

# turbopowersystems

## LETTER FROM THE CHAIRMAN, NOTICE OF SPECIAL MEETING OF SHAREHOLDERS AND MANAGEMENT PROXY AND INFORMATION CIRCULAR OF TURBO POWER SYSTEMS INC.

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser who specialises in advising on shares or other securities and who is, in the case of UK shareholders, authorized under the United Kingdom *Financial Services and Markets Act 2000* ("FSMA").**

This letter from the Chairman, Management Proxy and Information Circular is furnished in connection with the solicitation of proxies by management of Turbo Power Systems Inc. (the "Company") to be voted at the Special Meeting of the shareholders of the Company to be held at 9.00 a.m. (London, England time) on 27 November 2006 at the offices of KBC Peel Hunt, 111 Old Broad Street, London, EC2N 1PH.

The Directors, whose names appear on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and makes no omission likely to affect the import of such information.

**On the passing of the Special Resolution, to be tabled at the Special Meeting, application will be made for the Common Shares to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. London Stock Exchange plc has not itself examined or approved the contents of this document.**

This document should be read as a whole. Your attention is drawn to the letter from the Chairman of the Company which is set out on pages 4 to 12 of this document and in which the Board recommends that Shareholders vote in favour of the Resolutions to be proposed at the Special Meeting.

KBC Peel Hunt which is authorised and regulated by the Financial Services Authority for the conduct of regulated activities in the United Kingdom, is acting for the Company and no one else in connection with the Transfer to AIM and the Placing and will not be responsible to any person other than the Company for providing the protections afforded to its customers or for providing advice on the contents of this document or any transaction or arrangement referred to herein. No representation or warranty, express or implied, is made by KBC Peel Hunt as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). Following Admission KBC Peel Hunt will act as the Company's nominated adviser and broker.

The Placing of Common Shares referred to in this document is only being made to or directed at persons in the United Kingdom who are: (i) "Qualified investors" within the meaning of Section 86(7) of FSMA and who will be subscribing for Common Shares as principal for their own account and not for the benefit of others, other than on behalf of discretionary clients in circumstances where Section 86(2) of FSMA applies; and (ii) within the categories of persons referred to in Article 19 (investment professionals) or Article 49 (high net worth companies) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005; or to or at persons to whom the Placing of Placing Shares may otherwise lawfully be made.

The Placing is conditional, *inter alia*, on Admission taking place on or before 15 January 2007 (or such later date as the Company and KBC Peel Hunt may agree). All of the Common Shares will rank *pari passu* in all respects and will rank in full for all dividends or other distributions declared, made or paid on the Common Shares after Admission.

An Instrument of Proxy relevant for use in connection with the Special Meeting is enclosed with this document. If you are a Shareholder, and whether or not you intend to be present at the Special Meeting, please complete and return the accompanying Instrument of Proxy in accordance with the printed instructions thereon as soon as possible but, in any event, so as to be received by the Company's registrars, Computershare Trust Company of Canada, 9th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1, or Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH no later than 9.00 a.m. on 23 November 2006. Completion and return of the Instrument of Proxy will not prevent a Shareholder from attending and voting at the EGM in person, if desired.

Additional copies of this document comprising a letter from the Chairman, Management Proxy and Information Circular shall be available for inspection and/or collection, during normal business hours, from 20 October 2006 up to the time of the conclusion of the Special Meeting, at the Company's offices (in the United Kingdom: at Unit 3, Heathrow Summit Centre, Skyport Drive, Hatch Lane, West Drayton, Middlesex, UK, TW4 6JW; and in Canada at: 888, 900-6th Avenue SW, Calgary, Alberta T2P 3K2), as well as at KBC Peel Hunt Ltd., the Company's UK Financial Advisor and Stockbroker, at: 111 Old Broad Street, London, EC2N 1PH. This document is also available for inspection at the Document Viewing Facility of the UK Listing Authority at: 25 The North Colonnade Canary Wharf, London E14 5HS, UK.

**If you sell or have sold or otherwise transferred all of your Common Shares in the Company, please forward this document together with the accompanying Instrument of Proxy as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.**

**Dated: 20 October 2006**

## TABLE OF CONTENTS

	<i>Page</i>
EXPECTED TIMETABLE OF EVENTS	3
PLACING AND LOAN NOTE REDEMPTION STATISTICS	3
LETTER FROM THE CHAIRMAN OF THE COMPANY	4
MANAGEMENT INFORMATION CIRCULAR	13
SCHEDULE “A” – DEFINITIONS	18
SCHEDULE “B” – STATEMENT OF EXECUTIVE COMPENSATION	20
SCHEDULE “C” – SUMMARY OF RIGHTS OF THE A-SHARES	28
NOTICE OF SPECIAL MEETING OF SHAREHOLDERS	29

## EXPECTED TIMETABLE OF EVENTS

Latest time and date for receipt of Instrument of Proxy	9.00 a.m. on 23 November 2006
Special Meeting	9.00 a.m. on 27 November 2006
Last day of dealings in Common Shares on the Official List	27 December 2006
Cancellation of the listing of the Common Shares on the Official List	8.00 a.m. on 28 December 2006
Admission and first day of dealings in Common Shares on AIM	8.00 a.m. on 28 December 2006
CREST accounts credited for the Placing Shares in uncertificated form	28 December 2006
Despatch of definitive share certificates (where applicable) by	10 January 2007

## PLACING AND LOAN NOTE REDEMPTION STATISTICS

Placing Price	8p
Aggregate number of Placing Shares and A-Placing Shares to be issued pursuant to the Placing	75,000,000
Gross proceeds of the Placing	£6.0 million
Net proceeds of the Placing receivable by the Company	£5.5 million
Total number of New Common Shares to be issued following the Placing and assuming the implementation of the Loan Note Redemption	74,475,000
Enlarged Share Capital	265,969,592
New Common Shares to be issued as a percentage of the Enlarged Share Capital	28.0 per cent.
Aggregate number of Redemption Shares and A-Redemption Shares proposed to be issued pursuant to the Loan Note Redemption	114,475,000
Total number of A-Shares to be issued following the Placing and assuming the implementation of the Loan Note Redemption	115,000,000

# LETTER FROM THE CHAIRMAN OF THE COMPANY

## Turbo Power Systems Inc.

(Registered in Yukon with Corporate Access number 30918)

### Directors

Colin B Besant (*Non-executive Chairman*)  
Michael J Hunt (*Chief Executive Officer*)  
Stephen P Sadler (*Chief Financial Officer*)  
Nicholas O Brigstocke (*Senior Independent Non-executive Director*)  
Wayne ME McLeod (*Non-executive Director*)  
Michael Webber (*Non-executive Director*)  
David G Hawksworth (*Non-executive Director*)

### Registered Office:

Suite 200-204 Lambert Street,  
Whitehorse,  
Yukon,  
Y1A 3T2  
Canada

20 October 2006

Dear Shareholder,

### **Proposed transfer from the Official List to AIM, the Placing of new shares, the redemption of Loan Notes and the amendment of the Stock Option Plan**

#### **1. Introduction**

Turbo Power Systems is pleased to announce that it is the Board's intention to delist the Company's Common Shares from the Official List and to apply to the London Stock Exchange to have those shares admitted to trading on AIM. The Company also announces that it has, conditional on Admission, raised £6.0 million through a placing of new Common Shares and A-Shares. It has also received commitments, conditional upon Admission, from holders of up to £8,780,000 of Loan Notes to accept, on redemption of their Loan Notes by the Subsidiary, either new Common Shares or A-Shares. The Delisting is subject to Shareholders' approval being obtained. The Directors also propose, subject to Shareholders' approval, to amend the Company's Stock Option Plan, in order to reduce the maximum aggregate number of shares deliverable upon the exercise of all options granted to 14 per cent. of the issued share capital of the Company compared to the current 20 per cent.

This document sets out information on, the background to and the reasons for the Transfer to AIM, the Loan Note Redemption and the Placing and asks Shareholders to vote, as required by the Listing Rules, on the Special Resolution to obtain approval for the Transfer to AIM as set out in the Notice of Special Meeting on page 29 of this document. This document also gives details of the Placing and the Loan Note Redemption and why the Directors believe they are in the best interests of the Company and Shareholders. This document also sets out the proposed amendments to the Stock Option Plan, and asks Shareholders to vote, as required by the Listing Rules, on the amendments, as set out in the Ordinary Resolution contained in the Notice of Special Meeting on page 29 of this document.

Turbo Power Systems has conditionally placed with institutions and other investors, in aggregate 50,000,000 new Common Shares (the "Placing Shares") and 25,000,000 new A-Shares (the "A-Placing Shares") at a price of 8 pence per share. Dealings in the Placing Shares are expected to commence on AIM at 8.00 a.m. on 28 December 2006. All subscribers to the Placing will be resident outside of North America, and the Placing Shares will be subject to customary resale restrictions under Applicable Canadian Securities Laws on their resale into Canada. Once completed, the Placing will raise approximately £5.5 million (net of expenses). As part of the Placing, the Directors will in aggregate be subscribing for 612,500 Placing Shares under the terms of the Placing.

During the next six to nine months the Company needs to raise additional cash to continue operations. The Company has identified a number of different methods of raising the funds that it will require. However, the Directors believe that the Placing is the most appropriate way to secure the Company's long-term future. The Placing is conditional upon Admission and so the Directors believe that it is essential for Shareholders to vote in favour of the Special Resolution to approve the Transfer to AIM and so effect the Placing. If

Shareholders do not vote in favour of the Transfer to AIM, there will be uncertainty relating to the Company's ability to continue as a going concern. If the Special Resolution is not passed, the Directors will immediately start exploring alternative sources of funding. Based on current expectations the Company will have to complete any fundraising by the end of June 2007, at the latest, in order to continue its operations.

The total net proceeds of the Placing received by the Group will be used over time as follows: approximately £5.0 million to fund working capital and £0.5 million for premises relocation.

