

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

Annual Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the fiscal year ended **December 31, 2004**

Commission file number: **33-3362-D**

KLEENAIR SYSTEMS, INC
(Name of small business issuer in its charter)

State of Nevada
(State or other jurisdiction of
incorporation or organization)

87-0431043
(I.R.S. Employer
Identification #)

27121 Aliso Creek Road, Aliso Viejo, CA 92656
(Address of principal executive offices and zip code)

Issuer's telephone number: (949) 831-1045

Securities registered under Section 12 (g) of the Exchange Act: Common stock, no par value

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☒

State issuer's revenues for its most recent fiscal year: \$151,940

The aggregate market value of the voting stock held by non-affiliates of the registrant on December 31, 2004, was \$4,454,895 based on the closing stock price on that date.

The number of shares outstanding of the registrant's common stock on December 31, 2004, was 58,100,206 shares.

PART I

Item 1. Description of Business

The Company was incorporated under the laws of the State of Nevada on February 4, 1986, under the name of Covington Capital Corporation. In 1986, the Company filed an S-18 and registered certain stock. From 1989 through 1993, the Company underwent a series of name changes in order to explore various business opportunities. However, none of the business opportunities was successfully completed.

In April, 1995, under the name Investment and Consulting International, Inc., the Company acquired a patent for a proprietary device designed to neutralize nitrogen oxide automobile emissions from a separate Company which was then known as KleenAir Systems, Inc. Simultaneously with the acquisition of the patent, the Company acquired the right to use the corporate name "KleenAir Systems, Inc.," and changed to its current name.

Since acquiring the patent in 1995, the Company has been a developmental stage company and has worked towards the completion of the development and testing of the NOxMaster™ technology. The Company owns U.S. Patent #5,224,346, Engine NOx Reduction System, issued in 1993, U.S. Patent #5,609,026 Engine NOx Reduction System issued in 1997. In 1999 the Company was issued a third patent on Ammonia Injection in NOx Control, U.S. Patent #5,992,141. The Company has applied for and maintained patent protection under the Patent Cooperation Treaty (PCT) to protect its intellectual property in a variety of countries that are significant producers of automotive products.

The Company has applied for additional patents related to its NOxMaster™ technology. In September 2002, U.S. patent # 6,446,940 B1 was issued for the Sonic Flow Carburetor, a new emission control device that atomizes fuel in gasoline powered engines. This process enhances operating efficiency and reduces emissions. Another patent, U.S. # 6,499,463 B1 was issued in December 2002 for a Diesel Fuel Atomizer. This device facilitates improved diesel combustion, lower fuel use, and lower emissions of particulates and CO2.

An additional patent was issued in February 2005, being U.S. Patent # 6,852,292. This patent covers the use of aqueous ammonia, which is ammonia dissolved in water, and which is typically used as household or industrial cleaner. When injected into the exhaust, this liquid solution reduces NOx in the same manner as anhydrous ammonia (a gas), the catalyst in the previous NOxMaster™ versions.

Patent awards have now been confirmed for several European countries including the U.K., Germany, France, Italy, Spain and Sweden, and are anticipated soon for Japan, Brazil, and China.

In May 2002, the Company leased a 10,000 square foot R & D and office facility at 1711 Langley, Irvine, CA 92614. The Company has also acquired a new chassis dynamometer in addition to its engine dynamometer to cope with increasing levels of R & D engine and device testing programs as it prepares for commercializing its technology.

In 2003, the Company successfully completed the final phase of its London Taxi Program funded by a U.K. government grant. This in-service test, involving several London taxicabs, started in January 2002. The Company has been notified that its NOxMaster™ system has been approved for the Cleanup Register making it eligible for U.K. governmental retrofit subsidies. There are approximately 40,000 such taxicabs in service that represent the potential market opportunity should the system be endorsed as the preferred retrofit product.

The Public Carriage Office (PCO) has mandated the retrofit upgrade of some 17,500 out of the current fleet of approximately 22,000 taxicabs in London. These taxicabs will be required to upgrade to a Euro 3 level (the emissions level currently required of new cabs) during the period between July 1, 2006 and June 2008. The same system being placed on the cabs can also be adapted as a retrofit or OEM product for general diesel-powered passenger vehicles, which represents approximately 45% of the registered and new vehicle market in Europe.

Installation of test systems consisting of a combination of KleenAir System's SCR and Dinex's particulate reduction (DPF) products has resulted in the creation of a new device category by the Energy Savings Trust (EST) called SCRF, the combination of Selective Catalytic Reduction and a Filter. This category receives the Trust's highest level of subsidy. KleenAir's NOxMaster™ System has also been approved for light, medium and heavy duty applications including taxicabs, delivery vans, shuttle buses, single and double-decker large buses, refuse collection vehicles, and trucks. The Company's strategic partner, Dinex, has been asked by the Energy Savings Trust to retrofit 20 test

vehicles during the summer of 2005 for a 6 month trial program of its latest combination SCRF system for reduction of both NOx and Particulates. The NOxMaster™ is an integral part of this combination system.

These approvals open a broad spectrum of potential applications covering a retrofit market opportunity of several hundred thousand vehicles in the U.K. alone. They also set precedents and demonstration opportunities leading to similar applications in other European countries. For example, in Denmark several buses in Copenhagen have had KleenAir Systems successfully installed and tested.

During 2004 a number of additional tests were conducted of a combination of KleenAir's NOxMaster™ System and Adastr's Optimax-DPF fuel borne catalyst system for particulate reduction. Adastr, an Octel (NYSE) company in the U.K., has already had its DPF system approved by the EST for a number of vehicle applications and, on conclusion of the current tests, it is anticipated that the KleenAir/Austr system will secure entry into the SCRF category.

Systems ordered by several other London Boroughs, and installed on both refuse collection trucks and buses during 2002, have performed well. As a result, those systems have been added to the EST Cleanup Register. As a result, KleenAir and Dinex are now targeting the 100 Air Quality Management Areas (AQMA) established by Local Authorities throughout Britain. These AQMAs have the authority to establish emission rules for their districts in order to improve their local air quality. It is believed that such AQMAs will take actions leading to the need for vehicles in a variety of categories to retrofit emission control devices such as the KleenAir/Dinex products. Approximately 30 systems have been installed in a number of Local Authority AQMA's including Glasgow, Cardiff, and Edinburgh. Orders for an additional several hundred systems have been received and are awaiting funding authorization.

U.S. testing continues of the NOxMaster™ Diesel Catalytic Converter together with its NOxMaster™ Ammonia Injection System to present an integrated system for the elimination of emissions from diesel powered mobile sources. In order to sell the Company's products in California an Executive Order (EO) is required from the State of California. The Company must demonstrate under prescribed testing protocols that its products do not increase the level of exhaust emissions. The Company has received an EO certification from the California Air Resources Board (CARB) for off-road and stationary engine applications. This allows for commencement of sales of the Company's products related to these applications in California. EO certification for on-road applications is expected shortly.

The Company is preparing to meet CARB and EPA Retrofit Verification requirements for heavy-duty vehicles on both its NOxMaster™ NOx reduction system and its Oxidizing Particulate Trap (OPT). It has applied for Retrofit Verification of the combination package of the OPT with the NOxMaster™ for both high particulate reduction as well as high NOx reduction. The EPA has now published its Selective Catalytic Reduction Protocol (SCR). The absence of this protocol has previously prevented the Company from commencing certification procedures.

In 2003, the Company acquired Carbon Cloth Technologies, Inc. (CCT) of Malibu, California. CCT is a manufacturer of automotive thermal management systems. Carbon Cloth has years of experience developing thermal solutions for such motor sports industry leaders as Ferrari, Mercedes-Benz, and Penske. This experience has enabled development of the CarbonGuard™, a significant addition to the battle on pollution.

The CarbonGuard™ is currently installed on several hundred of New York City Transit Authority buses as enhancements for the operating efficiency of an installed base of particulate traps. Multiple prototype variations have been purchased by a number of automotive OEM manufacturers with a view to their incorporating the CarbonGuard™ for a variety of thermal management applications.

Carbon Cloth Technologies has applied for patents in automotive thermal management systems. At present, this system is used to enhance the effectiveness of particulate filters that need to maintain 300 degrees centigrade for 30% of a vehicle's operating time. At lower temperatures, the filters clog and create back pressure. Wherever particulate filters are currently installed, at present estimated to be at least 30,000 units, the CarbonGuard™ can improve performance and save maintenance expense. Filter technology has come to prominence recently as the Environmental Protection Agency (EPA) and the California Air Resource Board (CARB) have determined that particulate emissions from vehicles are a serious public health problem.

The Company signed a marketing agreement in 2002 with ServoTech. Under this agreement, the Company earns a commission on any ServoTech's SOBRIS™ system sales it may generate. This system is a competing method of NOx emission reduction that utilizes urea and aqueous ammonia in a system that introduces these reductants into an exhaust system. ServoTech is a licensee of Ford Motor Company on SCR injection technology. The SOBRIS™ product is under test and evaluation by a number of automotive manufacturers in the U.S. and Europe.

Once production and sales of the NOxMaster™ and OPTs get to a consistent phase, the Company anticipates employing initially 15 to 20 employees, primarily in management, technical and administrative capacities. The Company is actively seeking sources of funding for its operating capital requirements, both to complete its test and evaluation programs and to support initial sales and production.

The Company has not been involved in any bankruptcy, receivership or similar proceeding.

In May 1997, the Company undertook a one for fifteen reverse split of its common outstanding shares leaving the par value at \$.001 per share. The number of issued and outstanding shares was reduced to 362,157 while its authorized shares remained unchanged at 50,000,000. The Series 1 Preferred Shares were similarly effected by the same 1 for 15 reverse split and were reduced to 500,000 shares. In January 2000, the last of the outstanding preferred shares were converted into common shares at a ratio of 1 common share for each share of Series 1 Preferred. In February 2000, the Board of Directors approved a 2 for 1 stock split effective March 20, 2000.

The NOxMaster™ is an electro-mechanical device that substantially reduces the oxides of nitrogen (NOx) from the exhaust gases of cars and trucks (mobile sources) fueled by gasoline, diesel or natural gas.

The purpose of the NOxMaster™ is to reduce NOx emissions to a level substantially lower than the minimum requirements of even the most restrictive state - California. The NOxMaster™ is a one-of-a-kind device, that can effectively accomplish this task and consists of: 1) an ammonia injector located on the engine exhaust system upstream of the catalytic converter; 2) a tank of minimally pressurized ammonia with solenoid operated valves; 3) tubing, wiring, and an electronic controller that senses engine parameters.

A timing pulse from the engine is used to determine certain parameters that indicate NOx production and to trigger a solenoid causing the injection of gaseous ammonia into the exhaust system upstream of the catalytic converter. The chemical reaction that occurs causes the NOx to be reduced to harmless constituents primarily at the initial mixing and secondarily at the catalytic converter. The ammonia injection is programmed to occur only when the engine is operating at specific load and performance conditions.

In addition to a cost effective reduction of NOx emissions from the exhaust, the NOxMaster™ has the potential of aiding the enhancement of engine performance. Controlled reduction of NOx emissions could allow for the re-tuning of the engine for increased efficiency. This would result in increased fuel mileage while continuing to meet the government-set NOx emission standard.

