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a VSE Company

Press Release

19th March 2012

Turbo Power Systems Inc. ("TPS" or the "Company") Announces Results for the Year and Quarter Ended 31 December 2011

Turbo Power Systems Inc. a leading UK based designer and manufacturer of innovative power solutions, today announces results for the full year and quarter ended 31 December 2011.

Key Highlights:

- Full year revenue up 69% to £14.4 million
- Full year order intake up 140% to £23 million with strong visibility for 2012 deliveries
- Full year loss before interest, tax, depreciation, amortisation, and stock compensation increased to £5.10 million (2010: £4.14 million) after 48% increase in headcount and 23% increase in R&D
- Increased focus on development of integrated systems and solutions for rail customers
- Expansion of application engineering for energy, marine and oil and gas sectors
- Tao Sustainable Power Solutions, TPS' 75.4% majority shareholder, increased the Company's existing debt financing facility to £8.15 million (31 December 2010:£1.9 million) and further post balance sheet extension of £1.02 million at the end of January 2012
- Peter Brown appointed Chief Executive Officer in May 2011

James Pessoa, Chairman, said:

"2011 was a year of transition for Turbo Power Systems as we prepared the business for further growth. Revenue and order intake grew significantly, positively impacting the overall financial performance. In accordance with our strategy we invested significantly in research and product development as well as headcount and restructured the senior management team

Whilst the Board expects to require further working capital support in the first half of 2012 to underpin the growth anticipated for the year ahead, it also continues to consider a range of options to address the financial constraints facing the Company. As notified on 30 January 2012, the Board will also continue to consider the issues raised by the Toronto Stock Exchange.

The strong order book is a clear indication that our refocused business is gaining traction in the market place and we continue to actively pursue significant and exciting business opportunities. Our challenge for 2012 is to accelerate this progress and build upon the firm foundations for recovery established in the year reported. We look forward with confidence and optimism."

For further information, please contact:

Turbo Power Systems Peter Brown, Chief Executive Officer	Tel: +44 (0)20 8564 4460
Kreab Gavin Anderson (financial public relations) Robert Speed / Michael Turner	Tel: +44 (0)20 7074 1800
finnCap (NOMAD, broker and financial advisor) Marc Young/ Henrik Persson	Tel: +44 (0)20 7600 1658

Notes to Editors

About Turbo Power Systems

Company Website: www.turbopowersystems.com

Turbo Power Systems Inc (TSX:TPS.TO AIM:TPS.L) is a leading UK based designer and manufacturer of innovative power solutions. TPS's products are all based on its core technologies of power electronics and high speed motors and generators and are sold into a number of market sectors including aerospace, rail, and various industrial sectors. The Company's products provide improved efficiency and reduced energy consumption compared to existing technologies.

Turbo Power System's existing third party customers include blue chip companies such as Bombardier Transportation, McQuay International and Eaton Aerospace. The Company also has commercial contracts with its ultimate parent company, Vale Soluções em Energia S.A. ("VSE"), the Brazilian energy solutions company, and with Tao Sustainable Power Solutions (UK) Ltd ("TAO UK"), which is a VSE wholly owned subsidiary and TPS's parent undertaking.

Chairman's statement

The last financial year has been one of considerable change for Turbo Power Systems Inc. ("TPS" or "the Company") as we have prepared for future growth.

Performance

Revenue in the year to 31 December 2011 ("2011") of £14.4 million was up by 69% compared with the previous year. Order intake in 2011 of £23 million was also significantly improved, securing an excellent pipeline of contracts which are planned to be delivered during 2012 and thereafter.

Overall financial performance showed an improvement, with loss before taxation for the year of £6.2 million (2010: loss £7.1 million).

Investment

2011's operating loss was £5.8 million, a year-on-year increase of 25%, due predominantly to the Company's investment in headcount (up by 48% to 206 at 31 December 2011) and restructuring of the senior management team. The investment was necessary to address the Company's expectation of increased customer demand, from a base revenue of £0.35 million per month in January 2011 to more than £1.5 million per month in the last quarter of 2011.

Furthermore, in addition to increasing the numbers in our engineering teams, the Company continued to further strengthen the technical team, with a number of key appointments to ensure we support relationships with science-based corporations who have demanding applications for our technologies.

In line with the Board's strategy and the commercial development contracts in place, research and product development costs increased by 23% to £3.8 million (2010: £3.1 million).

General and administrative costs, which consist mainly of staff costs, facilities costs and the costs associated with the Company's public listings, were up by 48% to £4.9 million (2010: £3.3 million), attributable to the higher staff costs, as a result of increased headcount.

Capital investment in 2011 amounted to £0.66 million (2010: £0.09 million) and relate to production equipment, enhanced technology and software capabilities.

Funding

During the year Tao Sustainable Power Solutions (UK) Limited ("TAO UK"), TPS's 75.4% majority shareholder, agreed to increase the Company's existing debt financing facility to £8.15 million (31 December 2010: £1.9 million). Subsequent to the year end, the Company and TAO UK agreed to further extend this facility by £1.02 million at the end of January 2012.

This funding has been used to invest in the infrastructure of the business, providing better management control and positioning the business to deliver significant growth in 2012 and beyond.

As previously reported to shareholders, on 30 January 2012 TPS noted the announcement of a listing review issued by the Toronto Stock Exchange ("TSX"). The announcement stated:

> "Turbo Power Systems Inc. (the "Company") - TSX is reviewing the Common Shares (Symbol: TPS) of the Company with respect to meeting the continued listing requirements. The Company has been granted 120 days in which to regain compliance with these requirements, pursuant to the Remedial Review Process."

