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**For Immediate Release**

2 June 2010



**Catalytic Solutions, Inc.**

(the "Company")

### **INTERIM FINANCING AND FINANCIAL UPDATE**

Catalytic Solutions, Inc. ("CSI") (AIM: CTS and CTSU), the company behind Mixed Phase Catalyst (MPC<sup>®</sup>) technology, announces today that further to its announcement of Friday 14 May 2010 regarding its proposed merger with Clean Diesel Technologies, Inc. ("CDTI") (the "Merger"), it has completed negotiations and executed finalised agreements for a \$4 million capital injection in CSI (the "Financing").

The Company also announces that, further to its announcement of 5 May 2010, Fifth Third Bank, its secured lender, has agreed to extend forbearance under the terms of its loan to the Company until 31 August 2010. Under the terms of the extension, the credit limit on the Company's revolving line of credit, which is part US Dollar and part Canadian Dollar denominated, has been reduced to a total of Canadian \$7.0 million from Canadian \$7.5 million. The interest rate on the line will remain at US/Canadian Prime Rate plus 2.75 percent.

As set out in the Company's announcement of 14 May 2010, the Financing will provide CSI with financing for immediate working capital needs and the \$2.0 million cash balance required to ensure the minimum cash position necessary at the earlier of the effective time of the Merger or 30 June 2010, to result in CSI shareholders receiving at least 60% of the shares of CDTI pursuant to the terms of the Merger.

Pursuant to the terms of the Financing, CSI will issue an aggregate of \$4.0 million of secured convertible notes (the "**Convertible Notes**") to a group of qualifying investors, \$2.0 million of which will be issued by CSI in four equal instalments prior to the CSI special meeting of shareholders, and the remaining \$2.0 million will be issued after shareholder approval of the Merger and after other necessary approvals under CSI's articles of incorporation but prior to the effective time of the Merger. A full summary of the terms of the Financing can be found at Appendix I to this announcement.

Shares of CSI common stock shall be issuable upon conversion of the Convertible Notes immediately prior to the Merger completion, which would be issued as newly created "Class B" common stock as opposed to existing CSI shares, which will be designated "Class A" common stock. On completion of the Merger, the CSI Class B common stock issuable upon conversion of the Convertible Notes would be equal to 66.0066% of the Fully Diluted Pre Merger CSI Stock. "**Fully Diluted Pre Merger CSI Stock**" means the sum of (a) the existing Class A common stock of CSI and the Class B common stock of CSI outstanding immediately prior to the closing of the Merger plus (b) the number of shares of Class A common stock of CSI deemed outstanding immediately prior to the closing of the Merger based on the number of shares of CDTI common stock issuable to CSI's financial advisor, Allen & Company LLC, by reason of the closing of the Merger (further information can be found at Appendix I).

One of the Directors of the Board of CSI, Mr. Alexander ("Hap") Ellis, III, is a partner of Rockport Capital LLP ("**Rockport**"), a shareholder in CSI which is subscribing for the Convertible Notes. In light

of its size, Rockport's subscription for the Convertible Notes is deemed to be a related party transaction under the AIM Rules. The Directors of CSI, other than Mr. Ellis who is deemed to be a related party for this purpose, consider, having consulted with the Company's nominated adviser, Canaccord Genuity Limited, that the terms of Rockport's subscription is fair and reasonable insofar as the shareholders are concerned.

The Company also notes that its nominated adviser has changed its name from Canaccord Adams Limited to Canaccord Genuity Limited.

**About Catalytic Solutions, Inc.**

Catalytic Solutions, Inc. is a global manufacturer and distributor of emissions control systems and products, focused in the heavy duty diesel and light duty vehicle markets. CSI's emissions control systems and products are designed to deliver high value to its customers while benefiting the global environment through air quality improvement, sustainability and energy efficiency. Catalytic Solutions, Inc. is listed on AIM of the London Stock Exchange (AIM: CTS and CTSU) and currently has operations in the USA, Canada, France, Japan and Sweden as well as an Asian joint venture.

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*This announcement was approved by CSI's Board of Directors on 27 May 2010 subject to achieving closing of the Financing. A copy of this release is available on CSI's website at [www.catalyticsolutions.com](http://www.catalyticsolutions.com).*

*This announcement and the information contained herein is restricted and is not for publication, release or distribution in whole or in part in, or into, the United States of America, Canada, Australia, The Republic of Ireland, Japan or South Africa.*

*Canaccord Genuity Limited, which is authorised and regulated by the Financial Services Authority, is not acting for any other person in connection with the matters referred to in this announcement and will not be responsible to anyone other than CSI for providing the protections afforded to clients of Canaccord Genuity Limited or for giving advice in relation to the matters referred to in this announcement.*