The Company has complemented its NOxMaster™ Ammonia Injection System with a NOxMaster™ Diesel Catalytic Converter for the purpose of applying its NOx reduction technology to diesel fueled engines while also reducing carbon monoxide, hydrocarbon, and particulate emissions from such engines. It has done so through the development of specially formulated ceramic wash-coats that allow for ammonia in the atmosphere and that provide a significant particulate reduction for the retrofit market. It is planning the acquisition of plasma technology capable of much greater reductions of particulate emissions, particularly ultra-fine particulates, the health hazards of which are getting increasing attention by the EPA. Such an integration of an ammonia-based NOx reduction system and a plasma particulate reduction system will be well suited to both the OEM and retrofit markets.

In order to conserve operating capital, the Company currently has two paid full-time employees and. It has retained the services of its management, officers and certain consultants through the issuance of restricted Section 144 common stock.

In June 1996, five employment and consulting contracts with 30 months remaining (and valued at over \$1,000,000) were voluntarily terminated by the parties concerned, with no future recourse or liability for the Company, including the employment contracts of Lionel Simons, President and Lester Berriman, Chairman. Mr. Simons and Mr.

Berriman agreed to continue managing and directing the Company without cash compensation until such time as adequate operating capital had been secured for the Company. Peter Cahill resigned from the Board at this time and William H. Ward, Jr. was appointed to the Board to serve along with Mr. Simons and Mr. Berriman.

In December 1996, the Company, having no resources available for the international commercial exploitation of its technology rights, and having no business plan for such exploitation of rights outside of the U.S., entered into a licensee agreement with an officer of the Company. This license was for the exploitation of European rights to the technology for application to gasoline engines and for exploitation of worldwide rights for diesel engines. The agreement called for the Company to receive an 8% royalty plus 30% ownership of a Company to be established overseas. This Company was subsequently formed and called KleenAir Systems International, Inc. It established a wholly owned subsidiary in the U.K. called KleenAir Systems Ltd. During 1998, the U.S. exploitation rights for that portion of the technology relating to diesel engines was transferred back to the Company in exchange for an issuance of restricted shares.

The Company began distribution of its CarbonGuard™ thermal management system during 2002 and has shipped its NOxMaster™ products since 2003.

Management believes that the NOxMaster™ system is unique, well protected by patents, and that it will prove to be effective and marketable after completion of testing. Competition is anticipated from so-called urea systems, such as the SOBRIS™ system, that are more complex and significantly more costly, but whose end result is the creation of ammonia to catalyze a chemical reaction with NOx in the exhaust system.

Development expenses were \$172,682 during 2004. During 2003 they were \$196,534.

The Company does not intend to deliver an annual report to security holders. The public may read and copy any materials filed with the SEC such as this 10-KSB and 10-QSB reports. The Company is an electronic filer under the SEC's EDGAR filing program. The SEC maintains an Internet site at www.sec.gov that contains such reports and other information filed electronically which is available to all security holders.

Item 2. Description of Property

In May 2002, the Company leased a 10,000 square foot R & D and office facility at 1711 Langley, Irvine, CA 92614. The Company has also acquired a new chassis dynamometer in addition to its engine dynamometer, computers and other test equipment to cope with increasing levels of R & D engine and device testing programs as it prepares for commercializing its technology.

The Company does not engage in mining operations, oil and gas producing activities or real estate activities.

Item 3. Legal Proceedings.

The Company is not currently the subject of any litigation.

Item 4. Submission of Matters to a vote of Security Holders.

There were no submissions to a vote of security holders during 2002.

PART II

Item 5. Market For Common Equity and Related Stockholder Matters.

Market Information: The principal trading market for the common equity securities of the Company is the National Association of Securities Dealers OTC Bulletin Board quotation system. The following are the highs and lows for each quarter for fiscal year ended December 31, 2004 and 2003, respectively. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

	2004		2003	
	High	Low	High	Low
1st Quarter	\$0.43	\$0.20	\$0.51	\$0.22
2nd Quarter	0.39	0.18	0.35	0.20
3rd Quarter	0.22	0.10	0.35	0.16
4th Quarter	0.16	0.09	0.34	0.20

Shareholders: At December 31, 2004, there were 549 shareholders of record with an additional approximately 64 shareholders registered with firms reporting to the Depository Trust Company.

Dividends: No dividends have been paid in the last two fiscal years.

Item 6. Management's Discussion and Plan of Operation.

In addition to the original U.S. Patent # 5,224,346 acquired in April of 1995, U.S. Patent # 5,609,026 "Engine NOx Reduction" was issued in 1997 after successfully overturning a challenge in Patent Court. International patent rights have been granted for these patents and have been issued for Europe (patent # 5 638 139 covering Germany, France and the U.K.) International coverage extends to certain Asian countries and Canada as well as Brazil and certain other countries. On November 30, 1999 the Company was issued a third patent on "Ammonia Injection in NOx Control", U.S. Patent # 5,992,141. This patent deals with the NOxMaster™ ammonia injection control system and chemical reaction enhancement techniques to ensure optimum effectiveness of the system to achieve maximum NOx reduction. In the opinion of management, this patent significantly strengthens the position of the Company in the exploitation of its technology and increases the value of its future commercial utilization and licensing potential. Management believes that its patent coverage in all the major automobile and truck producing countries provides it with the patent protection necessary to successfully exploit the technology world-wide. Because of the way the accounting rules work, the true value of the patents the Company owns has not been reported in the financial statements.

As a subsequent event, an additional patent was issued in February 2005, U.S. Patent # 6,852,292. This patent covers the use of aqueous ammonia, which is ammonia dissolved in water, and which is typically used as household or industrial cleaner. When injected into the exhaust, this liquid solution reduces NOx in a manner similar to that of anhydrous ammonia (a gas). With these two forms of Selective Catalytic Reductant (SCR), the Company believes it is well-positioned to compete with Urea systems. Urea, the other reductant, systems are the main alternative means of delivering ammonia into the exhaust stream.

Other patents have been applied for that would improve the NOxMaster™ device in specific relation to its reduction of particulate emissions. The Company believes that a system that reduces particulate emissions as well as oxides of nitrogen meets the two major mobile source pollutants of greatest concern to the mandating authorities, such as the EPA and CARB.

The Company continued testing on its Sonic Flow Carburetor with a patent granted in September 2002 (U.S. #6,446,940). This device significantly improves fuel-burning efficiency and reduces emissions on gasoline engines by more effectively atomizing the fuel into very fine particles that results in an even and homogenous distribution throughout the engine cylinders.

The Company is positioning the Sonic Flow Carburetor as a low cost alternative to a fuel injection system for the two-wheel vehicle markets in China and India. It offers more power, greater fuel economy, and lower emissions at a significantly lower cost. In China, some 12 million two-wheel vehicles are manufactured annually. The Company has a test and evaluation agreement with a major manufacturer of some 2 million vehicles. This agreement has the view of replacing their existing carburetor systems with the Sonic Flow Carburetor

A similar Sonic Flow concept is employed in the Company's new dual fuel injector for which a patent was issued in December 2002. This device is designed to improve operating efficiency and reduce emissions on diesel engines by using regular diesel fuel to commence fuel combustion and then switching to atomized fuel. These new products are the result of following through on the Company's mission to develop technologies that significantly reduce polluting emissions and improve operating efficiencies.

The original product, the NOxMaster™ device is currently being commercialized in the U.K. and Denmark. Retrofit Verification by the EPA and the California Air Resource Board (CARB) has been applied for in the U.S.

Nitrogen Oxides (NOx) are the most difficult auto exhaust pollutants to control. They are not sourced from the engine fuel, but are produced by the oxidation of nitrogen in the combustion of air. Their formation requires high temperature (2500 degrees F and above). The higher the temperature, the more NOx is produced. Thus, NOx is produced in proportion to engine power output and efficiency. Meeting even the current minimum standards requires sacrifices in performance and economy.

The NOxMaster™ utilizes both the non-catalytic reaction that occurs at high temperatures and the catalytic reaction occurring at lower temperatures. Tests have confirmed this approach. Further test data has shown that the desired reaction does occur in the presence of excess air (oxygen) and might even be enhanced by the oxygen. Thus the NOxMaster™ device gives the manufacturer a method of control that is essentially independent of engine operating parameters and provides new options for economy and performance.

The NOxMaster™ Diesel Catalytic Converter has completed road trials and production. Delivery to overseas customers commenced during the year 2003.

The product can also be distributed in states other than California. An Executive Order (EO) is required in California before distribution can commence. The Company has received an EO from the CARB enabling it to sell its product in the State of California. The EO states that the product does not increase NOx emissions and will allow the Company to sell the product(s) in the state of California. However, the marketplace currently requires qualification for Emission Trading Credits to commence commercialization at this stage.

The Company needs to secure the recently introduced requirement for Retrofit Verification approval from the CARB or EPA for SCR technology in order to qualify for SIP and Emission Trading Credits. These credits enable the user to sell credits to cover the cost of equipment and operations.

The Company initially applied for EPA and CARB Retrofit Verification in the fourth quarter of 2003. This application is in line with the new protocols for Selective Catalytic Reduction (SCR) that have been finalized by those agencies. However, modifications and clarifications of these protocols and certification requirements have delayed the Retrofit Verification Program which is now expected to be completed during the course of 2005. These verifications are necessary to permit sale of the Company's NOxMaster™ system nationwide and to qualify its customers for emission credits.

The emphasis for emission trading credits is on NOx reduction products, thereby satisfying the mobile source emission reduction criteria for "emission credits". The Guidelines for the Generation and Use of Mobile Source Emission Reduction Credits, published by the California Environmental Protection Agency, Air Resources Boards and Mobile Source Emission Reduction Credits were approved by the ARB on February 19, 1993.

The document states that NOx is the only pollutant considered in the guidelines as a reasonable candidate for credit generation. These emission credits are currently traded on a commodity-like exchange and are valued in the range over \$20,000 per ton. The Company believes the value of these emission credits will be a very substantial tool in the marketing of the NOxMaster™ products to fleet vehicle owners, especially the diesel transportation industry.

The Company's licensee, ExtEngine Transport Systems LLC, has received Retrofit Verification from the California Air Resource Board (CARB) for an off-road system based on the Company's technology. This system has been under test on some 35 vehicles in Houston for the past two years. With qualification for SIP credits, it is expected that significant additional installations will take place in Houston.

The Company has signed a distribution agreement with DINEX A/S of Denmark and its U.K. subsidiary Dinex U.K. Ltd. Under this agreement DINEX has a non-exclusive right to sell the Company's products in its market area which consists of Scandinavia, U.K., Germany, France, Italy, and Spain.

The Company has signed a Technical Services Agreement with ServoTech Engineering, Inc. of Belleville, Michigan. Under this Agreement, ServoTech will perform hardware and software design and testing services for certain components used in the Company's NOxMaster™ NOx Reduction System. The system is being readied for multiple installations in the U.K. and for Retrofit Verification in the U.S.

ServoTech is a long-time supplier of engineering, prototyping and testing services to Ford Motor Company and other major Detroit based and international automotive manufacturers.

Once production and sales begin, the Company anticipates employing initially 15 to 20 employees, primarily in management, technical and administrative capacities. The Company is actively seeking sources of funding for its operating capital requirements both to complete its test and evaluation programs and to support initial production and sales.

On December 29, 1999 the Company signed a Letter of Intent with ExtEngine Transport Systems, LLC regarding the awarding of licenses for commercial exploitation of the Company's technology in China, India, California and the U.S. Urban and School Bus markets. This was subsequently followed by completion of Licensing Agreements, the exclusive terms of which, if fulfilled, would represent significant income to the Company over the succeeding 10 years. As part of the Agreement, Extengine Transport Systems LLC invested funds in the Company to cover the costs of research and development to fulfill contracts requiring the demonstration of NOx reduction capability with regard to a number of engines supplied by major Chinese automotive companies. Discussions have also been held with various California Transportation Authorities with regard to the testing of the Company's products on its buses as part of the Extengine drive to exploit the Company's technologies in the Urban Bus market.