The admission of the Company's shares to trading on Alternative Investment Market is unaffected by TSX's announcement.

The Board will continue to consider the issues raised by the TSX. As part of the Board's on-going review, it was noted that financial constraints will continue for the first half of 2012, with further support for working capital required to continue funding the significant growth in 2012 and beyond. The Board is considering the options available, including new loans, new equity injections and/or a capital re-structure, and further announcements will follow in due course.

As previously stated, TAO UK remains fully committed to TPS and has expressed its continuing financial support of TPS's working capital requirements during 2012.

The financial statements have been prepared on a going concern basis, and disclose in Note 2 to the consolidated financial statements the conditions and events that cast substantial doubt on the Company's ability to continue as a going concern. As in 2010, the auditor's report contains an emphasis of matter paragraph referencing this uncertainty relating to the going concern.

<u>Strategy and Outlook</u>

Looking ahead, the Board intends TPS to remain a technology-led company.

As such, the business continues to pursue innovative applications for its technologies and to leverage its relationship with TAO UK and its parent, Vale Soluções em Energia S.A. ("VSE"), which is headquartered in Brazil. Systems based enquiries received directly from VSE and also from other projects originating in Brazil continue to grow and we expect significant growth in our systems related business. The increase in orders and live opportunities show that TPS' know-how, technology, products and services are gaining traction in the market place.

Operationally, our emphasis is on developing Integrated Systems demands, with our two sites at Gateshead and Heathrow working more closely together, functioning as one business.

We also recognise that our customer base is increasingly keen to secure regional manufacturing capability outside the UK. In order to meet these regional demands, TPS is seeking to solidify partnerships around the world to strengthen technology and product and service offerings, whilst reducing the significant research and development burden. As a consequence we have secured partnership agreements in India and Australia for both power electronics products and electric machine applications.

Peter Brown was appointed as Chief Executive Officer of the Company and took up the position in May 2011. Under Peter's leadership of the Executive Team, the Board's challenge for 2012 is to accelerate the progress made in 2011 towards making Turbo Power Systems a profitable business and one capable of sustaining organic growth.

The current order book is strong. Execution of those orders and completion of development programmes in a consistent and timely manner will be the key in delivering the Board's plans for improved results during 2012.

The Board and I look forward to 2012's performance with both optimism and confidence.

J J M Pessoa
Chairman

Management's discussion and analysis ("MD&A")

The following information should be read in conjunction with Turbo Power Systems Inc. ("TPS") audited consolidated financial statements for the year ended 31 December 2011 and related notes, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in the MD&A, audited consolidated financial statements and related notes are expressed in Sterling, unless otherwise noted.

This MD&A contains forward-looking statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events, or performance, and underlying assumptions and other statements that are other than statement of historical fact. These statements are subject to uncertainties and risks including, but not limited to, the ability to meet ongoing capital needs, product and service demand and acceptance, changes in technology, economic conditions, the impact of competition, the need to protect proprietary rights to technology, government regulation, and other risks defined in this document and in statements filed from time to time with the applicable securities regulatory authorities. Risk factors are discussed more fully in the Company's Annual Information Form.

This MD&A has been prepared as at 16 March 2012.

Business of the Company

Turbo Power Systems designs and manufactures high performance electric motors, generators, and power electronics systems and provides custom solutions to energy conversion, industrial, transport and military markets.

TPS is a technology-led organisation and provides solutions to difficult and challenging requirements. The Company's track record in engineering innovation, which has been built and tested over a number of years, allows us to meet challenging design and manufacturing briefs with specific requirements relating to environmental performance and performance to volume demands.

TPS has a proven track record in the development and deployment of equipment in the rail and industrial sectors. The long term relationships with customers in these markets have been built based on delivering technology-rich competitive products with proven reliability.

Based on an established electrical machines and power electronics expertise developed over the last 30 years, the Company plans to build upon its existing portfolio of products and expand in growing markets and regions.

2011 Summary

Strategic Direction

We are intent on remaining a technology-led company.

We have further strengthened the technical team with a number of key appointments to ensure we support and grow relationships with science based corporations who have demanding applications for our technologies and knowhow. At 31 December 2011 the business employed 206 people (including temporary staff), an increase of 67 compared to 2010. An increase in engineering staff accounts for a significant portion of the growth, helping to further strengthen our engineering capabilities and increase our engineering throughput.

As such, the business continues to pursue applications for its technologies and to leverage its relationship with TAO UK, the Company's 75.4% majority shareholder, and its parent VSE, which is headquartered in Brazil. We have seen an increasing number of systems based enquiries, both from Brazil and elsewhere, and we have a firm belief that the marketplace has now recognised the value of our technology. As a consequence we anticipate significant new orders.

Operationally our emphasis is on developing Integrated Systems, and during 2011 we made good progress in this area. Internal management and functional controls along with investment in infrastructure will continue in 2012 as we seek to ensure controlled and sustainable growth is delivered. We also

recognise that our customer base is increasingly keen to secure regional manufacture capability outside the UK. We are taking steps to ensure that TPS is commercially and operationally capable of responding to this global trend.
Following a detailed market and capability review, a revised business strategy was established and areas of real growth identified. The management team believes that TPS' success will hinge on a balanced business strategy based on three key elements:

- Growing the existing markets of rail and industrial systems through improved product designs, reduced cost and increased margin and scope of supply;
- Expansion of engineered solutions offerings in energy, marine, oil & gas sectors where TPS is the supplier of choice owing to its responsiveness and technology capabilities;
- Development of complete products based on VSE/TPS Synergies allowing us to access multiple customers and to transition to a 'value based pricing' model.

