has had product interest and enquiries from several countries in Europe and Australia. Since the launch of the product in Australia, the Company has received orders for nine 'Genesis EDGE' systems that will be retrofitted to Euro 5 compliant trucks. The Company recently received orders for its product in the UK from Arla Foods for ten units. Arla Foods is an existing customer that has been trialling our product for a period and further discussions give the Board confidence that this relationship will potentially result in significant further orders for Dual-Fuel™ vehicles next year.

## **Manufacturer Developments: Interfaced vehicle system**

In this solution our Dual-Fuel™ technology is interfaced with the manufacturer's electronic engine management system and therefore requires their cooperation and maximises the reduction of emissions and fuel cost savings. We expect around 70% - 90% of the diesel normally used by the vehicle to be substituted for gas on an interfaced product.

Clean Air Power's first interfaced products were developed with Caterpillar in the US. These products have largely reached the end of their life cycle although some are still sold in Australia where we have received orders in 2011. The Company has also recently sold a unit to a US based customer which will potentially lead to further sales if performance milestones are reached.

Following the European launch of a Dual-Fuel™ truck incorporating Clean Air Power's technology our immediate focus will switch to the US where our goal is to sign an agreement to develop a similar interfaced OEM product for heavy goods vehicles for the US market.

The Company's main strategic goal remains to work with vehicle or engine manufacturers on fully funded projects whereby our Dual-Fuel™ technology is incorporated on their vehicles as a standard option and to develop it further with their full cooperation. In this way the benefits of our technology and routes to market can be maximised. The Company is in discussions with several manufacturers.

### **European OEM:**

The Company's European OEM customer's interfaced product incorporating Clean Air Power's Dual-Fuel™ technology was launched in May 2011 with the initial markets determined as UK, Sweden and Netherlands. Euro 5 compliant vehicles are sold throughout the European Union, Australia and certain other markets across the world.

The launch of this product in May 2011 follows the signing of the Supply and Development Agreements in July 2010, initially for five years. The vehicle will be produced, marketed and supported by the manufacturer. The commencement of sales has been delayed by technical issues arising during fleet trials as announced on 15 September 2011. Although solutions have now been identified they are still subject to validation by the manufacturer. However the Board is confident that these solutions will allow factory production to start and return to the original plan, although we cannot yet confirm the timing of this resumption of factory production. We continue to work very closely with our European OEM partner to minimise any further delays and look forward to updating shareholders shortly with further details of production timing.

Incorporating Clean Air Power's Dual-Fuel™ technology into these truck engines will deliver significant greenhouse gas emission reductions and fuel cost savings compared with standard diesel engines. Additionally these Dual-Fuel™ trucks are expected to be around 30% more energy efficient than equivalent spark ignited natural gas engines. The engines can use natural or bio-gas as the main fuel and can also operate solely on diesel, an important feature as gas distribution systems face many years of development.

### **Navistar:**

In February 2010 Clean Air Power entered into a concept development agreement with Navistar, Inc. ("Navistar") to develop a MaxxForce 13 Natural Gas/Diesel Engine Program for the North American market. The purpose of the development program is to utilise Clean Air Power's Dual-Fuel™ combustion technology to deliver an engine that achieves the US Environmental Protection Agency (EPA) 2010 emissions standard.

The Concept Ready Phase was successfully delivered during 2010. The product has been shown to a number of trade shows including the Mid-America trucking show in March 2011 and is gaining considerable market interest and discussions continue towards a formal development contract.

Focus in North America on using natural gas as a road fuel for heavy goods vehicles is increasing. The determination of the US to reduce reliance on imported oil and to utilise the domestically available natural gas reserves, including shale gas, is a strong driver for Dual-Fuel™ along with the strong economic case.

## **2) Components Division**

Clean Air Power manufactures a number of the components that are used in the Group's Dual-Fuel™ technology. The Group sells these components for spark ignited gas engines and certain other applications. Global demand for these engines is increasing as customers are increasingly aware of the social and economic drivers towards alternative fuels. With global sales, strong margins and a customer base including

international automotive manufacturers, this is an important contributor to the overall Clean Air Power business.