This license has now, by mutual agreement, been set aside. Extengine no longer has exclusive rights for India and China, but instead has been given exclusive rights for Hong Kong, Korea, and Japan and retains an exclusive in the U.S. Urban Bus market. It also has non-exclusive rights to sale of products utilizing the Company's systems technology in the U.S. and certain other limited territories overseas.

The Company occupies a 10,000 square foot Research and Development facility in Irvine, California where it has expanded its R & D dynamometer testing capabilities and broadened the range of engine types and sizes for which it can customize its products.

Several NOxMaster™ units have been installed and are in service on a number of London Taxicabs. Systems have also been installed on a London Borough 16 passenger Mercedes Sprinter bus and on a number of waste collection trucks in the several other London Boroughs.

In December 2004, the Mayor of London issued a mandate requiring the upgrade to Euro 3 emission standards of all on-road London taxis, a total number of approximately 17,500 vehicles. The Company's system is one of only two that have been approved by the Public Carriage office and the Energy Savings Trust. (The other system is the conversion of the diesel taxis to LPG fuel.)

The Low Emission Zone strategy announced by the Mayor requires that Heavy Goods Vehicles and buses, as well as taxis, effectively meet Euro 3 standards by 2007. This covers the entire area of the London Boroughs. It is estimated that this might affect some 250,000 vehicles of which at least 100,000 will actually be equipped with systems to meet the requirement. The Company expects its position on the EST Clean-up Register for products suitable for this upgrade program will enable it to generate a significant market share.

In March 2004, the Jubilee Investment Trust of London, U.K. acquired \$2.1 million of the Company's common stock in exchange for its stock. The Jubilee stock was subsequently sold for \$910,569 to meet working capital requirements of the Company.

In September 2004, another investment valued at \$1.6 million was made in the Company by the London-based Langley Park Investment Trust in exchange for Langley stock. Subsequent to this transaction, the Company sold a portion of the Langley shares for \$104,860.

Disclosure Regarding Forward-Looking Statements

Where this Form 10-KSB includes "forward-looking" statements within the meaning of Section 27A and Section 21E of the Securities Act, the Company desires to take advantage of the "safe harbor" provisions thereof. Therefore, the Company is including this statement for the express purpose of availing itself of the protections of such safe harbor provisions with respect to all of such forward-looking statements. The forward-looking statements in this Form 10-KSB reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ from those anticipated. These risks include, but are not limited to, economic conditions, changes in environmental regulations, the market for venture capital, etc. In this Form 10-KSB, the words "anticipates," "believes," "expects," "intends," "future" and similar expressions identify forward-looking statements. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that may arise after the date hereof. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by this section.

Item 7. Financial Statements

See the Index to Financial Statements on page F-1 following the signature page of this Form 10-KSB.

Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None

Item 8A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our President and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of December 31, 2003. Based on this evaluation, our President and Chief Financial Officer concluded that our disclosure controls and procedures were effective such that the material information required to be included in our Securities and Exchange Commission ("SEC") reports is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms relating to our reporting obligations, and was made known to them by others within the Company, particularly during the period when this report was being prepared.

(b) Changes in internal controls over financial reporting.

There was no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

Item 8B. Other Information

None

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons: Compliance With Section 16(a) of the Exchange Act

<u>Name</u>	<u>Age</u>	<u>Position/Office</u>	<u>Term</u>	<u>Served Since</u>
Lester Berriman	80	Director/ VP-Research	2 years	April 1995
Lionel Simons	70	Director/President/ Secretary/Treasurer	2 years	Dec. 1995
Hamid Servati	52	Director/Consultant	2 years	Nov. 2002

Lester Berriman, P.E., Chairman and VP-Research. A Professional Engineer with a degree in Chemical Engineering, Mr. Berriman leads the Company in its research and development. Mr. Berriman served 20 years as manager of Chemical and Mechanical Engineering for the Southern California laboratories of the Stanford research Institute and 17 years with Dresser Corporate Advanced technology which included 2 years as their Director of the Advanced Technology Center. Mr. Berriman has 21 United States patents and over 80 foreign patents to his credit and is one of the co-developers of the NOxMasterTM technology. Mr. Berriman is also very closely aligned with the California Air Resources Board (CARB) and the South Coast Air Quality Management District (AQMD).

Lionel Simons, President and Secretary. Mr. Simons attended the London School of Economics where he earned his Bachelor of Science in Economics and was awarded one of 7 Leverhume Scholarships. He earned his Masters in Business Administration, majoring in International Business and Marketing, at the Columbia University Graduate School of Business. While Managing Director of Denbyware Ltd. of England, a manufacturing Company with over 1,000 employees, he increased sales from \$10 million to \$25 million and took the Company public via the London Stock Exchange. As President of Dunn Systems, a medical imaging manufacturing Company with over 150 employees, he increased OEM sales from \$3 million to \$15 million before merging with a major NASDAQ Company. He spent 2 years with Thunder Engine Company, developers of a 600 hp heavy duty multi- fuel light-weight aluminum engine, and successfully concluded technology transfer agreements with companies in China, Korea and Canada.

Hamid Servati, Vice Chairman. Dr. Servati attended the University of California at Santa Barbara where he earned his undergraduate degrees and his Doctorate in Engineering. He then worked as a contract consulting engineer to Ford Motor Company in Detroit from 1984 to 1987 when he founded ServoTech, of which he is President and CEO. He became a tier one supplier to Ford in 1989, providing a variety of consulting engineering services. He also founded ServoTech Industries, Inc., a manufacturer of prototypes and high precision components for the automotive and related industries.

Item 10. Executive Compensation

Mr. Berriman, Mr. Simons and Mr. Zabsky voluntarily terminated employment and consulting contracts with the Company in mid-1996 and the Company, with their consent, also terminated a stock option and compensation plan for Directors. In 2001, the Company awarded the following non-cash stock compensation for services rendered:

(a) SUMMARY COMPENSATION TABLE

		Annual Compensation				
<u>Names and Principle Positions</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Other Annual Compensation</u>	<u>Market Value</u>	
Lionel Simons President/Secretary	2004	\$34,347	\$ -0-	500,000 shares	\$ 33,000	
	2003	-0-	-0-	5,000,000 shares	346,500	
	2002	-0-	-0-	None	-0-	
Lester Berriman Chairman/ VP-Research	2004	\$ -0-	\$ -0-	275,000 shares	\$ 18,150	
	2003	-0-	-0-	1,000,000 shares	76,600	
	2002	-0-	-0-	None	-0-	
Hamid Servati Director/Vice Chairman	2004	\$ -0-	\$ -0-	275,000 shares	\$ 18,150	
	2003	-0-	-0-	None	-0-	
	2002	-0-	-0-	500,000 shares	87,500	(2)
John Zabsky dba. John Z Co. Consultant	2004	\$24,000	\$ -0-	150,000 shares	\$ 9,900	(1)
	2003	24,000	-0-	500,000 shares	34,650	(1)
	2002	24,000	-0-	None	-0-	(1)

(1) Compensation was provided to Mr. Zabsky an outside consultant.

(2) Mr. Servati was issued 500,000 shares valued at \$87,500 prior to becoming a director as part of an attempt to acquire 51% of two entities that he owns.

(b) OPTION/STOCK APPRECIATION RIGHTS

No stock options or free standing SARs to executive officers of the Company were granted during 2004.

(c) AGGREGATED OPTION/SAR EXERCISES AND FISCAL YEAR END OPTION/SAR VALUE TABLE

There was no exercise of stock options or free standing SARs by executive officers of the Company during 2004.

(d) LONG TERM INCENTIVE PLAN ("LITP") AWARDS TABLE

The Company did not make any long-term incentive plan awards to any executive officer in 2004.

(e) COMPENSATION OF DIRECTORS

No Directors of the Company received cash compensation for their services as Director during 2004.

(f) EMPLOYMENT CONTRACTS

The Company has no employment contracts with executive officers.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth a list of persons known to the Company to be the beneficial owner of more than five percent of the Company's voting stock.

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount of Beneficial Ownership</u>	<u>Percent of Class</u>
Common	Pollution Control, Inc. 328 Bay street Nassau, Bahamas	9,993,877	17.20%
Common	Lionel Simons, 36 Corniche Drive Dana Point, CA 92629	1,214,808 (2)(3)	2.09%
Common	Lester Berriman 18871 Portofino Drive Irvine, CA 92715	2,637,048	5.45%
Common	Prudent Bear Funds, Inc. 8140 Walnut Hill Lane Suite 405 Dallas, TX 75231	3,141,045	5.41%
Common	Jubilee Investment Trust Plc 1 Great Cumberland Place London W1H 7AL	10,026,666	17.26%
Common	Langley Park Investment Trust Plc 30 Farrington Street London EC4A 4HJ	10,000,000	17.21%
Common	John Zabsky 3640 S Main St Santa Ana, CA 92707	1,830,432 (4)	3.15%

- (1) All shares presented are common shares. No preferred shares were outstanding at December 31, 2004.
- (2) Lionel Simons maintains an indirect controlling beneficial interest in Pollution Control, Inc. through a family trust. See item 12.
- (3) The total shares reported as held by Lionel Simons includes 20,000 shares held by Kimberly Simons who is his daughter and 9,800 shares held by Barbara J. Simons who is his wife.
- (4) This total represents shares held by Mr. Zabsky in his own name, as well as shares held by John Z Company, a corporation wholly owned by Mr. Zabsky.

The following table sets forth a list of the beneficial ownership in the Company by officers and directors.

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount of Beneficial Ownership</u>	<u>Percent of Class</u>
Common	Lionel Simons 36 Corniche Drive Dana Point, CA 92629	11,208,685 (2)(3)	19.29%
Common	Lester Berriman 18871 Portofino Drive Irvine, CA 92715	2,637,048	4.54%
Common	Hamid Servati 510 Savage Road Belleville, Mi 48111	1,925,000	3.31%
Common	All officers and directors as a group:	15,770,733	27.14%

- (1) All shares presented are common shares. No preferred shares were outstanding at December 31, 2004.
- (2) Lionel Simons maintains an indirect controlling beneficial interest in Pollution Control, Inc. through a family trust. See item 12.
- (3) Total shares reported as held by Lionel Simons includes 20,000 shares held by Kimberly Simons who is his daughter and 9,800 shares held by Barbara J. Simons who is his wife and the shares held by Pollution Control have been attributed to him due to the controlling interest.

Item 12. Certain Relationships and Related Transactions

Lionel Simons, President of KleenAir Systems, Inc. is also President and a beneficial owner of Pollution Control Inc. through family trusts. Mr. Simons has a Power of Attorney from Pollution Control which permits him to vote on its behalf. In addition, Mr. Simons is on the Board of Directors for and serving as President of KleenAir Systems PLC in the U.K. The Company owns a 23% interest in and sells all of its European products to this entity for resell.

Hamid Servati is the President, CEO and controlling owner of ServoTech Industries, Inc. The Company has paid for services and products provided by ServoTech. It has also issued stock in payment of services and products provided by ServoTech.

See also the discussion of related party transactions presented at Note 14 to the financial statements.

