CLEAN AIR POWER LIMITED

Interim Report Six Months Ended 30 June 2007

Contents

Highlights

2007 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 6 month period ended 30 June 2007.

Highlights

- Revenues £1.9m (£1.6m for 6 months to June 2006)
- Gross margin 55% (44% for 6 months to June 2006)
- Operating loss £1.6m (£1.7m for 6 months to June 2006)
- Losses after tax £1.4m (£1.9m for 6 months to June 2006)

- Development of demonstration Genesis Dual-Fuel™ vehicle with Volvo completed September 2007 as announced 5 September 2007
- Development of new Engine Management System with support from Ricardo Plc completed July 2007 as announced 7 August 2007
- Sale of Genesis products to Wiseman dairies
- 69% increase in Australian sales compared to the equivalent period in 2006.
- New intellectual property granted in key commercial regions
- Product creating interest due to the significant reduction in emissions and CO_2 - in addition to the original strong financial drivers
- Continuing discussions with potential OEM partners

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

"The first half of 2007 has been a very busy time for Clean Air Power. In the UK a number of blue chip companies have trialled the dual fuel products, we have worked on an exciting project with Volvo and sales and product development activity in Australia has accelerated significantly. Additionally, we continue to make progress towards our ultimate goal of OEM integration. ."

For further information contact:

Clean Air Power
John Pettitt, Chief Executive
Peter Rowse, Finance Director

Tel: +44 (0)1494 527110

Canaccord Adams Limited
Robert Finlay
Erin Needra

Tel: +44 (0)20 7050 6500

Buchanan Communications
Charles Ryland
Ben Willey
Ben Romney
Tel: +44 (0)20 7466 5000

Chief Executive's Half-Year Statement

John Pettitt

Outlook

2007 continues to be a year of further development for Clean Air Power. We have made some important developments to our technology although the early adoption of the Dual-Fuel™ products has not accelerated as quickly as we had anticipated.

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, 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 running on Dual-Fuel™ systems.

The Company announced a large order from Mitchell Corporation Pty in Australia in January 2007.

The ultimate goal of the Company is to enter into an agreement with a manufacturer and progress has been made towards this goal although discussions have not reached an advanced stage.

We have recruited new staff to strengthen the engineering teams and have recognised tangible benefits as a result as Clean Air Power drives forward to develop its commercial and technological expertise.

Financial Review

During the six months to 30 June 2007 Clean Air Power began to sell its newly developed versions of its products in the UK and Australia. Early adoption of these products has been slower than expected although the year to date revenue of £1.9m still represents an improvement on the £1.6m achieved in the same period of 2006.

The 2007 gross margin to date of 55% shows a significant improvement on the 44% achieved up until June 2006. The improvement is driven by the heavier weighting of the component business in the mix and from the release of unutilised warranty provisions for vehicles. The provision changes relate to a reassessment of risk to a specific exhaust system component and the release of provision for vehicles whose warranty period has expired and the total effect of the release was £0.2m. This has contributed to produce an operating loss of £1.6m which compares favourably with the £1.7m loss from the same period in 2006.

The overall net loss of £1.4m in the period to 30 June 2007 compares favourably with £1.9m in the period to 30 June 2006. This positive variance is partly explained by non-recurring reorganisation expenses of £0.196m and finance costs £0.109m incurred in the first half of 2006.

The slower than anticipated increase in sales of the Dual-Fuel™ products has led to a greater than expected cash burn. As a result the company plans to raise funds in the last quarter of the 2007 in order to fund the development of a Euro V solution and to progress activity with manufacturers.

Footnote: Transition to International Financial Reporting Standards (IFRS)

As detailed to shareholders in the 2006 Annual Report & Accounts, all AIM listed companies with accounting periods commencing on or after 1 January 2006 are now required to report in accordance with the recognition and measurement principles of the International Financial Reporting Standards (IFRS) issued and effective at the time of reporting to shareholders. The Board is pleased to report that the Group has successfully completed this transition to IFRS. Consequently, the comparative financial statements up to 31 December 2006 detailed in this report which were previously prepared in accordance with the United Kingdom's Generally Accepted Accounting Principles (UK GAAP) have been restated. The results, as set out in this report, have been prepared in accordance with IFRS together with unaudited restated comparative periods and details of the adjustments required. There were no significant differences affecting the results and the financial position of the Group.