KBC Peel Hunt has agreed to subscribe or procure subscribers for 50,000,000 Placing Shares which are not taken up by places under the Placing.

As part of any Loan Note Redemption the Company would issue the holders of Loan Notes 2003 with 70 Warrants for every £100 of Loan Notes 2003 that are redeemed. Such an issue would result in the issue of 3,500,000 Warrants.

The proposal to Transfer to AIM is the result of a process analysing the benefits currently obtained from the Company's status as a fully listed company, set against the cost and regulatory burden of that listing. The outcome of that process indicated the Transfer to AIM would provide a regulatory framework more appropriate to a company of Turbo Power Systems' size and provide the potential to generate cost savings. The Transfer to AIM will not affect the Company's listing on the TSX.

## **2. Reasons for the Placing**

The Company continues to market its innovative high-speed motor/generator and power electronics technology to a range of corporate customers in its target markets. The Company has made significant sales progress in 2005 and 2006 and has seen continued order book growth, winning a number of new contracts with major industrial customers. Most of these contracts have design, prototype development and field-testing phases, which need to be completed before production revenue is available. Once into the production phase significant expenditure is made on stock and work in progress ahead of receiving payment for shipped production units, creating a requirement for additional working capital.

Having experienced strong growth in its order book, the Power Electronics division will require larger premises in the north-east of England. The Company has today announced that a suitable site has been selected and the relocation is expected to take place in early 2007. Conditional grant funding of £550,000 has been confirmed by One North East, a regional grant development agency covering the north-east of England, but some additional funds are required to complete the factory fit out.

Over the next six to nine months the Company has to raise additional cash to continue operations. The Company has identified a number of different methods of raising the funds that it will require. However, the Directors believe that the Placing is the most appropriate way to secure the Company's long-term future. The Placing is conditional upon Admission and so the Directors believe that it is essential for Shareholders to vote in favour of the Special Resolution to approve the Transfer to AIM and so effect the Placing. If Shareholders do not vote in favour of the Transfer to AIM, there will be uncertainty relating to the Company's ability to continue as a going concern. If the Special Resolution is not passed, the Directors will immediately start exploring alternative sources of funding. Based on current expectations the Company will have to complete any fundraising by the end of June 2007, at the latest, in order to continue its operations.

The total net proceeds of the Placing received by the Company will be used over time as follows: approximately £5.0 million to fund working capital and £0.5 million for premises relocation.

The Placing Price of 8 pence per Placing Share and A-Placing Share represents a discount of approximately 23.8 per cent. to the closing mid-market price of 10.5 pence per Common Share on 19 October 2006, being the last dealing day prior to the date of this document.

The Placing Shares are equivalent to approximately 26.1 per cent. of the Company's existing issued share capital (before any redemption of the Loan Notes). The Placing Shares will, when issued, represent approximately 18.8 per cent. of the Enlarged Share Capital (assuming the implementation of the Loan Note Redemption occurs).

### 3. Reasons and details for the Loan Note Redemption

As at the date of this circular, the Group had in issue £11,149,000 of Loan Notes, details of which are set out below.

#### *Loan Notes 2003*

Amount in issue	£5,000,000
Annual interest	3.5%
Conversion price of loan notes	20 pence

#### *Loan Notes 2005*

Amount in issue	£6,149,000
Annual interest	6.5%
Conversion price of loan notes	12 pence

The Company has received commitments and/or undertakings from holders in respect of £5,000,000 of Loan Notes 2003 and up to £3,780,000 Loan Notes 2005 that they are willing, conditional upon Admission, to accept either 24,475,000 Common Shares (the “Redemption Shares”) or 90,000,000 A-Shares (the “A-Redemption Shares”) on redemption of their Loan Notes by the Subsidiary.

The Loan Notes 2003 may, at the option of the Subsidiary, be redeemed at face value in exchange for A-Redemption Shares issued at a rate of 8 pence per share (this is equivalent to 12.5 A-Redemption Shares for every £1 of Loan Notes 2003 redeemed). The holders of Loan Notes 2003 would also receive 70 Warrants for every £100 of Loan Notes 2003 that are redeemed by the Subsidiary, resulting in the possible issue of 3,500,000 Warrants.

The Company has received conditional undertakings in respect of certain registered holders of Loan Notes 2005 that £1,780,000 of the Loan Notes 2005 will be redeemed at a premium of 10 per cent. to face value in exchange for Redemption Shares at a rate of 8 pence per share (this is equivalent to 13.75 Redemption Shares for every £1 of Loan Notes 2005 redeemed).

An additional £2,000,000 of Loan Notes 2005 may, at the option of the Subsidiary, be redeemed at a premium of 10 per cent. to face value in exchange for A-Redemption Shares at a rate of 8 pence per share (this is equivalent to 13.75 A-Redemption Shares for every £1 of Loan Notes 2005 redeemed). As with all A-Shares, the A-Redemption Shares will be exchangeable, upon no less than 61 days’ written notice to the Company from holders of A-Redemption Shares, into Common Shares in the Company.

The redemption of Loan Notes 2005 is conditional on the passing of a written Extraordinary Resolution of the Holders of Loan Notes 2005 which will be sent to holders of Loan Notes 2005 shortly. The modifications under the Extraordinary Resolution of the Holders of Loan Notes 2005 provide, among other things, for the Loan Notes 2005 to be redeemable now, to enable those holders of Loan Notes 2005 who wish to participate in the Loan Note Redemption to do so. They also remove the discretion of the Subsidiary to elect to satisfy the payment of interest due through the issue of Common Shares, and provide instead that a holder may in its discretion elect to receive Common Shares in satisfaction of interest due.

The Company has received undertakings in respect of holders of approximately 82 per cent. of Loan Notes 2005 to vote in favour of the Extraordinary Resolution of the Holders of Loan Notes 2005. This percentage will be sufficient to pass the Extraordinary Resolution of the Holders of Loan Notes 2005. For the avoidance of doubt no circular has or will be posted in relation to the Extraordinary Resolution of the Holders of Loan Notes 2005 and Shareholders are not being asked to vote on the Extraordinary Resolution of the Holders of Loan Notes 2005.

The Directors believe that a Loan Note Redemption would be beneficial for the Group, as it would result in a reduction in long-term debt and an associated reduction in the Group’s gearing which would help to strengthen the Group’s balance sheet. The Directors believe that this would enhance the Group’s financial credibility with potential customers and partners. In addition, a Loan Note Redemption would result in a reduction in annual interest payments and so be beneficial to the Group’s cash flows.

The Redemption Price for the Loan Notes represents a discount of approximately 23.8 per cent. to the closing mid-market price of 10.5 pence per Common Share on 19 October 2006, being the last dealing day prior to the date of this circular. The Redemption Shares to be issued pursuant to the Loan Note Redemption would represent approximately 9.2 per cent. of the Company's Enlarged Share Capital.

The Loan Note Redemption is conditional, *inter alia*, upon:

- (i) the passing of the Special Resolution;
- (ii) the passing of the Extraordinary Resolution of the Holders of Loan Notes 2005;
- (iii) Admission; and
- (iv) the Placing Agreement becoming unconditional in all other respects.

The TSX has conditionally approved the listing of these securities. Listing is subject to the Company fulfilling all of the requirements of the exchange on or before 11 January 2007. Application will be made to the London Stock Exchange for any Redemption Shares arising from any Loan Note Redemption to be admitted to trading on AIM respectively, and it is anticipated that dealings in these shares will commence at 8.00 a.m. on 28 December 2006. As with all A-Shares, the A-Redemption Shares will not be listed on any stock exchange.

Following the implementation of the Loan Note Redemption, as described above, the Company would have £2,369,000 of Loan Notes 2005 still in issue.

#### **4. Background to and reasons for the Transfer to AIM**

AIM was launched in June 1995 as the London Stock Exchange's market specifically designed for smaller companies. Since launch, more than 2,000 companies have been admitted to AIM and over £30 billion has been raised collectively. As a consequence, the Directors believe that AIM is a globally respected market.

The Board now believes that AIM is a more appropriate market for the Company and should lead to a simplification of administration requirements and lower ongoing costs associated with being a public company. The Board also believes that the intended admission to AIM will enable the Company to agree and execute transactions more quickly should any acquisition or other development opportunities arise in the future. However, the Board envisages no alteration in the standards of reporting and governance which the Group currently achieves. We therefore see ourselves as continuing to be attractive to specialist institutional investors as well as to the retail investor.

The obligations of an AIM company are similar to those of the Company on the Official List, with certain exceptions, of which the significant ones are referred to below:

- Under the AIM Rules, a nominated adviser is required at all times and has ongoing responsibilities to both the Company and the London Stock Exchange. On Admission, KBC Peel Hunt will be appointed the Company's nominated adviser and also the Company's broker.
- For AIM companies, prior shareholder approval is required only for reverse takeovers or for disposals that result in a fundamental change of business (i.e. transactions that exceed 75 per cent. of various size tests, such as the ratio of consideration of the transaction to the market capitalisation of the AIM company). However, under the Listing Rules, a broader range of transactions require shareholder approval.
- There is no requirement for a minimum number of shares to be maintained in public hands, whereas on the Official List a minimum of 25 per cent. of a company's issued ordinary share capital should be maintained in public hands at all times.
- There is no requirement under the AIM Rules for companies to publish admission documents for further issues of existing classes of securities, except for reverse takeovers or for prospectus issues.
- The Combined Code does not apply directly to AIM companies.

Liquidity on AIM is currently provided by market makers who are member firms of the London Stock Exchange and are obliged to quote a share price between 8.00 a.m. and 4.30 p.m. on business days.

The Common Shares are listed on the TSX and as a result will continue to be treated as listed for the purposes of certain areas of UK taxation. Therefore there should be no change in the treatment of the Common Shares for UK tax resident individuals following the move to AIM. However, we would recommend independent advice be obtained in relation to the application of the tax rules for individual shareholders.