Item 13. Exhibits and Reports on Form 8-K

- (a) The following documents are filed as a part of this report or are incorporated by reference.

Financial Statements -- The following information has been included in response to Item 8.

	<u>Page</u>
- Report of Independent Certified Public Accountants	F-2
- Consolidated Balance Sheets	F-3
- Consolidated Statements of Operations	F-4
- Consolidated Statements of Shareholders' Equity	F-5
- Consolidated Statements of Cash Flows	F-8
- Notes to Consolidated Financial Statements	F-9

Exhibits - The following Exhibits are furnished as a part of this report:

<u>Exhibit No.</u>	<u>Description</u>
23.1	* Consent of Robert Early & Company, P.C.
31	* Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	* Certification of Chief Operating Officer pursuant to Section 906 of Sarbanes Oxley Act
32.2	* Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act

* Filed herewith.

Item 14. Principal Accountant Fees and Services

As of the date of this Report, the Company has not appointed members to an audit committee and, therefore, the respective role of an audit committee has been conducted by the board of directors of the Company. When established, the audit committee's primary function will be to provide advice with respect to the Company's financial matters and to assist the board of Directors in fulfilling its oversight responsibilities regarding finance, accounting, tax and legal compliance. The audit committee's primary duties and responsibilities will be to: (i) serve as an independent and objective party to monitor the Company's financial reporting process and internal control system; (ii) review and appraise the audit efforts of the Company's independent accountant's; (iii) evaluate the Company's quarterly financial performance as well as its compliance with laws and regulations; (iv) oversee management's establishment and enforcement of financial policies and business practices; and (v) provide an open avenue of communication among the independent accountants, management and the board of directors.

The firm of Robert Early & Company, P.C., served as the Company's independent auditors for the years ended December 31, 2004 and 2003. The Board of Directors of the Company, in its discretion, may direct the appointment of different public accountants at any time during the year, if the Board believes that a change would be in the best interests of the stockholders. The Board of Directors has considered the audit fees, audit-related fees, tax fees and other fees paid to the Company's accountants, as disclosed below, and had determined that the payment of such fees is compatible with maintaining the independence of the accountants.

Audit and Audit-Related Fees: The aggregate fees, including expenses, billed by the Company's principal accountant in connection with the audit of our consolidated financial statements for the most recent fiscal year included in our Annual Report on Form 10-KSB; and for the review of our financial information and our quarterly reports on Form 10-QSB during the years ending December 31, 2004 and 2003 were \$20,624 and \$19,049, respectively. In addition, we incurred accounting review related fees (primarily related to procedures our auditors were required to perform in reviewing potential registration statements and our Form S-8 Registration Statements) of \$1,230 in 2004 and \$1,384 in 2003, respectively.

Tax Fees: The Company did not incur any fees for tax compliance, tax advice and tax planning by the Company's principal accountant for 2004 and 2003.

All Other Fees: The Company paid its principal accountant \$1,700 and \$2,500 in 2004 and 2003, respectively, for the services of converting its SEC filings to and filing them in EDGAR format.

SIGNATURES

In accordance with Section 13 or 15 (d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KLEENAIR SYSTEMS, INC.

Date: April 14, 2005

/s/ LIONEL SIMONS
By: Lionel Simons., President,
Secretary, Principal Accounting
Officer, & Principal Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ LIONEL SIMONS</u> Lionel Simons	Director	April 14, 2005
<u>/s/ LESTER BERRIMAN</u> Lester Berriman	Director	April 14, 2005
<u>/s/ HAMID SERVATI</u> Hamid Servati	Director	April 14, 2005

KLEENAIR SYSTEMS, INC.
(A Development Stage Company)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
KleenAir Systems, Inc.
Irvine, California

We have audited the accompanying consolidated balance sheets of KleenAir Systems, Inc. (a development stage Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. We have also audited the cumulative statements of operations, stockholders' equity, and cash flows for the period from January 1, 1995 through December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accountancy Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KleenAir Systems, Inc. at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years and cumulative period then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company is still in the development stage and has not established sustained operating revenues. This situation raises substantial doubt as to the Company's ability to continue as a going concern. Management's plans in regard to this situation are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Robert Early & Company, P.C.
Abilene, Texas

March 31, 2005

KLEENAIR SYSTEMS, INC.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS
As of December 31, 2004 and 2003

ASSETS

	<u>2004</u>	<u>2003</u>
CURRENT ASSETS:		
Cash	\$ 87,696	\$ 28,739
Accounts receivable (net)	2,970	15,699
Accounts receivable from related parties	105,074	33,288
Parts inventory (at cost)	24,352	57,126
Prepaid expenses	38,094	47,000
Marketable securities (net)	<u>195,202</u>	<u>-</u>
Total Current Assets	453,388	181,852
PROPERTY AND EQUIPMENT (net)	112,296	155,611
OTHER ASSETS:		
Patent license (net)	<u>1,469,076</u>	<u>1,530,756</u>
TOTAL ASSETS	<u>\$ 2,034,760</u>	<u>\$ 1,868,219</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 136,853	\$ 402,817
Accounts payable to related parties	149,912	101,932
Advances from directors	76,000	96,584
Capital lease liability	-	372
Notes payable to related entities	<u>231,000</u>	<u>197,000</u>
Total Current Liabilities	<u>593,765</u>	<u>798,705</u>
STOCKHOLDERS' EQUITY:		
Preferred stock, series A, \$.001 par value (10,000,000 shares authorized, none outstanding)	-	-
Common stock, \$.001 par value (50,000,000 shares authorized, 58,100,206 and 31,422,161 outstanding, respectively)	58,100	31,422
Additional paid-in capital	9,955,716	8,006,296
Deficit accumulated during the development stage	<u>(8,572,821)</u>	<u>(6,968,204)</u>
Total Stockholder's Equity	<u>1,440,995</u>	<u>1,069,514</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 2,034,760</u>	<u>\$ 1,868,219</u>

The accompanying notes are an integral part of these financial statements.

KLEENAIR SYSTEMS, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
For Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>	Cumulative During Development Stage
REVENUES			
Sales	\$ 35,937	\$ 734,993	\$ 945,953
Royalties	5,525	19,892	25,417
Management fees	<u>110,478</u>	<u>-</u>	<u>110,478</u>
Total revenues	151,940	754,885	1,081,848
COST OF REVENUES	<u>38,152</u>	<u>647,876</u>	<u>736,489</u>
Gross Profit	<u>113,788</u>	<u>107,009</u>	<u>345,359</u>
PRODUCT DEVELOPMENT COSTS	172,682	196,534	1,411,687
OPERATING EXPENSES:			
Personnel costs	192,465	570,445	1,430,209
Consultants	503,120	682,796	3,229,846
Professional fees	58,032	103,536	557,259
Office expenses	7,752	9,915	61,030
Depreciation	51,591	49,690	163,111
Amortization of intangible assets	129,434	116,148	311,093
Advertising and promotion	33,781	19,177	264,722
Rent	147,647	95,717	357,864
Travel	50,312	96,575	346,885
Other expenses	48,999	76,536	216,156
Bad debts	1,000	220,000	221,000
Other	<u>-</u>	<u>-</u>	<u>171,378</u>
Total operating expenses	<u>1,224,133</u>	<u>2,040,535</u>	<u>7,330,553</u>
(LOSS) FROM OPERATIONS	(1,283,027)	(2,130,060)	(8,396,881)
OTHER INCOME AND (EXPENSES):			
Interest income	-	11	2,526
Loss on sale of securities	(101,887)	-	(101,887)
Unrealized loss on securities	(191,877)	-	(191,877)
Interest expense	(20,156)	(17,248)	(39,593)
Loss on foreign exchange transactions	(7,670)	-	(7,670)
Amortize discount on receivables	<u>-</u>	<u>-</u>	<u>20,259</u>
(Loss) before income taxes	(1,604,617)	(2,147,297)	(8,715,123)
Benefit from deferred taxes	<u>-</u>	<u>-</u>	<u>397,852</u>
(Loss) Before Extraordinary Item	(1,604,617)	(2,147,297)	(8,317,271)
Extraordinary Item:			
Costs of terminated acquisitions	<u>-</u>	<u>-</u>	<u>(255,550)</u>
Net (Loss)	<u><u>\$ (1,604,617)</u></u>	<u><u>\$ (2,147,297)</u></u>	<u><u>\$ (8,572,821)</u></u>
Earnings per Share (Basic):			
(Loss) per share before extraordinary item	\$ (0.03)	\$ (0.10)	\$ (0.67)
(Loss) per share from extraordinary item	<u>-</u>	<u>-</u>	<u>(0.02)</u>
Net (Loss) Per Share	<u><u>\$ (0.03)</u></u>	<u><u>\$ (0.10)</u></u>	<u><u>\$ (0.69)</u></u>
Weighted Average Shares Outstanding			
Basic	<u><u>47,375,811</u></u>	<u><u>22,392,964</u></u>	<u><u>12,421,112</u></u>

The accompanying notes are an integral part of these financial statements.

KLEENAIR SYSTEMS, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional</u>	<u>Unearned</u>	<u>Accumulated</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Compensation</u>	<u>Deficit During</u>
					<u>Capital</u>		<u>Development</u>
							<u>Stage</u>
BALANCES, 1/1/95	-	\$ -	74,132	\$ 74	\$ 151,444	\$ -	\$ (151,518)
Stock issued: For cash	-	-	27,334	27	66,982	-	-
For adjustment	-	-	534	1	-	-	-
For consulting services	-	-	86,148	86	279,439	-	-
For professional services	-	-	4,666	5	12,745	-	-
For purchase of patent rights	933,334	934	60,000	60	13,905	-	-
For directors' compensation	-	-	4,000	4	22,496	-	-
For officers' compensation	33,334	33	9,334	9	194,958	-	-
Other contributed capital	-	-	-	-	2,367	-	-
Options compensation	-	-	-	-	70,313	(152,016)	-
Net loss	-	-	-	-	-	-	(329,289)
BALANCES, 12/31/95	966,668	967	266,148	266	814,649	(152,016)	(480,807)
Stock issued: For services	13,332	13	24,666	25	201,837	(78,750)	-
For officers' compensation	33,332	33	-	-	15,592	(15,625)	-
For aborted acquisition	-	-	40,000	40	140,510	-	-
Exercise of options	-	-	75,000	75	112,424	-	-
Conversion to common	(318,666)	(319)	318,666	319	-	-	-
Net loss	-	-	-	-	-	187,346	(716,511)
BALANCES, 12/31/96	694,666	694	724,480	725	1,285,012	(59,045)	(1,197,318)
Stock issued: For cash	-	-	120,000	120	14,880	-	-
For officers' compensation	33,334	33	-	-	3,842	(3,875)	-
Conversion to common	(100,000)	(100)	100,000	100	-	-	-
Net loss	-	-	-	-	-	37,979	(55,438)
BALANCES, 12/31/97	628,000	627	944,480	945	1,303,734	(24,941)	(1,252,756)

(Continued on next page)

The accompanying notes are an integral part of these financial statements.