Operational Review

Dual Fuel™ Vehicle Systems

<u>'Genesis' Development</u>

Clean Air Power's patented Dual-Fuel™ technology allows a heavy duty diesel truck engine to run on a combination of both diesel and natural gas, thereby generating significant fuel cost savings for the operator whilst considerably reducing emissions and CO2.

'Genesis' was designed to be generic and is ultimately adaptable to fit any Euro III engine thereby rendering a much wider market accessible to the Company. Clean Air Power has developed the technology to operate on both DAF CF85 and Mercedes Axor Euro III heavy duty trucks. During the first half of 2007 the Company has made progress in the further development of its Dual-Fuel™ technology leading it to believe that a solution to install and commercialise the technology on a Euro V vehicle may well now be possible without a formal OEM agreement.

<u>'Genesis' Target Markets</u>

Clean Air Power is also targeting major UK supermarkets, logistics companies, local authorities and haulage firms for its 'Genesis' product. We believe these types of organisations will appreciate the financial benefits of converting their vehicles to gas whilst also understanding that they will be making a positive environmental impact.

We also believe that there are opportunities in Europe where certain markets have more mature natural gas infrastructures or a more beneficial natural gas versus diesel price differential. Our target markets include Germany, Italy and the Netherlands.

<u>Tesco Vehicle</u>

An important achievement for the Company in 2006 was the successful conversion of a Mercedes Axor truck for Tesco. This conversion project enjoyed the support and cooperation of both Tesco and Mercedes. The formal trial has now been completed with Tesco concluding that the vehicle had met all objectives, namely operational effectiveness, cost savings, CO2 reduction and driver acceptability.

The vehicle achieved CO2 savings equivalent to around 10 tonnes per annum and reduced fuel cost by around 15%. The vehicle continues to run in the Tesco fleet, based in the Harlow depot, operating mainly in London.

Tesco have recognised the environmental benefits of Clean Air Power's Dual-Fuel™ technology and have expressed a willingness to support Clean Air Power with their discussions with manufacturers. These discussions relate to looking to secure the incorporation of Dual-Fuel™ technology on Euro V emissions compliant trucks.

<u>UK Dual-Fuel™ Sales Performance</u>

UK vehicle sales to 30 June 2007 of £0.335m are 7% higher than the same period in 2006. However, sales of the Genesis product to date have been significantly below expectations. To date Wiseman Dairies and Warburtons Bakers have purchased the product.

A number of other blue chip organisations have trialled the technology, but decision making and due diligence within these organisations continues to be a lengthy process.

These trials have the potential to generate sales in the remainder of the year. However, due to the low year to date sales UK Genesis revenue for the whole of 2007 is expected to be significantly below expectations.

OEM Developments

Clean Air Power was pleased to announce, earlier in September, the completion of a demonstration vehicle which was developed jointly with the Volvo Group. This heavy duty Euro V diesel truck uses an improved version of Clean Air Power's Genesis technology. This was developed without direct access to the ECU software, but uses Controller Area Network (CAN) communication protocol that was jointly developed to more closely integrate the Dual-Fuel™ controls with the truck's existing systems. Volvo is one of a number of manufacturers with whom Clean Air Power had been holding preliminary discussions.

The 'Genesis' system was specifically developed to be retro-fitted product which can be installed without the need for formal cooperation of the engine manufacturers.

Our strategic goal is to work with vehicle and engine manufacturers to reach an agreement to incorporate the Dual Fuel™ technology into their products. The purpose of the current Genesis product is to provide a revenue stream and to build market awareness of the Dual-Fuel™ technology in advance of developing it further with the manufacturers' cooperation. Fully integrating the Clean Air Power technology with that of the manufacturers will produce optimum benefits in terms of fuel cost savings and CO2 reductions. The Company is actively pursuing this route to market and have made progress although we recognise that typically such discussions take some time.

The strategy involves encouraging the engine manufacturers to adopt our technology in partnership with a combination of interested parties. Truck operators, truck manufacturers, environmental bodies and governments would all benefit from the widespread adoption of our Dual Fuel™ technology. By demonstrating the benefits of our technology to these parties we expect to enlist their support thereby building a compelling proposition for the manufacturers.
The Volvo demonstration truck was displayed by the Volvo Group in a presentation in Stockholm before going on to a similar demonstration in Brussels and trade shows in northern Europe.

