

KLEENAIR SYSTEMS INTERNATIONAL PLC
(AIM: KSI)

Annual Report and Accounts and AGM Notice

Kleenair Systems International Plc (“KSI” or “the Company”) announces that the Annual Report and Accounts for the year ended 30 June 2012, Notice of AGM and Proxy Form have been posted to shareholders and are available from the Company’s website (www.kleenair-systems.com).

The Annual General Meeting of the Company will be held at the offices of Westhouse Securities Limited, One Angel Court, London EC2R 7HJ on 31 December 2012 at 11 a.m.

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Chairman’s Statement

Introduction

Since KleenAir’s interim results, the Board has been primarily focused on ensuring the business reduced its overheads and continued to implement its investing policy in order to generate returns to shareholders.

Continued Research into Investment Opportunities

KleenAir continues to hold a 17.05% stake in Inspirit Energy Limited, a company in the final stages of development of a micro combined heat and power appliance. Inspirit Energy Limited continues to make good progress.

Financial Results

The Financial Statements for the year to 30 June 2012 are set out in the following pages. The Financial Statements show revenue of £26,446 and administrative expenses have been reduced by 4%.

Changes to the Board of Directors

On 10 January 2012 Sarah Pozner resigned from her position as Non-Executive Director and Company Secretary. The Board would like to thank Sarah Pozner for her contribution and efforts.

On 12 January 2012 Jubeenh Nazhat was appointed as Non-Executive Director and Company Secretary. Ms Nazhat is a corporate solicitor with over 10 years experience of working in top city law firms and in-house for the public sector. Ms Nazhat’s background is mainly corporate law but extends to the fields of projects, construction and finance. Given Ms Nazhat’s past experience she is well placed to take on the role of Company Secretary and Non-Executive Director.

Loan Notes and Company Finance

Global Investment Strategy UK Limited (“GIS”) has two loan note instruments dated 22 June 2010 and 22 November 2009 under which some of the debt owing to GIS has been converted into shares in Kleenair during the year ended 30 June 2012. The undiscounted debt outstanding on each of the loan note

instruments is £75,141 and £147,871 respectively. The total undiscounted debt outstanding to GIS is £223,012, excluding interest.

GIS has confirmed their financial support to KleenAir for at least the next twelve months, allowing KleenAir to continue as a going concern.

J Gunn

Executive Chairman

5 December 2012

**Statement of Comprehensive Income
For the year ended 30 June 2012**

	Note	Year ended 30 June 2012 £	Year ended 30 June 2011 £
Continuing Operations			
Revenue	4	26,446	35,047
Cost of sales		-	-
		<u>26,446</u>	<u>35,047</u>
Gross Profit		26,446	35,047
Administrative expenses		(131,085)	(136,811)
		<u>(131,085)</u>	<u>(136,811)</u>
Operating Loss	7	(104,639)	(101,764)
Finance income	8	1,762	219
Finance costs	8	(32,072)	(61,808)
		<u>(30,310)</u>	<u>(61,589)</u>
Loss before Tax		(134,949)	(163,353)
Tax	9	-	-
		<u>-</u>	<u>-</u>
Loss for the Year		(134,949)	(163,353)
Other comprehensive income		-	-
		<u>-</u>	<u>-</u>
Total Comprehensive Income for the Year		<u>(134,949)</u>	<u>(163,353)</u>
Total Comprehensive Income attributable to:-			
Owners of the Company		<u>(134,949)</u>	<u>(163,353)</u>
Loss per share attributable to the owners of the Company – basic and diluted (pence per share)	10	<u>(0.221)</u>	<u>(0.357)</u>