KLEENAIR SYSTEMS, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Continued from previous page)

	Preferred Stock		Common Stock		Additional	Unearned	Accumulated
	Shares	Amount	Shares	Amount	Paid-In Capital	Compensation	Deficit During Development Stage
Stock issued: For cash	-	-	800,000	800	199,200	-	-
For services	-	-	2,120,000	2,120	92,255	-	-
To officers and directors	-	-	320,000	320	59,680	-	-
For diesel license	-	-	2,000,000	2,000	60,500	-	-
Conversion to common	(403,334)	(403)	403,334	403	-	-	-
Net loss	-	-	-	-	-	24,941	(305,561)
BALANCES, 12/31/98	224,666	224	6,587,814	6,588	1,715,369	-	(1,558,317)
Stock issued: For cash	-	-	146,800	147	35,653	-	-
For equipment	-	-	33,200	33	8,267	-	-
For services	-	-	1,103,334	1,103	247,179	-	-
For services-officers and directors	-	-	1,425,000	1,425	408,808	-	-
Conversion to common	(61,334)	(61)	61,334	61	-	-	-
Net loss	-	-	-	-	-	-	(802,722)
BALANCES, 12/31/99	163,332	163	9,357,482	9,357	2,415,276	-	(2,361,039)
Stock issued: For cash	-	-	1,414,000	1,414	357,336	-	-
For services	-	-	1,642,666	1,643	600,024	-	-
As promotion	-	-	1,600	2	3,199	-	-
Conversion to common	(163,332)	(163)	163,334	163	-	-	-
Net loss	-	-	-	-	-	-	(717,012)
BALANCES, 12/31/00	-	-	12,579,082	12,579	3,375,835	-	(3,078,051)
Stock issued: For cash	-	-	195,000	195	104,805	-	-
For services	-	-	1,749,487	1,749	293,087	-	-
For services-officers and directors	-	-	850,000	850	77,690	-	-
For rent	-	-	17,500	18	6,232	-	-
Net loss	-	-	-	-	-	-	(623,811)
BALANCES, 12/31/01	-	-	15,391,069	15,391	3,857,649	-	(3,701,862)

(Continued on next page)

The accompanying notes are an integral part of these financial statements.

KLEENAIR SYSTEMS, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Continued from previous page)

	Preferred Stock		Common Stock		Additional	Unearned	Accumulated
	Shares	Amount	Shares	Amount	Paid-In Capital	Compen- sation	Deficit During Development Stage
Stock issued: For cash	-	-	2,804,545	2,805	1,717,195	-	-
For services	-	-	1,201,692	1,202	404,232	-	-
For acquisition of Carbon Cloth	-	-	873,250	873	968,434	-	-
Contributed inventory	-	-	-	-	12,207	-	-
Net loss	-	-	-	-	-	-	(1,119,045)
 BALANCES, 12/31/02	-	-	20,270,556	20,271	6,959,717	-	(4,820,907)
 Stock issued:							
For cash	-	-	750,000	750	74,250	-	-
For services-officers and directors	-	-	7,600,000	7,600	511,490	-	-
For services	-	-	2,801,605	2,801	460,839	-	-
Net loss	-	-	-	-	-	-	(2,147,297)
 BALANCES, 12/31/03	-	-	31,422,161	31,422	8,006,296	-	(6,968,204)
 Stock issued:							
For cash	-	-	750,000	750	74,250	-	-
For investments	-	-	20,527,999	20,528	1,387,706	-	-
For services	-	-	4,200,046	4,200	408,945	-	-
For services-officers and directors	-	-	1,200,000	1,200	78,519	-	-
Net loss	-	-	-	-	-	-	(1,604,617)
 BALANCES, 12/31/04	-	\$ -	58,100,206	\$ 58,100	\$ 9,955,716	\$ -	\$ (8,572,821)

The accompanying notes are an integral part of these financial statements.

KLEENAIR SYSTEMS, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Cumulative During Devel- opment Stage</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss)	\$(1,604,617)	\$(2,147,297)	\$ (8,572,821)
Adjustments to reconcile net (loss) to net cash provided by operations:			
Losses prior to current ownership	-	-	151,518
Loss and unrealized loss on securities	293,764	-	293,764
Depreciation	51,591	49,690	163,111
Bad debts	1,000	220,000	221,000
Amortization of:			
Prepaid expenses	28,906	136,042	1,253,643
Intangibles	129,434	116,148	311,093
Stock issued for services	492,864	921,230	3,254,736
Stock issued for extraordinary loss	-	-	140,550
Deferred income taxes	-	-	(397,852)
Changes in operating assets and liabilities:			
Accounts receivable	11,729	65,555	(14,861)
Inventory	32,774	56,950	(1,814)
Advances to consultants	-	-	20,000
Prepaid expenses	(20,000)	-	(267,000)
Trade accounts payable	<u>(289,770)</u>	<u>354,573</u>	<u>118,835</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(872,325)</u>	<u>(227,109)</u>	<u>(3,326,098)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property and equipment	(8,276)	(9,681)	(265,714)
Patent licensing costs	(67,754)	(29,524)	(228,766)
Proceeds from sale of securities	919,268	-	919,268
Business acquisition	-	-	(44,820)
Notes receivable	<u>-</u>	<u>-</u>	<u>(220,000)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>843,238</u>	<u>(39,205)</u>	<u>159,968</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuing stock	75,000	75,000	2,944,459
Capital lease obligation	-	-	7,765
Payments on capital lease	(372)	(4,439)	(7,765)
Additional capital contributions	-	-	2,367
Advances and loans from related parties	138,015	147,734	431,599
Repayments to related parties	<u>(124,599)</u>	<u>-</u>	<u>(124,599)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>88,044</u>	<u>218,295</u>	<u>3,253,826</u>
NET INCREASE/(DECREASE) IN CASH	58,957	(48,019)	87,696
CASH AT BEGINNING OF YEAR	<u>28,739</u>	<u>76,758</u>	<u>-</u>
CASH AT END OF YEAR	<u><u>\$ 87,696</u></u>	<u><u>\$ 28,739</u></u>	<u><u>\$ 87,696</u></u>

See Note 3 for Supplemental Cash Flow Disclosures

The accompanying notes are an integral part of these financial statements.

KLEENAIR SYSTEMS, INC.
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

NATURE OF BUSINESS

KleenAir Systems, Inc. (the Company) was originally incorporated in 1986 in Nevada as Covington Capital Corporation. Prior to its current name, the Company had various names as various endeavors were attempted. None of these proved fruitful. In April 1995, the Company purchased a patent for a proprietary device that had been shown to be capable of neutralizing the environmental impact of nitrous oxide from the exhaust emissions from internal combustion engines without significant modification to the engine or the vehicle it was powering. This device is known as the "NOxMASTER™." Soon after the acquisition of this patent along with the right to use of the seller's name, the Company changed to its current name. With the patent acquisition in April 1995, the Company moved into the development stage and has since worked toward the completion of tests, fine tuning, and clearance of California Air Resources Board standards. The product is currently being sold and installed on commercial vehicles in England and has been tested for applications in other parts of Europe and Asia. Authorities which set emission standards in the U.S. have continued to waver in the establishment of a final set of criteria for certifying that a device will reduce offending emissions. This continued delay in criteria has prevented the Company from initiate sales within the U.S.

During April 2002, the Company acquired Carbon Cloth Technologies, Inc. (Carbon Cloth). Carbon Cloth owns the exclusive rights to manufacture and market automotive thermal management systems. Certain applications of the Company's NOxMaster™ are enhanced by the addition of the main product offered by Carbon Cloth. The sharing of Carbon Cloth's customer base and contacts in connection with the compatibility and joint benefits of the mutual products were expected to enhance sales of both products.

The Company's accounting and reporting policies conform with generally accepted accounting principles. Policies that materially affect the determination of financial position, cash flows, and results of operations are summarized as follows:

Development stage reporting -- Generally accepted accounting principles call for certain presentations of cumulative financial statement information from inception to the date of the financial statements. Since the Company restarted its operations (from a position of inactivity) in April 1995, these statements present information from the inception of its development stage.

Consolidation -- The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, after elimination of all material inter-company accounts, transactions, and profits.

Accounts Receivable -- The Company uses the allowance method to account for uncollectible accounts receivable. Accounts receivable are presented net of an allowance for doubtful accounts when applicable. There was an allowance of \$1,000 at December 31, 2004, with none at December 31, 2003. An allowance is established whenever receivables are over 90 days old and the customer has not responded to efforts to reconcile differences. Such receivables are deemed to be uncollectible after 180 days.

Inventory -- Inventories are stated at the lower of cost or market (net realizable value).

Investments -- The Company's securities investments are held principally for the purpose of selling them in the near term and are all classified as trading securities. Trading securities are carried at fair value on the balance sheet in current assets, with any change in fair value during the period, i.e., net unrealized gains and losses, included in current operations. Costs associated with realized gains are recognized on the first-in, first-out basis.

Investments in Closely Held Entities -- The equity method of accounting is used when the Company has a 20% to 50% interest in other entities. Under the equity method, original investments are recorded at cost and adjusted

by the Company's share of undistributed earnings or losses of these entities, but not below zero. As discussed at Note 5, the Company owns a 23% interest in KleenAir Systems International Plc in the U.K.

Property and Equipment -- Property and equipment are carried at depreciated cost. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The cost of property and equipment is depreciated over the estimated useful lives of the related asset. Depreciation is computed on the straight-line method for financial reporting purposes and on the applicable Modified Accelerated Cost Recovery System method for income tax purposes. In addition, tax depreciation includes the benefits of first year expensing under Internal Revenue Code Section 179 whenever it is advantageous to the Company make this election.

Research and Development Costs -- Research, development, and engineering costs are treated as expenses during the year incurred. Costs incurred are as disclosed in the income statement.

Patent and Licensing Costs -- Only the direct costs of obtaining license or patents and costs of extending or perfecting the patents are eligible for capitalization. These capitalized costs are amortized over the estimated useful life of the patent, generally five to fifteen years, using the straight-line method. The cost of patent applications in process for new products is not amortized until the patents are issued. Costs of patent applications for products that extend the use of existing products are amortized with the cost of the existing product. In the event that a patent is superseded, the unamortized costs are written off immediately.

The Company purchased the rights to the patent for its NOxMASTER™ and has developed other patents as discussed at Note 9 below. The costs of the patent and licenses, along with legal costs incurred to register and protect them, have been capitalized and are being amortized now that sales of the product have commenced. Amortization is being charged on a straight-line basis over the ten years beginning April 2003. Amortization expense of \$31,166 and \$17,881 related to these rights has been charged to operations during the years ended December 31, 2004 and 2003.

The acquisition cost allocated to the CarbonGuard™ (Carbon Cloth's intangible asset) is being amortized over the fifteen years beginning May 2002. Amortization expense for this asset of \$98,268 and \$98,267 has been charged to operations during the years ended December 31, 2004 and 2003.

Revenue Recognition -- Sales are recorded when products are shipped to customers. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. In instances where products are configured to customer requirements, revenue is recorded upon the successful completion of the Company's final test procedures.

Stock-Based Compensation -- The Company accounts for services acquired (and other expenses paid) using stock as compensation (or payment) based on the fair value of the shares issued. Fair value is determined based on the closing price of the stock on the date the Company becomes obligated to issue the shares. Due to thin trading volume of the Company's stock, most stock issuances are recorded at a discount to the market price because of the effective limitations on disposal by the recipient of the shares. Restricted shares issued for services are discounted at a greater discount because of the added limitation on the tradability of the restricted shares.

Income Taxes -- The Company accounts for income taxes in accordance with FASB Statement No. 109, "Accounting for Income Taxes." Under FAS 109, deferred income tax assets and liabilities are recorded for the income tax effects of differences between the bases of assets and liabilities for financial reporting purposes and their bases for income tax reporting. The Company's differences arise principally from the use of accelerated and modified accelerated cost recovery system for income tax purposes versus straight line depreciation and from utilization of net operating loss carry-forwards.