Clean Air Power believes that its technology could provide Volvo, and other manufacturers, with solutions applicable to a number of different types of vehicles on a global basis. The Volvo Group truck brands include, Renault, Mack, Nissan Diesel and Volvo. In addition to trucks the Volvo Group product range includes marine applications, buses, and construction equipment.

Clean Air Power has submitted proposals to Volvo for the further development and commercialisation of its technology. The Company understands the decision making lead times involved in such discussions with manufacturers but remains optimistic that the proven environmental and economic benefits of its technology will prove compelling.

Volvo is one of a number of European and US manufacturers to which Clean Air Power has made proposals. These proposals may or may not lead to commercial agreements with manufacturers being completed.

Australia

January 2007 saw the announcement of a significant order when Mitchell Corp Australia Pty Ltd (Mitchell), a bulk logistics solutions provider, ordered 50 systems worth a total of approximately £1.5m. The contract agreed also included an option for a further 20 systems.

Clean Air Power is pleased to confirm that Mitchell has now exercised its option for the further 20 systems along with additional Clean Air Power intercooler product enhancements for their entire fleet of Dual Fuel™ vehicles. The total incremental order value is around £0.9m, bringing the total Mitchell revenue from these orders to around £2.4m

In August the company had reported initial delays to installations under this contract. These were due to technical issues on some of Mitchell's vehicles which had previously been fitted with Clean Air Power technology by a third party. Prior to the confirmation of the above order, these issues were resolved under a collaborative project involving Clean Air Power, Mitchell and Orbital Pty Ltd, a leading Australian automotive engineering consultancy. The project was mainly funded by the truck operators and Australia Greenhouse Office (AGO), a government body and has resulted in many improvements to the Company's Australian software.

Also in August, Clean Air Power advised of development of a new optional product available to its Australian Dual-Fuel™ customers. This is a secondary intercooler (SIC) improving the Dual-Fuel™ product performance in conditions of extreme temperature. Clean Air Power is pleased to confirm that Mitchell has now ordered 84 of these, 70 for the conversions ordered under the above contract and a further 14 for their existing Clean Air Power vehicles. Following completion of the collaborative engineering project, the rate of installation will now ramp up with all conversions planned to be completed by mid 2008.

In addition Company's largest Australian customer, Murray Goulburn, is in the process of having an additional 10 Clean Air Power systems installed and installations have also started on the £0.25m order from Kleenheat Gas Pty Ltd which was announced in May.

Australian sales to 30 June 2007 of £0.322m have increased by 69% on the level of sales in the same period of 2006 (£0.190m). However, delays resulting from the development programme and issues with Mitchell means that year to date sales and year end sales projections are significantly below original expectations.

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 is encouraged by its ability to further prove its technology and achieve sales growth in such a demanding operating environment. Additionally, with a relatively immature gas supply infrastructure the considerable benefit of a Clean Air Power Dual-Fuel™ vehicle to operate on 100% diesel, if required, remains a significant benefit which applies in Australia as in all other markets.

Components Business

Clean Air Power manufactures a number of the components that are used in the Company's Dual-Fuel™ Technology. The Company 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 OEMs, this is an important supplement to the overall Clean Air Power business, particularly during these early stages in the commercial roll out of our latest Dual-Fuel™ technology.

Sales in the first half of 2007 for our components generated revenue of £0.795m, approximately 43% of total revenue. This level of sales compares favourably with the £0.642m achieved in the first half of 2006.

Emissions Reduction Business

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 US and we provide a service whereby the emissions from large stationary diesel engines are reduced, usually in response to the requirements of local legislation.

In the first half of 2007 sales of £0.117m are lower than the same point in 2006 (£0.166m) although with a significant contract close to agreement for delivery in 2007 revenues are expected to accelerate later in the year.

John Pettitt
Chief Executive

24 September 2007

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	Unaudited	Unaudited	Unaudited
	6 months to 30 June 2007	6 months to 30 June 2006	Year to 31 December 2006
	£'000	£'000	£'000
		(restated)	(restated)
Revenue	**1,869**	1,569	4,072
Cost of Sales	**(833)**	(880)	(2,314)
Gross profit	**1,036**	689	1,758
Administrative expenses	**(2,434)**	(2,105)	(4,689)
Share-based payments charge	**(157)**	(301)	(759)
Group operating loss	**(1,555)**	(1,717)	(3,690)
Reorganisation expenses	**-**	(196)	(196)
Loss before finance costs	**(1,555)**	(1,913)	(3,886)
Finance costs	**-**	(109)	(117)
Finance income	**114**	120	274
Loss before taxation	**(1,441)**	(1,902)	(3,729)
Taxation	**-**	-	-
Loss for the period	**(1,441)**	(1,902)	(3,729)
Basic and diluted loss per share	**(5.4p)**	(8.1p)	(14.8p)