Based on our established electrical machines and power electronics expertise developed over the last 30 years, the Company plans to build upon its existing portfolio of products and expand in growing markets and region, as follows:

- **Rail**

TPS' addressable market for power electronics products is significant. Customers' key buying criteria are conformance to specifications, lower size and weight and also lower price. In order to remain competitive and eliminate some of the barriers to growth, the Company will pursue technologies that will not only increase the power density of its products, but also increase their efficiency and reduce their cost by increasing material utilisation. The Company will focus on platform products to optimise cost, quality and delivery performance. In addition, TPS will focus on establishing a profitable and long term future, through strategic partnerships in countries with high growth potential, especially Brazil, India and North America.

- **High-Speed Motors Offerings**

The Company offers electric motors and associated high speed drives to the global chiller compressor market in which we can potentially participate in over 40% of the total market. Over the years, TPS has forged a strong relationship with one of the major heating, ventilation and air conditioning ("HVAC") global suppliers. Building on that relationship, the Company plans an expansion of its technology to the greater power required by the growing market of industrial HVAC and gas compression. TPS will pursue strategies to increase its scope of supply, as well as forge strategic partnerships with key component manufacturers to secure its supply going forward.

- **Specialist Applications Sector**

TPS' current portfolio of products is specific to specialised markets. These include laser power supplies and blowers and Megawatt class power generators for the military.

These markets have been, and are expected to remain, steady in the future. In 2012 the Company anticipates a continuation of current order levels. Furthermore, based on the success of the TPS Megawatt class generator, it is anticipated further units will be required.

- **Maintenance Repair and Overhaul ("MRO")**

MRO for both our products and those of our competitors is a growth area for the Company.

One particular market with substantial global growth is the rail sector, both designing obsolescence out and replacing rotary power supplies with static converters.

The MRO function is critical to our core business as TPS will be judged on its ability to support its products over the life cycle.

In 2012 TPS plans to implement a detailed MRO business strategy and form a support organisation to deliver it. In all current and future bids, the company intends to introduce a service element to extend TPS's value proposition.

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- **Future Markets**

The new growth engines for the Company's product portfolio will be driven by the desire for TPS to become a systems and solution provider, rather than a component supplier. Achieving this will move the Company up the value chain.

The Company has proven that it has the expertise to develop Megawatt class turbine driven permanent magnet generator systems through the development of its 1.2 MW system. Now the know-how and expertise will be applied to 5 and 10 MW systems. With their small foot print and light weight, the Company's offering has the required attributes for applications in distributed generation and off shore platforms which are in high demand. The expansion to these higher power levels will be used as a platform to develop medium voltage technology and as well as the approach of standardised building blocks for the energy sector. This would lead to a reduction in cycle time and lower cost of development for future products.

Our intention is that TPS' offerings will consist of a compact permanent magnet generator, associated power converter and conditioning equipment. The generator will be coupled to the gas turbine using a flexible coupling. The power converter provided by TPS will be integrated with the gas turbine control system.

The Company's high speed electrical machines can be integrated with turbo machinery provided by VSE to develop integrated generator systems for energy recovery systems. These types of systems can be used to extract energy from the exhaust of diesel engines used in power generation and marine propulsion systems. This is a growing market that would allow energy systems to improve in efficiency. Systems from 300 KW to 1 MW are anticipated and these will use building blocks already in production or under development for other markets to reduce the non-recurring cost. The business will be based on a combination of hardware sales or revenue sharing models.

There are great opportunities for TPS and VSE to enter into the fast growing field of subsea equipment. The need for subsea power distribution and processing equipment is driven by the challenges posed by the depths and distances involved in the new off shore finds around the globe, particularly in Brazil.

Current Operating Climate

The transport market continues to show resilience, while the industrial sector has been largely stable. This has made it possible for TPS to deliver a strong manufacturing output during 2011. Further growth is anticipated during 2012, supported by the strong order book and the completion of certain delayed development programmes.

As stated last year, governments are continuing to invest in infrastructure projects and, indeed, view transport initiatives such as new rail programmes as a way of helping to sustain their industries whilst providing necessary public transportation and having a positive impact on the environment.

In the defence arena, the Company has continued to identify specialist pockets of growth potential in areas where TPS' technology can be applied. We have initiated contact with potential future partners and will continue to investigate this market further and hope to see increased activity during the coming years.

Marine and oil & gas sector development has seen the number of opportunities to utilise TPS products and technologies in 'new' markets increase markedly. A significant amount of market analysis and concept work started during 2011 and will continue in 2012. The market potential is significant and the links with VSE shareholder have provided the business with important leverage in Brazil.

The requirements for high system efficiencies and sustainability are becoming important factors by which products and services are selected. TPS's technologies and know-how have allowed it to offer competitive solutions in the road to sustainability. These technologies are applicable to the renewable energy sector and to waste energy recovery applications. The technology is intended to enhance system efficiencies and thus contribute to the sustainability goals. The market potential for TPS technologies in this sector is significant and further development in these markets is anticipated this year.

Current Programmes

The Company operates with two reportable divisions with several segments, as follows:

1. **Power Electronics Division** is involved in the development and manufacture of electrical power supply and control systems, encompassing rail and aerospace activities and industrial power supplies.
2. **Electrical Machines Division** is involved in the development and commercialisation of high speed electrical machines which are currently marketed within the industrial and defence markets.

- **Transport**
    - **Rail**

The programme to develop the auxiliary power solution for Bombardier Systems' new Innovia ART Vehicle platform continues to make progress, while the business is also engaged in the overhaul and support of the CL165 vehicle auxiliary power solution for Chiltern Rail. The rate of delivery continues to grow on the major programmes (Bombardier Chicago Transit Authority and Bombardier Toronto). During 2012 activity on the Sao Paulo monorail project will increase, with production expected to commence by mid-year.