Deferred tax assets and liabilities are the amounts by which the Company's future income taxes are expected to be impacted by these differences as they reverse. Deferred tax assets are based on differences that are expected to increase future income taxes as they reverse. Correspondingly, deferred tax liabilities are based on differences that are expected to increase future income taxes as they reverse. Note 8 below discusses the amounts of deferred tax benefits and deferred tax liabilities. The Note also presents the impact of significant differences between financial reporting income and taxable income.

Earnings Per Share -- In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings Per Share," which requires the Company to present basic and diluted earnings per share, instead of the primary and fully diluted earning per share. The computation of basic earning per share is based on the weighted average number of common shares outstanding during the periods presented. The computation of diluted earnings per shares is based on the weighted average number of outstanding common shares during the year plus, when their effect is dilutive, additional issuable shares, assuming the exercise of certain vested and non-vested stock options and warrants and conversion rights, reduced by the number of shares that could be purchased from any proceeds generated.

Cash Flows -- The Company considers cash to be its only cash equivalent for purposes of presenting its Statements of Cash Flows.

Accounting Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments -- Unless otherwise specified, Management believes the carrying value of its financial instruments approximates their fair value due to the short term to maturity. Investments in marketable securities are carried at market value.

NOTE 2: GOING CONCERN

These financial statements have been prepared assuming that the Company will continue as a going concern. The Company has neither sufficient operating revenues nor disposable assets to fund completion of its development program, current level of expenses, or initial production stages. In this situation, the Company is reliant solely upon its ability to raise capital through sales of its stock, debt financing, or acquisition of services through issuances of the Company's stock. There is no assurance that a market exists for the sale of the Company's stock or that lenders could be found to lend money to the Company. Should financing not be available, the Company would, in all likelihood, be forced to stop development efforts and/or to shut down its activities completely.

Management has been in contact with various parties who are interested in providing funding for the completion of testing and trials to obtain certifications from the State of California and the EPA regarding the product's ability to function as an emission control device. Because of these contacts, Management anticipates that efforts to obtain certification will be continued and that there should be no substantial difficulties in obtaining sufficient financing to obtain such certifications and subsequent distribution. Additionally, testing in England resulted in product sales and installations during the second and third quarters of 2003 through the Company's U.K. affiliate. Sales/installations were halted for the fourth quarter of 2003 and all of 2004 due to budgetary limitations under the U.K. trust that is administering the governmental cost sharing program. These sales are expected to resume in 2005 with the advent of a new budget period and final resolution of methods and practices by the trust.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amount of liabilities that might be incurred should the Company be unable to continue in existence.

NOTE 3: SUPPLEMENTAL CASH FLOW DISCLOSURES:

	<u>2004</u>	<u>2003</u>	<u>Cumulative During Devel- opment Stage</u>
Cash payments for:			
Interest	\$ 5,613	\$ 2,189	\$ 13,895
Income taxes	-	-	-

	<u>2004</u>	<u>2003</u>	<u>Cumulative During Development Stage</u>
Non-cash investing and financing transactions			
Stock has been issued for:			
Compensation and directors' fees	\$ 79,200	\$ 92,912	\$1,417,850
Consultants and prepaid services	413,664	225,022	3,156,400
Equipment	-	-	8,300
Patent licensing	-	-	14,900
Repurchase of U.S. diesel license	-	-	62,500
Acquisition of National Diversified Telecom, Inc.	-	-	140,550
Acquisition of Carbon Cloth Technologies, Inc.	-	981,514	981,514
Uncompleted business acquisition	-	87,500	87,500
Purchase of marketable securities	1,408,234	-	1,408,234
Sale of marketing licenses for notes receivable	-	-	1,736,558

NOTE 4: MARKETABLE SECURITIES

During 2004, the Company acquired investments in Jubilee Investments Trust Plc and Langley Park Investments Trust in England in exchange for issuances of large blocks of its stock. (See Note 13.) The Jubilee investment was privately placed almost immediately for cash. The Langley Park investment was partially sold and partially held at the end of the year.

The following table presents information regarding the Company's investments in marketable securities at December 31, 2004. None were held during 2003. This security is being held as a trading security.

Aggregate cost basis	\$ 387,079
Unrealized gain/(loss)	<u>(191,877)</u>
Aggregate fair value (carrying value)	<u>\$ 195,202</u>

NOTE 5: EQUITY METHOD INVESTEE

At December 31, 2003, the Company held a 30% interest in KleenAir Systems International, Inc. (KASI), a Bahamas-based entity. KASI owned 100% of KleenAir Systems, Ltd. (KSL), a British entity. The Company received its interest in KASI pursuant to a licensing agreement with its President for European marketing rights for its products. As such, the Company has no cost in this investment. To date, KASI has not generated any net profit. Accounting rules do not provide for recording negative investments under the equity method accounting.

During 2004, a new entity was formed in the U.K., KleenAir Systems International Plc (KSIP). This entity exchanged its stock for all of the outstanding shares of KASI, which became its wholly owned subsidiary. Subsequently, KSIP offered shares publicly to raise funds for operations. As a result of that offering, the Company's interest has been diluted to 23%. No amounts have been recorded on the Company's books because the investment would still be negative.

The Company's President currently serves as a principal officer for KSIP.

NOTE 6: RECEIVABLES

Over the years, the Company has advanced funds to KSL for expenses incurred in the testing of the product on London taxicabs and buses and for operating expenses. In addition, there have been royalties accrued and invoicing for products delivered. During 2004, there were additional advances and, subsequent to the KSIP offering, repayments. In 2004, the Company billed KSL for management fees of \$110,478 to offset the costs incurred by the Company's president during time devoted to assisting KSIP with its offering and working on the resumption of sales of the products. Effectively, an amount owed to KASI (\$3,921) has been netted with the

amounts receivable from KSL. Net receivables from these related entities were \$105,074 and \$33,288 at December 31, 2004 and 2003.

At December 31, 2004, receivables from unrelated parties were not material, however, an allowance of \$1,000 was established due to questionable collectability from one customer. The carrying value of receivables is believed to approximate their fair values.

NOTE 7: PREPAID EXPENSES

The Company follows a practice of employing consultants for advisory services. Typically, these agreements often are for a one-year period and generally call for the bulk of the compensation to be paid with stock at the initiation of the services. The stock compensation under these contracts is valued at its estimated fair value, in accordance with the Company's accounting policies, and recorded as prepaid services. This prepaid cost is then amortized to consulting fees over the period of the contract.

In 2002, the Company started contracts with a combination of unrestricted and restricted stock valued at a total of \$125,750. In 2003, the Company prepaid \$61,500 with unrestricted stock. All consulting agreements had fully amortized before December 31, 2003. Amortization of these costs during 2003 was \$170,270.

The balances for items making up prepaid expenses at December 31, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Insurance	\$ 4,493	\$ -
Rent	32,801	46,200
Taxes	<u>800</u>	<u>800</u>
Totals	<u>\$ 38,094</u>	<u>\$ 47,000</u>

NOTE 8: INCOME TAXES

Because of timing, relative insignificance, and changes in control and management, the Company believes that it cannot benefit from operating losses before 1995 in calculating its income taxes. Operating losses reported for tax purposes vary from accumulated deficits in retained earnings due to differences in tax treatment, deductibility, or timing of various items. The tax loss carry-forwards are as follows:

<u>Year of Expiration</u>	<u>Amount of Net Operating Loss Carry Forward</u>
2010	\$ 148,187
2011	901,206
2012	79,438
2018	305,825
2019	804,046
2020	720,022
2021	626,785
2022	1,460,856
2023	2,282,759
2024	<u>1,682,588</u>
	<u>\$ 9,011,712</u>

The Company has deferred tax assets and liabilities at December 31, 2004 and 2003. These have arisen from the difference in the depreciation deduction for book and tax purposes, from operating loss carry-forwards, from the difference between the tax and book bases for patent acquisition, and from the acquisition of Carbon Cloth.

These result in net deferred tax assets totaling \$4,475,224 and \$3,838,980 at December 31, 2004 and 2003, respectively. However, because management is unable to determine when these deferred assets might be utilized, or that it is more likely than not that the Company will be able to utilize these deductions against future revenues, a valuation allowance has been recorded to completely offset the assets. There is no current income tax benefit or expense to be reported for the periods ended December 31, 2004 and 2003. The following table sets forth the reconciling items between income per books and taxable income.

	<u>2004</u>	<u>2003</u>
Book loss	\$ (1,604,617)	\$ (2,147,297)
Non deductible expenses	5,031	9,658
Depreciation	4,851	876
Amortization of intangibles	(281,243)	(145,996)
Unrealized loss on securities	<u>191,877</u>	<u>-</u>
Taxable loss	<u>\$ (1,684,101)</u>	<u>\$ (2,282,759)</u>

Deferred tax liabilities arise primarily from the use of accelerated methods of depreciation of property and equipment for tax purposes and from differences in the tax and book bases for the patents (including the Carbon Cloth acquisition). The Company's deferred tax liabilities and assets are as set out below:

	<u>2004</u>	<u>2003</u>
Deferred tax assets:		
Patent costs	\$ 1,135,040	\$ 1,286,124
Marketable securities	76,386	-
Net operating losses	<u>3,588,165</u>	<u>2,918,217</u>
Total	<u>4,799,591</u>	<u>4,204,341</u>
Deferred tax liabilities:		
Property and equipment	272	2,204
Investment in Carbon Cloth	<u>324,095</u>	<u>363,216</u>
Total	<u>324,367</u>	<u>365,420</u>
Net deferred tax asset	4,474,224	3,838,921
Valuation allowance	<u>(4,475,224)</u>	<u>(3,838,921)</u>
Amount reported on Balance Sheet	<u>\$ -</u>	<u>\$ -</u>

NOTE 9: PATENTS, LICENSE, RESEARCH AND DEVELOPMENT

During April 1995, the Company acquired a patent for a proprietary device (the "NOxMASTERTM") that had been shown to reduce the pollutant content of emissions from internal combustion engines, primarily automobile engines. The cost of acquiring this patent was capitalized under the caption "Patent license" on the balance sheet. Since the acquisition of this patent, the Company has continued to refine the device and expand its applicability to a wider range of engines and has determined that diesel engines are a more optimal target. Also, the Company has been performing tests aimed at obtaining California and EPA certifications to be able to advertise and sell the device as a pollution reduction system. The Company obtained a ruling by the California Air Resource Board in 2001 that the diesel device does not increase pollutants. Obtaining the ruling and certification greatly expands the markets for the device. The Company's rights to the patent are subject to royalties totaling 7% of wholesale sales. The royalties do not require the Company to make minimum payments. Management has estimated that additional costs required to obtain U.S. and California governmental certifications should be in the \$250,000 to \$400,000 range.

During 2002, the Company acquired Carbon Cloth Technologies, Inc. in order to obtain rights to its CarbonGuardTM technology. This product is currently being marketed and the Company expects to be able to increase the

product's market penetration. The CarbonGuard™ is a product that provides innovative insulation capabilities for stationary and high-performance engines.

Besides the tests toward certification in California, the products have been tested in England for their application to pollution control on diesel taxicabs and buses. This testing is being carried on by KSL, (See the discussion about related parties at Note 15.) an entity in which the Company owns an indirect equity interest.

The Company has continued to obtain additional patents that extend and protect its primary patent. A device for emission control on small engines has also been patented. Legal costs to file these patents are being capitalized.