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

CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	Unaudited	Unaudited	Unaudited
	6 months to 30 June 2007	6 months to 30 June 2006	Year to 31 December 2006
	£'000	£'000	£'000
		(restated)	(restated)
Assets			
Non-current assets			
Property, plant and equipment	**139**	164	116
Intangible assets	**781**	345	426
	920	509	542
Current assets			
Inventories	**1,450**	870	1,090
Trade and other receivables	**836**	607	1,159
Cash and cash equivalents	**3,672**	7,656	5,617
	5,958	9,133	7,866
TOTAL ASSETS	**6,878**	9,642	8,408
Equity and liabilities			
Equity attributable to equity holders of the parent			
Ordinary share capital	**15**	15	15
Accumulated loss	**(37,696)**	(35,043)	(36,412)
Other reserves	**33,410**	33,410	33,410
Share premium	**8,982**	8,982	8,982
Translation reserve	**490**	542	476
Total equity	**5,201**	7,906	6,471
Current liabilities			
Trade and other payables	**1,069**	1,039	1,130
Provisions	**608**	697	807
	1,677	1,736	1,937
TOTAL LIABILITIES	**1,677**	1,736	1,937
TOTAL EQUITY AND LIABILITIES	**6,878**	9,642	8,408

Director

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

Consolidated cash flow statement	**Unaudited 6 months to 30 June 2007 £'000**	Unaudited 6 months to 30 June 2006 £'000 (restated)	Unaudited Year to 31December 2006 £'000 (restated)
Cash flows from operating activities			
Loss before taxation	**(1,441)**	(1,902)	(3,729)
Adjustments for:			
Net finance income	**(114)**	(11)	(157)
Depreciation and impairment of property, plant and equipment	**22**	97	193
Amortisation and impairment of intangibles	**68**	30	108
Share-based payments	**157**	301	759
Decrease/(Increase) in trade and other receivables	**323**	137	(496)
(Decrease) in payables	**(61)**	(1,012)	(465)
(Increase)/Decrease in inventories	**(360)**	272	(95)
(Decrease) in provisions	**(199)**	(58)	(45)
Other non-cash movements	**2**	143	6
Net cash (out flow) from operating activities	**(1,603)**	(2,003)	(3,921)
Investing activities			
Interest received	**114**	120	274
Sale of property, plant and equipment	**-**	-	2
Payments to acquire property, plant and equipment	**(53)**	(128)	(113)
Payments to acquire intangible assets	**(420)**	(277)	(516)
Net cash (out flow) from investing activities	**(359)**	(285)	(353)
Financing activities			
Interest paid	**-**	(70)	(78)
Proceeds from the issue of ordinary share capital	**-**	10,587	10,587
Share issue costs	**-**	(1,599)	(1,599)
Payment of loan notes	**-**	(137)	(182)
Net cash inflow from financing activities	**-**	8,781	8,728
(Decrease)/Increase in cash and cash equivalents	**(1,962)**	6,493	4,454
Payments on notes payable	**-**	137	182
Effect of exchange rates on cash and cash equivalents	**17**	(65)	43
Conversion of debt to equity	**-**	3,391	3,238
Cash and cash equivalents at the beginning of the year	**5,617**	(2,300)	(2,300)
Cash and cash equivalents at end of period	**3,672**	7,656	5,617

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Issued Capital £'000	Share Premium £'000	Translation Reserve £'000	Other Reserves £'000	Accumulated loss £'000	Total Equity £'000
Balance at 1 January 2006 (UK GAAP)	**7**	**-**	**-**	**26,734**	**(33,442)**	**(6,701)**
Balance at 1 January 2006 (restated)	**7**	**-**	**-**	**26,734**	**(33,442)**	**(6,701)**
On cancellation of shares and loan notes	-	-	-	6,997	-	6.997
On issue of new shares	8	10,581	-	(321)	-	10,268
Share issuance costs	-	(1,599)	-	-	-	(1,599)
Translation movements	-	-	542	-	-	542
Share-based payments	-	-	-	-	301	301
Total income and expenses for the period recognised directly in equity	8	8,982	542	6,676	301	16,509
Loss for the period	-	-	-	-	(1,902)	(1,902)
Total income and expense for the period	8	8,982	542	6,676	(1,601)	14,607
Balance at 30 June 2006 (restated)	**15**	**8,982**	**542**	**33,410**	**(35,043)**	**7,906**
Translation movements	-	-	(66)	-	-	(66)
Share-based payments	-	-	-	-	458	458
Total income and expenses for the period recognised directly in equity	-	-	(66)	-	458	392
Loss for the period	-	-	-	-	(1,827)	(1,827)
Total income and expense for the period	-	-	(66)	-	(1,369)	(1,435)
Balance at 31 December 2006 (restated)	**15**	**8,982**	**476**	**33,410**	**(36,412)**	**6,471**
Translation movements	-	-	14	-	-	14
Share-based payments	-	-	-	-	157	157
Total income and expenses for the period recognised directly in equity	-	-	14	-	157	171
Loss for the period	-	-	-	-	(1,441)	(1,441)
Total income and expense for the period	-	-	14	-	(1,284)	(1,270)
Balance at 30 June 2007	**15**	**8,982**	**490**	**33,410**	**(37,696)**	**5,201**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The consolidated financial statements of Clean Air Power Limited for the six months ended 30 June 2007 were authorised for issue by the board of directors on 24 September 2007. Clean Air Power Limited is a public limited company incorporated in Bermuda whose shares are publicly traded.

Information relating to the reorganisation of the Group on 27 February 2006 can be found in the 31 December 2006 financial statements.

All of the revenue and profits 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 financial statements have been prepared using the accounting policies expected to be applied in the 31 December 2007 financial statements which will be prepared in accordance with IFRS adopted by the European Union. The IFRS standards and IFRIC interpretations that will be applicable at 31 December 2007, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements. The interim financial information contained in this statement does not constitute statutory accounts as defined under section 240 of the Companies Act 1985. The interim financial Information is unaudited but has been reviewed by the auditors. The consolidated financial statements for Clean Air Power Limited for the year ending 31 December 2006 were audited and an unqualified audit opinion was issued thereon.

The financial statements are covered by IFRS 1 'First-time Adoption of IFRS', because they are part of the period covered by the Group's first IFRS financial statements for the year ended 31 December 2007.

These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective at the time of preparing the statements.

The policies set out below have been consistently applied to all years presented. The Group applied the exemptions under IFRS 1 in respect of IFRS 3 'Business Combinations' and IAS 21 'The Effect of Changes in Foreign Exchange Rates'.

Clean Air Power Limited's consolidated financial statements were prepared in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP) until 31 December 2006. UK GAAP differs in some areas from IFRS. In preparing Clean Air Power Limited's consolidated financial information included in this document, management has amended certain accounting, valuation and consolidation methods applied in the UK GAAP financial statements to comply with IFRS. The comparative figures in respect of 2006 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's equity are provided in Note 4.

The consolidated financial information included in this document has been prepared on a historical cost basis. The consolidated financial statements are presented in sterling and all values are rounded to the nearest thousand (£'000) except when otherwise stated.

Basis of consolidation

The consolidated interim financial statements incorporate the financial statements of Clean Air Power Limited and all of its subsidiary undertakings made up to 30 June 2007. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and deconsolidated from the date that control ceases. The financial statement of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting period of the parent Company and are based on consistent accounting policies. Inter-company transactions, balances, unrealised gains on transactions between Group companies are eliminated, including unrealised profits or losses.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

Changes in accounting policies

Accounting policies detailed below have been adopted and these are in compliance with IFRS.

New standards and interpretations not applied
IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial interim financial statements.

International Accounting Standards (IAS/IFRSs)		**Effective date**
IFRS 8	Operating Segments	1 January 2008
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Plans	1 January 2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirement and their Interaction	1 January 2008

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the expected useful life of the asset using the following rates:

Plant and equipment – 20% per annum
Fixtures and fittings - 20 – 33% per annum
Short leasehold improvements 20 – 33% per annum

The carrying values of plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate the carrying value may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Residual values and estimated remaining lives are reviewed annually.

Inventories

Inventories are stated at the lower of cost and net realisable value. Const includes all costs incurred in bringing each product to its present location and condition on an average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less any further costs expected to be incurred to completion and disposal.

Work in Progress

Work in progress is the cost of direct materials and labour.