This business is relatively mature and tends to operate with long initial order lead times but thereafter receives regular recurring revenues from maintenance and servicing requirements in addition to the initial demand for production. The Company lost an important customer in 2010 which has resulted in the sales for the period to 30 June 2011 being lower than the same period in 2010. However sales are in line with expectations at the half year although conditions remain challenging.

### **3) Emissions Reduction Division**

This division provides systems incorporating catalysed substrates supplied by specialist manufacturers and can be integrated during the initial installation or retro-fitted to older existing engines and plants.

Historically this has been mainly a project based business with a few large scale contracts generating the majority of the revenue. While the core business remains, the division expanded its market in 2010 by winning a significant order to supply Catalytic Converters for vehicles. These units are used on 7.6L Natural Gas Engines to control emissions to deliver sub EPA '10 emission levels for their truck and bus operating customers and provided the Company with an entry into a potentially very significant market.

Revenue has been delayed during 2011 following the initial success of the 7.6L Natural Gas Engine to which Clean Air Power's catalyst is fitted. The high level of demand for the engine resulted in the product being switched from a retro-fit to a factory-fit product and as a consequence has delayed sales for Clean Air Power in the first half of the year.

The year to date sales of £0.1m are lower than the £0.3m achieved for the same period to June 2010. During the first half, the production for this Division has been relocated from Houston in Texas to the production facility in San Diego, California.

### **Financial Review**

The six month period to 30 June 2011 has seen revenue decrease to £2.1m. This has been due mainly to a weaker performance in our Components and Emissions Reduction Division.

Gross profit reduced to £1.2m from £1.3m in June 2010.

Operating loss increased to £1.3m representing a £0.1m increase on the £1.2m loss for the same period in 2010. This has been mainly due to the delay in factory production of the European OEM product within our Dual-Fuel™ segment.

The net result after tax for the period was a loss of £1.3m, a £0.1m increase on the £1.2m loss for the same period in 2010. The basic loss per share for the period was 1.67p (2010: 2.14p).

Gross receipts from the recent fundraising during May 2011 were £1.5m. The cash position as at 30 June 2011 is £2.2m compared to £1.3m as at the end of 2010.

Investments in fixed assets were £1.0m for the period compared with £0.6m in the first half of 2010. The majority of these amounts relate to capitalisation of labour and expenses incurred in developing new products.

The current cash position is £1.0m which has been adversely effected by delays to the OEM production. Consequently the Board are actively considering further short and medium term financing options and these are discussed in note 2.

## **Outlook**

The delayed factory production of the European OEM product, while improving the visibility of our future revenues, will adversely affect 2011 sales expectations and consequently the Board are actively considering further short and medium term financing options. Although solutions have now been identified they are still subject to validation by the manufacturer. However the Board is confident that these solutions will allow factory production to start and return to the original plan, although we cannot yet confirm the timing of this resumption of factory production. We continue to work very closely with our European OEM partner to minimise any further delays and look forward to updating shareholders shortly with further details of production timing.

The company is encouraged by the level of interest in the product which continues to benefit from the difference between the price of natural gas and diesel in Europe.

Our progress with a US OEM brings the opportunity of a product for the important US market closer and we continue to work towards a Product Development contract.

In the US the continuing delta between natural gas and diesel prices and natural gas initiatives are encouraging operators to consider alternative options to fuel their fleets of vehicles. These drivers coincide with the desire within many organisations to reduce emissions from their transport operations. The Company's existing and new product offerings mean that we are well placed to capitalise on the opportunities that arise as a result of these factors.

The launch of Genesis EDGE Dual-Fuel™ product and the commissioning of the LNG plant in Tasmania which, although later than anticipated, is expected to provide the opportunity for an uplift in Australian sales. However, due to procurement leadtimes we now expect the majority of this demand to be met in 2012. Some orders have been received already and interest is growing. A degree of adaptation of the local product is required to capitalise on these opportunities in 2012.

Genesis EDGE in the UK and Europe should facilitate improvements in sales of our Dual-Fuel™ products; we had hoped to accelerate revenues in the second half of 2011 following the receipt of the order from Arla Foods however concluding orders is taking longer than anticipated.

Components and Emissions sales are expected to remain relatively steady but under more challenging market conditions, which also seem to be affecting the other divisions.

We look forward to updating shareholders shortly with further details of production timing of the European OEM product.

