

21 May 2010
Turbo Power Systems Inc
("Turbo Power Systems" or "TPS" or "Company")

Proposed Investment in the Company and settlement of 2008 Loan Notes

Turbo Power Systems Inc., the innovative power generation and conditioning equipment supplier, is pleased to announce that the Company has today entered into an agreement (the "**Definitive Agreement**") with Tao Sustainable Power Solutions (UK) Ltd ("**Tao**") in respect of a £6.5 million (CDN\$9.8 million) strategic investment (the "**Investment**") by Tao in the Company which will be used to, *inter alia*, settle and surrender the Company's existing 2008 Convertible Loan Notes (the "**2008 CLNS**") and their associated rights and security over the Company and its subsidiaries (together, the "**Group**"), to provide working capital for the business and to strengthen the Company's balance sheet.

The strategic investment of £6.5 million (CDN\$9.8 million) by Tao in the Company (the "Investment") involves the subscription by Tao, on a private placement basis, for 1,083,333,334 common shares in the Company (the "**Common Shares**") as well as the issuance of 333,333,334 A ordinary shares ("**TPSL A Shares**") in TPS Limited ("**TPSL**") (the UK incorporated subsidiary of the Company) to certain of the holders of 2008 CLNS in each case at a subscription price of £0.006 (CDN\$0.009) per share, representing a discount of 50% against the closing share price on the AIM market of the London Stock Exchange ("**AIM**") of £0.012 (CDN\$0.018) at close of business on May 20, 2009. The holder of each TPSL A Share has the right on 61 days notice to exchange each TPSL A Share for a Common Share. Following completion of the Investment ("**Completion**"), Tao will own or control 55.2% of the Company's fully diluted Common Shares, including full conversion of all TPSL A Shares and exercise of all outstanding options at such date (75.3% on an undiluted basis).

Completion is conditional, amongst other things, on the approval of the terms of the Investment by the Company's shareholders and the conditions contained in the Definitive Agreement. There can be no assurances that the Investment will be completed as proposed.

Conditional approval has been received from TSX for the Investment subject to shareholder approval, approval of Tao as an investor by the TSX and receipt of customary deliverables by the TSX for the Common Shares, along with the Common Shares to be issued upon exchange of the TPSL A Shares, to be listed on TSX and to be admitted to trading on AIM. Application will be made for the Common Shares to be issued to be admitted to trading on AIM. Tao has indicated its intention to continue to maintain the listing of the Common Shares on the TSX and the quotation of the Common Shares on AIM following Completion.

Further details of the Investment, and of the Definitive Agreement, together with why the board of directors of the Company (the "Directors" or the "Board") believe that the proposed Investment is in the best interests of the Company and its shareholders is contained within a management information circular that has today been posted to shareholders and will be available on SEDAR at www.sedar.com, and at the Company's website at www.turbopowersystems.com.

Background to the Proposed Investment

The Company has, as stated in its results for the year ended December 31, 2009, focused on seeking initiatives to strengthen the Company's balance sheet in order to underpin its growth plans and provide greater security for the business. Since the end of 2009 the Company has been pro-actively engaged in seeking guidance from advisors and stakeholders on the options available for raising the funds necessary to achieve this goal.

During this process the Company established that the holders of the 2008 CLNS would, in principle, be willing to provide the required finance but that the raising of funds from this source would be on terms less favourable to shareholders than those proposed under the Investment.

The option of a broader institutional fund raising was considered, however, in light of the existing terms of the 2008 CLNS the Directors believe that this option would have had limited certainty of success.

TPS has been in discussions with Tao for a number of months regarding a potential commercial contract for the design and manufacture of generator systems. Borne out in these discussions was a desire on the part of Tao to support TPS in its fund raising ambitions required to secure the future growth of the Company.

The Board considers that at this stage of the Company's development, and in light of its current financial position, should the Investment not be approved by shareholders, the Company is likely to breach the covenants contained within the terms of the 2008 CLNS and that the financial future of the Company would likely become more uncertain than it currently is.

Following negotiations between the Company and Tao, the parties to the Definitive Agreement have agreed, in principle and subject to shareholder and TSX approval, on the terms of the Investment and as a result the Directors believe that the Investment, together with the potential conclusion of a commercial contract to design and supply generator systems to Tao, has the following key merits:

- the Investment will allow the Company to repay the 2008 CLNS, following which the Company will be debt free;
- the Investment will provide the Company with the funds for working capital it will require to help to support its growth;
- Tao would be positioned to become a key customer for the Company's aspirations in the energy market and its contribution will endorse the Company's expertise in this sector; and
- on Completion, new directors will be appointed to the Board (see further details below) who will bring significant experience and expertise to the Board.

Information on Tao

Tao is a wholly-owned subsidiary of VSE Vale Soluções em Energia S.A. ("**VSE**"), a Brazilian energy solutions company.