Statement of Financial Position
For the year ended 30 June 2012

	Note	2012 £	2011 £
Assets			
Non-Current Assets			
Investments	11	740,000	740,000
		<hr/>	<hr/>
		740,000	740,000
		<hr/>	<hr/>
Current Assets			
Trade and other receivables	12	52,528	61,365
Cash and cash equivalents	13	34	32,021
		<hr/>	<hr/>
		52,562	93,386
Current Liabilities			
Borrowings	15	227,482	-
Trade and other payables	14	188,511	74,016
		<hr/>	<hr/>
Net Current (Liabilities) Assets		(363,431)	19,370
		<hr/>	<hr/>
Total Assets less Current Liabilities		376,569	759,370
Non-Current Liabilities			
Borrowings	15	-	449,516
		<hr/>	<hr/>
		376,569	309,854
		<hr/>	<hr/>
Equity			
Called up share capital	16	460,747	452,419
Share premium	16	3,887,762	3,671,231
Other reserves		104,529	127,724
Retained loss		(4,076,469)	(3,941,520)
		<hr/>	<hr/>
Total Equity		376,569	309,854
		<hr/>	<hr/>

Statement of Changes in Equity
For the year ended 30 June 2012

	Share Capital £	Share Premium £	Shares to be issued £	Other Reserves £	Retained Loss £	Total £
At 1 July 2010	428,390	3,030,353	-	124,492	(3,778,167)	(194,932)
Transactions with owners						
Conversion of convertible loan	1,806	16,250	-	-	-	18,056

Shares issued	18,212	710,287	-	-	-	728,499
Share issue costs	-	(85,659)	-	-	-	(85,659)
Share based payments	-	-	3,232	-	-	3,232
Creditors voluntary arrangement	4,011	-	-	-	-	4,011
Total contributions by and distributions to owners of the Company	24,029	640,878	3,232	-	-	668,139
Total comprehensive income for the year	-	-	-	-	(163,353)	(163,353)
At 30 June 2011	452,419	3,671,231	3,232	124,492	(3,941,520)	309,854
At 1 July 2011	452,419	3,671,231	3,232	124,492	(3,941,520)	309,854
Transactions with owners						
Conversion of convertible loan	8,328	216,531	-	(23,195)	-	201,664
Total contributions by and distribution to owners of the Company	8,328	216,531	-	(23,195)	-	201,664
Total comprehensive income for the year	-	-	-	-	(134,949)	(134,949)
At 30 June 2012	460,747	3,887,762	3,232	101,297	(4,076,469)	376,569

Share capital is the amount subscribed for shares at nominal value.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of the respective shares.

Retained loss represents the cumulative loss of the Company attributable to equity shareholders.

Other reserves represent the equity component of convertible loans and the share option reserve.

Statement of Cash Flows For the year ended 30 June 2012

	Year ended 30 June 2012	Year ended 30 June 2011
Note	£	£
Cash Flows from Operating Activities		
Loss before tax	(134,949)	(163,353)
Finance income	(1,762)	(219)
Finance costs	32,072	61,808
Employee share options charge	-	3,232
Decrease/(increase) in receivables	10,120	(56,870)
Increase/(decrease) in payables	62,053	(15,243)

Net Cash used in Operating Activities	(32,466)	(170,645)
Cash Flows from Investing Activities		
Interest received	479	219
Interest paid	-	(394)
Payment to acquire investments	-	(740,000)
Net Cash used in Investing Activities	479	(740,175)
Cash Flows from Financing Activities		
Proceeds from issue of shares	-	728,500
Share issue costs	-	(85,659)
Net cash from Financing Activities	-	642,841
Net cash outflow	(31,987)	(267,979)
Cash and cash equivalents at beginning of year	32,021	300,000
Cash and cash equivalents at end of year	13	32,021

Major non cash transactions:

Convertible loans of £224,859 were converted into shares during the year ended 30 June 2012 (2011 - £18,506). In total 8,328,125 new shares were issued with a total value including share premium of £224,859.

Notes to the Financial Statements For the year ended 30 June 2012

1. GENERAL INFORMATION

KleenAir Systems International Plc is a Company incorporated in England & Wales. The Company's shares are traded on AIM, a market operated by the London Stock Exchange. The address of the registered office is disclosed on page 1 of the Financial Statements. The principal activities of the Company are described in the Directors' Report.