Whilst Admission will not affect the way in which Shareholders buy and sell Common Shares on the London Stock Exchange (subject only to customary resale restrictions into Canada for the Placing Shares only), the market for shares on AIM may be less liquid or subject to greater fluctuation than the Official List, and shares listed on AIM may be perceived as carrying a higher risk than shares listed on the Official List.

The Company remains committed to continuing its strategy of focusing on developing its existing operations and to maintaining high standards of corporate governance. Overall, the Board believes that a move to AIM will allow it to further progress its current strategy and generate cost savings without sacrificing the benefits its current status provides. The Board will continue to examine opportunities to improve cost and administrative effectiveness.

Shareholders should consult their own professional advisers on whether an investment in a company registered in Canada and listed on AIM is suitable for them.

The comments on the tax implications described in this document are based on the Directors' current understanding of tax law and practice, are not tailored to any individual circumstances and are primarily directed at individuals who are UK resident and domiciled. Tax rules can change and the precise tax implications for you will depend on your particular circumstances. **If you are in any doubt as to your tax position, you should consult your professional adviser.**

## **5. Creation of A-Shares**

The A-Shares have been created to satisfy the requirements of certain holders of Loan Notes 2003 and Loan Notes 2005, as well as certain places as a condition to their participation in the Loan Note Redemption and the Placing.

The A-Shares will be created as a new class of non-voting share capital in Turbo Power Systems Limited ("the Subsidiary") and will be exchangeable, upon no less than 61 days' written notice to the Company from holders of A-Shares, into Common Shares in the Company. The A-Shares will not be listed on any stock exchange. In the event of winding up of the Subsidiary, holders of A-Shares have a preferential right to receive an aggregate of £500,000 to be divided among the holders of the A-Shares on a pro rata basis, and shall not be entitled to any further distribution of the assets of the Subsidiary (based on the number of A-Shares currently proposed to be issued, this amounts to 0.43 pence per A-Share). A summary of the rest of the rights of the A-Shares is set out in Schedule C of this document.

Following the completion of the Placing, the Transfer to AIM and assuming the implementation of the Loan Note Redemption occurs there will be a total of 115,000,000 A-Shares in issue. On exchange into Common Shares these would represent 30.2 per cent. of the subsequently enlarged share capital of the Company.

## **6. Warrants**

Upon the redemption of Loan Notes 2003 the holders of Loan Notes 2003 will be issued, conditional upon Admission, with 70 warrants over A-Shares (with a strike price of 15 pence per A-Share) for every £100 of Loan Notes 2003 that are redeemed by the Subsidiary. The Warrants are convertible into A-Shares after six months from Admission and will expire three years from the date of grant. The A-Shares are convertible into Commons Shares upon a minimum of 61 days written notice. For the avoidance of doubt neither the A-Shares nor the Warrants will be listed on any stock exchange.

## **7. Current trading and prospects**

During 2005 and 2006 Turbo Power Systems has made significant progress both in building its order book and reducing its cash burn. Revenues have grown significantly and substantial strides have been made in focusing resources on commercial programmes.

First half results for 2006 show revenue and development income of £2.5 million and operating cash outflow of £2.2 million.

Since August 2005 the Company has announced a number of significant contract wins including:

- Eaton Aerospace – In August 2005, the Company announced a contract for the supply of motor drive systems for the on board fuel pumps used on the Boeing 787 ‘Dreamliner’. The contract is estimated to be worth in excess of US\$20 million before after-market sales, which could exceed US\$10 million.
- ALC – Also in August 2005, the Company announced a development contract for an oil field application to include field trials in Alaska. Subject to successful trial results the contract includes the provision for a long-term production supply contract. The addressable market for the technology is in excess of 600,000 wells.
- Trans-Elektro – In October 2005, the Company announced an agreement to supply power converters for use on the Dutch rail system. The initial production contract is worth £0.5 million.
- Industrial motor/drive agreement with an international OEM – The Company announced in November 2005 that it had signed an agreement to supply a range of high speed motor and variable drive systems to an international OEM. Subject to satisfactory completion of prototype trials, the initial two year production contract is expected to yield revenues in excess of US\$12.5 million.
- National Rail Equipment Company – The Company announced a long-term supply agreement with NREC for the supply of traction motor controllers and low voltage power supply units in February 2006. Deliveries commenced in August 2006 and are expected to generate revenues in excess of US\$5.5 million by the end of 2007. Orders have already been received for the launch quantity of 69 systems on behalf of Union Pacific Railroad. There is the potential for further significant orders.
- Toronto Transit Commission – In March 2006, the Company announced a production contract to supply the Toronto Transit Commission with low voltage power supply units for Canadian Light Rail Vehicles in Toronto. The initial production order is for £1.8 million.
- Compact Power – In March 2006, Compact Power and Turbo Power Systems announced an agreement to collaborate in the development of a packaged biomass distributed generation system. Turbo Power Systems will supply generator and inverter technology to the programme.
- Bombardier – In May 2006, the Company announced a contract to supply Bombardier Transportation with auxiliary power converters for use on the Beijing Capital International Airport link. The contract is expected to be worth US\$1.5 million.
- Bombardier (UK) – In July 2006, the Company announced a contract from Bombardier Derby for power converters and “at-seat” power supplies. The contract is worth £0.8 million.
- Hamilton Sundstrand – In July 2006, the Company announced a contract to supply motor drives for use on the Boeing 787 ‘Dreamliner’ estimated to be worth in excess of US\$26 million with the potential for significant additional after market sales, which could exceed US\$10 million.
- PRC Lasers – In September 2006, the Company announced a follow-on order worth US\$3.5 million from PRC Lasers for high voltage power supplies. The current contract, worth US\$2.4 million and signed in December 2003 will continue until the end of 2006. The new contract will cover deliveries beginning in the first quarter of 2007 and continuing until early 2008.

These contracts cover different production periods, with the longest being the Hamilton Sundstrand contract which extends to 2021.

As a result of these contract wins the Company’s order book has grown substantially and Turbo Power Systems now has long-term trading relationships with a number of blue chip customers. Most of the new contracts are characterised by an upfront design, prototype and testing phase before moving into a production phase. Whilst the majority of the contracts receive customer funding in the initial phases it is in the production phase that the most significant revenues and cash margins are expected to be achieved.

Most contracts have a pre-production phase of 12 to 18 months. As a consequence of this order book profile the Company expects to continue to make losses, and thus have a working capital requirement, until a number of these contracts have moved into the production phase.

The Company has noted growing customer interest in its technology and has increased its investment in sales and marketing resource in 2006. The Company expects to expand its potential sales pipeline in the near term and is encouraged that opportunities, such as the recently announced Hamilton Sundstrand contract, have arisen with the help of end customer referrals.

## 8. Details of the Placing

The Company is proposing to raise in total approximately £6.0 million (before expenses) by means of the Placing. Pursuant to the terms of the Placing Agreement, KBC Peel Hunt, as agent for Turbo Power Systems, has agreed conditionally to place the Placing Shares and the A-Placing Shares with investors procured by it.

The Placing Price of 8 pence per Placing Share or A-Placing Share represents a discount of approximately 23.8 per cent. to the closing mid-market price of 10.5 pence per Common Share on 19 October 2006, being the last dealing day prior to the date of this document.

As part of the Placing, the Directors will in aggregate be subscribing for 612,500 Placing Shares under the terms of the Placing.

The Placing Shares are equivalent to approximately 26.1 per cent. of the Company's existing issued share capital (before any redemption of the Loan Notes). The Placing Shares will, when issued, represent approximately 18.8 per cent. of the Enlarged Share Capital (assuming the implementation of the Loan Note Redemption occurs).

The issue of the Placing Shares is conditional, *inter alia*, upon:

- (i) the passing of the Special Resolution;
- (ii) Admission; and
- (iii) the Placing Agreement becoming unconditional in all other respects.

The TSX has conditionally approved the listing of these securities. Listing is subject to the Company fulfilling all of the requirements of the exchange on or before 11 January 2007.

Application will be made to the London Stock Exchange for the Placing Shares to be admitted to trading on AIM. The Placing Shares are expected to be admitted to AIM and to commence trading at 8.00 a.m. on 28 December 2006. As with all A-Shares the A-Placing Shares will not be listed on any stock exchange.

Under Canadian law there are no pre-emption rights attached to shares in Canadian companies. Accordingly no resolutions are required to be proposed at the Special Meeting in order to issue the Placing Shares.

Under the terms of the Placing Agreement, KBC Peel Hunt has agreed to subscribe or procure subscribers for 50,000,000 Placing Shares which are not taken up by placees under the Placing.

## 9. Interests of Directors following the Placing

As part of the Placing, the Directors will in aggregate be subscribing for 612,500 Placing Shares under the terms of the Placing. Immediately following the Placing, the Directors interests in the Company will be as follows:

	<i>Number of Placing Shares subscribed</i>	<i>Total Interest following Admission</i>	<i>% Interest in the Enlarged Share Capital</i>
Colin Besant	87,500	15,687,500	5.90
Michael Hunt	87,500	198,167	0.07
Stephen Sadler	87,500	198,167	0.07
Nicholas Brigstocke	87,500	911,381	0.34
Wayne McLeod	87,500	237,881	0.09
Michael Webber	87,500	87,500	0.03
David Hawksworth	87,500	87,500	0.03

## **10. Cancellation of listing and application for Admission**

Conditional upon the Special Resolution being approved at the Special Meeting, the Company will make an application and give notice to cancel the listing of the Common Shares on the Official List and the admission to trading of the Common Shares on the London Stock Exchange's market for listed securities and will apply to the London Stock Exchange for admission of the Enlarged Share Capital to AIM.

If the Special Resolution is passed at the Special Meeting, it is anticipated that the listing and trading of the Common Shares on the Official List will cease at close of business on 27 December 2006, being not less than 20 business days notice following the passing of the Special Resolution. Admission is expected to take place and dealings are expected to commence on AIM at 8.00 a.m. on 28 December 2006.