Deliveries on our smaller rail programmes continue to be made to customers' call off requirements.

We continue to pursue new customers in this segment with the intention to provide platform solutions that are applicable for more than one project at a time.

- **Aerospace**

The Jettison Fuel Pump motor drives for Eaton Aerospace continue to be delivered in line with the customer's call-off rate. Now the Boeing 787 Dreamliner has entered into revenue service, orders quantities have increased in line with the aircraft build acceleration.

- **Energy**

TPS has received an initial development order from VSE for units up to 10MW in power, a programme of work that will span multiple years.

- **Industrial**
    - **Laser Power Supplies**

As expected, increased demand from our customer continued during 2011 and surpassed production rates in previous years. The expectation for 2012 is that demand will stabilise.

- **Industrial Motors and Drives**

The delivery of systems to our industrial motors and drives OEM (McQuay International) continues with further orders placed during 2011 for production in 2012. The customer's expectation is that the demand will keep increasing across the coming years. These units are for use in McQuay International's Magnitude WME chiller.

Further development work is ongoing to ensure the business remains competitive in this market.

The S2M and Becker laser blower products have seen a continuing demand throughout the year, with firm indication that the demand will continue for these units during 2012.

- **Defence**
    - **1MW High-Speed Generator**

System trials of our high-speed machine are now completed. We are now anticipating demand for additional units and also seeing increasing numbers of inquiries for further products.

- **Marine/Oil & Gas**
    - **Development**

During the year the business has seen a marked increase in the number of opportunities to utilise its products and technologies in new markets. A significant amount of market analysis and concept work started during 2011 and will continue in 2012. The market potential is remarkable and the links with VSE have provided the business with important access to the Brazilian market.

In summary, 2011 was a year of significant growth. The business has invested and will continue to invest in operational capability, strong functional management and infrastructure to maintain and sustain that growth. The markets in which the business operates are either stable or growing. New opportunities in the Marine and Oil & Gas sectors are exciting and should provide the business with additional opportunities for sustained growth.

Financial constraints will continue for the first half of 2012, with further support for working capital required to continue funding the significant growth in 2012 and beyond.

The current order book is strong. Execution of those orders and completion of development programmes in a consistent and timely manner will be the key in delivering management's plans for the improved results during 2012.

Financial Performance

Transition to International Financial Reporting Standards ("IFRS")
In February 2008, the Canadian Accounting Standards Board announced the adoption of IFRS for publicly accountable enterprises in Canada effective 1 January, 2011.
The accompanying consolidated financial statements for the year ended 31 December 2011 are TPS' first consolidated financial statements prepared under IFRS.
The significant accounting policies adopted under IFRS were included in Note 3 to the unaudited condensed consolidated interim financial statements for the three months ended 31 March 2011 and the reconciliations and descriptions of the effect of transitioning from Canadian GAAP to IFRS are included in Note 4. In accordance with the transition rules, the Company has retroactively applied IFRS to the comparative data and has restated the 2010 comparative data throughout this document to reflect the adoption of IFRS, with effect from 1 January 2010 (Transition Date).

Total revenues in the year of £14.4 million were 69% higher than in the previous year, (2010: £8.5 million), primarily due to increased production volumes.

The Board continued to implement its strategy of seeking to further improve the Company's development and operational capabilities.

Research and product development costs increased by 23% to £3.78 million (2010: £3.11 million), in line with the Board's strategy and the commercial development contracts in place.

General and administrative costs, which consist mainly of staff costs, facilities costs and the costs associated with the Company's public listings, were up by 48% to £4.9 million (2010: £3.3 million). The major element in the increase of £1.5 million was higher staff costs, as a result of increased headcount.

The Company recorded a loss before interest, tax, depreciation, amortization, and stock compensation of £5.10 million (2010: £4.14 million), primarily as a result of increased cost of research and product development and general and administration expenditure.

The Company recorded an operating cash outflow before working capital movements of £5.40 million for the year (2010: £3.88 million). After adjusting for changes in working capital items and purchases of property, plant and equipment suffered an overall cash outflow before financing of £6.40 million (2010: £3.01 million).

Net cash inflow from financing during 2011 of £6.25 million (2010: £3.16 million), resulted in an overall net cash outflow for the year of £0.15 million (2010: inflow £0.15 million).

The Company finished the year with an unrestricted cash balance of £0.65 million (2010: £0.80 million) and held further cash of £0.34 million (2010: £0.77 million) associated with rent and utility deposits.

During the year ended 31 December 2011 the Company undertook significant transactions with related parties.

In 2010 the Company negotiated a loan facility from its majority investor TAO UK, which provided £1.9 million to support working capital requirements, bearing interest at 6% and being repayable upon request after 1 January 2012.

In 2011 the Company increased this loan by a further £6.25 million. Subsequent to the year end the Company has drawn down a further £1.02 million. The Company raised invoices for £0.89 million (2010: £0.67 million) to VSE, the parent organization of TAO UK, for initial development activities under arms-length commercial contracts.

Going Concern

These consolidated financial statements have been prepared on the basis of International Financial Reporting Standards applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

As at 31 December 2011 the Company had net operating cash outflows. The cash position at the beginning of the year and all the necessary investments to support the growth plan will require additional funding which, if not raised, may result in the curtailment of activities.

The Company has a cumulative deficit of £86.25 million as at 31 December 2011.