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations issued by the International Accounting Standards Board (IASB), as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements have been prepared under the historical cost convention. The Financial Statements are presented in pounds sterling, rounded to the nearest pound. Sterling is the functional currency of the Company.

The preparation of Financial Statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas

where assumptions and estimates are significant to the Financial Statements, are disclosed in Note 2.16 to these Financial Statements.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement. In addition, Note 3 to the Financial Statements include the Company's financial risk management objectives and policies for managing its capital.

The convertible loan note instrument dated 22 June 2010 was redeemable on 22 December 2012. Under this loan note instrument the Company may issue up to £1 million of secured convertible loan notes ("CLNS") to Global Investment Strategy UK Limited ("GIS"). As at 30 June 2012, GIS had subscribed to CLNs totalling £300,000, of which £224,859 was converted in the year, leaving a year end undiscounted debt of £75,141. A further £15,900 has been converted since the year end. An amount of £700,000 is still available to be drawn down.

The convertible loan note instrument dated 22 November 2009 was also redeemable on 22 December 2012. As at 30 June 2012 the outstanding undiscounted debt under this loan note instrument was £147,871.

On 10 October 2012, the Company entered into a Discretionary Drawdown Facility ("DDF") with GIS which provides the Company with an equity facility up to a maximum aggregate limit of £500,000. The facility is available for drawdown at any time, and for any specified amount at the Company's discretion, up to 30 June 2014. GIS is entitled to commission at 7.5% of the amount called down by the Company in accordance with the terms of the facility.

The Company has received a letter of financial support from GIS for a period of at least twelve months from the date of approval of the Financial Statements. The support includes supplying sufficient funds to enable the Company to meet its operating requirements and not requiring repayment in cash of the outstanding CLNs due for redemption on 22 December 2012, following an extension to the redemption date to 22 December 2013.

The Company's Directors have a reasonable expectation that GIS will be in a position to continue to support the Company, and therefore the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the Financial Statements.

2.2 Changes in Accounting Policy and Disclosures

(i) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 July 2011

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 July 2011 or later periods, but not currently relevant to the Company:

A revised version of IAS 24 "Related Party Disclosures" simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. These revisions apply to annual periods beginning on or after 1 January 2011.

Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" replace references to a fixed date of 1 January 2004 with "the date of transition to IFRSs", thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs, and provide guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

Amendments to IFRS 7 "Financial Instruments: Disclosures" are designed to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. These amendments apply to annual periods beginning on or after 1 July 2011.

(ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2011 and not early adopted

The Directors are assessing the possible impact of the following standards on the Company's Financial Statements:

IFRS 9 "Financial Instruments" specifies how an entity should classify and measure financial assets, including some hybrid contracts, with the aim of improving and simplifying the approach to classification and measurement compared with IAS 39. This standard is effective for periods beginning on or after 1 January 2015, subject to EU endorsement.

IFRS 10 "Consolidated Financial Statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement.

IFRS 11 "Joint Arrangements" provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement.

IFRS 12 "Disclosure of Interests in Other Entities" is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement.

IFRS 13 "Fair Value Measurement" improves consistency and reduces complexity by providing, for the first time, a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. It does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement.

Amendments to IAS 12 "Income Taxes" introduce a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 "Investment Property" will normally be through sale. The amendments are effective for periods beginning on or after 1 January 2012, subject to EU endorsement.

IAS 27 "Separate Financial Statements" replaces the current version of IAS 27 "Consolidated and Separate Financial Statements" as a result of the issue of IFRS 10 (see above). This standard applies to annual periods beginning on or after 1 January 2013, subject to EU endorsement.

IAS 28 "Investments in Associates and Joint Ventures" replaces the current version of IAS 28 "Investments in Associates" as a result of the issue of IFRS 11 (see above). This standard applies to annual periods beginning on or after 1 January 2013, subject to EU endorsement.

Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" require that first-time adopters apply the requirements in IFRS 9 "Financial Instruments" and IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" prospectively to government loans existing at the date of transition to IFRSs. The amendments are effective for periods beginning on or after 1 January 2013, subject to EU endorsement.

Amendments to IFRS 7 "Financial Instruments: Disclosures" require disclosure of information that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods, subject to EU endorsement.

Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" require entities to apply IFRS 9 for annual periods beginning on or after 1 January 2015 instead of on or after 1 January 2013, subject to EU endorsement. The amendments also require additional disclosures on transition from IAS 39 "Financial Instruments: Recognition and Measurement" to IFRS 9.

Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities” clarify the IASB’s intention when first issuing the transition guidance in IFRS 10, provide similar relief in IFRS 11 and IFRS 12 from the presentation or adjustment of comparative information for periods prior to the immediately preceding period, and provide additional transition relief by eliminating the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied. The amendments are effective for periods beginning on or after 1 January 2013, subject to EU endorsement.

Amendments to IAS 1 “Presentation of Financial Statements” require items that may be reclassified to the profit or loss section of the income statement to be grouped together within other comprehensive income (OCI). These amendments apply to annual periods beginning on or after 1 July 2012.

“Annual Improvements 2009 – 2011 Cycle” sets out amendments to various IFRSs and provides a vehicle for making non-urgent but necessary amendments to IFRSs:

- An amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards” clarifies whether an entity may apply IFRS 1:

(a) if the entity meets the criteria for applying IFRS 1 and has applied IFRS 1 in a previous reporting period; or

(b) if the entity meets the criteria for applying IFRS 1 and has applied IFRSs in a previous reporting period when IFRS 1 did not exist.

The amendment also addresses the transitional provisions for borrowing costs relating to qualifying assets for which the commencement date for capitalisation was before the date of transition to IFRSs.

- An amendment to IAS 1 “Presentation of Financial Statements” clarifies the requirements for providing comparative information:
-

(a) for the opening statement of financial position when an entity changes accounting policies, or makes retrospective restatements or reclassifications; and

(b) when an entity provides financial statements beyond the minimum comparative information requirements.

- An amendment to IAS 16 “Property, Plant and Equipment” addresses a perceived inconsistency in the classification requirements for servicing equipment.
- An amendment to IAS 32 “Financial Instruments: Presentation” addresses perceived inconsistencies between IAS 12 “Income Taxes” and IAS 32 with regard to recognising the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.
- An amendment to IAS 34 “Interim Financial Reporting” clarifies the requirements on segment information for total assets and liabilities for each reportable segment.

The amendments are effective for periods beginning on or after 1 January 2013, subject to EU endorsement.

2.3 Investments

Equity investments not held for trading are stated at cost as they are unlisted and their fair values cannot be reliably determined.

2.4 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of corporate services in the ordinary course of the Company’s activities. Revenue is shown net of Value Added Tax.

2.5 Current and Deferred Tax

The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period based on the profit or loss for the period.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised

or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.6 Operating Leases

Payments made under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

2.7 Segment Reporting

The Company currently has one segment, being an investment holding company. All activities are within the United Kingdom.

2.8 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and at bank.

2.9 Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

2.10 Trade and Other Payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.11 Financial Instruments

Financial assets comprise investments in equity securities (available for sale), trade and other receivables (loans and receivables) and cash and cash equivalents. Financial liabilities comprise trade and other payables (at amortised cost).

A financial instrument is recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

2.12 Compound Financial Instruments

Compound financial instruments issued by the Company comprise convertible loan notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

Where material, the liability component of a compound financial instrument is measured initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability in cash for at least 12 months after the end of the reporting period.

2.13 Fair Values

The carrying amounts of the financial assets and liabilities such as cash and cash equivalents, receivables and payables of the Company at the reporting date approximate to their fair values, due to the relatively short term nature of these financial instruments.