Operating Leases

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Foreign Currency

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the year. The resulting exchange differences are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Intangible Assets
Research and Development Costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project.

Computer Software

Computer software is carried at cost less accumulated amortisation. Computer software has a finite life with no residual value and is amortised on a straight line basis over the expected useful life as follows:

- Computer software – 3 years.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. In addition, the carrying value of capitalised development expenditure is reviewed for impairment annually before being brought into use.

Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity date of three months or less.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

Deferred Income Taxes

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 consolidated financial statements. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and 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.

Pensions

The Group contributes on behalf of its employees to individual personal defined contribution plans. The contributions made by the Group are recognised as an expense in the period they fall due.

Share-based Payment Transactions

Equity-Settled Transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (‘market conditions’), if applicable.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management’s best estimate of the achievement or otherwise of non-market conditions number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

Financial Assets and Liabilities

Trade and Other Receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable, bad debts are written off when identified.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

Interest Bearing Loans and Borrowings

All loans and borrowings are initially recorded at fair value net of issue costs associated with the borrowing.

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an amortised cost basis and charged to the Income Statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled during the period in which they arise.

Trade Payables

Trade payables are not interest bearing and are stated at their nominal value.

Capital Instruments

Capital instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Capital instruments are all instruments that are issued by the Company as a means to raising finance, including shares, debentures, debt instruments and options and warrants that give the holder the right to subscribe for or to obtain capital instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. All equity instruments are included in shareholders funds. Other instruments are classified as financial liabilities if they contain a contractual obligation to transfer economic benefits. The finance costs incurred in respect of a capital instrument, other than equity shares, are charged to the Income Statement over the term of the instrument at a constant percentage rate to the carrying value.

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised.

Sale of Goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

Rendering of Services

Revenue from the emissions reduction business is recognised on a stage completion basis by reference to the inventory issued, as a percentage of the total inventory issued for each contract.

Interest Income

Revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Critical accounting policies, judgements and estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates. Key sources of estimation uncertainty and critical accounting judgements are as follows:

Deferred taxation:
In the preparation of the financial statements, the Group estimates the income taxes in each of the taxing jurisdictions in which the Group operates as well as any deferred taxes based on temporary differences. Deferred tax assets relating to tax loss carry-forwards and temporary differences are recognised in those cases when future taxable income is expected to permit the recovery of those tax assets. Changes in assumptions in the projections of future taxable income as well as changes in tax rates could result in significant differences in the valuation of deferred taxes.

Intangible assets:
An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project.

Share-based payments:
The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation chosen and the estimation of the number of awards that will ultimately vest, inputs which arise from judgements relating to the continuing participation of employees.

3. SEGMENTAL ANALYSIS

Revenue by business segment:

The primary segment reporting format is determined to be business segments as the Group's risks and returns are affected predominantly by differences in the products and services provided. Secondary segment information is reported geographically.

	Revenue for the six months to 30 June 2007			**£'000**
	Vehicle Conversions	**Components**	**Emissions Reduction**	**Total**
Revenue	**957**	**795**	**117**	**1,869**

	Revenue for the six months to 30 June 2006			£'000
	Vehicle Conversions	Components	Emissions Reduction	Total
Revenue	761	642	166	1,569

	Revenue for the year ended 31 December 2006			£'000
	Vehicle Conversions	Components	Emissions Reduction	Total
Revenue	1,744	1,427	901	4,072

Revenue by geographical segment:

	Period ended 30 June 2007 £'000	Period ended 30 June 2006 £'000	Year ended 31 December 2006 £'000
Revenue by geographical sales destination:			
UK	**439**	391	537
USA	**693**	746	2,323
Australia	**322**	190	674
Rest of Europe	**393**	230	529
Rest of World	**22**	12	9
	1,869	1,569	4,072

4. TRANSITION TO IFRS

Application of IFRS 1 'First Time Adoption of IFRS'

The Group's financial statements for the year ended 31 December 2007 will be the first annual financial statements that comply with IFRS. This financial information has been prepared as described in Note 2. The Group has applied IFRS 1 in preparing this consolidated financial information.

Clean Air Power Limited's transition date is 1 January 2006. The Group prepared its opening IFRS balance sheet at that date. The reporting date of these interim consolidated financial statements is 30 June 2007.

In preparing this consolidated financial information in accordance with IFRS 1, the Group has taken advantage of certain of the optional exemptions from full retrospective application of IFRS.