The transfer to AIM will not affect the Company's listing on the TSX.

## **11. Stock Options**

Conditional upon the Ordinary Resolution being approved at the Special Meeting, the Directors propose to amend the Stock Option Plan.

The Stock Option Plan currently provides that the aggregate number of shares to be delivered upon the exercise of all options granted under the Stock Option Plan shall not exceed the lower of either 20 per cent. of the issued shares of the Company or 35,044,280 shares.

To be consistent with industry practice of similar companies listed on AIM and the TSX, the Directors propose that the Stock Option Plan be amended to reduce the limit on the aggregate number of shares deliverable upon the exercise of all options granted under the Stock Option Plan to a maximum of 14 per cent. of the issued share capital of the Company from time to time.

Under the Stock Option Plan there are currently 27,771,083 stock options issued and outstanding (which represents 14.5 per cent. of the Company's existing issued share capital). These stock options are exercisable at various dates between now and 30 March 2016.

A copy of the full text of the Stock Option Plan as amended will be available for inspection at the offices of the Company (in the UK: Unit 3, Heathrow Summit Centre, Skyport Drive, Hatch Lane, West Drayton, Middlesex, UK, TW4 6JW and in Canada; 888, 900-6th Avenue SW, Calgary, Alberta, Canada, T2P 3K2) and on the Company's website ([www.turbopowersystems.com](http://www.turbopowersystems.com)).

## **12. Special Meeting**

You will find set out on the remaining pages of this document a notice convening the Special Meeting to be held at the offices of KBC Peel Hunt at 9.00 a.m. on 27 November 2006 and further information concerning proxies, the matters to be acted upon at the Special Meeting and other necessary regulatory information.

At the Special Meeting the Special Resolution will be proposed to approve the cancellation of the listing of the Common Shares on the Official List and the admission of the Enlarged Share Capital to trading on AIM. At this meeting the Ordinary Resolution to approve the amendments to the Stock Option Plan will also be proposed.

The full wording of both the Special Resolution and the Ordinary Resolution are set out in the Management Information Circular on pages 15 and 16 of this document.

Shareholders will be asked to vote at the Special Meeting, in person or by proxy, on both the Special Resolution and the Ordinary Resolution.

The approval of 75 per cent. of the Shareholders voting at the Special Meeting, in person or by proxy, must be obtained for the Special Resolution, and the approval of the majority of such Shareholders for the Ordinary Resolution.

Under Canadian law there are no pre-emption rights attached to shares in Canadian companies. Accordingly no resolutions are required to be proposed at the Special Meeting in order to issue the Placing Shares.

Copies of this document incorporating the notice convening the Special Meeting will be available for collection from the offices of KBC Peel Hunt Ltd, 111 Old Broad Street, London EC2N 1PH for a period of one month from the date of this document.

### **13. Action to be taken**

Shareholders will find enclosed with this document an Instrument of Proxy for use at the Special Meeting. Instruments of Proxy should be completed and returned in accordance with the instructions printed thereon so as to arrive at the Company's Registrars, Computershare, no later than 9.00 a.m. on 23 November 2006.

Completion and return of an Instrument of Proxy will not prevent Shareholders from attending and voting at the Special Meeting should they so wish.

### **14. Importance of Special Meeting**

**Shareholders should be aware that the Placing is conditional upon their voting in favour of the Special Resolution and so approving the Transfer to AIM.**

**The Directors believe that the Placing is the most appropriate way to secure the long-term future of the Company. They therefore believe that it is essential for Shareholders to vote in favour of the Special Resolution and so effect the Placing. If Shareholders do not vote in favour of the Transfer to AIM, there will be uncertainty relating to the Company's ability to continue as a going concern. If the Special Resolution is not passed, the Directors will immediately start exploring alternative sources of funding. Based on current expectations the Company will have to complete any fundraising by the end of June 2007, at the latest, in order to continue its operations.**

### **15. Recommendation**

**The Board is of the opinion that the Transfer to AIM, and the amendment of the Stock Option Plan are in the best interests of Shareholders as a whole. Accordingly, the Board unanimously recommends that Shareholders vote in favour of both the Special Resolution, to approve the Transfer to AIM, and the Ordinary Resolution, to approve the amendment of the Stock Option Plan, to be proposed at the Special Meeting, as they intend to do in respect of their own beneficial holdings of 16,795,596 Common Shares, representing 8.8 per cent of the Company's issued share capital.**

Yours faithfully,

Colin Besant  
*Chairman*

**TURBO POWER SYSTEMS INC.**  
**SPECIAL MEETING OF SHAREHOLDERS**  
**MANAGEMENT INFORMATION CIRCULAR**

20 October 2006

**NOTE:** Shareholders who do not hold their shares in their own name, as registered shareholders, should read “Advice to Beneficial Shareholders” within for an explanation of their rights.

**SOLICITATION OF PROXIES**

**THIS MANAGEMENT INFORMATION CIRCULAR IS PROVIDED IN CONNECTION WITH THE SOLICITATION BY MANAGEMENT OF TURBO POWER SYSTEMS INC.** (the “Company”) of proxies for the Special Meeting of the Shareholders of the Company (the “Meeting”) to be held at 9.00 a.m. (London, England time) on 27 November 2006 at the offices of KBC Peel Hunt Ltd., 111 Old Broad Street, London, EC2N 1PH. The information in this document is given as of 20 October 2006 unless otherwise indicated.

Management does not contemplate a solicitation of proxies otherwise than by mail. The costs thereof will be borne by the Company.

**APPOINTMENT AND REVOCATION OF PROXIES**

**A Shareholder has the right to appoint a nominee (who need not be a shareholder) to represent him at the Meeting other than the persons designated in the enclosed proxy form by inserting the name of his chosen nominee in the space provided for that purpose on the proxy form, or by completing another proper form of proxy.** Such shareholder should notify the nominee of his appointment, obtain his consent to act as proxy and should instruct him on how the shareholder’s shares are to be voted. The nominee should bring personal identification with him to the Meeting. In any case, the form of proxy should be dated and executed by the shareholder or his attorney authorized in writing, with proof of such authorization attached, where an attorney executed the proxy form.

A form of proxy will not be valid for the Meeting or any adjournment thereof unless it is completed and delivered via mail or facsimile to Computershare Trust Company of Canada, 9th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1, (Attention: Proxy Department) or Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH (Attention: Proxy Department) no later than forty eight (48) hours, excluding Saturdays, Sundays and holidays, before the Meeting or any adjournment thereof. Late proxies may be accepted or rejected by the Chairman of the Meeting at his discretion, and the Chairman is under no obligation to accept or reject any particular late proxy.

In addition to revocation in any other manner permitted by law, a shareholder who has given a proxy may revoke it, any time before it is exercised, by instrument in writing executed by the shareholder or by his attorney authorized in writing and deposited either at the registered office of the Company at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the Chairman of such Meeting on the day of the Meeting or any adjournment thereof. In addition, a proxy may be revoked by the shareholder personally attending at the Meeting and voting his shares.

**ADVICE TO BENEFICIAL SHAREHOLDERS**

Shareholders who do not hold their shares in their own name (referred to herein as “Beneficial Shareholders”) are advised that only proxies from registered shareholders (i.e. shareholders of record) can be recognized, and only registered shareholders may vote at the Meeting. Beneficial Shareholders who complete and return a proxy must indicate thereon the name of the person (usually a brokerage house) who holds their shares as a registered shareholder. Every attempt will be made to pass such proxies along to the

appropriate registered shareholder in order that the registered shareholder may vote in accordance with the wishes of the Beneficial Shareholder. The form of proxy supplied to Beneficial Shareholders is identical to that provided to registered shareholders. However its purpose is limited to instructing the registered shareholder how to vote on behalf of the Beneficial Shareholder.

All references to shareholders in this Management Information Circular and the accompanying Instrument of Proxy and Notice of Meeting are to shareholders of record (registered shareholders) unless specifically stated otherwise. Where documents are stated to be available for review or inspection, such items will be shown upon request to registered shareholders who produce proof of their identity.

## **VOTING OF PROXIES**

The persons named in the enclosed Instruments of Proxy are directors and/or officers of the Company and have indicated their willingness to represent as proxy the shareholder who appoints them. Each Shareholder may instruct his proxy how to vote his shares by completing the blanks on the proxy form. Shares represented by properly executed proxy forms in favour of the persons designated on the enclosed form will be voted or withheld from voting in accordance with the instructions made on the proxy forms. If a Shareholder specifies a choice with respect to any matter to be acted upon his shares will be voted accordingly. In the absence of such instructions, such shares **WILL BE VOTED FOR THE APPROVAL OF ALL MATTERS IDENTIFIED IN THE NOTICE OF MEETING.**

The enclosed Instrument of Proxy confers discretionary authority upon the persons named therein with respect to amendments and variations to matters identified in the Notice of Meeting and with respect to any other matters which may properly come before the Meeting. At the time of printing this Management Information Circular, the management of the Company knows of no such amendments, variations or other matters to come before the Meeting. In the event that other matters come before the Meeting, then the management designees intend to vote in accordance with the judgment of the management of the Company.

## **VOTING SHARES AND PRINCIPAL HOLDERS THEREOF**

The Company is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares. As at the effective date of this Management Information Circular (the "Effective Date"), which is 20 October 2006, the Company has 191,494,592 Common Shares, without nominal or par value, outstanding. There are no other shares outstanding, of any class. The Common Shares are the only shares entitled to be voted at the Meeting, and holders of Common Shares are entitled to one vote for each Common Share held.