**John Pettitt**  
Chief Executive  
30 September 2011

## INTERIM CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

	Unaudited	Unaudited	Audited	
Note	6 months to 30 June 2011 £'000	6 months to 30 June 2010 £'000	Year to 31 December 2010 £'000	
<b>Revenue</b>	<b>6</b>	<b>2,067</b>	<b>2,317</b>	<b>5,788</b>
Cost of sales		<b>(904)</b>	<b>(1,009)</b>	<b>(2,754)</b>
<b>Gross profit</b>		<b>1,163</b>	<b>1,308</b>	<b>3,034</b>
Administrative expenses		<b>(2,448)</b>	<b>(2,466)</b>	<b>(4,761)</b>
Share-based payments charge	<b>8</b>	<b>(58)</b>	<b>(46)</b>	<b>(110)</b>
<b>Operating loss</b>		<b>(1,343)</b>	<b>(1,204)</b>	<b>(1,837)</b>
Finance revenue		<b>4</b>	<b>11</b>	<b>17</b>
Finance costs		<b>-</b>	<b>-</b>	<b>-</b>
<b>Loss on ordinary activities before taxation</b>	<b>6</b>	<b>(1,339)</b>	<b>(1,193)</b>	<b>(1,820)</b>
Tax expense	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Loss for the period</b>		<b>(1,339)</b>	<b>(1,193)</b>	<b>(1,820)</b>
Basic and diluted loss per share		<b>(1.67p)</b>	<b>(2.14p)</b>	<b>(3.00p)</b>

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Unaudited	Unaudited	Audited
	6 months to 30 June 2011 £'000	6 months to 30 June 2010 £'000	Year to 31 December 2010 £'000
<b>Loss for the period</b>	<b>(1,339)</b>	<b>(1,193)</b>	<b>(1,820)</b>
Exchange differences on translation of foreign operations	<b>(88)</b>	<b>139</b>	<b>101</b>
<b>Total comprehensive loss for the period</b>	<b>(1,427)</b>	<b>(1,054)</b>	<b>(1,719)</b>
Attributable to: Equity holders of the parent	<b>(1,427)</b>	<b>(1,054)</b>	<b>(1,719)</b>

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Note	Unaudited 6 months to 30 June 2011 £'000	Unaudited 6 months to 30 June 2010 £'000	Audited Year to 31 December 2010 £'000
<b>Assets</b>				
<i>Non-current assets</i>				
Plant and equipment	7	232	305	269
Intangible assets	7	3,063	1,560	2,241
		3,295	1,865	2,510
<i>Current assets</i>				
Inventories		1,033	1,128	839
Trade and other receivables		1,139	1,211	1,342
Cash and cash equivalents	4	2,196	1,290	2,410
		4,368	3,629	4,591
<b>TOTAL ASSETS</b>		<b>7,663</b>	<b>5,494</b>	<b>7,101</b>
<b>Equity and liabilities</b>				
<i>Equity attributable to equity holders of the parent</i>				
Ordinary share capital	9	57	33	44
Share premium	9	17,677	14,083	16,219
Translation reserve		996	1,103	1,084
Other reserves		33,504	33,504	33,504
Accumulated loss		(46,780)	(44,917)	(45,499)
<b>Total equity</b>		<b>5,454</b>	<b>3,806</b>	<b>5,352</b>
<i>Non-current liabilities</i>				
Other payables		-	1	-
		-	1	-
<i>Current liabilities</i>				
Trade and other payables		1,264	1,009	1,132
Provisions		366	388	460
Deferred revenue		579	290	157
		2,209	1,687	1,749
<b>Total liabilities</b>		<b>2,209</b>	<b>1,688</b>	<b>1,749</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7,663</b>	<b>5,494</b>	<b>7,101</b>