2.14 Share-based Compensation

The fair value of the employees', Directors' and suppliers' services received in exchange for the grant of the options are recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.15 Share Capital

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

Ordinary shares are classified as equity.

The B ordinary shares rank pari passu in all respects with the ordinary shares, save that the holder or holders of B ordinary shares shall not have the right to attend and vote at general meetings of the company (save in respect of resolutions to vary the rights attaching to the B ordinary shares). Holders of B ordinary shares have the option to convert their interests in B ordinary shares at any time, and from time to time, into ordinary shares on a 1 for 1 basis.

Deferred shares have no righting votes and have no rights to dividends. Deferred shares only have very limited rights on a return of capital and are not freely transferable.

2.16 Critical Accounting Judgements

The preparation of Financial Statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below:

(a) Impairment of investments

Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates. There have been none in the year.

(b) Interest rate applicable to financial instruments of comparable credit status

In order to calculate the split for convertible loans between the financial liability and equity components, management is required to discount the contractual stream of future cash flows under the convertible loan note instrument at an estimated rate of interest applicable to instruments which do not have any associated conversion option.

(c) Share-based Compensation

The fair value of options are determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. In accordance with IFRS 2 'Share Based Payments' the Company has recognised the fair value of options, calculated using the Black-Scholes option pricing model.

The Directors have made assumptions particularly regarding the volatility of the share price at the grant date in order to reach a fair value. Further information is disclosed in Note 17.

3. FINANCIAL RISK MANAGEMENT

General Objectives, Policies and Processes

The Board has overall responsibility for the determination of the Company's risk management objectives and policies. The Company operates informal treasury policies which include ongoing assessments of interest rate management and borrowing policy.

The Company is exposed through its operations to the following financial risks:

Liquidity risk; and
Credit risk.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's flexibility. There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note. Further details regarding these policies are set out below:

Principal Financial Instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

Trade and other receivables;
Cash and cash equivalents;
Trade and other payables;
Convertible loan notes.

Liquidity Risk

The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain readily available cash balances to meet expected requirements for a period of at least 60 days. The Company's current borrowings are all in the form of fixed interest convertible loan notes.

Rolling cash forecasts identifying the liquidity requirements of the Company are produced frequently. These are reviewed regularly by management and the Board to ensure that sufficient financial headroom exists for at least a twelve month period.

Credit Risk

Credit risk arises from cash and cash equivalents as well as outstanding receivables. Management does not expect any losses from non-performance of these receivables.

The amount of exposure to any individual counter party is subject to a limit, which is assessed by the Board.

The Company considers the credit ratings of banks in which it holds funds in order to reduce exposure to credit risk.

Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to make future investments and provide a return for shareholders. The Company monitors its level of cash resources available against future expenses and may issue new shares or create new convertible loan note instruments in order to raise further funds from time to time. No quantitative analysis is currently applicable based upon the Company's current operations.

4. REVENUE

Revenues during the year comprise the provision of corporate services to Inspirit Energy Limited and GIS. All income is generated in the United Kingdom.

5. EMPLOYEES

	ended	Year 30 June 2012 £	ended	Year 30 June 2011 £
The average number of staff employed by the Company during the year amounted to:				
Executive Directors	2		2	
Non-executive Directors	1		1	
	<u>3</u>		<u>3</u>	
Wages and salaries	34,000		1,250	
Share options granted to Directors	-		3,232	
	<u>34,000</u>		<u>4,482</u>	

6. DIRECTORS' REMUNERATION

Salary and Fees

	ended	Year 30 June 2012 £	ended	Year 30 June 2011 £
S Pozner	13,591		38,000	
A McClue	-		-	
G Saxton	-		-	
D Pinckney	5,000		1,250	
J Nazhat	11,715		-	
J Gunn	-		-	
	<u>30,306</u>		<u>39,250</u>	