The Company will prepare a list of shareholders of record at the close of business on 23 October 2006 (the "Record Date"). A holder of Common Shares of the Company named on that list will be entitled to vote the shares then registered in such holder's name, except to the extent that (a) the holder has transferred the ownership of any of his shares after the Record Date, and (b) the transferee of those shares produces properly endorsed share certificates, or otherwise establishes that he owns the shares, and demands not later than ten (10) days before the day of the Meeting that his name be included in the list of persons entitled to vote at the Meeting, in which case the transferee will be entitled to vote his shares at the Meeting. **If you have sold or otherwise transferred all of your Common Shares in the Company, please forward this document together with the accompanying Instrument of Proxy as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale of transfer was affected, for transmission to the purchaser or transferee.**

To the knowledge of the directors and senior officers of the Company, as at the Effective Date, no person, firm or Company beneficially owned, directly or indirectly, or exercised control or direction over voting securities carrying more than 10 per cent. of the voting rights attached to any class of voting securities of the Company.

## **STATEMENT OF EXECUTIVE COMPENSATION**

Information required by National Instrument 51-102 upon Executive Compensation is provided in Schedule "B" hereto.

## **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

No director, executive officer or proposed nominee for director, or any of their respective associates is currently indebted to the Company or any of its subsidiaries.

## **INTERESTS OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

The Company is not aware of any material interests, direct or indirect, of any Informed Person of the Company, any proposed director of the Company, or any associate or affiliate of any Informed Person or proposed director, in any transaction since the completion of the Company's most recent completed financial year or in any proposed transaction which has materially affected or would affect the Company or any of its subsidiaries other than as disclosed herein.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is on SEDAR at [www.sedar.com](http://www.sedar.com). Security holders may contact the Company at its Calgary, Alberta office to request copies of the Company's financial statements and Management Discussion and Analysis.

Turbo Power Systems Inc.  
Suite 888, 900-6th Avenue SW  
Calgary, Alberta, Canada T2P 3K2

Phone: 403-237-6549 (no financial advice can be given on this number)  
Fax: 403-237-6518 (no financial advice can be given on this number)

The financial information of the Company is provided in the Company's comparative financial statements and Management Discussion and Analysis for its most recently completed financial year ended December 31, 2005.

## **MATTERS TO BE ACTED UPON AT THE MEETING**

### **1. Transfer from the Official List to AIM**

For the reasons set forth in the above Chairman's Letter which forms part of this Management Information Circular, management recommends the transfer of the listing of the Common Shares from the Official List to AIM. The complete text of the special resolution to be considered at the Meeting will be substantially as follows:

**“BE IT RESOLVED AS A SPECIAL RESOLUTION OF THE COMPANY THAT, the listing of the Common Shares of no par value in the capital of the Company on the Official List and to trading on the London Stock Exchange's market for listed securities be cancelled and application be made for admission of the Common Shares of the Company to trading on the AIM market of the London Stock Exchange.”**

Unless otherwise directed, it is the intention of management to vote the proxies in favour of the special resolution approving the transfer of the common shares from the Official List to AIM.

### **2. Proposal to Amend the Stock Option Plan**

The Company has a Stock Option Plan dated 23 January 2002 (the "Plan"), which was approved and adopted by the shareholders of the Company on January 23, 2002. The disclosure under the heading "Options and SARS" in Schedule B sets forth a summary of the current Plan. There are currently 27,771,083 stock options issued and outstanding under the Plan which number represents 14.5 per cent. of the issued and outstanding number of common shares of the Company.

The Plan currently provides that, subject to the aggregate number of shares to be delivered upon the exercise of all options granted under the Plan not exceeding 20 per cent. of the issued shares of the Company at the time of granting of options, the maximum aggregate number of shares which may be reserved for the exercise of options under the Plan is 35,044,280.

To be consistent with industry practice of like companies listed TSX and AIM, management proposes that the Plan be amended to remove reference to a maximum number of Common Shares to be reserved for the exercise of options under the Plan and to authorize that the aggregate number of shares to be delivered upon the exercise of all options granted under the Plan not exceed 14 per cent. of the issued shares of the Company at the time of granting of options.

### **Recommendation**

**The Board Of Directors Unanimously Recommends A Vote “For” The Proposal To Approve and Adopt the Plan as amended.** This proposal will be approved if there is a favorable vote of holders of a majority of our outstanding shares of common stock present at the annual meeting, in person or by proxy.

Pursuant to the policies of the TSX, companies are required to seek security holder approval (“Renewal Approval”) every three years for unallocated options under security based compensation arrangements that do not have a fixed number of securities issuable (“Reloadable Plans”). As the amended Plan will be a “Reloadable Plan”, the form of resolution to be presented to shareholders below, will accordingly also stipulate the date by which the Company will seek Renewal Approval for the then unallocated stock options under the amended Plan.

The complete text of the ordinary resolution which management intends to place before the Meeting for approval, confirmation and adoption, with or without modification is as follows:

#### **“BE IT RESOLVED AS AN ORDINARY RESOLUTION THAT:**

**(a) Section 3 of the Plan be deleted and replaced with the following:**

**“Subject to adjustment as provided in Section 14 hereof, the shares to be offered under the Plan shall consist of shares of the Company’s authorized but unissued common shares. The aggregate number of shares to be delivered upon the exercise of all options granted under the Plan shall not exceed 14 per cent. of the issued shares of the Company at the time of granting of options. If any option granted hereunder shall expire or terminate for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for the purpose of this Plan.”**

**(b) all stock options granted and outstanding as of the effective date of the amended Plan be and are hereby ratified, confirmed and approved and shall be governed by the amended Plan;**

**(c) any one director or officer of the Company be authorized to adopt the amended Plan as may be necessary to comply with all applicable regulatory authorities and stock exchanges; and**

**(d) on or before 27 November 2009, shareholder approval be sought to approve any then unallocated options under the amended Plan.**

**Disinterested shareholder approval, being the approval of the majority of the votes cast by all of the shareholders present at the Meeting, excluding the insiders of the Company whom this resolution will affect, or their associates, shall be sought at the Meeting.**

### **3. Other Business**

While there is no other business other than that mentioned in the Notice of Meeting to be presented for action by the shareholders at the Meeting, it is intended that the proxies hereby solicited will be exercised upon any other matters and proposals that may properly come before the Meeting or any adjournment or adjournments thereof, in accordance with the discretion of the persons authorized to act thereunder.

**DATED:** 20 October 2006

### **APPROVAL AND CERTIFICATION OF TURBO POWER SYSTEMS INC.**

The contents and sending of this Management Information Circular have been approved by the directors of the Company.

The foregoing contains no untrue statements of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

**ON BEHALF OF THE MANAGEMENT OF TURBO POWER SYSTEMS INC.**

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Michael Hunt  
*Chief Executive Officer*

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Stephen Sadler  
*Chief Financial Officer*

## SCHEDULE “A”

### DEFINITIONS

“Admission”	admission to trading on AIM of the Enlarged Share Capital and such admission becoming effective in accordance with the AIM Rules
“AIM”	a market operated by the London Stock Exchange
“AIM Rules”	the rules for AIM companies and their nominated advisers, as issued by the London Stock Exchange, as amended from time to time
“Applicable Canadian Securities Laws”	all applicable securities laws and rules, regulations, notices and policies applicable in any province or territory of Canada
“A-Placing Shares”	25,000,000 A-Shares to be placed pursuant to the Placing
“A-Redemption Shares”	90,000,000 A-Shares to be issued to certain holders of Loan Notes on Redemption of their Loan Notes at a rate of 8 pence per share
“A-Shares”	A-Shares of 8 pence each in the capital of TPS Ltd., which are exchangeable into Common Shares, a summary of the terms of which are set out in Schedule “C”
“Board” or “Directors”	the directors of the Company, whose names are set out on page 4 of this document
“Combined Code”	the Combined Code on Corporate Governance issued by the Financial Reporting Council
“Company” or “Turbo Power Systems”	Turbo Power Systems Inc.
“Common Shares”	common shares of no par value in the capital of the Company
“Delisting”	the proposed cancellation of the listing of the Common Shares on the Official List and from trading on the London Stock Exchange’s market for listed securities
“Enlarged Share Capital”	the Company’s issued share capital of Common Shares immediately after the completion of the Placing and assuming the implementation of the Loan Note Redemption occurs
“Extraordinary Resolution of the Holders of Loan Notes 2005”	an extraordinary resolution of the holders of the Loan Notes 2005 proposing to modify the terms and conditions of the Loan Notes 2005 in connection with the Loan Note Redemption
“Group”	the Company and its subsidiaries
“Informed Person”	as defined in National Instrument 51-102- <i>Continuous Disclosure Obligations</i> as adopted under Applicable Canadian Securities Laws
“Instrument of Proxy” or “Proxy”	the instrument of proxy for use at the Special Meeting which accompanies this document
“KBC Peel Hunt”	KBC Peel Hunt Ltd.
“Listing Rules”	the rules laid down by the Financial Services Authority relating to the Official List in accordance with the Financial Services and Markets Act 2000
“Loan Notes”	the Loan Notes 2003 and the Loan Notes 2005