At 31 December 2011 the Company had an unrestricted cash balance of £0.65 million and held restricted cash of £0.34 million, the majority of which is associated with rent deposit. If the Company is unable to generate positive cash flow from operations or secure additional debt or equity financing these conditions and events would cast substantial doubt regarding the "going concern" assumption and, accordingly, the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect adjustments to the carrying values of the assets and liabilities, the reported expenses and the balance sheet classifications, which could be material, which would be necessary if the "going concern" assumption were not appropriate.

On 30 January 2012 the Company announced that it had extended the loan financing agreement with TAO UK, its parent undertaking, to provide the Company with access to a further £1.02 million of debt financing to support working capital requirements.

The Directors regularly review and consider the current and forecast activities of the Company in order to satisfy themselves as to the viability of operations. These on-going reviews include consideration of current order book and future business opportunities, current development and production activities, customer and supplier exposure and forecast cash requirements and balances. Based on these evaluations the Directors consider that the Company is able to continue as a going concern.

Summary of Quarterly Results

The following table sets out selected quarterly consolidated financial information of the Company for the last eight quarters:

All amounts in £'000	Revenue	Research and product development	General and administrative	Net profit/ (loss)	Profit/ (loss) per share
Restated under IFRS					
March 2010	3,113	619	699	(21)	0.0
June 2010	2,392	523	1,085	(3,127)	(0.4)
September 2010	1,887	716	720	(992)	(0.1)
December 2010	1,138	1,251	785	(2,969)	(0.2)
March 2011	2,083	950	1,166	(1,617)	(0.1)
June 2011	3,278	836	1,076	(1,439)	(0.1)
September 2011	4,604	975	1,221	(941)	(0.1)
December 2011	4,438	1,016	1,438	(2,176)	(0.1)

Production revenues decreased through 2010 as 2009 production programmes finished. The weak 2009 economy resulted in lower than normal order activity resulting in a declining customer production requirement through the following year. Production revenues have been increasing significantly in 2011 in line with the increasing order intake.

Research and development expenditure has begun to increase compared with previous years, reflecting the commencement of development activities related to opportunities presented by the investment from TAO UK, which became TPS's parent undertaking in June 2010, and the commercial development contract with VSE, which is TAO UK's parent.

Subsequent to the controlling investment made by TAO UK in June 2010, as from 1 January 2010 the Company no longer qualifies for R&D tax credit cash refunds under the UK SME R&D tax credit regime, which would previously have been used to reduce the Company's total research and development expenditure. Accordingly, in the year 2010 as a whole and throughout 2011 (save as noted below) no tax credits were offset against such expenditure. Tax credits recognised in quarter one and quarter two of 2010 were decognised in quarter four.

In Q2 2011 the Company agreed its claim for the UK SME R&D tax credit for 2009, receiving £580,000 and booking a one-time benefit of £230,000 in 2011.

Reconciliation of net loss to EBITDA result

	Quarter ended 31 December		Year ended 31 December	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Net loss	(2,176)	(2,969)	(6,173)	(7,110)
Add back:				
Finance income	1	(16)	(2)	(191)
Finance expense	142	14	337	2,644
Foreign exchange loss/(gain)	48	(237)	65	(318)
Depreciation	110	311	581	768
Amortisation	14	-	14	-
Stock Compensation	31	(13)	75	66
EBITDA loss	(1,830)	(2,910)	(5,103)	(4,141)

Copies of Quarterly and Annual Results

The Company's full Financial Results and Managements' Discussion and Analysis are available on www.sedar.com and full financial statements will be mailed to shareholders during April 2012.

Copies of the quarterly and annual results are available from the Company's office at Unit 3 Summit Centre, Hatch Lane, West Drayton, Middlesex, UB7 0LJ, United Kingdom or available to view from the Company's website at www.turbopowersystems.com.

Turbo Power Systems Inc.

Consolidated statement of comprehensive loss

	Notes	Quarter ended 31 December 2011 £'000	Quarter ended 31 December 2010 £'000	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Revenue	5	**4,438**	**1,138**	**14,403**	**8,530**
Cost of sales		(3,872)	(1,979)	(10,944)	(6,194)
Gross Profit		**566**	**(841)**	**3,459**	**2,336**
Expenses					
Distribution expenses		(147)	(94)	(619)	(596)
Research and product development expenses		(1,016)	(1,251)	(3,777)	(3,109)
General and administrative expenses		(1,438)	(785)	(4,901)	(3,288)
Total expenses		(2,601)	(2,130)	(9,297)	(6,993)
Operating loss		**(2,035)**	**(2,971)**	**(5,838)**	**(4,657)**
Finance income		1	16	2	191
Finance expense		(142)	(14)	(337)	(2,644)
Loss before tax		(2,176)	(2,969)	(6,173)	(7,110)
Income tax expense		-	-	-	-
Net loss and total comprehensive loss for the year		**(2,176)**	**(2,969)**	**(6,173)**	**(7,110)**
Loss per share – basic and diluted	6	(0.1)p	(0.2)p	(0.4)p	(0.8)p

The Notes are an integral part of these Consolidated Financial Statements

Turbo Power Systems Inc.