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

7. OPERATING LOSS

	ended	Year 30 June 2012 £	ended	Year 30 June 2011 £
Operating loss is stated after charging:				
Auditors' remuneration in respect of audit services	12,100		10,000	
Tax and other services	1,050		-	
	<u>13,150</u>		<u>10,000</u>	

8. FINANCE INCOME AND COSTS

Interest Expense

Convertible loans (see below)	7,394	22,170
Convertible loans (Note 15)	24,678	39,246
Other interest	-	392
	<hr/>	<hr/>
Finance costs	32,072	61,808
	<hr/>	<hr/>
Finance Income		
Loan to related party	1,762	219
	<hr/>	<hr/>

Interest on convertible loans, not split between liabilities and equity based on materiality, is included within accruals.

9. TAXATION

Due to the losses in the accounting periods presented, no corporation tax liability has arisen.

Factors affecting current tax charge:

The tax assessed on the loss on ordinary activities for the period is different from the standard rate of corporation tax in the UK of 20% (2011 - 20%).

	Year ended 30 June 2012 £	Year ended 30 June 2011 £
Loss on ordinary activities before taxation	(134,949)	(163,353)
	<hr/>	<hr/>
Loss on ordinary activities multiplied by rate of tax	(26,990)	(32,671)
Unutilised losses	26,990	32,671
	<hr/>	<hr/>
Total current tax	-	-
	<hr/>	<hr/>

The Company has excess management expenses of approximately £1,216,000 (2011 - £1,112,000), capital losses of £150,000 (2011 - £150,000) and non-trade financial losses of approximately £92,000 (2011 - £62,000) to carry forward against future suitable taxable profits. No deferred tax asset has been provided on any of these losses due to uncertainty over the timing of their recovery.

10. LOSS PER SHARE

Loss per ordinary share has been calculated using the weighted average number of shares in issue during the relevant financial periods. The calculations of both basic and diluted loss per share for the year are based upon the loss for the year of £134,949 (2011 - £163,353). The weighted number of equity shares in issue during the year was 61,200,460 (2011 – 45,690,636).

In accordance with IAS 33, basic and diluted earnings per share are identical as the effect of the exercise of share options and convertible debt would be to decrease the loss per share and are therefore deemed anti-dilutive. Details of convertible loans and share options that could potentially dilute earnings per share in future periods are set out in Notes 15 and 17.

11. INVESTMENTS

30 June

30 June

	2012	2011
	£	£
As at 1 July	740,000	-
Additions	-	740,000
	<hr/>	<hr/>
As at 30 June	740,000	740,000
	<hr/> <hr/>	<hr/> <hr/>

During the year ended 30 June 2011, the Company purchased equity shares at a cost of £740,000 in Inspirit Energy Limited, an unlisted company registered in the United Kingdom operating in the Clean Tech and Renewables sector. The Company owns a total of 2,596,666 shares in Inspirit Energy Limited representing approximately 17% of the total shares in issue.

12. TRADE AND OTHER RECEIVABLES

	June	30	June	30
		2012		2011
		£		£
Amount due from related parties	40,435		35,969	
Other receivables	50		5,977	
Prepayments and accrued income	12,043		19,419	
	<hr/>		<hr/>	
	52,528		61,365	
	<hr/> <hr/>		<hr/> <hr/>	

All trade and other receivables are denominated in Sterling. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security.

13. CASH AND CASH EQUIVALENTS

	June	30	June	30
		2012		2011
		£		£
Cash at bank	34		32,021	
	<hr/>		<hr/>	

All of the Company's cash at bank is held with institutions with an AA credit rating.