“Loan Notes 2003”	the £5,000,000 nominal of guaranteed convertible loan notes 2008, in the Subsidiary, created by an instrument dated 9 July 2003
“Loan Notes 2005”	the £8,350,000 nominal of second series guaranteed convertible loan notes 2010, in the Subsidiary, created by an instrument dated 10 March 2005
“Loan Note Redemption”	the proposed redemption of £5,000,000 of the Loan Notes 2003 and £3,780,000 of the Loan Notes 2005 at the Loan Note Redemption Price on the assumption that redemption monies are utilised in full in the subscription of A-Shares or Common Shares
“Loan Note Redemption Price”	the price of 8 pence per £1 nominal of loan note at which the 2003 Loan Notes and the 2005 Loan Notes are redeemable
“London Stock Exchange”	London Stock Exchange plc
“New Common Shares”	the Placing Shares and the Redemption Shares
“Official List”	the list maintained by the Financial Services Authority for the purposes of Part VI of The Financial Services and Markets Act 2000
“Ordinary Resolution”	the ordinary resolution to approve the proposal to amend the Stock Option Plan
“Placing”	the conditional placing by KBC Peel Hunt of the Placing Shares pursuant to the Placing Agreement and the A-Placing Shares
“Placing Agreement”	the conditional agreement dated 19 October 2006 between the Company and KBC Peel Hunt relating to the Placing
“Placing Price”	8 pence per Placing Share or A-Placing Share
“Placing Shares”	50,000,000 Common Shares to be placed pursuant to the Placing
“Redemption Shares”	24,475,000 Common Shares to be issued to certain holders of Loan Notes on redemption of their Loan Notes at a price of 8 pence per share
“Resolutions”	the Special Resolution and the Ordinary Resolution
“Shareholders”	holders of Common Shares
“Special Meeting” or the “Meeting”	the special meeting of Shareholders, notice of which is set out in this document, and any adjournment thereof
“Special Resolution”	the special resolution to approve the application for Delisting and Admission referred to in the Notice of the Special Meeting
“Stock Option Plan” or “the Plan”	the stock option plan approved and adopted by Shareholders on 23 January 2002
“Subsidiary” or “TPS Ltd.”	Turbo Power Systems Limited
“Transfer to AIM”	the Delisting and Admission
“TSX”	the Toronto Stock Exchange
“Warrants”	warrants over A-Shares with a strike price of 15 pence

## SCHEDULE “B”

### STATEMENT OF EXECUTIVE COMPENSATION

(Currency references herein are either Canadian currency (\$) or British Pound Sterling (£))

#### Compensation of Named Executive Officers

“Named Executive Officers” means the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) of the Company, regardless of the amount of the compensation of those individuals, and each of the Company’s three most highly compensated executive officers, other than the CEO and the CFO, who are serving as executive officers or employees of the Company or its subsidiaries at the end of the most recently completed fiscal year and whose total salary and bonus amounted to \$150,000 or more.

#### Summary Compensation

The following table sets forth all annual and long term compensation for services in all capacities to the Company and its subsidiaries for the financial years ended December 31, 2003, 2004 and 2005 in respect of Named Executive Officers.

#### SUMMARY COMPENSATION TABLE

Name and Principal Position	Annual Compensation				Long Term Compensation			
	Year	Salary (\$)	Bonus (\$)	Other Annual Compensation <sup>(1)</sup> (\$)	Awards		Payouts	
					Securities Under Options Granted (#)	Shares or Units subject to Resale Restrictions (\$)	LTIP Payouts (\$)	All other Compensation (\$)
Colin Besant <sup>(2)</sup> Chairman	2003	275,592	Nil	33,664	Nil	Nil	Nil	Nil
	2004	261,580	Nil	32,479	Nil	Nil	Nil	Nil
	2005	132,180	Nil	19,979	Nil	Nil	Nil	Nil
Justin Hall TPS Ltd Director	2003	229,660	Nil	25,345	Nil	Nil	Nil	Nil
	2004	237,800	Nil	26,220	Nil	Nil	Nil	Nil
	2005	224,428	88,132	25,920	3,000,000	Nil	Nil	Nil
Peter Hollins <sup>(2)</sup> Interim Chief Executive Officer	2003	247,503	Nil	Nil	Nil	Nil	Nil	Nil
	2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Michael Hunt <sup>(2)</sup> Chief Executive Officer	2003	190,240	Nil	21,819	98,950	Nil	Nil	Nil
	2004	225,910	Nil	26,239	Nil	Nil	Nil	Nil
	2005	249,670	88,132	60,743	4,000,000	Nil	Nil	Nil
Hassan Mansir TPS Ltd Director	2003	229,660	Nil	25,871	Nil	Nil	Nil	Nil
	2004	237,800	Nil	26,784	Nil	Nil	Nil	Nil
	2005	224,428	88,132	26,659	3,000,000	Nil	Nil	Nil
Stephen Sadler <sup>(3)</sup> Chief Financial Officer	2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2005	212,193	88,132	29,262	3,500,000	Nil	Nil	Nil
Fraser Searle <sup>(3)</sup> Chief Financial Officer	2003	206,694	Nil	23,403	Nil	Nil	Nil	Nil
	2004	214,020	Nil	24,215	Nil	Nil	Nil	Nil
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A

#### Notes:

- (1) Other Annual Compensation comprises private health insurance premiums and contributions made by the Company to the Company’s Pension Scheme.
- (2) Mr. Hollins served as Interim Chief Executive Officer from August 2002 until August 2003. Professor Besant served as Chief Executive Officer prior to August 2002 and then during the period August 2003 to July 1, 2004 at which time Mr. Hunt was appointed to serve as the Chief Executive Officer. Professor Besant was appointed Chairman on February 28, 1994.
- (3) Mr. Searle served as Chief Financial Officer until December 17, 2004. Mr. Stephen Sadler was appointed Chief Financial Officer on March 17, 2005.
- (4) TPS Ltd means Turbo Power Systems Limited, the wholly owned subsidiary of the Company.

## Options and SARs

The Company has a Stock Option Plan (the “Plan”) dated January 23, 2002, which was approved and ratified by the shareholders of the Company on January 23, 2002.

The Plan is administered by the Board of Directors of the Company and its purpose is to afford the persons who provide services to the Company, whether directors, officers, employees or consultants of the Company or its subsidiaries, an opportunity to obtain a proprietary interest in the Company by permitting them to purchase Common Shares of the Company and to aid in attracting, retaining and encouraging the continued involvement of such persons with the Company. Pursuant to the Plan, the Board of Directors may allocate non-transferable stock options to purchase Common Shares of the Company to directors, officers, employees and consultants of the Company and its subsidiaries. The Plan provides that the number of shares issuable pursuant to options granted shall not exceed 35,044,280 Common Shares.

Except as permitted by the Sharesave Scheme referenced below, the exercise price of the Common Shares issued pursuant to such stock options granted under the Plan shall be not less than the “market price” as defined in the Plan. The option agreements shall provide for the expiration of such options on a date not later than ten years from the granting of such options.

The number of shares subject to an option to any optionee shall be determined in the resolution of the Board, but no optionee shall be granted an option which together with any other stock option agreement with the Company exceeds 5 per cent. of the outstanding shares of the Company (on a non diluted basis).

The Plan provides that the stock options are not transferable and if they are not exercised, will expire one year following the date the optionee ceases to be a director, officer, employee or consultant of the Company by reason of death, or the time period stipulated in the agreement evidencing the option (or such other period as the directors may approve and is permitted by the TSX) after ceasing to be a director, officer, employee or consultant of the Company for any reason other than death.

In the event of specified changes in our capital structure, the Board will have the power to adjust the number and kind of shares authorized by the Plan (including any limitations on individual awards) and the number, exercise price or kinds of shares covered by outstanding awards.

Examples of modifications which are in the discretion of the Committee and which will not require shareholder approval are:

- Amendments of a “housekeeping” nature;
- A change to the vesting provisions of a security; and
- A change to the termination provisions of a security which does not entail an extension beyond the original expiry date.

Modifications of the following nature will however require shareholder approval (excluding the votes of Common Shares held directly or indirectly by insiders benefiting from the amendment):

- Reduction of an exercise price; and
- Extension of a term of a security based compensation arrangement benefiting an insider.

During the financial year ended December 31, 2005, 13,550,000 stock options were granted. As of the Effective Date, the total number of stock options outstanding pursuant to the Plan including the Scheme and Sharesave Scheme entitle the holders thereof to acquire an aggregate of 34,139,494 Common Shares, representing 17.9 per cent. of the outstanding Common Shares of the Company as at the date hereof.

The Plan does not provide for stock appreciation rights.

Under the terms of the Plan, the Board of Directors has the authority to create and adopt share option schemes, which terms and conditions are within the scope of the provisions of the Plan. The following two schemes have been created which are designed for approval by the United Kingdom (“UK”) HM Revenue and Customs.

(a) *The Approved Share Option Scheme (the “Scheme”)*

The Scheme, which has been approved by the UK’s HM Revenue and Customs, is available to all employees of the Company’s subsidiary, Turbo Power Systems Limited (“TPS Ltd”), who are resident in the UK including executive directors. The grant of stock options pursuant to the Scheme is at the discretion of the directors upon recommendation by the Remuneration Committee of the Board of Directors. Grants of stock options are limited to £30,000 worth of Common Shares per employee. A stock option will normally be exercisable no earlier than three years and no more than ten years following its grant, provided that performance conditions subject to which it has been granted have been satisfied. The exercise price will not be less than its market value at the time of grant.

(b) *The Sharesave Scheme (the “Sharesave Scheme”)*

The Sharesave Scheme, which has been approved by the UK’s HM Revenue and Customs, is open to all employees of TPS Ltd who are resident in the UK, including executive directors, who enter into an approved savings contract for a period of three and/or five years. The UK’s HM Revenue and Customs rules limit the maximum amount that may be saved to £250 per month. Options are granted when the savings contract is commenced, to acquire the number of Common Shares that the total savings will buy when the savings contract expires. The exercise price of options granted under the Sharesave Scheme will not be lower than 85 per cent. of the market value at the time of the grant.

(c) *Equity Compensation Plan*

The following table summarizes the Equity Compensation Plan information as of December 31, 2005 under which equity securities of the Company are authorized for issuance.

**EQUITY COMPENSATION PLAN INFORMATION**

<i>Plan Category</i>	<i>Number of Securities to be issued upon exercise of outstanding options</i>	<i>Weighted-average exercise price of the outstanding options</i>	<i>Number of securities remaining available for future issuance under equity compensation plan</i>
Equity Compensation Plans approved by Security Holders	34,995,134	£0.75	49,146
Equity Compensation Plans not approved by Security Holders	N/A	N/A	N/A
Total:	<u>34,995,134</u>	<u>£0.75</u>	<u>49,146</u>

(d) *Option/SARS Granted During the Most Recently Completed Fiscal Year*

During the most recently completed fiscal year, the following incentive stock options were granted to the Named Executive Officers. No SARs (stock option appreciation rights) were granted during the period.