Consolidated statement of financial position

	Notes	As at 31 December 2011 £'000	As at 31 December 2010 £'000	As at 1 January 2010 £'000
Current assets				
Restricted cash		23	452	645
Research and developments tax credits receivable		-	350	350
Inventories		3,201	1,656	1,943
Trade and other receivables		3,203	1,251	1,657
Prepayments		326	368	435
Cash and cash equivalents		653	799	649
		7,406	4,876	5,679
Non-current assets				
Intangible assets		350	-	-
Property, plant and equipment		777	1,066	1,066
Restricted cash		320	320	169
		1,447	1,286	1,235
Total assets		8,853	6,262	6,914
Current liabilities				
Trade and other payables		5,453	3,281	3,508
Loans and borrowings		8,166	-	261
Provisions		540	430	-
		14,159	3,711	3,769
Non-current liabilities				
Loans and borrowings		-	1,916	3,386
Provisions		1,020	863	100
		1,020	2,779	3,486
Total liabilities		15,189	6,490	7,255
Equity (deficit)				
Share capital	7	62,862	62,862	56,225
Convertible shares	7	15,310	15,310	13,310
Other reserves		1,756	1,681	3,095
Retained equity/(deficit)		(86,254)	(80,081)	(72,971)
Equity (deficit)		(6,326)	(228)	(341)
Total liabilities and equity (deficit)		8,853	6,262	6,914

The Notes are an integral part of these Consolidated Financial Statements

Turbo Power Systems Inc.

Consolidated statement of changes in equity

	Share capital £'000	Convertible shares £'000	Other reserves £'000	Retained deficit £'000	Total £'000
Balance at 31 December 2009	56,225	13,310	3,095	(72,971)	(341)
Net loss for the year	-	-	-	(7,110)	(7,110)
Stock compensation	(21)	-	87	-	66
Share conversion	289	-	(708)	-	(419)
Expiry of warrants	849	-	(793)	-	56
Issue of shares	5,520	2,000	-	-	7,520
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Balance at 31 December 2010	62,862	15,310	1,681	(80,081)	(228)
Net loss for the year	-	-		(6,173)	(6,173)
Stock compensation	-	-	75	-	75
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Balance at 31 December 2011	62,862	15,310	1,756	(86,254)	(6,326)
	=====	=====	=====	======	=====

The Notes are an integral part of these Consolidated Financial Statements

Turbo Power Systems Inc.

Consolidated statement of cash flows

	Year ended 31 December 2011 £'000	2010 £'000
Cash flows from operating activities		
Loss for the year	(6,173)	(7,110)
Adjustments for		
Finance income	(2)	(191)
Finance expense	337	2,542
Tax credit in operating expenses	(230)	-
Depreciation of property, plant and equipment	581	768
Amortisation of intangible assets	14	-
Asset retirement obligation	-	49
Share based payment expenses	75	66
Operating cash flows before movements in working capital	(5,398)	(3,876)
Changes in working capital items		
Decrease/(increase) in inventories	(1,545)	287
Decrease/(increase) in restricted cash	429	(42)
Decrease/(increase) in trade and other receivables	(1,952)	406
Decrease/(increase) in prepayments	42	67
Increase/(decrease) in provisions	267	470
Increase/(decrease) in trade and other payables	1,835	(227)
Cash used in operating activities	(6,322)	(2,915)
Interest received	2	-
Taxes received	580	-
Net cash used in operating activities	(5,740)	(2,915)
Cash flows from investing activities		
Purchase of property, plant and equipment	(292)	(94)
Purchase of intangible assets	(364)	-
Net cash used in investing activities	(656)	(94)
Cash flows from financing activities		
Proceeds from issue of share capital	-	7,520
Repayment of loans	-	(6,261)
Proceeds from increase in loans	6,250	1,900
Net cash from investing activities	6,250	3,159
Net (decrease)/increase in cash and cash equivalents	(146)	150
Cash and cash equivalents at the beginning of the year	799	649
Cash and cash equivalents at the end of the year	653	799

The Notes are an integral part of these Consolidated Financial Statements

1 Reporting entity

Turbo Power Systems Inc. (“The Company”) is subsisting pursuant to the Business Corporations Act (Yukon Territory). The Company’s registered office is Suite 200-204 Lambert Street, Whitehorse, Yukon Y1A 3T2, Canada.

The Company conducts operations through its wholly owned subsidiary company, Turbo Power Systems Limited (“TPSL”) and the main trading address is Unit 3, Heathrow Summit Centre, Skyport Drive, Hatch Lane, West Drayton, Middlesex UB7 0LJ, United Kingdom.

The Company’s parent undertaking is TAO Sustainable Power Solutions (UK) Limited (“TAO UK”), a company registered in England and Wales, UK. The Company’s ultimate parent company is Vale Soluções em Energia S.A. (“VSE”), a company registered in Brazil.

The Company’s subsidiaries comprise:

	Trading status	**Place of incorporation**	**% Ownership**
Turbo Power Systems Limited	Trading	England	100%
Turbo Power Systems Development Limited	Dormant	England	100%
Turbo Power Systems N.A. LLC	Dormant	USA	100%
Intelligent Power Systems Limited	Dormant	England	100%
Nada-Tech Limited	Dormant	England	100%

TPSL has initiated commercialisation of its technology in relation to high speed permanent-magnet machine systems for power generation and industrial motor applications at its London location, whilst its operation based in North East England is an established provider of advanced power electronics.

2 Going concern

These consolidated financial statements have been prepared on the basis of International Financial Reporting Standards (“IFRS”) applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

As at 31 December 2011 the Company had net operating cash outflows, with net debt (excluding restricted cash) of £7.51 m, being £8.17m of debt less £0.65m of cash. The net debt (excluding restricted cash) position at the beginning of 2012 and all the necessary investments to support the Company’s growth plan will require additional funding which, if not raised, may result in the curtailment of activities.

The Company has a cumulative deficit of £86.25 million as at 31 December 2011 (31 December 2010: £80.08 million).

At 31 December 2011 the Company had an unrestricted cash balance of £0.65 million (31 December 2010: £0.80 million) and held restricted cash of £0.34 million (31 December 2010: £0.77 million) the majority of which is associated with rent deposit. If the Company is unable to generate positive cash flow from operations or secure additional debt or equity financing these conditions and events would cast substantial doubt regarding the going concern assumption and, accordingly, the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect adjustments to the carrying values of the assets and liabilities, the reported expenses and the balance sheet classifications, which could be material, which would be necessary if the going concern assumption were not appropriate.