During 1996, the Company entered into an agreement to grant the Company's president an exclusive license for the worldwide rights to manufacture, market, distribute, and sell the NOxMASTER™'s application to diesel engines. In addition, the agreement granted the same rights for the application of the NOxMASTER™ to gasoline engines in Europe, the former Soviet Union, the Middle East, and Africa. In exchange for this transfer, the Company's president has established, KleenAir Systems International, Inc. (KASI), in the United Kingdom and transferred this license to it. KleenAir Systems, Ltd. of the U.K. is a wholly owned subsidiary of KASI. The Company received a 30% ownership interest in KASI and is to receive a royalty of 8% of its gross revenue from sales of the product.

During 1998, the Company repurchased the rights to the diesel system in the U.S. market by issuing 1,000,000 shares of common stock to Pollution Control, Inc., an entity controlled by the Company's president. This action was taken based on the advice of financial consultants to the Company.

The Company and KASI also entered into a license agreement with Extengine Transport Systems, LLC (ETS) which is in the business of commercialization of environmental technologies and products. This is a ten-year, nonexclusive, worldwide manufacturing, marketing, and selling license for NOxMASTER™ devices. The Company has also entered into an exclusive ten-year California manufacturing, marketing rights, and distribution rights agreement for application of the NOxMASTER™ to gasoline engines and a ten-year, exclusive manufacturing, marketing, and distribution rights agreement for application of the NOxMASTER™ devices in China and India and to school and urban buses. These licenses set out per-unit prices and specify minimum annual units for each application once the Company has produced a commercially viable device and demonstrates manufacturing capability. During 2002, the Company moved to eliminate ETS's exclusivity in certain markets. This action was undertaken because of certain actions and certain inactions on the part of ETS. During 2004, Management negotiated a settlement with ETS for its release of the exclusivity portions of its agreements. This allows the Company to pursue sales of the products in these markets.

NOTE 10: PROPERTY AND EQUIPMENT

The following table presents costs of property and equipment at December 31, 2004 and 2003.

	2004	2003
Office furniture and equipment	\$ 62,072	\$ 61,497
Test vehicles	28,928	28,928
Analysis equipment	174,840	167,139
Leasehold improvements	<u>11,682</u>	<u>11,682</u>
Totals	277,522	269,246
Accumulated depreciation	<u>(165,226)</u>	<u>(113,635)</u>
Net Property and Equipment	<u>\$ 112,296</u>	<u>\$ 155,611</u>

Depreciation expense totaled \$51,591 and \$49,690 for 2004 and 2003. The office furniture and equipment, the analysis equipment, and the test vehicles are being depreciated on a straight-line basis over five years. Leasehold improvements are being depreciated on a straight-line basis over 39 years.

NOTE 11: COMPENSATORY STOCK BENEFIT PLANS AND VALUATION BASIS

During 1995, the Company adopted a Compensatory Stock Benefit Plan (the 1995 Plan) for the furtherance of the Company by allowing the Company the option of compensating officers, directors, consultants, and certain other service providers who render bona fide services to the Company through the award of the Company's free trading common shares. Under the Plan, 33,333 shares were approved by the Board of Directors. Of the shares approved for the Plan, 13,000 shares were issued, 4,667 were committed in agreements with officers, and 2,667 were committed to a consultant during 1995. During 1996, 9,667 shares were issued under this plan for directors' fees and officer compensation. These shares have been issued primarily for marketing and promotion services, directors' fees, and services to facilitate the purchase of the patent.

The 1995 Plan was terminated with the adoption of a "1996 Consultant and Employee Stock Compensation Plan" (the 1996 Plan). The 1996 Plan authorized the issuance of up to 500,000 freely tradable shares. These shares were to be used to further the growth through compensation of officers, directors, consultants, and other service providers. The board was given the authority to increase the number of shares as it deemed advisable and to file any necessary registration statements required for such increases. Under the 1996 Plan, the Company issued 5,333 during 1996, but did not issue any shares under this plan in 1997 or 1998. During 1999, the Company issued 300,000 shares under this plan for consulting services.

In July 2000, the Company filed an S-8 registration (the S-8) to register 1,200,000 shares for compensation under five consulting agreements and reserved 750,000 shares for the future exercise of options under an Employee Stock Option Plan, discussed at Note 12. The shares for the consultants were issued in July 2002 in order to obtain those services. Subsequent to this filing, the board has issued 550,000 of the shares reserved for the ESOP. Directors/officers and a key engineering consultant were issued 300,000 of these shares for unpaid services and a consultant who had previously been issued 250,000 restricted shares for his services requested that he be allowed to exchange those shares for S-8 shares and was allowed to do so under the advice of legal counsel. During 2002, the Company issued an additional 76,800 shares under this plan.

In September 2001, the Company filed an amendment to the S-8 to register an additional 2,200,000 shares. Of these shares, 1,270,000 were issued in October to consultants for services to be provided over the next year. Another 21,687 of these shares were issued to product development consultants. During 2002, the Company issued (or contracted to issue) 576,192 shares to consultants and employees.

In September 2004, the Company filed a second amendment to its S-8 to register another 1,250,000 shares. All of these shares were issued to consultants for services provided during the last quarter of the year.

As anticipated by these plans, the Company has acquired services with free trading shares. The Company has also issued unregistered restricted (Rule 144) stock in exchange for services. These transactions have been valued in accordance with the Company's accounting policy regarding stock compensation.

NOTE 12: EMPLOYEE STOCK OPTION PLAN

The Employee Stock Option Plan (ESOP) was established in July 2000 in coincidence with the S-8 registration and is to provide incentives for the attraction and retention of personnel. Its terms call for an exercise price of 100% of the closing price of the Company's stock on the date of the grant of the options. No such grants have been made under this plan.

NOTE 13: STOCKHOLDERS' EQUITY

During 1986, the Company completed an initial offering of 10,000,000 shares of common stock with net proceeds (after commissions) of \$110,233. Between that time and December 31, 1993, it is apparent that there were many stock transactions, reverse splits, and other actions. However, records regarding this period of time are not available. Additionally, no records are available which would allow an analysis of the retained earnings balance prior to 1995. Due to this lack of records, management believes that losses indicated by the negative retained earnings would not yield tax benefits to current operations. Inception-to-date information required for development stage companies is also unavailable for this period.

In March 1995, the Company's Board approved a measure (ratified at a subsequent shareholders' meeting) whereby the Company's outstanding common shares were reverse split on the basis of one new share for ten shares held. In May 1997, the Board approved another reverse split. This time the reverse split was on the basis of one new share for 15 shares held. In the following discussion, the share amounts have been restated to reflect the 1 for 15 reverse split. In February 2000, the Board approved a 2 for 1 split of shares effective March 20, 2000 in accordance with advice from marketing and investment consultants. All share amounts in the financial statements as well as share amounts presented below have been adjusted as though all of these changes in stock had occurred prior to the earliest presented information.

In April 1995, the Company issued 933,334 shares of convertible, non-voting preferred stock and 60,000 common shares as consideration for the patent and a facilitation fee to a consultant. This transaction was recorded at the par value of the stock issued, \$7,400.

During 1995, other consulting services not directly related to the patent purchase were obtained through the issuance of 24,000 common shares valued at total of \$111,875. Directors were issued a total of 4,000 shares valued at \$22,500. This stock-based compensation and the transactions described below have been valued as described in Note 1. The Company also issued 27,334 common shares pursuant to a Regulation S offering. Net proceeds to the Company after commissions were \$66,804. In addition, \$180,400 was received for 66,814 shares under the Regulation S offering prior to December 31, 1995, with the shares being issued during 1996.

During 1996, the Company issued 24,666 common shares and 13,334 preferred shares primarily to officers and directors pursuant to agreements and directors' resolutions for services rendered. These shares were valued at \$201,875. Holders of options also exercised 75,000 options to acquire a like number of common shares during March 1996 by trading amounts owed them by the Company for the exercise price. This action effectively brought \$112,500 to the Company through the reduction in payables.

During 1997, the Company issued 66,666 preferred shares to its president in accordance with his employment contract. During December 1998, the Board approved the issuance of 320,000 shares of stock to themselves and key consultants as compensation for services rendered during 1998. Both of these sets of shares have been included as outstanding shares and the costs have been recognized as expenses in the relevant periods. The shares were issued during 1999.

During 1998, preferred stockholders exchanged 403,330 preferred shares for a like number of common shares. The Company issued 2,000,000 common shares to a financial and public relations consultant for services; 2,000,000 and 800,000 shares to Pollution Control, Inc. for license and cash as discussed at Note 15; and 100,000 shares to a development consultant. A director was issued 20,000 shares for his services.

During March 1999, the Company issued 600,000 shares under its S-8 plan discussed at Note 11 for investment guidance. These shares were valued at \$75,000. Public relations/financial services were obtained during 1999 through the issuance of 508,334 shares valued at \$175,079. Analysis and test equipment was acquired in exchange for 33,200 shares valued at \$8,300. The Company also issued 146,800 shares for \$35,800 cash and exchanged 61,334 common shares for the retirement of a like number of preferred shares.

During 2000, the Company issued 1,400,000 shares to Ecologic, LLC (an affiliate of ETS) for \$350,000 under an agreement to provide funds for product testing. The Company issued 300,000 shares valued at \$51,000 to officers/directors and a key engineering consultant in lieu of cash payments for their services to the Company. Outside consulting services were obtained in exchange for 1,344,266 shares valued at \$553,868. (See discussion at Note 11 regarding 1,200,000 of these shares.) The Company also retired the last of its outstanding preferred shares through their conversion to 163,334 common shares. One of the issuances of shares for services included warrants (discussed below). The holders exercised 14,000 of these warrants for proceeds of \$8,750.

As discussed in Note 13, the Company also issued both common and preferred stock for consulting services and employment agreements.

The Company issued options to purchase common shares during 1996. These options arose from various transactions. Among these were 210,000 options granted as incentives for enhanced product development efforts. Other options were granted as incentives to sign service contracts. All options issued were to purchase one share for each option held. There was no market for these options. During 1996, options were exercised to purchase

75,000 shares. Options were reduced by the 1 for 15 reverse split authorized by the board of directors. No options were exercised during 1997 or 1998. At December 31, 1998, all options had expired.

As mentioned above, during 2000, the Company issued warrants in conjunction with a stock issuance. These consisted of 138,000 warrants to buy one restricted share at \$0.625 per warrant and expired on November 30, 2001. Of these, 14,000 were exercised during 2000 and the rest expired. The Company also issued two warrants to Ecologic. The first warrant which expired January 31, 2001, was for the purchase of 1,000,000 shares at \$.25 per share. Ecologic purchased 900,000 shares under this warrant during 2000, leaving a balance of 100,000 that were allowed to expire. The second warrant, which expired January 31, 2002, was to purchase 1,000,000 shares at the greater of \$1 or one-half the average thirty-day bid price per share. This warrant expired without exercise.

During 2001, the Company issued 218,500 restricted shares valued at \$120,436 to consultants. Another 850,000 restricted shares valued at \$78,540 were issued to directors and a key research person for services over the last year. Cash of \$105,000 was received for the issuance of 375,000 restricted shares. Consultants were issued 1,368,487 unrestricted S-8 shares valued at \$180,650.

