**For Immediate Release** **3 July 2006**

# Clean Air Power Limited

## ("Clean Air Power" or "the Company")

Clean Air Power Ltd (AIM:CAP) the developer of Dual-Fuel™ combustion technology for heavy-duty diesel engines today reports the consolidated results for Clean Air Power Inc. its pre flotation predecessor for the 12 month period ended 31 December 2005, which are broadly in line with expectations.

Clean Air Power Ltd was incorporated in November 2005, prior to its admission to the AIM market of the London Stock Exchange. Immediately prior to admission it acquired Clean Air Power Inc. as part of the group restructuring.

These summary results, therefore, relate to Clean Air Power's pre-flotation predecessor, Clean Air Power Inc.

### 2005 Highlights

- Net Loss in line with expectations
- Revenues $6.1m (2004 $8.0m)
- Operating Loss $7.1m, (2004 $10.7m loss)
- Net Loss $12.4m* (2004 $13.5m loss**)
  (* The 2005 loss includes one-off non cash refinancingcosts totalling $4.2m and reorganisation costs of £0.4m)
  (** 2004 loss includes $2.4m goodwill amortisation expense)

### 2006 Highlights to date

- Successful IPO on AIM, raising gross proceeds of £10.6m
- Commercial launch of the Genesis Dual-Fuel™ system in May 2006
- First Genesis conversion sold to Warburtons bakery in June 2006
- Completion of our own Genesis Demonstration vehicle (DAF CF85) to support marketing efforts
- New intellectual property granted in key commercial regions

John Pettitt, Chief Executive of Clean Air Power said:

*"The successful IPO of Clean Air Power has been a major milestone in the development of the Company. The funds are being be used to develop and market both specific and generic Dual-Fuel™ systems across key regions.*

*"The drive for lower emissions and more cost effective transportation makes our products a compelling proposition for many customers and we look forward to delivering new customer relationships and contracts over the coming year."*

**For further details please contact**

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**2005 Financial Results**

The twelve months to 31 December 2005 represented a period of transition for Clean Air Power in a number of respects. The original core product range reached the end of its life cycle, new management were appointed, and the Company underwent a significant financial restructuring.

As a consequence of the end of the product life cycle, selling opportunities in the UK and US were limited, thereby prompting the introduction of the Genesis product. Also, accounting for the financial and legal restructuring of the group prior to admission on AIM significantly impacted the Company's net income.

Sales for the period were $6.1m which generated an operating loss of $7.1m in line with expectations.

The net income resulted in a loss of $12.4m, driven by non-cash and exceptional charges. A significant non-cash expense of $4.2m relating to the accounting treatment of warrant interest and beneficial conversion were the main components of the interest charge of $5.0m. These warrants converted at admission in February 2006 and the Company expects a further non-cash P&L charge in 2006 of $1.3m relating to this item.

An exceptional charge for the legal reorganisation of the group amounted to $0.4m. A further exceptional reorganisation expense of around $0.3m is expected in 2006 as the process is completed.

**Operational Review**

**Dual Fuel™**

**<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 cost savings for the operator whilst considerably reducing emissions and $CO_2$.
The original application of this technology in trucks was carried out in partnership with a single engine manufacturer. This route to market provided certain engineering benefits but meant that Clean Air Power was commercially restricted to the markets and operators where this manufacturer had a presence.

The 'Genesis' product was designed to address this commercial restriction. It is designed to be generic and adaptable to fit any Euro III engine thereby rendering a much wider market accessible to the Company.

In May of 2006 the first 'Genesis' model was completed, ready for sale to Warburtons, the national bakery company. Warburtons, who have a large fleet of heavy duty trucks, took delivery of the 'Genesis' truck in the first week of June 2006.

**<u>Specific Fleet Developments</u>**

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

The Company is in the process of converting a Mercedes Axor truck for Tesco. This project is ongoing and enjoys the support and cooperation of Tesco. The process is proving challenging but we remain confident of reaching a solution for Tesco within the next two months.

**<u>OEM Developments</u>**

The 'Genesis' system has been specifically developed to be an after market retro fitted product which can be installed without the need for formal cooperation of the engine manufacturers.

Our strategic aim is to work with an OEM to reach an agreement whereby the Dual Fuel™ technology would be licensed to them and developed further with their full cooperation. The Company is actively pursuing this route to market although we recognise that we are in the early stages of this process.

The strategy involves persuading the engine manufacturers to adopt our technology with the aid of a combination of interested parties. Truck operators, 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.

## Australia

We are excited by the potential opportunities in Australia. The market enjoys active government support, with the benefits of a Clean Air Power product being well recognised within the industry. There are also plans to improve the availability of natural gas by improving the country's gas infrastructure. Existing Dual-Fuel™ operators are achieving significant savings and we are in active discussions with some of Australia's largest fleet operators regarding trials of our product.