<i>Name</i>	<i>Date of Grant</i>	<i>Securities Under Options/SARs Granted (#)</i>	<i>% of Total Options/SARs Granted to Employees in Financial Year</i>	<i>Exercise or Base Price (Cdn\$/Security)</i>	<i>Market Value of Securities Underlying Options/SARs on the Date of Grant (Cdn\$/Security)<sup>(1)</sup></i>	<i>Expiration Date</i>
Michael Hunt	Mar 31, 2005	4,000,000	29.5%	\$0.25	\$0.25	Mar 31, 2015
Stephen Sadler	Mar 31, 2005	3,500,000	25.8%	\$0.25	\$0.25	Mar 31, 2015
Justin Hall	Dec 22, 2005	3,000,000	22.1%	\$0.259	\$0.259	Dec 22, 2015
Hassan Mansir	Dec 22, 2005	3,000,000	22.1%	\$0.259	\$0.259	Dec 22, 2015
Colin Besant	N/A	NIL	NIL	NIL	NIL	N/A

**Notes:**

(1) Calculated using the closing price of the Shares on the TSX on the date of grant.

(e) *Option/SAR Exercises During the Financial Year Ended December 31, 2005 and Financial Year End Option/SAR Values*

The following table sets forth information in respect of each exercise of options and freestanding SARs, if any, during the Company’s financial year ended December 31, 2005 and the financial year

end value of unexercised options and SARs, held by each of the Named Executive Officers of the Company.

**AGGREGATED OPTION/SAR EXERCISES DURING THE FINANCIAL YEAR ENDED DECEMBER 31, 2005 AND FINANCIAL YEAR END OPTION/SAR VALUES**

<i>Name and Title</i>	<i>Securities Acquired on Exercise</i>	<i>Aggregate Value Realized</i>	<i>Unexercised Options/SARs at Financial Year End Exercisable/Unexercisable</i>	<i>Value of Unexercised "in the money" Options/SARs at Financial Year End Exercisable/Unexercisable<sup>(1)(2)</sup> (\$)</i>
Colin Besant Chairman	Nil	Nil	Nil	Nil
Justin Hall TPS Ltd Director	Nil	Nil	7,889,976	Nil
Michael Hunt Chief Executive Officer	Nil	Nil	4,158,950	1,979
Hassan Mansir TPS Ltd Director	Nil	Nil	3,884,164	Nil
Stephen Sadler Chief Financial Officer	Nil	Nil	3,500,000	Nil

**Notes:**

- (1) Unexercised "in-the-money" options refer to those options in respect of which the market value of the underlying security as at the financial year end exceeds the exercise or base price of the option, being the aggregate of the difference between the market value of the securities as at December 31, 2005, and the exercise price.
- (2) As at December 31, 2005, the last day in the financial year 2005 in which the Common Shares traded, the closing price of the Common Shares on the TSX was \$0.25 per Common Share and the middle market quotation on the London Stock Exchange was £0.13 per Common Share. The foregoing calculation is based on the closing price of the TSX.
- (3) TPS Ltd means Turbo Power Systems Limited, the wholly owned subsidiary of the Company.

**Long Term Incentive Plans**

The Company currently has no long-term incentive plans in place.

**Option and SAR Repricing**

The Company did not make any downward repricing of stock options or SARs during the financial year ended December 31, 2005.

**Defined Benefit or Actuarial Plans**

All of the Named Executive Officers employed by the Company are members of a pension scheme – a money purchase scheme with Standard Life. The Company's subsidiary, TPS Ltd, pays on behalf of these Named Executive Officers, ten per cent. (10%) of their base salary to the pension scheme. The pension scheme is not a defined benefit or actuarial scheme.

**Compensation of Directors**

During the financial year ended December 31, 2005, outside directors received aggregate compensation of \$154,210 for services provided to the Company in their capacities as directors as follows:

<i>Name of Director</i>	<i>Directors' Fees (\$)</i>	<i>All Other Compensation (\$)</i>
Nicholas Brigstocke	44,060	Nil
Ian Macintosh	22,030	Nil
Wayne McLeod	44,060	Nil
Ross Sayers	44,060	Nil

During the financial year ended December 31, 2005, no incentive stock options or SARs (stock appreciation rights) were granted to the outside Directors.

The following table sets out the incentive stock options exercised by the outside Directors during the most recently completed fiscal year as well as the fiscal year end value of stock options still held by the outside Directors. During this period, no outstanding SARs were held by outside Directors.

<i>Name</i>	<i>Securities Acquired on Exercise (#)</i>	<i>Aggregate Value Realized (\$)<sup>(1)</sup></i>	<i>Value of Unexercised In-the-Money Options at Fiscal Year End</i>	
			<i>Unexercised Options at Fiscal Year End Exercisable/Unexercisable (#)</i>	<i>Exercisable/Unexercisable (\$)<sup>(2)</sup></i>
Nicholas Brigstocke	Nil	Nil	120,000	Nil
Ian Macintosh	Nil	Nil	Nil	Nil
Wayne McLeod	Nil	Nil	100,000	Nil
Ross Sayers	Nil	Nil	Nil	Nil

**Notes:**

- (1) Calculated using the average of the high and low prices for a board lot of the Shares on the TSX.
- (2) Value of unexercised in-the-money options calculated using the closing price of the Shares on the TSX on December 31, 2005 of \$0.25 per share, less the exercise price of in-the-money stock options.

**Termination of Employment, Change in Responsibilities and Employment Contracts**

Other than the following, the Company did not have in place during the financial year ended December 31, 2005: (a) any employment contract between the Company or any subsidiary or affiliate thereof and any Named Executive Officer; or (b) any compensatory plan or arrangement with respect to a Named Executive Officer, which results or will result from the resignation, retirement or any other termination of employment of the officer's employment with the Company and its subsidiaries or from a change of control of the Company or any subsidiary or any change in the Named Executive Officer's responsibilities following a change in control. All of such individuals are resident in the United Kingdom.

1. At the Annual General Meeting of shareholders held on June 23, 2005, Colin Besant changed his role as an executive director to become the Non-Executive Chairman. A letter of appointment between Professor Besant and the Company dated June 23 2005 replaced the Service Contract dated July 3, 2000 that Professor Besant had with TPS Ltd. Pursuant to the letter of appointment Professor Besant receives directors fees of £40,000 gross per annum. In addition, Professor Besant receives a contribution of 10 per cent. is entitled to membership of the established health and life insurance plans and is entitled to participate in the share option schemes.
2. Pursuant to a service contract dated July 1, 2004 made between Michael Hunt and TPS Ltd, Michael Hunt, Director and Chief Executive Officer, received an annual salary of £110,000 terminable on three (3) months' notice by Michael Hunt. In addition, Mr. Hunt receives a contribution of 10 per cent. of salary to his pension plan, is entitled to membership of the TPS Ltd's health and life insurance plans and is entitled to a maximum amount equivalent to 100 per cent. of salary at the discretion of the Remuneration Committee. Under the terms of this agreement Mr. Hunt is required to devote the whole of his working time and attention to his duties. On a change of control, Mr. Hunt will be entitled to terminate this contract and receive a payment equivalent to eighteen months salary, benefits and estimated bonus entitlement if he so elects at any time during the eighteen (18) months following the change of control. On retirement or death Mr. Hunt is entitled to a lump sum equivalent to a pro rata award under the bonus plan and applicable benefits in relation to death or retirement. On termination by TPS Ltd without cause or by Mr. Hunt for good reason, which requires three (3) months' notice to be served by the relevant party, Mr. Hunt is entitled to eighteen (18) months' salary, eighteen (18) months' bonus entitlements, a lump sum equivalent to his non-vested interest under any tax-qualified pension, retirement or savings plan and the vesting of options he has been granted under the share option schemes. On termination by TPS Ltd for reasons of disability, which requires three (3) months' notice to be served by TPS Ltd, Mr. Hunt is entitled to eighteen (18) months' salary and continuation of the TPS Ltd medical insurance for up to a maximum of eighteen (18) months after termination. Effective February 14, 2005, Mr. Hunt's annual salary increased to £130,000.

3. Mr. Sadler is employed by TPS Ltd pursuant to a Service Agreement dated March 7, 2005 receiving an annual salary of £110,000 terminable on One Hundred Eighty (180) days notice by Mr. Sadler. In addition, the Company will match pension contributions of Mr. Sadler on the basis of: (i) Mr. Sadler's entitlement to contribute up to 5 per cent. of his annual base salary to his pension scheme; and (ii) the Company contributing two times the amount with Mr. Sadler contributes, up to 10 per cent. of his annual base salary. Under the terms of this agreement Mr. Sadler is required to devote the whole of his working time and attention to his duties. On a change of control, Mr. Sadler will be entitled to terminate this contract and receive a payment equivalent to twelve (12) months' salary, benefits and estimated bonus entitlement if he so elects at any time during the twelve (12) months' following the change of control. On retirement or death Mr. Sadler is entitled to a lump sum equivalent to a pro rata award under the bonus plan and applicable benefits in relation to death or retirement. On termination by TPS Ltd without cause or by Mr. Sadler for good reason, which requires six (6) months' notice to be served by the relevant party, Mr. Sadler is entitled to twelve (12) months' salary, twelve (12) months' bonus entitlements, a lump sum equivalent to his non-vested interest under any tax-qualified pension, retirement or savings plan and the vesting of options he has been granted under the share option schemes. On termination by TPS Ltd for reasons of disability, which requires six (6) months' notice to be served by TPS Ltd, Mr. Sadler is entitled to twelve (12) months' salary and continuation of the TPS Ltd medical insurance for up to a maximum of twelve (12) months after termination.
4. Messrs. Hall and Mansir are employed by TPS Ltd pursuant to service agreements dated July 3, 2000 on the same terms as the service agreement made between Mr. Hunt and TPS Ltd noted above, except in respect of the specific annual salary which is £102,500 and in the event of a change of control, they may elect to terminate the agreement and receive a payment equivalent to twenty-four (24) months salary, benefits and estimated bonus entitlement if they so elect to terminate at any time during the eighteen (18) months following the change of control.