Exemptions from Full Retrospective Application Elected By the Group

IFRS 3 'Business Combinations'

The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2006 transition date.

IAS 21 'Foreign exchange differences'

The Group has elected not to calculate the cumulative translation differences on the net assets of foreign subsidiaries held in reserve at the date of transition. The reserve is therefore reset to zero at the 1 January 2006 transition date.

Reconciliations between IFRS and UK GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS. The first three reconciliations provide an overview of the impact on equity of the transition at 1 January 2006, 30 June 2006 and 31 December 2006. The following two reconciliations provide details of the impact of the transition on net income for the periods ended 30 June 2006 and 31 December 2006.

- equity at 1 January 2006
- equity at 30 June 2006
- equity at 31 December 2006
- net income for the period ended 30 June 2006
- net income for the year ended 31 December 2006

The transition to IFRS has no effect on the cash flows of the Group but there are certain presentational differences in the cash flow statement under IFRS and UK GAAP.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

4.1 Reconciliation of Equity at 1 January 2006

	Notes	UK GAAP	Effect of transition to IFRS	**IFRS**
		£'000	£'000	**£'000**
				(restated)
Assets				
Non-current assets				
Property, plant and equipment	4.1(a)	241	(36)	**205**
Intangible assets	4.1(a)	-	36	**36**
		241	-	**241**
Current assets				
Inventories		998	-	**998**
Trade and other receivables		663	-	**663**
Cash and cash equivalents		1,163	-	**1,163**
		2,824	-	**2,824**
TOTAL ASSETS		3,065	-	**3,065**
Equity and liabilities				
Equity attributable to equity holders of the parent				
Ordinary share capital		7	-	**7**
Accumulated loss		(33,442)	-	**(33,442)**
Other reserves		26,734	-	**26,734**
Total equity		(6,701)	-	**(6,701)**
Non-current liabilities				
Preference shares		3,498	-	**3,498**
Notes payable		144	-	**144**
		3,642	-	**3,642**
Current liabilities				
Trade and other payables		1,953	-	**1,953**
Notes payable		3,319	-	**3,319**
Provisions		852	-	**852**
		6,124	-	**6,124**
TOTAL LIABILITIES		9,766	-	**9,766**
TOTAL EQUITY AND LIABILITIES		3,065	-	**3,065**

Explanation of the effect of the transition to IFRS

4.1(a) Under UK GAAP, computer software was capitalised and reported within property, plant and equipment. Under IFRS computer software is reported as an intangible asset.

4.2 Reconciliation of Equity at 30 June 2006

	Notes	UK GAAP	Effect of transition to IFRS	**IFRS**
		£'000	£'000	**£'000**
				(restated)
Assets				
Non-current assets				
Property, plant and equipment	4.2(a)	179	(15)	**164**
Intangible assets	4.2(a)	330	15	**345**
		509	-	**509**
Current assets				
Inventories		870	-	**870**
Trade and other receivables		607	-	**607**
Cash and cash equivalents		7,656	-	**7,656**
		9,133	-	**9,133**
TOTAL ASSETS		9,642	-	**9,642**
Equity and liabilities				
Equity attributable to equity holders of the parent				
Ordinary share capital		15	-	**15**
Accumulated loss		(35,043)	-	**(35,043)**
Other reserves	4.2(b)	33,952	(542)	**33,410**
Share premium		8,982	-	**8,982**
Translation reserve	4.2(b)	-	542	**542**
Total equity		7,906	-	**7,906**
Current liabilities				
Trade and other payables		1,039	-	**1,039**
Provisions		697	-	**697**
		1,736	-	**1,736**
TOTAL LIABILITIES		1,736	-	**1,736**
TOTAL EQUITY AND LIABILITIES		9,642	-	**9,642**

Explanation of the effect of the transition to IFRS

4.2(a) Under UK GAAP, computer software was capitalised and reported within property, plant and equipment. Under IFRS computer software is reported as an intangible asset.