## Intellectual Property Developments

The Company holds 35 patents covering various aspects of its technology. During 2006 two important new patents were granted relating to areas of technology the Company believes will be useful as we develop our future product ranges. The first covers the application of homogeneous charge compression ignition (HCCI) to the patented Dual-Fuel™ system. HCCI is a significant technology that will be used to reduce emissions from internal combustion engines in the future.

The second, entitled "Gas-Fueled, Compression Ignition Engine with Maximized Pilot Ignition Intensity" covers Clean Air Power's Micropilot™ technology. Micropilot: the use of high-energy ultra-low quantities of diesel to ignite a charge of natural gas, has been demonstrated to dramatically reduce emissions from Dual-Fuel™ engines. This technology is an integral part of the solution offered by Clean Air Power to enable diesel engines to operate on clean natural gas and meet the emissions and performance challenges of the next decade.

### Components Business

Clean Air Power manufactures a number of the components included in the kits that are sold incorporating the Company's Dual-Fuel™ Technology.

The Company also sells these components for spark ignited gas engines, and certain other applications.

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. We expect to strengthen our sales force to develop further opportunities for this area of our business.

Our components sales generated revenue of $1.5m, around 24% of total revenue in 2005.

### 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 such installations are reduced, usually in response to changes in local legislation.

In 2005 revenue of $0.5m, around 8% of the total was generated by this business segment. In 2006, following a refocusing of the business, we have already agreed a contract for $1.2m.

## Outlook

2006 continues to be an exciting year for Clean Air Power. Since our admission to AIM in February the Company's plans for increased commercialisation of its technology are progressing well.

The Company is ideally placed to take advantage of two significant and high profile global issues. Those issues being the increasing fossil fuel cost and growing concern over harmful emissions and $CO_2$. The Clean Air Power Dual-Fuel™ technology delivers a marked improvement in both of these areas and has been proven on over 1,600 trucks worldwide.

We are delighted to have completed and delivered our first Genesis conversion to Warburtons and are now working to develop different Genesis variants which will expand our potential market further.

We have recruited new staff to strengthen both the sales and engineering teams as Clean Air Power drives forward to develop its commercial and technological expertise.

**Clean Air Power, Inc.**
**Consolidated Statements of Operations for the Year to 31st December 2005**

| | Twelve-Month Period Ended December 31, 2005 $'000 | Twelve-Month Period Ended December 31, 2004 $'000 |
|---|---|---|
| Revenues: | | |
| Sales | **$ 5,298** | $ 7,932 |
| Contract and grant | **767** | 72 |
| Total revenues | **6,065** | 8,004 |
| | | |
| Costs and expenses: | | |
| Cost of sales | **4,337** | 7,063 |
| Research and product development | **1,416** | 1,777 |
| Selling, general and administrative | **7,409** | 9,819 |
| Total costs and expenses | **13,162** | 18,659 |
| | | |
| Loss from operations | **(7,097)** | (10,655) |
| | | |
| Other income (expense): | | |
| Interest and other expense* | **(4,957)** | (472) |
| Interest and other income | **68** | 62 |
| Total other income (expense) | | |
| | | |
| Net loss from continuing operations | **(11,985)** | (11,065)) |
| | | |
| Reorganisation costs** | **(401)** | – |
| Asset impairment charge*** | | 2,387 |
| | | |
| Net loss | **$ (12,387)** | $ (13,452) |

* This includes a significant one off non-cash element - warrant interest and beneficial conversion charges of $4.2m. These warrants were mainly issued in 2005 as part of a refinancing of the company. The accounting treatment of this expense is in line with EITF 00-27 under US GAAP.

** Relates to the legal reorganisation of the Clean Air Power Group

*** Relates to the write off of goodwill relating to the acquisition of Harris International Sales Corp. which was purchased in 2002