During 2002, the Company issued the following restricted shares: 15,500 valued at \$3,500 for product development, 50,000 valued at \$16,250 for legal services, 100,000 valued at \$32,500 for contract settlement, 500,000 valued at \$87,500 for uncompleted acquisition, and 833,250 valued at \$924,908 for Carbon Cloth acquisition. Another 2,804,545 restricted shares were issued for cash totaling \$1,720,000. In addition to restricted shares, the Company issued free-trading shares as follows: 524,192 valued at \$257,342 for consulting services, 40,000 valued at \$44,400 for Carbon Cloth acquisition, and 12,000 valued at \$8,340 for product development.

During 2003, the Company issued the following restricted shares as follows: 750,000 for a total of \$75,000; 215,000 valued at \$46,850 for consulting services; 50,000 valued at \$8,250 for legal services; 7,600,000 valued at \$519,090 to directors and a key research person for services; and 82,500 valued at \$12,788 for settlement of claims relating to marketing licenses. The Company also issued unrestricted shares as follows: 2,100,673 valued at \$317,003 for consulting services; 22,500 valued at \$4,534 for product development efforts; 50,000 valued at \$11,625 for settlement of claims related to marketing licenses; 228,932 valued at \$55,053 for legal and other professional services; and 52,000 valued at \$7,537 for office and clerical services.

In 2004, restricted shares issued by the Company were as follows: 750,000 for \$75,000; 2,509,483 valued at \$183,842 for consulting services; 1,200,000 valued at \$79,719 for directors and management services; and 20,026,666 valued at \$1,315,487 for marketable securities. Unrestricted shares issued were as follows: 1,690,563 valued at \$229,303 for advisory services and 501,333 valued at \$75,200 directly related to acquiring marketable securities. A total of 501,333 warrants (discussed below) valued at \$17,547 were also issued related to acquiring the marketable securities.

The 501,333 warrants issued during 2004 (and outstanding at December 31, 2004) are exercisable at any time before June 4, 2007. As an exercise option, the holder may elect to take only the number of shares equal to the increase in the price of the Company's stock after the date of the grant without having to pay the exercise price.

The Company issued an option to a consultant to purchase \$250,000 worth of stock at a 33% discount off the average bid price for the 10-day period before exercise. This option may be settled by an existing stockholder selling shares rather than by the Company issuing shares.

NOTE 14: EARNINGS PER SHARE

Basic earnings per share has been calculated based on the weighted average common shares outstanding. A warrant to purchase 240,000 shares was outstanding at December 31, 2003. This warrant expired during 2004. As discussed above, a warrant to purchase 501,333 shares was outstanding, as well as the option to purchase \$250,000 worth of stock. The shares underlying these options have not been added to outstanding common shares in a presentation of diluted earnings per share because the presentation would prove to be anti-dilutive.

NOTE 15: RELATED PARTY TRANSACTIONS

Many of the Company's consultants have, historically, also been stockholders of the Company. This includes engineering services, marketing and financial promotion, and management and stockholder services. As mentioned above, when the Company purchased the patent, it did so with preferred stock (later converted to common). Those stockholders continued many of the development and other services that they were providing before the Company made its acquisition.

See the discussion of the granting of a license for Europe to the Company's President at Note 9 and the discussion at Note 16 regarding the aborted acquisition of National Diversified Telecom, Inc.

During 1998, the Company sold 800,000 shares of common stock to Pollution Control, Inc. for \$200,000. These funds were used to prepay financial and public relations services. The service provider also received 2,000,000 shares of restricted common stock that it assigned to Pollution Control in exchange for an equity interest in that entity. As discussed at Note 9, the Company issued 2,000,000 shares of restricted common stock to Pollution Control to repurchase the U.S. marketing rights for its diesel product. Pollution Control is controlled indirectly by the Company's President. Pollution Control's voting rights are held by the Company's President. These transactions effectively transferred control of the Company to Pollution Control and to the Company's President through his control of that block of voting stock.

During July 1999, the Board approved the issuance of 420,000 shares of restricted stock to themselves and an engineering consultant for loans provided to the Company during 1998. In October 1999, the Board approved the issuance of 1,000,000 shares to themselves and the consultant in lieu of cash compensation in recognition of services provided to the Company during 1999.

In December 2000, the Board approved the issuance of 300,000 free-trading S-8 shares to themselves and an engineering consultant in lieu of cash payment for services rendered to the Company during 2000.

In July 2001, the Board approved the issuance of 850,000 restricted shares to themselves and an engineering consultant in lieu of cash payment for services rendered to the Company during 2001. Additionally, the Board approved allowing the Board to purchase restricted shares to obtain cash. One member of the Board and an entity related to a member of the Board paid \$85,000 for 325,000 shares.

During December 2002, members of the Board purchased 350,000 shares of restricted stock for \$70,000. Additionally, Pollution Control loaned the Company \$50,000 documented in a demand note bearing interest at the rate of 7% compounded monthly until repaid.

During 2003, the Board approved the issuance of 7,600,000 restricted shares to themselves and an engineering consultant as compensation for their services in lieu of cash payments. Loans from related parties totaled \$147,000 during 2003. These loans were documented in demand notes and bear interest at the rate of 7% compounded monthly until repaid.

In 2003, the Company generated a significant portion (\$202,544) of its revenues from sales of its NOxMASTER™ product to KASI which, in turn, sold them to KSL. KSL resold the products to a third party for installation on taxicabs and buses in the U.K. The Company recognized its revenues at the first level, i.e., sales to KASI. At this point, there has been no inclusion of KASI's results of operations in the Company's financials due to cumulative losses incurred by that entity. No eliminations have taken place. This sales structure exists because of licensing arrangements discussed at Note 9.

During 2004, the Company borrowed an additional \$138,015 on the same 7% compounded terms set out above. It also repaid \$104,015 of these loans. The Board approved the issuance of 1,200,000 to themselves and an engineering consultant as compensation for their services in lieu of cash payments.

The Company's president is also serving as a principal officer for KleenAir Systems International Plc. in England and spends significant portions of his time pursuing the activities of those related entities.

NOTE 16: EXTRAORDINARY LOSS ITEMS

During February 1996, the Company entered into an agreement to acquire 100% of the stock of National Diversified Telecom, Inc. (NDT). The Company's president was also a significant owner of NDT. The acquisition required the issuance of 40,000 shares of the Company's restricted common stock. In addition, the Company advanced \$15,000 to NDT for operations. It was subsequently determined that the Company would not benefit from the attributes of NDT that the Company had anticipated. As a result of this determination, the Company defaulted on its agreement to provide an additional \$5,000 to NDT and moved to "undo" the agreement. In "undoing" the agreement, the Company did not receive back the \$15,000 or the stock. The value of the shares, the \$15,000, NDT audit fees paid by the Company and certain other costs have been reported as an extraordinary item in the Statement of Operations.

In 2002, the Company initiated an acquisition agreement. By the terms of the agreement, the Company issued 500,000 restricted shares to the owner of the target as a discussion incentive. Additional shares and cash were due on consummation. This deal has placed on hold for at least the time being. The shares, valued at \$87,500, have been recorded as an extraordinary expense.

NOTE 17: ACQUISITION OF CARBON CLOTH TECHNOLOGIES, INC.

Effective April 30, 2002, the Company acquired Carbon Cloth Technologies, Inc. (Carbon Cloth), a California corporation. Carbon Cloth is a manufacturer of automotive thermal management systems. Its CarbonGuard™ product is currently installed on a number of New York City Transit Authority buses as enhancements for the operating efficiency of particulate traps. This product generated revenues during 2003 and 2004. Its primary market at this time is environmentally mandated retrofit applications which are largely funded by governmental agencies. These agencies operate under strict annual budgets which limit the size of any given project and cause deferral of work from year to year. As the product continues to prove its viability, sales are expected to grow. It is also anticipated that there will be a synergy of sales from the combination of the Company's emission control device and Carbon Cloth's products.

This acquisition was accomplished through the issuance of common stock in exchange for all of the stock of Carbon Cloth. The results of Carbon Cloth's operations have been included in the Company's consolidated financial statements since the date of acquisition. The Company issued 833,250 restricted shares for this acquisition along with 40,000 unrestricted S-8 shares issued for services provided in the acquisition process. A portion of the acquisition agreement created an employment agreement that called for the issuance of an additional 146,750 shares as incentive commissions based on achievement of product sales. These additional shares were paid as compensation.

The purchase price was allocated to the individual assets acquired (primarily the CarbonGuard™ product) and liabilities assumed based upon their respective fair values at the date of acquisition as set forth below. Accounting rules require the recognition of deferred taxes for difference between the tax bases of the assets acquired and the amounts recorded in the consolidated books. The acquisition resulted in the addition of the following balance sheet elements as of April 30, 2002:

Accounts receivable	\$ 22,397
Inventory	10,331
Fixed assets (net)	1,392
Patent license	1,474,003
Payables	(96,144)
Deferred tax liability	(397,853)
Equity	(1,014,126)

NOTE 18: LEASE

During May 2002, the Company leased a facility containing office space and space for continuing product development and testing. This facility combined the Company's offices and testing at the same facility. The lease is a three-year noncancellable lease. The Company was required to deposit \$46,200 (the last six months lease

payments) with the landlord as security for the lease. The monthly lease is \$7,700 plus utilities. Future minimum payments under this noncancellable lease are \$30,800 at December 31, 2004. This amount includes the deposit which represents a prepayment of the rent.

NOTE 19: CONCENTRATIONS

As mentioned in other places above, a majority of the Company's NOxMASTER™ sales have been for installation in England. In addition, during 2003, the Company sold \$287,200 worth of particulate traps directly to KASI (ultimately to the Dinex Group, the entity purchasing and installing the NOxMASTER™ equipment in the U.K.). Sales of the CarbonGuard™ were also concentrated with \$187,435 being sales to Johnson Matthey, Inc. during 2003. Essentially all of the sales revenue reported for 2004 were to Johnson Matthey. These concentrations are expected to continue for at least the near future until such time as the Company can obtain certifications from the CARB and EPA.

NOTE 20: SUBSEQUENT EVENTS

In February 2005, the Company received a patent for the use of aqueous ammonia as a catalyst to reduce NOx emissions. This is an extension of its main NOxMASTER™ product.

EXHIBIT 23.1 Consent of Robert Early & Company, P.C.

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

We hereby consent to the incorporation by reference into the Form S-8 Registration Statement No. 333-115285 regarding the Stock Compensation Plan of KleenAir Systems, Inc. of our report on the audited financial statements of the Company dated March 31, 2005 which is being included in the annual report on Form 10-KSB of KleenAir Systems, Inc. for the year ended December 31, 2004.

/s/ ROBERT EARLY & COMPANY, P.C.
Robert Early & Company, P.C.

Abilene, Texas
April 13, 2005

CERTIFICATION

I, Lionel Simons, certify that:

1. I have reviewed this annual report on Form 10-KSB of KleenAir Systems, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. I have disclosed, based on my most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 14, 2005

/s/ Lionel Simons
Lionel Simons, Chief Executive
Officer and Chief Financial Officer

CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of KleenAir Systems, Inc. (the "Company"), on Form 10-KSB for the period ended December 31, 2004, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, Lionel Simons, President and Chief Executive Officer of the Company, hereby certifies pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C.ss.1350), that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 14, 2005

/s/ Lionel Simons
Lionel Simons, President and
Chief Executive Officer

EXHIBIT 32.2 -- Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act.

CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of KleenAir Systems, Inc.(the "Company"), on Form 10-KSB for the period ended December 31, 2004, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, Lionel Simons, the Chief Financial Officer of the Company, hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C.ss.1350), that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 14, 2005

/s/ Lionel Simons
Lionel Simons, Chief Financial Officer