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Director

## INTERIM CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2011

	Unaudited 6 months to 30 June 2011 £'000	Unaudited 6 months to 30 June 2010 £'000	Audited Year to 31 December 2010 £'000
<b>Cash flows from operating activities</b>			
<b>Loss before taxation</b>	<b>(1,339)</b>	<b>(1,193)</b>	<b>(1,820)</b>
Adjustments for:			
Net finance income	(4)	(11)	(17)
Depreciation of plant and equipment	59	75	139
Amortisation of intangibles	133	243	332
Share-based payments	58	46	110
Decrease in trade and other receivables	203	329	197
Increase/(decrease) in trade and other payables	132	(169)	(46)
(Increase)/decrease in inventories	(194)	(145)	145
(Decrease)/increase in provisions	(95)	(4)	68
Increase/(decrease) in deferred revenue	422	(299)	(432)
Other non-cash movements	18	26	(24)
<b>Net cash outflow from operating activities</b>	<b>(607)</b>	<b>(1,102)</b>	<b>(1,348)</b>
<b>Investing activities</b>			
Interest received	4	11	17
Payments to acquire plant and equipment	(31)	(27)	(62)
Payments to acquire intangible assets	(1,033)	(594)	(1,397)
<b>Net cash outflow from investing activities</b>	<b>(1,060)</b>	<b>(610)</b>	<b>(1,442)</b>
<b>Financing activities</b>			
Proceeds from the issue of ordinary share capital	1,526	-	2,285
Share issue costs	(55)	-	(103)
<b>Net cash inflow from financing activities</b>	<b>1,471</b>	<b>-</b>	<b>2,182</b>
<b>Decrease in cash and cash equivalents</b>	<b>(196)</b>	<b>(1,712)</b>	<b>(608)</b>
Effect of exchange rates on cash and cash equivalents	(18)	64	80
Cash and cash equivalents at the beginning of the period	2,410	2,938	2,938
<b>Cash and cash equivalents at end of period</b>	<b>2,196</b>	<b>1,290</b>	<b>2,410</b>

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Issued Capital £'000	Share Premium £'000	Translation Reserve £'000	Other Reserves £'000	Accumulated loss £'000	Total Equity £'000
<b>Balance at 1 January 2010</b>	<b>33</b>	<b>14,048</b>	<b>983</b>	<b>33,504</b>	<b>(43,789)</b>	<b>4,779</b>
Other comprehensive income	-	-	139	-	-	139
Loss for the period	-	-	-	-	(1,193)	(1,193)
Total comprehensive income	-	-	139	-	(1,193)	(1,054)
Issue of share capital	-	35	-	-	-	35
Share issuance costs	-	-	-	-	-	-
Share-based payments	-	-	-	-	46	46
<b>Balance at 30 June 2010</b>	<b>33</b>	<b>14,083</b>	<b>1,122</b>	<b>33,504</b>	<b>(44,936)</b>	<b>3,806</b>
Other comprehensive income	-	-	(38)	-	-	(38)
Loss for the period	-	-	-	-	(627)	(627)
Total comprehensive income	-	-	(38)	-	(627)	(665)
Issue of share capital	11	2,239	-	-	-	2,250
Share issuance costs	-	(103)	-	-	-	(103)
Share-based payments	-	-	-	-	64	64
<b>Balance at 31 December 2010</b>	<b>44</b>	<b>16,219</b>	<b>1,084</b>	<b>33,504</b>	<b>(45,499)</b>	<b>5,352</b>
Other comprehensive income	-	-	(88)	-	-	(88)
Loss for the period	-	-	-	-	(1,339)	(1,339)
Total comprehensive income	-	-	(88)	-	(1,339)	(1,427)
Issue of share capital	13	1,513	-	-	-	1,526
Share issuance costs	-	(55)	-	-	-	(55)
Share-based payments	-	-	-	-	58	58
<b>Balance at 30 June 2011</b>	<b>57</b>	<b>17,677</b>	<b>996</b>	<b>33,504</b>	<b>(46,780)</b>	<b>5,454</b>

# 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 2011 were authorised for issue in accordance with a resolution of the directors on 30 September 2011. 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

These interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with IAS 34 Interim Financial Reporting; and using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively 'Adopted IFRS').

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

### 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 2010.

### Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Statement and the financial position of the Group is described within the Statement of Financial Position. As described in the Chief Executive's review, the Company has experienced delays in factory production of its European OEM product. Although solutions have now been identified they are still subject to validation by the OEM partner. However the Board is confident that these solutions will allow factory production to start and return to the original plan although we cannot yet confirm the timing of this resumption of factory production.