#### **Other Compensation**

Other than as set forth herein, the Company did not pay any additional compensation to the executive officers or directors (including personal benefits and securities or properties paid or distributed which compensation was not offered on the same terms to all full time employees) during the last completed financial year except for:

1. the directors fees of £40,000 payable to James Stacey, a non-executive director who previously served as the executive Deputy Chairman; and
2. the consulting fees of £20,000 paid to John Gunn who resigned as a director on June 23, 2005.

#### **Composition of Remuneration Committee**

The remuneration committee consists of Mr. Brigstocke, an unrelated director, who is the chair of the committee and three (3) unrelated directors, namely Messrs. Hawksworth, McLeod, and Webber. None of the members of the Remuneration Committee are, or have been, officers or employees of the Company or any subsidiary. Michael Webber joined the Remuneration Committee on his appointment to the Company on 28 February 2006. David Hawksworth joined the Remuneration Committee on his appointment to the Company on 27 April 2006.

#### **Report of the Remuneration Committee on Executive Compensation**

The following report is submitted by the Remuneration Committee.

(a) *Remuneration Policy*

The Company's executive remuneration program is administered by the Remuneration Committee.

The Company's overall policy regarding compensation of the Company's executive officers is structured to provide competitive salary levels and compensation incentives that support both the

short-term and long-term goals of the Company, attract and retain suitable and qualified executive management, and establish a compensation framework which is industry competitive.

The executive compensation program includes three primary elements, namely a base salary, an annual performance bonus and participation in the Company's incentive stock option plan. In addition, the Company provides executives benefits such as health care insurance and makes contributions to pension schemes on behalf of the executive.

Executive base salaries are determined having reference to the salary levels in the industry in which the Company operates. Criteria included in the determination of salary levels includes the scope, responsibility and complexity of the position held, and salaries being paid for similar positions in other public companies of similar size and business.

The purpose of the annual performance bonus is to provide motivation and incentive for the accomplishment of annual financial and strategic objectives as identified in the Company's strategy approved by the Board during the course of the year.

The Plan and the share schemes created thereunder have been established for directors, executive officers and full time employees of the Company and its subsidiaries. The Board of Directors is responsible for the administration of the Plan and any share schemes, and determines the number of Common Shares purchasable under the Plan, the date each option is to be effective, the exercise price of Common Shares issuable under each option and, subject to the terms of the Plan, any and all terms and conditions of each particular option.

Assuming the achievement of corporate, strategic and financial objectives, the annual performance bonus may total up to a maximum of 100 per cent. of the base salary component of each executive's compensation. The remuneration committee considers the annual performance bonus and participation in the Company's stock option plan and the share schemes as the primary ingredients in the total executive compensation. Annual granting of stock options is considered the primary long-term component in the overall compensation package. The granting of options to the executives is determined by the number of options available to be issued and the number relative to options issued to all employees.

(b) *Chief Executive Officer Compensation*

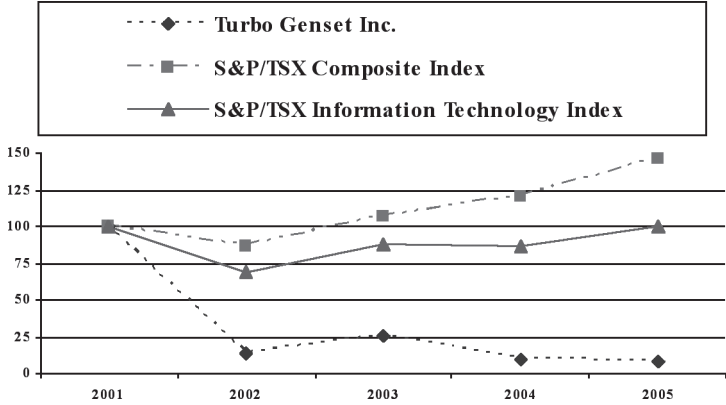
The compensation of the Chief Executive Officer is based on the same program that is applied to other executive officers of the Company, namely a base salary, an annual performance bonus and participation in the Company's incentive stock option plan.

In 2005, the base salary of the Chief Executive Officer was determined based on a review of Chief Executive Officer remuneration at companies of a comparable size and nature, combined with the overall progress results of the Company in 2005. A performance bonus of £40,000 was awarded in 2005. During the year ended December 31, 2005, Mr. Hunt was granted stock options to acquire 4,000,000 Common Shares exercisable at a price of \$0.25 per share on or before March 31, 2015.

**Performance Graph – Five Year Shareholder Return Comparison**

The following graph compares the yearly change in the cumulative total shareholder return over the periods indicated of a \$100 investment in the Company's Common Shares with the cumulative total return of S&P/TSX Composite Index and the S&P/TSX Information Technology Index, assuming the reinvestment of dividends, where applicable, for the comparable period.

**CUMULATIVE VALUE OF A \$100 INVESTMENT**



<i>All Amounts in \$</i>	<i>December 31, 2001</i>	<i>December 31, 2002</i>	<i>December 31, 2003</i>	<i>December 31, 2004</i>	<i>December 31, 2005</i>
Turbo Power Systems Inc.	100	12.90	25.81	9.68	8.06
S&P/TSX Composite Index	100	86.03	106.93	120.27	146.61
S&P/TSX Information Technology Index	100	68.46	87.59	86.51	100.57

## SCHEDULE “C”

### SUMMARY OF RIGHTS OF THE A-SHARES

- **Non-Voting:** Holders of the A-Shares shall not be entitled to receive notice of or attend any meetings of the shareholders of the Subsidiary nor of the Company, nor shall the holders of the A-Shares be entitled to vote at any such meetings.
- **Dividends:** Holders of A-Shares are entitled to receive, out of the moneys of the Subsidiary that are properly applicable to payment of dividends, such dividends as the directors of the Subsidiary may from time to time declare, as and when declared by the board of directors of the Subsidiary in their absolute discretion.
- **Exchangeable:** A-Shares of the Subsidiary are exchangeable into Common Shares of the Company upon no less than 61 days’ written notice to the Company, on the basis of one Common Share for each A Share.
- **Winding-Up:** In the event of liquidation, dissolution or winding up of the Subsidiary, all holders of the A-Shares have a preferential right to receive an aggregate amount of £500,000\*, to be divided among the holders of the A-Shares on a pro rata basis and shall not be entitled to any further distribution of the assets of the Subsidiary.
- **Super-Conversion:** In the event that a takeover bid (as defined in the Securities Act (Ontario)) is announced for the Common Shares which does not include an offer on identical terms for the A-Shares, each A-Share shall be exchangeable for three Common Shares.
- **Capital Reorganisation:** The terms of the A-Shares provide for holders of A-Shares who exercise their right to exchange A-Shares for Common Shares after a Capital Reorganisation (as defined in the terms of the A-Shares) has occurred to receive the number of securities or property of the Company or the entity existing following the Capital Reorganisation that they would have been entitled to receive had they been registered holders of Common Shares of the Company at the effective date of the Capital Reorganisation.
- **Common Share Reorganisation:** The terms of the A-Shares include anti-dilution provisions that are triggered in the event of a Common Share Reorganisation (as defined in the terms of the A-Shares) of the Company.
- **Share Transfer:** The A-Shares are not transferable except with the prior written consent of the directors of the Subsidiary.

\*Based on the number of A-Shares currently proposed to be issued, this amounts to 0.43 pence per A-Share

# TURBO POWER SYSTEMS INC.

## NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

20 October 2006

### TO THE SHAREHOLDERS:

TAKE NOTICE that a Special Meeting (the "Meeting") of the Shareholders of Turbo Power Systems Inc. (the "Company") will be held at 9:00 A.M. (London, England time) on 27 November 2006 at the offices of KBC Peel Hunt Ltd., 111 Old Broad Street, London, EC2N 1PH, for the following purposes:

1. To consider and, if thought fit, approve by Special Resolution, the cancellation of the listing of the Common Shares of no par value in the Capital of the Company on the Official List and to trading on the London Stock Exchange's market for listed securities and the application for the admission of the Common Shares in the capital of the Company to trading on the AIM market of the London Stock Exchange; and
2. To consider and, if thought fit, approve by Ordinary Resolution, the proposed amendments to the Stock Option Plan.

Shareholders who are unable to attend the Meeting in person are requested to date and sign the enclosed form of Instrument of Proxy and return it in the envelope provided for that purpose.

The specific details of the matters proposed to be dealt with at the Meeting are set forth in the Management Information Circular accompanying this Notice.

Only holders of record of Common Shares of the Company at the close of business 23 October 2006 (the "Record Date") are entitled to notice of and to attend the Meeting or any adjournment(s) thereof and to vote thereat.

**If you are a registered shareholder of the Company and are unable to attend the Meeting in person, please date and sign the enclosed form of proxy and return it in the enclosed envelope. In order to be valid and acted upon at the Meeting, forms of proxy must be received by the Company's registrar and transfer agent, Computershare Trust Company of Canada, 9th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1, (Attention: Proxy Department) or Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH (Attention: Proxy Department) no later than forty eight (48) hours, excluding Saturdays, Sundays and holidays, before the Meeting or any adjournment thereof.**

**If you are an unregistered shareholder of the Company and receive these materials through your broker or through another intermediary, please complete and return the form of proxy in accordance with the instructions provided therein.**

**DATED** this 20th day of October 2006.

**BY ORDER OF THE BOARD OF DIRECTORS**

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**Colin Besant**  
*Chairman*