On 15 April 2011 the Company announced that it had extended the loan financing agreement with its principal shareholder, TAO UK, to provide the Company with access to a further £2.2 million of debt financing to support working capital requirements. In May 2011 a further £1.0 million was provided through the loan financing agreement, on 5 September 2011 a further £1.5million and 20 December 2011 £0.35 million taking the total loan to £8.15 million at 31 December 2011 (31 December 2010: £1.90 million).

The Directors regularly review and consider the current and forecast activities of the Company in order to satisfy themselves as to the viability of operations. These ongoing reviews include consideration of current outstanding orders and future business opportunities, current development and production activities, customer and supplier exposure and forecast cash requirements and balances. Based on these evaluations the Directors consider that the Company is able to continue as a going concern for the foreseeable future.

3 Basis of preparation

The Company's consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") until 31 December 2010. As from 1 January 2011, publicly accountable enterprises are required to adopt IFRS. Accordingly, we have commenced reporting on this basis in these consolidated financial statements.

These financial statements have been prepared in accordance with the accounting policies set out in Note 3 to the unaudited condensed consolidated interim financial statements for the three months ended 31 March 2011 which are based on the recognition and measurement principles of IFRS in issue and effective at 31 December 2011.

The consolidated financial statements were authorised for issuance by the Board of Directors on 16 March, 2012.

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments.

The consolidated financial statements are presented in £ sterling, rounded to the nearest £1,000, which is the Company's functional and presentation currency.

4 Changes in accounting policies on adoption of IFRS

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening balance sheet on our transition date of 1 January 2010, and allows certain exemptions on transition to IFRS. The Company did not take any exemptions.

We adopted IFRS on 1 January 2011 and in accordance with IFRS 1, we have applied IFRS retrospectively to our comparative data as at 1 January 2010, the Transition date.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out below. The following reconciliations are provided:

a) Reconciliation of equity at the date of transition, 1 January 2010, to IFRS;
b) Reconciliation of equity at 31 December 2010;
c) Reconciliation of net earnings for the year ended 31 December 2010;
d) Any material adjustments to the prior year cash flow statement.

Reconciliation of equity:

	1 January 2010 £'000	31 December 2010 £'000
Equity in accordance with Canadian GAAP	(341)	(228)
Equity in accordance with IFRS	(341)	(228)

Reconciliation of net earnings:

	31 December 2010 £'000
Net earnings in accordance with Canadian GAAP	(7,110)
Net earnings in accordance with IFRS	(7,110)

Notes to the reconciliations

Under IAS 32 the convertible shares have been classified as an equity instrument and classified as a part of shareholders equity. Previously under Canadian GAAP this was classified as an equity instrument but classified as a non-controlling interest.

Cash Flow statement
The adoption of IFRS did not significantly impact our cash flows compared to Canadian GAAP.

5 Segmental analysis

The Company has historically operated from two facilities in the UK and run each location as a separate unit. During the year the Company has undergone management and operational changes to bring the reporting segments in line with the strategy of designing and manufacturing integrated systems. The Company's two reportable segments are the power electronics segment, which is involved in the development and manufacture of electrical power supply and control systems and the electrical machines segment, which is involved in the development and commercialisation of high speed electrical machines.

Corporate charges relating to the financing of the Company and other related management activities are allocated between the two reportable segments.

The power electronics and electrical machines systems segments both operate in the United Kingdom. Except for the investments held by the Company which are located in Canada, all of the Company's assets are located in the United Kingdom.

31 December 2011	**Power electronics**	**Electrical machines**	**Elimination**	**Total**
	£'000	£'000	£'000	£'000
Production revenue - external	10,713	1,251	-	11,964
Production revenue - internal	194	-	(194)	-
Development revenue - external	2,050	389	-	2,439
	12,957	1,640	(194)	14,403
Segment result	(4,069)	(1,769)	-	(5,838)
Finance income				2
Finance expense				(337)
Net loss for the year				(6,173)
Total assets	5,997	2,856		8,853
Total liabilities	(5,438)	(9,751)		(15,189)

31 December 2010	**Power electronics**	**Electrical machines**	**Elimination**	**Total**
	£'000	£'000	£'000	£'000
Production revenue - external	5,138	1,774	-	6,912
Production revenue – internal	906	-	(906)	-
Development revenue - external	1,122	496	-	1,618
Development revenue - internal	54	-	(54)	-
	7,220	2,270	(960)	8,530
Segment result	(903)	(3,753)	-	(4,657)

Finance income				191
Finance expense				(2,644)
Net loss for the year				(7,110)
Total assets	3,287	2,975		6,262
Total liabilities	(3,255)	(3,245)		(6,500)

Geographic Segmental Information
Total Revenues by destination

	2011 £'000	2010 £'000
UK	3,518	1,748
USA	5,463	5,648
Canada	4,254	376
Rest of world	1,168	758
	14,403	8,530

All property, plant and equipment was located within the United Kingdom during both periods ended 31 December 2011 and 31 December 2010.

6 Loss per share

Loss per share has been calculated using the weighted average number of shares in issue during the relevant financial periods.

	Quarter ended 31 December 2011	Quarter ended 31 December 2010	Year ended 31 December 2011	Year ended 31 December 2010
Loss attributable to ordinary shareholders	£2,176,000	£2,969,000	£6,173,000	£7,110,000
Weighted average number of shares outstanding	1,437,754,811	1,437,754,811	1,437,754,811	940,760,440

As the Company experienced a loss in both years all potential common shares outstanding from dilutive securities are considered anti-dilutive and are excluded from the calculation of diluted loss per share.