*The material set forth herein is for informational purposes only and is not intended, and should not be construed, as an offer of securities for sale into the United States or any other jurisdiction. The securities of CSI described herein have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the laws of any state, and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state laws. There is no present intention to register CSI's securities in the United States or to conduct a public offering of securities in the United States. The Circular to be provided to CSI's shareholders in connection with the proposed Merger is included in a registration statement on Form S-4, which was filed by CDTI with the U.S. Securities and Exchange Commission on 14 May 2010, as announced by the Company on 17 May 2010.*

*This announcement and the information contained herein include forward-looking statements relating to CSI and CDTI. Any statements that refer to expectations, projections or other characterisations of future events or circumstances, in particular, whether or not the Merger with CDTI will occur, are forward-looking statements. Such statements reflect the relevant company's current views with respect to future events and are subject to risks, assumptions and uncertainties that could cause the actual results to differ materially from those expressed or implied in the forward-looking statements. Many of these risks, assumptions and uncertainties relate to factors that are beyond the companies' abilities to control or estimate precisely, such as whether or not CDTI's stockholders will approve the issuance of the stock to CSI's shareholders in the Merger, whether or not CSI's shareholders will approve the Merger and the necessary increase in authorized share capital and designation of current shares of CSI stock as Class A and approval of a new class of common stock to be designated Class B, and whether or not CSI's shareholders will waive their pre-emptive rights in order to permit conversion of the Convertible Notes, and whether or not the U.S. Securities and Exchange Commission will declare the registration statement on Form S-4 effective, as well as other general risks associated with the business of each of CSI and CDTI, which could affect the completion of the Merger, such as future market conditions, changes in general economic and business conditions, introduction of competing products and services, lack of acceptance of new products or services and the behaviour of other market participants.*

*This announcement does not constitute a prospectus relating to CSI and has not been approved by the UK Listing Authority, nor does it constitute or form any part of any offer or invitation to purchase, sell or subscribe for, or any solicitation of any such offer to purchase, sell or subscribe for, any securities in CSI under any circumstances, and in any jurisdiction, in which such offer or solicitation is unlawful.*

*The board directors of CSI accept responsibility for all the information contained in this Announcement. To the best of the knowledge and belief of the board directors of CSI (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.*

## APPENDIX I

### General Terms of the Financing:

- Securities: \$4,000,000 of CSI's 8% Secured Convertible Notes (the "Convertible Notes") as described below to be issued to a group of qualifying investors (the "Purchasers").
- Issuance: The Convertible Notes shall be issued in five tranches, as follows:
- (a) an initial tranche equal to \$500,000 (the "First Tranche") on the date of execution of the Purchase Agreement;
  - (b) a second tranche equal to \$500,000 (the "Second Tranche") on June 8, 2010;
  - (c) a third tranche equal to \$500,000 (the "Third Tranche") on June 28, 2010;
  - (d) a fourth tranche equal to \$500,000 (the "Fourth Tranche") on July 12, 2010; and
  - (e) a Final Tranche equal to \$2,000,000 (the "Final Tranche"), immediately prior to the closing of the Merger.
- Purchase Agreement: The Convertible Notes will be issued pursuant to a Securities Purchase Agreement (the "Purchase Agreement") and other financing documents containing terms and conditions customary for a transaction such as the Financing (the "Financing Documents"), including representations, warranties, conditions to closing, indemnification and, with respect to the Convertible Notes, Events of Default.
- Use of Proceeds: CSI shall use the proceeds of all five tranches to satisfy its working capital requirements and to provide the \$2.0 million cash balance required to ensure the minimum cash position necessary at the earlier of the effective time of the Merger or 30 June 2010 to result in CSI shareholders receiving at least 60% of the shares of CDTI pursuant to the terms of the Merger. The Purchase Agreement will further restrict the use of the Financing proceeds prior to the closing of the Merger, inter alia, as follows: (a) CSI may not advance or loan the Financing proceeds to its affiliates, or use the Financing proceeds to satisfy debts of CSI or its affiliates; provided, however, that CSI may use Financing proceeds to make payments to trade creditors of CSI (but not its affiliates) in the ordinary course; and (b) Financing proceeds shall be held in an account at an institution other than Fifth Third Bank or any of its affiliates.
- Additional Terms of the Convertible Notes:
- Payment: Immediately upon the Maturity Date (as defined below) the Principal Amount (as defined below) then outstanding and all interest accrued thereon and any Payment Premium (as defined below) shall be due and payable in full in a single instalment.

The "Principal Amount" means the nominal amount of the Convertible Notes.

The Principal Amount shall be reduced as and to the extent that the Convertible Note is converted into Class B Common Stock of CSI (as described below) or repaid.

Maturity Date: The "Maturity Date" means the earlier of (a) the occurrence of any Event of Default under the Convertible Notes (subject to customary cure periods); or (b) August 31, 2010.

Interest Rate: The Convertible Notes will bear interest at a rate of 8% per annum, compounded quarterly on the Principal Amount outstanding, from and including the issuance date until paid in full or converted.

Events of Default: The "Events of Default" are those usual and customary for this type of financing.