4.2(b) Under UK GAAP, translation movements were reported within other reserves. Under IFRS translation movements are reported as a separate component of equity.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

4.3 Reconciliation of Equity at 31 December 2006

	Notes	UK GAAP	Effect of transition to IFRS	**IFRS**
		£'000	£'000	**£'000**
				(restated)
Assets				
Non-current assets				
Property, plant and equipment	4.3(a)	134	(18)	**116**
Intangible assets	4.3(a)	408	18	**426**
		542	-	**542**
Current assets				
Inventories		1,090	-	**1,090**
Trade and other receivables		1,159	-	**1,159**
Cash and cash equivalents		5,617	-	**5,617**
		7,866	-	**7,866**
TOTAL ASSETS		8,408	-	**8,408**
Equity and liabilities				
Equity attributable to equity holders of the parent				
Ordinary share capital		15	-	**15**
Accumulated loss		(36,412)	-	**(36,412)**
Other reserves	4.3(b)	33,886	(476)	**33,410**
Share premium		8,982	-	**8,982**
Translation reserve	4.3(b)	-	476	**476**
Total equity		6,471	-	**6,471**
Current liabilities				
Trade and other payables		1,130	-	**1,130**
Provisions		807	-	**807**
		1,937	-	**1,937**
TOTAL LIABILITIES		1,937	-	**1,937**
TOTAL EQUITY AND LIABILITIES		8,408	-	**8,408**

Explanation of the effect of the transition to IFRS

4.3(a) Under UK GAAP, computer software was capitalised and reported within property, plant and equipment. Under IFRS computer software is reported as an intangible asset.

4.3(b) Under UK GAAP, translation movements were reported within other reserves. Under IFRS translation movements are reported as a separate component of equity.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

4.4 Reconciliation of Net Income for Six Months Ended 30 June 2006

	UK GAAP	Effect of transition to IFRS	**IFRS**
	£'000	£'000	**£'000**
			(restated)
Revenue	1,569	-	**1,569**
Cost of Sales	(880)	-	**(880)**
Gross profit	689	-	**689**
Administrative expenses	(2,105)	-	**(2,105)**
Share-based payments charge	(301)	-	**(301)**
Group operating loss	(1,717)	-	**(1,717)**
Reorganisation expenses	(196)	-	**(196)**
Loss before finance costs	(1,913)	-	**(1,913)**
Finance costs	(109)	-	**(109)**
Finance income	120	-	**120**
Loss before taxation	(1,902)	-	**(1,902)**
Taxation	-	-	**-**
Loss for the period	(1,902)	-	**(1,902)**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

4.5 Reconciliation of Net Income for Six Months Ended 31 December 2006

	UK GAAP	Effect of transition to IFRS	**IFRS**
	£'000	£'000	**£'000**
			(restated)
Revenue	4,072	-	**4,072**
Cost of Sales	(2,314)	-	**(2,314)**
Gross profit	1,758	-	**1,758**
Administrative expenses	(4,689)	-	**(4,689)**
Share-based payments charge	(759)	-	**(759)**
Group operating loss	(3,690)	-	**(3,690)**
Reorganisation expenses	(196)	-	**(196)**
Loss before finance costs	(3,886)	-	**(3,886)**
Finance costs	(117)	-	**(117)**
Finance income	274	-	**274**
Loss before taxation	(3,729)	-	**(3,729)**
Taxation	-	-	**-**
Loss for the period	(3,729)	-	**(3,729)**

5. LOSS PER SHARE

	Unaudited 6 months ended 30 June 2007	Unaudited 6 months ended 30 June 2006	Unaudited Year ended 31 December 2006
	£'000	£'000	£'000
Loss for the period	**(1,441)**	(1,902)	(3,729)
Weighted average number of shares	**26,905,479**	23,376,479	25,134,312
Basic and diluted loss per share	**(5.4p)**	(8.1p)	(14.8p)

The basic and diluted loss per share are the same because losses have been incurred which result in all dilutive shares being treated as anti-dilutive.

6. DIVIDEND POLICY

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

7. REGISTERED OFFICE

The registered office of Clean Air Power Ltd is Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

Copies of this statement are available from the registered office, at www.cleanairpower.com and from:
8 Lancaster Court, Coronation Road, Cressex Business Park, High Wycombe, Bucks, HP12 3TD, United Kingdom

Independent Review Report to Clean Air Power Ltd

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2007 which comprises the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity, and the related notes 1 to 7. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' 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 interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report as required by the AIM Rules issued by the London Stock Exchange.

As disclosed in note 2, the next annual financial statements of the group will be prepared in accordance with those IFRSs adopted for use by the European Union. This interim report has been prepared in accordance with the requirements of IFRS 1, "First Time Adoption of International Financial Reporting Standards" relevant to interim reports.

The accounting policies are consistent with those that the directors intend to use in the next financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

Ernst & Young LLP
Manchester, United Kingdom