The Company's ability to meet its future working capital requirements is dependent on it being able to generate significant revenues and/or successfully conclude financing options. Assuming the issues giving rise to the delays in factory production are resolved, this OEM contract provides the opportunity for increased sales and further funding. The Company also has a number of sales opportunities pending which, if successful, will provide additional cash resources. Given the nature of the Company's development activities and in light of the current economic climate, it is very difficult to predict with any certainty the timing and extent of future revenues. The directors have prepared projections of the trading results for the foreseeable future which they consider to be prudent. The directors are actively considering further short and medium term financing options. However there is uncertainty as to whether the necessary funds will be raised as this is dependent on the ability of the Company to resolve the technical issues with the OEM partner.

In the absence of firm commitments in relation to these sales opportunities or financing options the Directors have concluded that these circumstances represent a material uncertainty that casts doubt upon the Company's ability to continue as a going concern and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the condensed set of financial statements in the half-yearly financial report.

## 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 2010 Annual Report and Accounts and all of them are monitored closely by the Group's Management Board.

## 4. Cash and cash equivalents

Cash at bank and in hand

	<b>Unaudited 6 months to 30 June</b>	<b>Audited year ended 31 December</b>
	<b>2011</b>	<b>2010</b>
	2010	2010
	<b>£'000</b>	<b>£'000</b>
	<b>2,196</b>	<b>1,290</b>
	<b>2,196</b>	<b>2,410</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 5. Income tax

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

	Unaudited 6 months to 30 June 2011	2010	Audited year ended 31 December 2010
	£'000	£'000	£'000
<b>Current taxation</b>			
Overseas tax	-	-	-
<b>Income tax expense</b>	-	-	-

### 6. 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 Dual-Fuel™ 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.

Period ended 30 June 2011 £'000					
	Dual-Fuel™	Components	Emissions Reduction	Adjustments and eliminations	Total
<b>Revenue</b>					
Third party	1,386	618	63	-	2,067
Inter-segment	309	-	-	(309)	-
Total revenue	1,695	618	63	(309)	2,067
<b>Results</b>					
Depreciation and amortisation	(176)	(16)	(3)	3	(192)
Segment loss	(996)	-	(261)	(86)	(1,343)
Net finance income	-	-	-	-	4
<b>Loss for the period</b>	-	-	-	-	(1,339)
<b>Assets</b>					
Operating assets	2,731	1,478	172	(13)	4,368
Provisions	126	166	79	(5)	366
Operating liabilities including provisions	1,627	417	170	(5)	2,209
<b>Other disclosures</b>					
Capital expenditure	1,059	-	5	-	1,064

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 6. Segmental analysis – Continued

Period ended 30 June 2010 £'000					
	Dual-Fuel™	Components	Emissions Reduction	Adjustments and eliminations	Total
<b>Revenue</b>					
Third party	930	1,120	267	-	2,317
Inter-segment	118	-	-	(118)	-
<b>Total revenue</b>	<b>1,048</b>	<b>1,120</b>	<b>267</b>	<b>(118)</b>	<b>2,317</b>
<b>Results</b>					
Depreciation and amortisation	(282)	(36)	(2)	8	(312)
Segment loss	(1,133)	34	(175)	70	(1,204)
Net finance income	-	-	-	-	11
<b>Loss for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,193)</b>
<b>Assets</b>					
Operating assets	1,509	1,518	631	(29)	3,629
Provisions	246	44	106	(8)	388
Operating liabilities including provisions	1,036	432	227	(8)	1,687
<b>Other disclosures</b>					
Capital expenditure	600	12	9	-	621

Period ended 31 December 2010 £'000					
	Dual-Fuel™	Components	Emissions Reduction	Adjustments and eliminations	Total
<b>Revenue</b>					
Third party	2,762	2,108	918	-	5,788
Inter-segment	980	-	-	(980)	-
<b>Total revenue</b>	<b>3,742</b>	<b>2,108</b>	<b>918</b>	<b>(980)</b>	<b>5,788</b>
<b>Results</b>					
Depreciation and amortisation	(403)	(72)	(6)	10	(471)
Segment loss	(1,219)	(9)	(244)	(365)	(1,837)
Net finance income	-	-	-	-	17
<b>Loss for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,820)</b>
<b>Assets</b>					
Operating assets	1,796	1,875	949	(29)	4,591
Provisions	139	242	88	(9)	460
Operating liabilities including provisions	767	689	302	(9)	1,749
<b>Other disclosures</b>					
Capital expenditure	1,468	25	13	(47)	1,459