14. TRADE AND OTHER PAYABLES

	30 June	30 June
	2012	2011
	£	£
Trade payables	18,034	23,091
Amount due to related parties	132,784	16,039
Accruals and deferred income	35,654	33,636
Other payables	2,039	1,250
	<hr/>	<hr/>
	188,511	74,016
	<hr/> <hr/>	<hr/> <hr/>

15. BORROWINGS

Non-current		
Convertible loan	-	449,516
	<u> </u>	<u> </u>
Current		
Convertible loan	227,482	-
	<u> </u>	<u> </u>

Convertible Loans

During the year ended 30 June 2010, the Company issued 434,090 5% convertible loans at a par value of £434,090 under loan note instruments dated 29 July 2009 and 22 November 2009. Loan notes totalling £274,073 and £18,056 were converted into shares during the years ended 30 June 2010 and 30 June 2011 respectively. There were no conversions during the year ended 30 June 2012. All loans under the loan note instrument dated 29 July 2009 have been fully converted. The loans dated 22 November 2009 mature on 22 December 2012. Both series of loan notes have a conversion price of £0.01 per share.

During the year ended 30 June 2010, the Company issued 300,000 5% convertible loans at a par value of £300,000 under a loan note instrument dated 22 June 2010. The loans mature on 22 December 2012 and have a conversion price of £0.027 per share or at a 10% discount to the average market price based on the previous five days trading, whichever is the lower. Loan notes totalling £224,859 were converted into shares on 24 October 2011.

On 28 November 2012 the redemption date for both loan note instruments was extended to 22 December 2013.

The values of the liability and equity conversion component were determined at the date the loan notes were issued. All convertible loans were issued to Global Investment Strategy UK Limited.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible loan. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves.

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

	30 June 2012 £	30 June 2011 £
At 1 July	449,516	422,416
Face value of convertible loans	-	5,910
	<u> </u>	<u> </u>
Liability component on initial recognition	449,516	428,326
Converted to ordinary shares	(246,712)	(18,056)
Interest expense (Note 8)	24,678	39,246
	<u> </u>	<u> </u>
Liability component at 30 June	<u>227,482</u>	<u>449,516</u>

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

16. SHARE CAPITAL

	Number	£
Authorised		
2011 and 2012		
Ordinary shares of £0.001	1,501,855,740	1,501,856
'B' Ordinary shares of £0.001	1,221,200	1,221
Deferred shares of £0.99	400,932	396,923
	<u> </u>	<u> </u>

1,503,477,872 1,900,000

The 'B' Ordinary shares and Deferred shares have no voting rights.

There has been no movement in the authorised share capital during the year.

On 13 December 2010 the Company subdivided its Ordinary and 'B' Ordinary share capital on the basis of 10 new shares for every 1 existing share. The new nominal value of one Ordinary and 'B' Ordinary share is £0.001.

	Number of ordinary shares	Number of 'B' ordinary shares	Number of deferred shares	Ordinary shares £	'B' ordinary shares £	Deferred shares £	Share premium £	Total £
Issued and Fully Paid								
At 1 July 2010	3,024,546	122,120	400,932	30,245	1,221	396,923	3,030,353	3,458,742
Issue of new shares	5,117,500	-	-	18,212	-	-	710,288	728,500
Share issue costs	-	-	-	-	-	-	(85,660)	(85,660)
Creditors voluntary arrangement	401,155	-	-	4,012	-	-	-	4,012
Subdivision of share capital	43,926,309	1,099,080	-	-	-	-	-	-
Conversion of convertible loan	1,805,555	-	-	1,806	-	-	16,250	18,056
At 30 June 2011	54,275,065	1,221,200	400,932	54,275	1,221	396,923	3,671,231	4,123,650
Conversion of convertible loans	8,328,125	-	-	8,328	-	-	216,531	224,859
At 30 June 2012	62,603,190	1,221,200	400,932	62,603	1,221	396,923	3,887,762	4,348,509

On 24 October 2011, the Company issued 8,328,125 ordinary shares of 0.1 pence each at a price of 2.7 pence per share, following receipt of a conversion notice of certain convertible loan notes.