CLEAN AIR POWER

**Clean Air Power, Inc.**
**Consolidated Balance Sheet as at Year to 31st December 2005**

| | December 31, 2005 $'000 | December 31, 2004 $' 000 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 1,792** | $ 1,875 |
| Cash and cash equivalents – restricted | **210** | 165 |
| Accounts receivable, net | **487** | 728 |
| Inventories, net | **1,740** | 3,352 |
| Other current assets | **2,050** | 440 |
| Total current assets | **6,279** | 6,560 |
| | | |
| Property and equipment, net | **416** | 1,519 |
| Total assets | **$ 6,695** | $ 8,079 |
| | | |
| **Liabilities and stockholders' deficit** | | |
| Current liabilities: | | |
| Accounts payable | **$ 1,484** | $ 2,100 |
| Accrued liabilities | **3,432** | 3,193 |
| Current portion of notes payable | **6,167** | 1,712 |
| Total current liabilities | **11,083** | 7,005 |
| Notes payable, net current portion | | 97 |
| | | |
| Commitments: | | |
| Convertible preferred stock, $0.001 par value, 1,107,660,000 shares authorized: | | |
| Redeemable series A3 voting preferred stock | | 19,252 |
| Series A-4 non-voting preferred stock | | 2,031 |
| Redeemable series B-1 voting preferred stock | | 10,981 |
| Series B-2 Non-voting preferred stock | | 729 |
| | | |
| Redeemable Series C-1 Voting Preferred Stock, 784,425 and 766,133 issued and outstanding at December 31, 2005 and September 30, 2005, respectively; $8,040,356 and $7,852,863 liquidation preference at December 31, 2005 and September 30, 2005, respectively | **4,020** | 6,155 |
| Series C-2 Non voting preferred stock | | 278 |
| Series D-1 Non-Voting Preferred Stock, net of issuance costs of $500,586 and $0 at December 31, 2005 and September 30, 2005, respectively; 38,261,399 and no shares issued and outstanding at December 31, 2005 and September 30, 2005, respectively; $5,000,000 and $0 liquidation preference at December 31, 2005 and September 30, 2005, respectively | **1,999** | – |
| | **6,019** | 39,426 |
| | | |
| Stockholders' deficit: | | |
| Voting common stock, $0.001 par value, 561,000,000 | **8** | 2 |

| | December 31, 2005 $'000 | December 31, 2004 $' 000 |
|---|---|---|
| shares authorized; 8,352,806 and 8,365,806 shares issued and outstanding at December 31, 2005 and September 30, 2005, respectively | | |
| Non-voting common stock, $0.001 par value, 561,000,000 shares authorized; 635,481 shares issued and outstanding at December 31, 2005 and September 30, 2005 | **1** | |
| Treasury Stock, 13,000 shares and no shares at December 31, 2005 and September 30, 2005, respectively | | – |
| Additional paid-in capital | **52,064** | 11,646 |
| Accumulated deficit | **(62,503)** | (50,116) |
| Accumulated other comprehensive income | **22** | 19 |
| Total stockholders' deficit | **(10,408)** | (38,449) |
| Total liabilities and stockholders' deficit | **$ 6,695** | $ 8,079 |

**Clean Air Power, Inc.**
**Consolidated Statements of Cash Flow for Year to 31st December 2005**

| | Twelve Month Period Ended December 31, 2005 $'000 | Twelve Month Period Ended December 31, 2004 $'000 |
|---|---|---|
| **Operating activities** | | |
| Net loss | **$ (12,387)** | $ (13,452) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | **460** | 500 |
| Net gain on disposal of property and equipment | **(12)** | |
| Interest expense in connection with preferred stock warrants and beneficial conversion | **4,211** | 333 |
| Stock compensation | | 10 |
| Write down of assets | | 2,387 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **241** | 1,766 |
| Inventories | **1,612** | 83 |
| Other assets | **319** | (373) |
| Accounts payable | **(616)** | 197 |
| Accrued liabilities | **395** | (280) |
| Net cash used in operating activities | **(5,776)** | (8,829) |
| **Investing activities** | | |
| Notes Receivable from officer | | 268 |
| Purchases of property and equipment | **(46)** | (162) |
| Proceeds from the sale of property and equipment | **26** | 2 |
| Cash and cash equivalents - restricted | **(45)** | (134) |
| Net cash provided by (used in) investing activities | **(65)** | (26) |

| | Twelve Month Period Ended December 31, 2005 $'000 | Twelve Month Period Ended December 31, 2004 $'000 |
|---|---|---|
| **Financing activities** | | |
| Proceeds from notes payable | **4,622** | 1,000 |
| Payments on notes payable | **(326)** | (1,757) |
| Deferred offering costs | **(540)** | |
| Proceeds from equity financings, net of issuance costs | **1,999** | 6,347 |
| Net cash provided by financing activities | **5,755** | 5,590 |
| Effect of exchange rate changes on cash | **3** | 8 |
| Net increase (decrease) in cash and cash equivalents | **(82)** | (3,257) |
| Cash and cash equivalents at beginning of period | **1,874** | 5,132 |
| Cash and cash equivalents at end of period | **$ 1,792** | $ 1,875 |
| **Supplemental information** | | |
| Interest paid | **$ 46** | $ 115 |
| Conversion of debt and accrued interest to equity | **$ 169** | $ 101 |
| Compound accrued interest into debt | **$ 227** | |
| Deferred offering cost accrued | **$ 74** | |

- The 2005 results are extracted from the audited consolidated financial statements of Clean Air Power Inc. prepared in US dollars under US GAAP.

- These consolidated statements include the results of Clean Air Power Ltd, the UK subsidiary.

- This report does not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985.

- The company will issue consolidated interim financial statements for Clean Air Power Ltd (the entity listed on AIM) covering the first half of 2006 in due course.

- In line with the dividend policy of Clean Air Power Ltd, Clean Air Power Inc does not intend to pay a dividend.