Details of anti-dilutive potential securities outstanding not included in loss per share calculations at December 31 are as follows:

	2011	2010
Common shares potentially issuable:		
- under stock options	31,377,273	56,399,091
- pursuant to A Ordinary stock conversion	448,333,334	448,333,334
	479,710,607	504,732,425

7 Share capital and other reserves

Share Capital

	Common Shares		Convertible Shares (A Ordinary Shares)	
	Number	**£'000**	**Number**	**£'000**
At 1 January 2010	341,398,222	56,225	115,000,000	13,310
Shares issued	1,096,356,589	6,637	333,333,334	2,000
At 31 December 2010	1,437,754,811	62,862	448,333,334	15,310
Shares issued	-	-	-	-
At 31 December 2011	1,437,754,811	62,862	448,333,334	15,310

The Company is authorised to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series, without nominal or par value. All common shares rank equally with regard to the Company's residual assets.

The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

Holders of A Ordinary Shares of Turbo Power Systems Limited ("TPSL") (Convertible shares), carry no voting rights, cannot attend any shareholder meetings and, in the event of winding-up of TPSL are entitled to a maximum distribution of £500,000 in aggregate, to rank before the Common Shares. The A Ordinary shares are convertible into an equal number of Common Shares of the Company on request by the holder, having given 61 days notice. Under certain take over or change in control events, the A Ordinary Shares are exchangeable under "super exchange" rights, converting for 3 Common shares of the Company for every A Ordinary Share held.

As the A Ordinary Shares are non-participating interests in TPSL and are non-voting, no current year or cumulative net losses have been allocated to the A Ordinary Shares.

Issue of common shares:

On 28 January 2010 the Company issued 9,069,769 common shares, and on 8 February 2010 3,953,488 common shares as a result of conversions of £280,000 of 2005 Convertible Loan Notes, at a conversion price of 2.15p per share.

On 16 June 2010 the Company issued 1,083,333,333 common shares to TAO UK as a result of the financing and investment in the Company, at a price of 0.6p per share.

On 16 June 2010, TPSL, as part of the TAO financing, issued 333,333,334 A-Ordinary shares at 0.6p each in settlement of the 2008 loan note principal, accrued interest and agreed risk premium due to one of the institutional investors.

Other reserves

At 31 December 2011, other reserves comprise of the stock compensation reserve of £1,756,000 (2010: £1,681,000).

Potential issue of common shares

The Company has issued share options under the 2002 Stock Option Plan and A Ordinary Shares that are convertible into common shares of the Company.

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Under stock option plan	31,377,273	7.56,399,091	8.25,485,700
Pursuant to A Ordinary stock conversion	448,333,334	448,333,334	115,000,000
Pursuant to warrants	-	-	23,357,142
Pursuant to loan note conversion	-	-	137,046,512
	479,710,607	504,732,425	300,889,354

8 Related party transactions

Transactions with the parent and ultimate parent company

On 16 June 2010 the Company completed a fundraising and investment transaction that resulted in TAO UK, the wholly owned UK subsidiary of the Brazilian energy solutions company VSE, investing £6.5million in exchange for 1,083,333,334 Common Shares in the Company, giving TAO UK a 75.4% controlling stake in the Company on an undiluted basis. The transaction was recorded at exchange amount.

On 22 October 2010 the Company completed a loan funding facility from its majority investor, TAO UK, that made available up to £1.9 million (amended as below) to support the working capital requirements of the Company as it develops. The loan carries a 6% interest rate and is secured by a fixed and floating charge over the assets of the Company, and is repayable on request after 1 January 2012. A summary of the drawdowns is:

Date of drawdown	£'000
28 October 2010	£1,200
26 November 2010	£700
25 February 2011	£800
28 March 2011	£400
15 April 2011	£2,200
25 May 2011	£1,000
5 September 2011	£1,500
20 December 2011	£350
Accrued interest	£353
Total	£8,503

Accrued interest is recorded within trade and other payables (2010: £16,000)

On 16 June 2010, following the fundraising and investment from TAO UK, the Company settled it's liabilities in relation to the outstanding 2008 convertible loan notes, accrued interest and agreed risk premium. The holder of the A-Shares was one of the institutional investors who received a settlement valued at £2 million, which was settled by the issuance of 333,333,334 additional A-Shares. The transaction was recorded at exchange amount.

During 2011 the Company has transacted business with both TAO UK, totalling £82,000 (2010: £17,000), and with VSE, totalling £888,000 (2010: £674,000). Amounts outstanding as at 31

December 2011 are: the Company owes TAO UK £63,000 (2010: £nil); VSE owe £nil (£nil) to the Company.

All transactions were conducted within the normal course of business for supply of engineering design services and were transacted at arms-length.

Key Management personnel compensation

In addition to their salaries, the Company provides non-cash benefits to executive management and contributes to a defined contribution pension plan. Some executive officers participate in the share option programme.

Key management personnel compensation comprises the following:

	2011 **£'000**	**2010** **£'000**
Salaries	664	581
Bonus and other payments	612	401
Pension contributions	40	46
Stock compensation expense	68	112
	1,384	1,140

Bonus and other payments include payments made in relation to the change of control in June 2010, arising from the TAO UK investment in the Company, and termination payments.

9 Subsequent events

On 30 January 2012 the Company negotiated an increase of £1,020,000 in the facility limit of its loan with TAO UK, and was advanced a further £1,020,000 under the same terms as the loan secured in October 2010. TAO UK remains fully committed to TPS and has expressed its continuing financial support of TPS' working capital requirements during 2012.