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 7. Plant, equipment & intangible assets

During the six months ended 30 June 2011, the Group acquired plant and equipment with a cost of £30,505 (30 June 2010: £26,707) (31 December 2010: £62,000). Expenditure on product development for the six months ended 30 June 2011 was £1,033,354 (30 June 2010: £594,323) (31 December 2010: £1,307,000). The majority of the expenditure related to the European OEM development project.

### 8. Share-based payment

During the period the Group recognised £58,292 (30 June 2010: £45,734) (31 December 2010: £110,198) related to equity-settled share-based payments transactions.

### 9. Share capital

In May 2011, the Company successfully raised £1.52m from a combination of new and existing investors; this increased the share capital to £57,162 by the creation of an additional 21,048,276 Ordinary Shares with a nominal value of \$US0.001 each and a market price of 7.25 pence per share. The difference between the consideration received of £1.52m less costs of £0.054m, and the nominal value of the shares £12,866 has been transferred to the share premium account.

### 10. Related party disclosures

The Group receives consultancy services from Karl Viktor Schaller and Hans Gunnar Folkesson, a Non-Executive Director of Clean Air Power (Bermuda) Limited and Gary Ireson, the Director of Clean Air Power Pty Ltd.

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year.

Hans Gunnar Folkesson	Unaudited 6 months to 30 June 2011 £'000	Unaudited 6 months to 30 June 2010 £'000	Audited year ended 31 December 2010 £'000
Services received from related parties	-	6	21
Amounts owed to related parties	-	-	-
Gary Ireson	Unaudited 6 months to 30 June 2011 £'000	Unaudited 6 months to 30 June 2010 £'000	Audited year ended 31 December 2010 £'000
Services received from related parties	10	22	24
Amounts owed to related parties	2	-	13
Prof K V Schaller	Unaudited 6 months to 30 June 2011 £'000	Unaudited 6 months to 30 June 2010 £'000	Audited year ended 31 December 2010 £'000
Services received from related parties	5	-	-
Amounts owed to related parties	-	-	-

### Report and Financial Information

Copies of the interim report for the Company for the period ended 30 June 2011 are to be made available on the Company's website.

## CORPORATE INFORMATION

### **Directors**

Non-Executive Chairman – Rodney Westhead “#  
Non-Executive Deputy Chairman – Bernard Lord “\*+#  
President & Chief Executive – John Pettitt  
Group Financial Director – Peter Rowse  
Non-Executive Director – Prof Dr. Karl Viktor Schaller \*+#  
Non-Executive Director – Dr. Ulrich Wöhr “\*+#

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

### **Secretary**

Codan Services Limited (appointed 9 August 2010)

### **Registered Office**

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### **Auditors**

Ernst & Young LLP  
100 Barbirolli Square  
Manchester  
M2 3EY

### **Solicitors**

Berwin Leighton Paisner LLP  
Adelaide House  
London Bridge  
London  
EC4R 9HA

### **Nominated Advisor and Stockbrokers**

Seymour Pierce  
20 Old Bailey  
London  
EC4M 7EN

### **Registrars and Transfer Office**

Capita IRG (Offshore) Limited  
Victoria Chambers, Liberation Square  
1/3 The Esplanade  
St Helier  
Jersey

### **Principal Banker**

Royal Bank of Scotland  
8 South Parade  
Nottingham  
NG1 2JS

### **Financial Public Relations**

Buchanan Communications  
45 Moorfields  
London  
EC2Y 9AE

## 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 2011 which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Interim Consolidated Statement of Financial Position, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related explanatory notes 1 to 10. 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 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

### Emphasis of Matter – Going Concern

In reaching our conclusion, which is not qualified, we have also considered the adequacy of the disclosures made in note 2 to the interim financial statements concerning the company's ability to continue as a going concern. The conditions described in note 2 indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The condensed set of financial statements in the half-yearly financial report do not include the adjustments that would result if the company was unable to continue as a going concern.