Since its foundation in 2007, VSE has invested more than US\$270 million in its technology and product development programme. The company has today 340 highly-skilled employees, and has built an impressive Technology Centre in São Jose dos Campos.

VSE is developing an extensive array of new and sustainable power solutions and systems, including heavy ethanol-fueled internal combustion engines, biomass gasifiers and gas turbines. VSE expects to bring its products to the market in 2012.

Group Strategy following Completion

While it is expected that there may well be a material volume of trading with Tao and its connected companies, Tao has confirmed that it will use its reasonable endeavours to ensure that the Company conducts its business affairs independently of Tao and its connected companies. Furthermore, all dealings between TPS, Tao and its connected parties will be conducted at commercial arm's length and in compliance with applicable stock exchange rules and securities laws regarding related parties. TPS is a public company listed on the TSX and whose shares are quoted on AIM and there are no plans for integration of TPS with Tao.

Tao has confirmed that TPS will continue to serve the markets in which it currently operates and will continue to build upon its strong reputation across a number of sectors from both the Company's existing Gateshead and Heathrow facilities.

It is proposed that as a result of the Investment TPS will have:

- the opportunity for the management team to fully implement its existing strategies within the transport, industrial, energy and defence markets;

- a stronger balance sheet which will enable it to exploit new opportunities and to expand and grow its business into new market sectors; and
- opportunities to become a preferred supplier to Tao and its connected companies for sustainable power solutions.

An early indicator of the positive synergies that exist between Tao and TPS is the entry by Tao into a non-binding letter of intent with TPSL for the funding by Tao of the exclusive development of multiple permanent magnet alternators and associated power electronics (the “**Services**”). Under the letter of intent Tao has paid a refundable deposit to TPSL in respect of the provision of the Services of £470,000 (CDN\$710,000). If a definitive commercial contract cannot be agreed between the parties in respect of the Services, such sum shall be immediately repayable to Tao by TPSL.

Composition of the Board following the completion of the Investment

Under the terms of the Definitive Agreement, following Completion, the Board will comprise six directors with three directors being nominees of Tao.

On Completion, Douglas Clark, David Hawksworth and Graham Thornton will resign from the Board and James Pessoa, Rodrigo Braga and Jim Vickerman will be appointed as Directors.

Brief biographies for the Directors to be appointed are set out below and details of each proposed Director pursuant to Schedule 2(g) of the AIM Rules for Companies is included at the end of this announcement.

James Pessoa – Non-executive Chairman, Age 54

President of VSE and a director of Tao. Mr. Pessoa was a director of Vale S.A. from 2005 - 2007 and a director of SMS Demag Ltda from 1997 to 2005 and has extensive global industrial experience.

Rodrigo Braga – Non-executive Director, Age 38

Mr. Braga is general counsel to VSE and is a director of Tao. He was formerly general counsel of Companhia Siderúrgica de Tubarão, a wholly owned subsidiary of ArcelorMittal Steel Industry.

Jim Vickerman – Non-executive Director, Age 51

Mr. Vickerman is managing director of Tao, and joined Tao in January 2010. He has a strong engineering systems and business management background having held senior roles within Vickers plc and Rolls-Royce plc until December 2009.

On Completion, the Board of the Company will be as follows:

- J J M Pessoa (Non-executive Chairman and member of the Remuneration Committee (non-independent))
- P T Summers (Chief Executive Officer and Director (non-independent))
- R J Piper (lead independent Non-executive Director and Chairman of the Remuneration, Audit, Nomination and Corporate Governance Committees (independent))
- C B Besant (Non-executive Director and member of the Remuneration, Audit, Nomination and Corporate Governance Committees (independent))
- R B Braga (Non-executive Director and member of the Nomination and Corporate Governance Committees (non-independent))
- J E Vickerman (Non-executive Director and member of the Audit Committee (non-independent))

Further terms of the Investment and related matters

The net proceeds of the Investment which is expected to be approximately £6.2 million (CDN\$9.3 million) (after expenses) will be used to settle the Company's 2008 CLNS, to buy-out, at a discount, and cancel certain management incentive arrangements and to provide funds for general working capital purposes for the Company and its subsidiaries.

As a condition to completion of the Investment, the Company has entered into an agreement with the holders of the 2008 CLNS for the settlement and surrender of the 2008 CLNS on Completion. The holders of the 2008 CLNS have also agreed to a surrender of the warrants issued to them in 2008, which carried with them the right to acquire an aggregate of 12,857,142 Common Shares at £0.035 (CDN\$0.0525) per share.