17. SHARE OPTIONS

Share options are granted to selected Directors and employees.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price in £ per share	Number of Options	
		2012	2011
26 April 2021	0.04875	1,500,000	1,500,000
		1,500,000	1,500,000
		1,500,000	1,500,000

The options may only be exercised on or after 26 April 2012. The weighted average contractual life of the outstanding options at 30 June 2012 was 8.83 years (2011 – 9.83 years).

The fair value of the share options was determined using the Black Scholes valuation model. The parameters used are detailed below:

	2011 Options
Shares under option	1,500,000
Option granted on:	26 April 2011
Option life (years)	10
Share price (pence per share) at grant date	4.50
Risk free rate	3.71%
Expected volatility	10%
Expected dividend yield	Nil
Marketability discount	5%
Fair value per option granted (pence per share)	1.254
Exercise price (pence per share)	4.875

The expected volatility is based on historical volatility for the 6 months prior to the date of granting. The risk free rate of return is based on zero yield government bonds for a term consistent with the option life.

18. CAPITAL COMMITMENT

There was no capital expenditure that had been contracted for at the end of the reporting period but not yet incurred.

19. CONTINGENT LIABILITIES

The Company has no contingent liabilities.

20. ULTIMATE CONTROLLING PARTY

In the opinion of the Directors, there is no controlling party at the year-end date.

21. RELATED PARTY TRANSACTIONS

During the year ended 30 June 2011, the Company entered into a loan agreement dated 23 May 2011 with Inspirit Energy Limited. Inspirit Energy Limited is beneficially owned and controlled by J Gunn, a substantial shareholder and Director of the Company. The Company advanced £30,000 to Inspirit Energy Limited under this unsecured sterling loan facility for working capital purposes. Interest on the loan at 7% per annum is payable to the Company and the loan is repayable not less than three months, but not more than three years, from the date of the agreement. As at 30 June 2012, the amount due to the Company from Inspirit Energy Limited was £14,465 (2011 - £30,000) together with accrued interest receivable of £1,502 (2011 - £219).

In addition, the Company charged Inspirit Energy Limited fees of £16,946 (2011 - £35,047) for the provision of corporate services during the year. An amount of £14,570 was receivable from Inspirit Energy Limited as at 30 June 2012 (2011 - £5,969).

Global Investment Strategy UK Limited ("GIS") is a company which is beneficially owned and controlled by J Gunn. At the year end the Company owed GIS £111,438 (2011 - £19,766) for the provision of rent, rates,

office facilities, loan interest and funds advanced for working capital purposes. GIS owed the Company £11,400 (2011 - £nil) for the provision of corporate services. On 24 October 2011, GIS agreed to convert £224,859 of its outstanding convertible loan into 8,328,125 ordinary shares of 0.1 pence each.

J Gunn provided an unsecured loan of £45,000 to the Company during the year. The full amount is due to J Gunn as at 30 June 2012.

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 3 July 2012, GIS agreed to convert £15,900 of its outstanding convertible loan into 1,590,000 ordinary shares of 0.1 pence each. These shares were placed with unconnected third parties to GIS.

Also on 3 July 2012, the Company allotted 412,982 ordinary shares of 0.1 pence each to a financial advisor in settlement of fees.

On 19 September 2012, the Company allotted 200,000 ordinary shares of 0.1 pence each to a financial advisor in settlement of fees.

On 4 October 2012, the Company raised £50,000 through the placement of 3,333,333 ordinary shares of 0.1 pence each at a price of 1.5 pence per share.

On 10 October 2012, the Company entered into a Discretionary Drawdown Facility ("DDF") with GIS which provides the Company with an equity facility up to a maximum of aggregate limit of £500,000. The facility shall be available for drawdown at any time and for any specified amount at the Company's discretion up to 30 June 2014. GIS are entitled to commission at 7.5% of the amount called down by the Company in accordance with the terms of the facility.

On 28 November 2012 the redemption date for both convertible loan note instruments was extended from 22 December 2012 to 22 December 2013.