Payment Premium: The "Payment Premium" means an amount equal to two times (2x) the outstanding Principal Amount. Immediately upon the Maturity Date the Principal Amount (as defined above) then outstanding and all interest accrued thereon and any Payment Premium shall be due and payable in full in a single instalment.

Security: The Convertible Notes will be secured on a *pro rata* basis by certain Collateral under and as defined in the Guaranty, Pledge and Security Agreement (the "Security Agreement") by and between CSI and a representative of the Purchasers (in such capacity, the "Holder Representative"). The Security Agreement will grant to the Holder Representative, for the benefit of the holders of Convertible Notes from time to time (the "Holders"), a lien on CSI's assets as security for its obligations under the Convertible Notes. The security interest shall be subordinate to the first priority security interest of Fifth Third Bank.

Conversion of the Notes: The Principal Amount of the Convertible Notes then outstanding including all interest accrued and unpaid shall be convertible into shares of the Class B Common Stock of CSI at a conversion price (such price, as adjusted from time to time as set forth below, the "Conversion Price") such that upon completion of the Merger, the CSI Class B Common Stock issuable upon conversion of the Convertible Notes would be convertible into shares of CSI Class B Common Stock equal to 66.0066% of the Fully Diluted Pre Merger CSI Stock. The Convertible Notes shall be convertible at any time at the discretion of any Holder, and shall mandatorily convert upon the closing of the Merger provided that the Final Tranche has been fully funded, and the Holders thereupon shall be issued the requisite number of shares of CSI Class B Common Stock. The Conversion Price shall be adjusted upon the occurrence of stock splits, stock dividends and other customary fundamental corporate transactions.

As used herein, "Fully Diluted Pre Merger CSI Stock" means the sum of (a) the existing Class A common stock of CSI and the Class B common stock of CSI outstanding immediately prior to the closing of the Merger plus (b) the deemed number of shares of Class A common stock of CSI deemed outstanding immediately prior to the closing of the Merger based on the number of shares of CDTI common stock issuable to CSI's financial advisor, Allen & Company LLC, by reason of the closing of the Merger.

Anti-Dilution Protection:

The holders of the Convertible Notes shall be accorded full-ratchet anti-dilution protection, such that if CSI issues shares of its common stock prior to the Merger at a price below the then applicable Convertible Note Conversion Price, then the Conversion Price shall be reduced to equal such lower price of issuance. Such anti-dilution protection shall not apply to common stock of CSI issued pursuant to contractual commitments existing as of the date of the Purchase Agreement, or to certain other stock issuances as to which the Purchasers may agree.

Reservation of Authorized Shares:

CSI shall maintain a reserve from its duly authorized shares of common stock for issuance pursuant to the Financing Documents in such amount as may be required to fulfill its obligations in full under the Financing Documents from time to time.

Registration Rights:

The holders of the common stock issued and issuable from time to time upon conversion of the Convertible Notes (the "Registrable Securities") shall have the right to three demand registrations and unlimited piggyback registrations, exercisable at any time from and after the Final Tranche is issued. Such registration rights shall be subject to customary terms and conditions to be set forth in a Registration Rights Agreement.

Conditions to the Obligations  
of the Purchasers With Respect to  
the Second, Third and Fourth Tranches:

All corporate, regulatory and other legal requirements applicable to the closing of these Tranches shall have been obtained and shall be in full force and effect, including receipt of all requisite approvals of the board and stockholders of CSI and of the AIM Exchange;

The Purchasers in their discretion shall be satisfied that there has been no material adverse change to the business, financial conditions or prospects of CSI or CDTI since the execution of the Purchase Agreement; and

Purchasers shall have received an opinion of counsel to CSI as to matters usual and customary for this type of financing relating to the closing of the Second, third or Fourth Tranches, as applicable.

Conditions to the Obligations  
of the Purchasers With Respect to

the Final Tranche:

All corporate, regulatory and other legal requirements applicable to the closing of the Final Tranche shall have been obtained and shall be in full force and effect, including receipt of all requisite approvals of the board and stockholders of CSI and of the AIM Exchange;

All corporate, regulatory and other legal requirements applicable to the closing of the Merger shall have been obtained and shall be in full force and effect, including receipt of all requisite approvals of the board and stockholders of CSI and CDTI and of the AIM Exchange and the Nasdaq Capital Market;

All conditions precedent to the obligations of the parties to close the Merger pursuant to the merger agreement, entered into between CSI and CDTI on 14 May 2010, shall have been satisfied or waived by the party entitled to the benefit thereof and the Purchasers, and CSI and CDTI shall have advised the Purchasers in writing that they stand ready to close the Merger immediately upon funding of the Final Tranche;

The Purchasers in their discretion shall be satisfied that there has been no material adverse change to the business, financial conditions or prospects of CSI or CDTI since the execution of the Purchase Agreement; and

Purchasers shall have received an opinion of counsel to CSI as to matters usual and customary for this type of financing relating to the closing of the Final Tranche.