Under the terms of the 2008 CLNS, the Company would have been required to make a payment to the holders of the 2008 CLNS of approximately £11.7 million (CDN\$17.7 million) on Completion as the Investment would have triggered certain rights of holders of 2008 CLNS under the terms of the 2008 CLNS. The Company has agreed, on Completion, to pay the holders of the 2008 CLNS a discounted settlement equalling an aggregate value of £6 million (CDN\$9.1 million) in connection with the said settlement and surrender of which £4 million (CDN\$6.0 million) will be paid in cash and the balance of £2 million (CDN\$3.0 million) will be settled by the issue of an aggregate of 333,333,334 TPSL A Shares at a price of £0.006 (CDN\$0.009) per TPSL A Share, being the same price at which Common Shares are being subscribed for by Tao.

On Completion of the Investment, the management of TPSL will be employed under new employment contracts. As part of these arrangements certain members of the management team have entered into the Definitive Agreement and agreed, subject to Completion, to waive their contractual entitlement to certain payments which would have arisen as a result of completion of the Investment in consideration for the payment of a total of £590,000 (CDN\$891,000) which will be distributed amongst them. Additionally, pursuant to the terms of the Investment and subject to disinterested shareholder approval, the Company will cancel 19,470,000 outstanding stock options (representing 3.9% of the Common Shares in issue on a fully diluted basis prior to Completion) and issue 70,000,000 replacement options (representing 3.6% of the Common Shares upon Completion on a fully diluted basis). Further details are set out in the management information circular sent to shareholders today.

If all of the TPSL A Shares issued and outstanding following Completion were exchanged for Common Shares and all issued options exercised, the enlarged Common Share capital of the Company immediately following Completion would be 1,961,928,147 Common Shares and Tao would hold 1,083,333,334 Common Shares representing 55.2% of the then issued Common Shares (on a fully diluted basis).

Following Completion, Tao will hold 1,083,333,334 Common Shares representing 75.3% of the enlarged issued Common Share capital of the Company on a undiluted basis. This will give Tao the right to approve resolutions of the Company requiring approval by a simple majority or super majority including any future special resolutions of shareholders. Tao will also have rights to appoint directors to the Board. Tao has therefore agreed, subject to applicable laws, to certain undertakings regarding the exercise of its voting rights and powers of control in respect of the Company for the benefit of the Company's shareholders, details of which are set out in the management information circular under the section "Special Business of the Meeting – 1. Approval of the Investment Resolution - Description of the Investment – The Definitive Agreement - Obligations of Tao following Completion and Undertakings of Tao".

The Meeting

Shareholders will receive a notice convening the Annual General and Special Meeting of the Company (the "**Meeting**") to be held at the offices of Turbo Power Systems Inc., Unit 3, Heathrow Summit Centre, Skyport Drive, Hatch Lane, West Drayton, Middlesex, UB7 0LJ, United Kingdom, on Monday June 14, 2010 at 10.00 a.m. (London, GMT+1), and further information concerning proxies, the matters to be acted upon at the Meeting and other necessary regulatory information.

At the Meeting, in addition to the customary matters to be dealt with at an annual meeting, ordinary resolutions will be proposed to approve the Investment, the granting of the replacement stock options and an

amendment to the Company's bylaws that will allow the Chair of the Board of Directors to have a casting vote at the meeting of Directors (the “Resolutions”).

Recommendation and irrevocable undertakings

After consideration of the Company’s strategic options currently available to it, the Directors believe that the Investment is the most appropriate way to secure the long-term future of the Company. The Directors of the Company believe the Investment is in the best interests of the Company and its shareholders as a whole as it will enable the Company to repay the existing 2008 CLNS, provide the working capital the Company needs to pursue its business plans and support its growth.

The Company has received undertakings from the holders of 104,607,809 Common Shares (including the directors of the Company) representing 29.5% of the current issued common share capital agreeing to vote in favour of the Resolutions to be proposed at the Meeting.

The Directors of the Company unanimously recommend that shareholders vote in favour of the Resolutions at the Meeting as they propose to do so in respect of their own registered and/or beneficial holdings of 17,027,000 Common Shares, other than as described in the paragraph above.

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Additional information required pursuant to Schedule 2(g) of the AIM Rules for Companies:

	James Pessoa	Rodrigo Braga	Jim Vickerman
2(g)(ii) other directorships and partnerships in previous 5 years	Usinas Siderurgicas de Minas Gerais SA California Steel Industries LLC	None	Powerfield Limited Genistics Limited Genistics Holdings Limited Magnetic Systems Technology Limited

There is no further information to be disclosed pursuant to Schedule 2(g) of the AIM Rules for Companies.

All figures converted into Canadian dollars were calculated based on the noon rate of exchange posted by the Bank of Canada on May 19, 2010 for conversion of pounds sterling into Canadian dollars, where £1 equals CDN\$1.5086.

This communication to shareholders and the public contains certain forward-looking statements. Actual results may differ from those indicated by such statements. All statements, other than statements of historical fact, included herein, are forward-looking statements that involve risks and uncertainties. There can be no assurance such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements.