MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Report contains statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act. These statements appear in a number of places in this Report and include statements regarding our plans, beliefs or current expectations; including those plans, beliefs and expectations of our officers and directors with respect to, among other things, the development of markets for our products, the adequacy of our cash balances and liquidity to meet future operating needs, and our ability to issue equity or debt securities.

Introduction

We generate revenue from two principal activities: 1) research, development and application engineering services that are paid for by our customers; and 2) the sale of motors, generators and electronic controls. The sources of engineering revenue typically vary from year to year and individual projects may vary substantially in their periods of performance and aggregate dollar value. Our product sales consist of both prototype low volume sales, which are generally sold to a broad range of customers, and annually recurring higher volume production. During the fiscal year ended March 31, 2009 our total revenue increased 16 percent to $8,728,311, driven primarily by increased product sales which rose 22 percent to $6,011,065.

Production engineering expenses for the year ended March 31, 2009 rose 10 percent to $1,869,848, reflecting engineering activities associated with the design and installation of a new production cell for our larger propulsion motors and production design activities on our motor and controller products.

Net loss for the current fiscal year decreased by $184,086 to $4,402,019 or $0.17 per common share versus $4,586,105 or $0.18 per common share and $3,431,357, or $0.14 per common share for the fiscal years ended March 31, 2008 and 2007, respectively. The decrease in losses versus last fiscal year is attributable to higher levels of revenue and higher gross profit margins on product sales revenue.

During the last year the automotive industry experienced a substantial reduction in demand resulting from the global credit crisis and recessions in the primary national economies worldwide. In reaction to these developments, many countries around the world passed legislation designed to stimulate industry within their countries, loosened monetary policy to counteract the credit crisis and promote increased lending activities and, in some cases, nationalized certain companies or loaned them government funds. In the automotive industry, General Motors and Chrysler both received substantial government funds, Chrysler has filed for bankruptcy protection and there is, at this time, substantial doubt regarding General Motor's ability to avoid seeking bankruptcy protection. Despite these developments in one of the primary industries served by our company, we experienced strong demand for our propulsion system products. This demand was fueled, in part, by the efforts of numerous automobile companies worldwide to develop and introduce more fuel-efficient vehicles including all-electric, hybrid-electric and plug-in hybrid-electric automobiles. Although we are continuing to experience strong demand for our electric propulsion systems and generators at this time, future developments in the automobile industry related to original equipment manufacturers or their large suppliers could adversely affect the future demand for our products. Despite the turmoil automakers are experiencing currently, numerous automobile companies have publicly announced their strategies to field an increasing number of fuel-efficient vehicles in the future to better match their product offerings to the type of vehicle consumers demand in an environment of rising oil and gasoline prices. Many of these new vehicle offerings are expected to be powered by either all-electric or hybrid-electric powertrains. Should these strategies be implemented, we may experience a substantial increase in product sales revenue arising from the commercial introduction of this class of vehicles powered by our propulsion systems and/or generators.

In the event industry developments lead to additional demand from our customers, we may be required to invest a substantial amount of financial and human resources on the commercial launch of our products. Specifically, we may need to 1) increase the size of our production engineering group, 2) increase the level of our capital expenditures for manufacturing equipment and tooling, and 3) expand our manufacturing facility in Frederick, Colorado. We believe these investments may be necessary to support our strategy of aggressively rolling out automotive certified products to satisfy our customers' requirements as these new market opportunities emerge and expand.

We believe our existing cash and short-term investments, which amounted to approximately $5.8 million at fiscal year end, will be adequate to fund our anticipated growth for the fiscal year ended March 31, 2010 and likely beyond, however, if our growth continues to accelerate we may require additional capital sooner.

Financial Condition

Cash and cash equivalents and short-term investments at March 31, 2009 were $5,793,666 and working capital (the excess of current assets over current liabilities) was $6,640,877 compared with $9,765,892 and $10,510,175, respectively, at March 31, 2008. The decrease in cash and short-term investments and working capital is primarily attributable to operating losses, higher levels of inventories and investments in property and equipment offset by lower levels of accounts receivable.

Accounts receivable decreased $387,040 to $917,099 at March 31, 2009 from $1,304,139 at March 31, 2008. The decrease is primarily attributable to lower levels of contract service billings as of March 31, 2009. Substantially all of our customers are large well-established companies of high credit quality. Although we have not established an allowance for bad debts at March 31, 2009 and no allowance for bad debts was deemed necessary at March 31, 2008, in light of current economic conditions we may need to establish an allowance for bad debts in the future.

Costs and estimated earnings on uncompleted contracts decreased $6,572 to $643,098 at March 31, 2009 versus $649,670 at March 31, 2008. The decrease is due to more favorable billing terms on certain contracts in process at March 31, 2009 versus March 31, 2008. Estimated earnings on contracts in process decreased to $194,861 or 4.2 percent of contracts in process of $4,609,747 at March 31, 2009 compared to estimated earnings on contracts in process of $377,822 or 11.1 percent of contracts in process of $3,396,292 at March 31, 2008. The decrease in estimated margins on contracts in process is attributable to higher cost incurrence than expected on the performance of these contracts.

Inventories increased $345,682 to $1,307,171 at March 31, 2009 versus $961,489 at March 31, 2008 principally due to increased levels of raw materials, work-in-process and finished goods inventories which increased $73,372, $239,885 and $32,425, respectively; reflecting higher levels of low volume product builds in process at March 31, 2009.

Prepaid expenses and other current assets decreased to $117,768 at March 31, 2009 from $119,647 at March 31, 2008 primarily due to lower levels of prepaid rent at the end of the current fiscal year versus the prior fiscal year end.

We invested $570,986 for the acquisition of property and equipment during the fiscal year compared to $803,121 last fiscal year. The decrease in capital expenditures is primarily due to fewer building improvements and purchases of manufacturing equipment during fiscal 2009.

Patent and trademark costs decreased $39,581 to $438,184 at March 31, 2009 versus $477,765 at March 31, 2008 due to systematic amortization of patent issuance costs, which was partially offset by the costs associated with the filing of a new patent application.

Other assets decreased $165,106 to $76,443 at March 31, 2009 from $241,549 at March 31, 2008 due to lower levels of prepayments on capital equipment purchases at the end of the current fiscal year versus the prior fiscal year end.

Accounts payable decreased $89,398 to $651,129 at March 31, 2009 from $740,527 at March 31, 2008, primarily due to improved payment processing during the current fiscal year.

Other current liabilities increased $228,387 to $600,672 at March 31, 2009 from $372,285 at March 31, 2008. The increase is primarily attributable to higher levels of accrued payroll and employee benefits and higher levels of unearned revenue associated with customer prepayments.

Current portion of long-term debt increased $310,921 to $416,923 at March 31, 2009 from $106,002 at March 31, 2008 and long-term debt, less current portion, decreased $416,923 to zero at March 31, 2009. Both changes are due to a scheduled balloon payment in November of 2009 on the mortgage for our Frederick, Colorado facility. We expect to extend the term of this mortgage debt prior to its maturity; however, we cannot assure you that an extension will be completed.

Short-term deferred compensation under executive employment agreements increased to $397,834 at March 31, 2009 versus $364,000 at March 31, 2008 reflecting periodic accruals of future severance obligations under executive employment agreements.

Billings in excess of costs and estimated earnings on uncompleted contracts decreased $636,481 to $71,367 at March 31, 2009 from $707,848 at March 31, 2008 reflecting decreased levels of billings on certain engineering contracts in process at the end of the fiscal year ended March 31, 2009 in advance of the performance of the associated work versus the prior fiscal year.

Long-term deferred compensation under executive employment agreements increased $41,842 to $675,715 at March 31, 2009 from 633,873 at March 31, 2008 reflecting periodic accruals of future severance obligations under executive employment agreements.

Common stock and additional paid-in capital increased to $267,277 and $78,767,154, respectively, at March 31, 2009 compared to $265,267 and $77,819,041 at March 31, 2008. The increase in additional paid-in capital was primarily attributable to the recording of non-cash share based payments.

Results of Operations

Operations for the fiscal year ended March 31, 2009, resulted in a net loss of $4,402,019, or $0.17 per common share, compared to a net loss of $4,586,105, or $0.18 per common share, and $3,431,357, or $0.14 per common share, for the fiscal years ended March 31, 2008 and 2007, respectively. The reduction in the current year net loss is primarily attributable to higher levels of product sales revenue, expanded gross profit margins on product sales, and lower selling, general and administrative expenses. Non-cash expense arising from share-based payments for the fiscal year ended March 31, 2009, 2008 and 2007 was allocated as follows:

	Year Ended March 31, 2009	Year Ended March 31, 2008	Year Ended March 31, 2007
Cost of contract services	$ 110,329	113,507	154,828
Cost of product sales	84,875	60,933	48,606
Research and development	37,903	25,652	22,612
Production engineering	128,553	132,494	113,013
Selling, general and administrative	711,383	842,349	618,697
	$ 1,073,043	1,174,935	957,756

Revenue from contract services increased $125,307, or 4.8 percent, to $2,717,246 for the fiscal year ended March 31, 2009 versus $2,591,939 for the fiscal year ended March 31, 2008. The increase is primarily attributable to higher levels of material purchases for billable programs this fiscal year versus last fiscal year. Revenue from contract services decreased 10.9 percent to $2,591,939 for the fiscal year ended March 31, 2008 compared to $2,907,536 for the fiscal year ended March 31, 2007. The decrease was primarily attributable to the increased allocation of engineering resources to production engineering activities during fiscal 2008 versus fiscal 2007.

Product sales this fiscal year increased 22.3 percent to $6,011,065 compared to $4,916,383 for the fiscal year ended March 31, 2008. Product sales for the fiscal year ended March 31, 2008 increased 31.3 percent to $4,916,383 compared to $3,745,658 for the year ended March 31, 2007. Power products segment revenue for the year ended March 31, 2009 increased $155,268, or 5.0 percent, to $3,272,377 compared to $3,117,109 for fiscal year ended March 31, 2008 due to increased shipments of DC-to-DC converters and the shipment of electric propulsion systems. Power products segment revenue for the year ended March 31, 2008 increased to $3,117,109 versus $2,626,939 for fiscal year ended March 31, 2007 due to increased shipments of vehicle auxiliary motors and the shipment of electric propulsion systems. Technology segment product revenue for the fiscal year ended March 31, 2009 increased $939,414 or 52.2 percent to $2,738,688 compared to $1,799,274 for fiscal year ended March 31, 2008 due to increased shipments of low volume propulsion systems. Technology segment product revenue for the fiscal year ended March 31, 2008 increased $680,555, or 60.8 percent, to $1,799,274 compared to $1,118,719 for fiscal year ended March 31, 2007 due to increased shipments of low volume propulsion systems.

Gross profit margins for the current fiscal year increased to 20.2 percent compared to 14.3 percent for the fiscal year ended March 31, 2008. Gross profit margins for the fiscal year ended March 31, 2008 increased to 14.3 percent compared to 10.0 percent for the fiscal year ended March 31, 2007. Gross profit margins on contract services decreased to 16.1 percent this fiscal year compared to 21.3 percent for the fiscal year ended March 31, 2008 due to higher incurred costs than planned on certain engineering contracts in process during the current fiscal year. Gross profit margins on contract services increased to 21.3 percent for the fiscal year ended March 31, 2008 compared to 8.3 percent for the fiscal year ended March 31, 2007 due to improved program execution during fiscal year 2008. Gross profit margins on product sales this fiscal year increased to 22.1 percent compared to 10.7 percent for fiscal 2008. The improvement is primarily due to lower material costs and improved overhead absorption arising from higher production levels during the fiscal year ended March 31, 2009. Gross profit margins on product sales for the fiscal year ended March 31, 2008 decreased to 10.7 percent compared to 11.3 percent for the fiscal year ended March 31, 2007 due to reduced overhead absorption.

Research and development expenditures for the fiscal year ended March 31, 2009 increased to $593,209 compared to $461,791 and $321,160 for the fiscal years ended March 31, 2008 and 2007, respectively. The increase in research and development expenditures for the fiscal year ended March 31, 2009 compared to the prior fiscal year was primarily due to increased costs on internally funded programs. The increase in research and development expenditures for fiscal 2008 versus fiscal 2007 was primarily due to increased costs on internally funded software development programs.

Production engineering costs were $1,869,848 for the fiscal year ended March 31, 2009 versus $1,706,978 and $1,286,761 for the prior two fiscal years. The increase for the current fiscal year versus fiscal year 2008 is primarily attributable to engineering activities associated with the design and installation of a new production cell for our larger propulsion motors and production design activities on our motor and controller products. The increase for the fiscal year ended March 31, 2008 versus fiscal 2007 is primarily attributable to additional staffing during fiscal year 2008.

Selling, general and administrative expense this fiscal year was $3,782,840 compared to $3,905,495 and $2,855,213 for the fiscal years ended March 31, 2008 and 2007, respectively. The decrease for this fiscal year is primarily attributable to lower levels of equity based compensation and lower deferred compensation expense recorded during the current fiscal year partially offset by increased legal fees for litigation. The increase for fiscal 2008 versus fiscal 2007 is primarily attributable to increased levels of compensation and bonuses, and the amendment of executive employment agreements, which accelerated the recording of deferred compensation expense associated with the severance provisions of these agreements.

Impairment of long-lived assets for the fiscal years ended March 31, 2009, 2008, 2007 were zero, $11,155 and $889, respectively. The impairment of long-lived assets for the fiscal year ended March 31 2008 was attributable to the impairment of obsolete equipment. The impairment of long-lived assets for the fiscal year ended March 31, 2007 was attributable to the write-down of costs associated with an abandoned patent application.

Interest income declined to $198,947 for the current fiscal year compared to $463,248 and $445,578 for the fiscal years ended March 31, 2008 and 2007, respectively. The decrease for fiscal 2009 versus fiscal 2008 is attributable to lower invested balances and lower yields during the current fiscal year. The increase for fiscal 2008 versus fiscal 2007 is attributable to higher invested cash balances.

Interest expense decreased to $33,387 for the year ended March 31, 2009 compared to $40,652 and $47,422 for the fiscal years ended March 31, 2008 and 2007, respectively. The decrease is due to lower average mortgage borrowings outstanding throughout the fiscal year as compared to the prior fiscal year.

Liquidity and Capital Resources

Our cash balances and liquidity throughout the fiscal year ended March 31, 2009 were adequate to meet operating needs. At March 31, 2009, we had working capital (the excess of current assets over current liabilities) of $6,640,877 compared to $10,510,175 at March 31, 2008.

For the year ended March 31, 2009, net cash used in operating activities was $3,065,281 compared to net cash used in operating activities of $2,511,723 and $2,732,956 for the years ended March 31, 2008 and 2007, respectively. The increase in cash used in operating activities in fiscal 2009 is primarily attributable to higher levels of inventories, increased levels of billings in excess of costs on uncompleted contracts partially offset by lower operating losses, increased depreciation and amortization and impairment expense. The decrease in cash used for the year ended March 31, 2008 is primarily attributable to higher levels of billings in excess of costs and estimated earnings on certain uncompleted contracts, partially offset by higher operating losses.

Net cash provided by investing activities for the fiscal year ended March 31, 2009 was $2,620,118 compared to cash used in investing activities of $1,446,752 for the previous fiscal year and $428,914 for fiscal 2007, respectively. The change this fiscal year versus last fiscal year was primarily due to higher levels of maturities of short-term investments offset by lower expenditures for building improvements and manufacturing equipment. Net cash used in investing activities for fiscal 2008 increased to $1,446,752 versus $428,914 for fiscal 2007 primarily due to higher expenditures for building improvements and manufacturing equipment and increased purchases of short-term investment securities.

Net cash used in financing activities was $228,922 for the fiscal year ended March 31, 2009 versus cash provided by financing activities of $5,182,382 and $1,037,241 for the fiscal years ended March 31, 2008 and 2007, respectively. The change this fiscal year versus fiscal year 2008 is attributable to the purchase of treasury stock this fiscal year, and to the completion of a private placement in the first quarter of fiscal 2008, which resulted in $5.2 million in cash proceeds. The

increase in fiscal 2008 versus 2007 is attributable to the completion of a private placement in the first quarter of fiscal 2008, which resulted in 5.2 million in cash proceeds.

We expect to fund our operations over the next year from existing cash and short-term investment balances and from available bank financing, if any. We may need to invest in substantially greater financial resources during fiscal 2010 on the commercialization of our products in emerging markets, including a significant increase in human resources, investments and increased the amounts for equipment, tooling and facilities. Although we expect to manage our operations and working capital requirements to minimize the future level of operating losses and working capital usage consistent with execution of our business plan, our planned working capital requirements may consume a substantial portion of our cash reserves at March 31, 2009. If customer demand accelerates substantially, our losses over the short-term may increase together with our working capital requirements. If our existing financial resources are not sufficient to execute our business plan, we may issue equity or debt securities in the future. Over the last year, access to the capital markets has been severely restricted or nonexistent for most companies due to the global credit crisis. In light of current market conditions and the uncertainty regarding the ability of the capital markets to recover from the credit crisis, we cannot assure you that we will be able to secure additional capital should it be required to implement our current business plan. In the event financing or equity capital to fund future growth is not available on terms acceptable to us or at all, we will modify our strategy to align our operation with then available financial resources.

Contractual Obligations

The following table presents information about our contractual obligations and commitments as of March 31, 2009:

		Payments due by Period			
	Total	Less Than 1 Year	2 - 3 Years	4 - 5 Years	More than 5 Years
Long-term debt obligations [2]	$ 416,923	416,923	-	-	-
Interest on long-term debt obligations	18,315	18,315	-	-	-
Purchase obligations	677,607	677,607	-	-	-
Executive employment agreements [1]	1,073,549	397,834	654,000	-	21,715
Total	$ 2,186,394	1,510,679	654,000	-	21,715

(1) Includes severance pay obligations under executive employment agreements contingently payable upon six months notice by two officers of the company, but not annual cash compensation under the agreements.

(2) Represents a balloon payment on a facility mortgage which we expect to refinance.

Off-Balance Sheet Arrangements

None.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that effect the dollar values reported in the consolidated financial statements and accompanying notes. Note 1 to the consolidated financial statements describes the significant accounting policies and methods used in preparation of the consolidated financial statements. Estimates are used for, but not limited to, allowance for doubtful accounts receivables, costs to complete contracts, the recoverability of inventories and the fair value of financial and long-lived assets. Actual results could differ materially from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in preparation of the consolidated financial statements.

Accounts Receivable

Our trade accounts receivable are subject to credit risks associated with the financial condition of our customers and their liquidity. We evaluate all customers periodically to assess their financial condition and liquidity and set appropriate credit limits based on this analysis. As a result, the collectibility of accounts receivable may change due to changing general economic conditions and factors associated with each customer's particular business. Because substantially all of our customers are large well-established companies with excellent credit worthiness, we have not established a reserve at March

31, 2009 and 2008 for potentially uncollectible trade accounts receivable. In light of current economic conditions we may need to establish an allowance for bad debts in the future. It is also reasonably possible, that future events or changes in circumstances could cause the realizable value of our trade accounts receivable to decline materially, resulting in material losses.

Inventories

We maintain raw material inventories of electronic components, motor parts and other materials to meet our expected manufacturing needs for proprietary products and for products manufactured to the design specifications of our customers. Some of these components may become obsolete or impaired due to bulk purchases in excess of customer requirements. Accordingly, we periodically assesses our raw material inventory for potential impairment of value based on then available information, expectations and estimates and establish impairment reserves for estimated declines in the realizable value of our inventories. The actual realizable value of our inventories may differ materially from these estimates based on future occurrences. It is reasonably possible that future events or changes in circumstances could cause the realizable value of our inventories to decline materially, resulting in additional material impairment losses.

Percentage of Completion Revenue Recognition on Long-term Contracts: Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts

We recognize revenue on development projects funded by our customers using the percentage-of-completion method. Under this method, contract services revenue is based on the percentage that costs incurred to date bear to management's best estimate of the total costs to be incurred to complete the project. Many of these contracts involve the application of our technology to customers' products and other applications with demanding specifications. Management's best estimates have sometimes been adversely impacted by unexpected technical challenges requiring additional analysis and redesign, failure of electronic components to operate in accordance with manufacturers published performance specifications, unexpected prototype failures requiring the purchase of additional parts and a variety of other factors that may cause unforeseen delays and additional costs. It is reasonably possible that total costs to be incurred on any of the projects in process at March 31, 2009 could be materially different from management's estimates, and any modification of management's estimate of total project costs to be incurred could result in material changes in the profitability of affected projects or result in material losses on any affected projects.

Fair Value Measurements and Asset Impairment

Some of our assets and liabilities may be subject to analysis as to whether the asset or liability should be marked to fair value and some assets may be evaluated for potential impairment in value. Fair value estimates and judgments may be required by management for those assets that do not have quoted prices in active markets. These estimates and judgments may include fair value determinations based upon the extrapolation of quoted prices for similar assets and liabilities in active or inactive markets, for observable items other than the asset or liability itself, for observable items by correlation or other statistical analysis, or from our assumptions about the assumptions market participants would use in valuing an asset or liability when no observable market data is available. Similarly, management evaluates both tangible and intangible assets for potential impairments in value. In conducting this evaluation, management may rely on a number of factors to value anticipated future cash flows including operating results, business plans and present value techniques. Rates used to value and discount cash flows may include assumptions about interest rates and the cost of capital at a point in time. There are inherent uncertainties related to these factors and management's judgment in applying them to the analysis of asset impairment. Changes in any of the foregoing estimates and assumptions or a change in market conditions could result in a material change in the value of an asset or liability resulting in a material adverse change in our operating results.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements ("SFAS No. 157").* SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157* which delayed the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities. We adopted the provisions of SFAS No. 157 related to financial instruments on April 1, 2008, and the provisions related to nonfinancial assets and liabilities on April 1, 2009 (except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis). The provisions of this standard adopted by us on April 1, 2008 did not have a material effect on our financial statements and the adoption of the provisions effective April 1, 2009 will not have a material effect on our financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations ("FAS 141(R)")* and Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements ("FAS 160")*. These standards goals are to improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. The provisions of FAS 141(R) and FAS 160 are effective for our fiscal year beginning April 1, 2009. We intend to adopt these standards for future acquisitions after the effective date.

In April 2008, the FASB issued FASB Staff Position (FSP) 142-3, *Determination of the Useful Life of Intangible Assets (”FSP 142-3”).* FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets.* FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The adoption of this standard will not have a material effect on our financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles (“SFAS No. 162”).* SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles”.* The adoption of this standard will not have a material effect on our financial statements.

In June 2008, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 08-3, *Accounting for Lessees for Maintenance Deposits Under Lease Arrangements (“EITF 08-3”).* EITF 08-3 provides guidance for accounting for nonrefundable maintenance deposits. It also provides revenue recognition accounting guidance for the lessor. EITF 08-3 is effective for fiscal years beginning after December 15, 2008. The adoption of this EITF will not have a material effect on our financial statements.

In October 2008, the FASB issued FASB Staff Position (FSP) 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (“FSP 157-3”).* FSP 157-3 clarifies the application of SFAS No. 157 in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FSP 157-3 is effective for all periods presented in accordance with SFAS No. 157. The adoption of FSP 157-3 did not have a material effect on our financial statements.

In April 2009, the FASB issued FASB Staff Position (FSP) 157-4, *Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (“FSP 157-4”)*. FSP 157-4 provides guidance on how to determine the fair value of assets and liabilities when the volume and level of activity for the asset/liability has significantly decreased. FSP 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. In addition, FSP 157-4 requires disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques. FSP 157-4 is effective for us beginning in the first quarter of fiscal year 2010. The adoption of FSP 157-4 will not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position (FSP) 115-2 and Statement of Financial Accounting Standards (FAS) No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairment (“FSP 115-2/FAS No. 124-2”)*. FSP 115-2/FAS No. 124-2 amends the requirements for the recognition and measurement of other-than-temporary impairments for debt securities by modifying the pre-existing “intent and ability” indicator. Additionally, FSP 115-2/FAS No. 124-2 changes the presentation of an other-than-temporary impairment in the income statement for those impairments involving credit losses. FSP 115-2/FAS No. 124-2 is effective for us beginning in the first quarter of fiscal year 2010. The adoption of this standard will not have a material effect on our financial statements.

In April 2009, the FASB issued FASB Staff Position (FSP) 107-1 and Accounting Principals Board (APB) Opinion 28-1, *Interim Disclosure about Fair Value of Financial Instruments (“FSP 107-1/APB 28-1”)*. FSP 107-1/APB 28-1 requires interim disclosures regarding the fair values of financial instruments that are within the scope of FAS 107, *Disclosures about the Fair Value of Financial Instruments*. Additionally, FSP 107-1/APB 28-1 requires disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments on an interim basis as well as changes of the methods and significant assumptions from prior periods. FSP 107-1/APB 28-1 does not change the accounting treatment for these financial instruments and is effective for us beginning in the first quarter of fiscal year 2010. The adoption of this standard will not have a material effect on our financial statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. We do not use financial instruments to any degree to manage these risks and do not hold or issue financial instruments for trading purposes. All of our product sales, and related receivables are payable in U.S. dollars. We are not subject to interest rate risk on our debt obligations.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
of UQM Technologies, Inc.

We have audited the accompanying consolidated balance sheets of UQM Technologies, Inc. (a Colorado Corporation) and subsidiaries (the Company) as of March 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2009. We also have audited UQM Technologies, Inc. and subsidiaries internal control over financial reporting as of March 31, 2009 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). UQM Technologies, Inc.'s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over financial reporting, included in Item 9A. Our responsibility is to express an opinion on these financial statements and an opinion on UQM Technologies, Inc.'s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of UQM Technologies, Inc. and subsidiaries as of March 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, UQM Technologies, Inc. and subsidiaries, maintained, in all material respects, effective internal control over financial reporting as of March 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by COSO.

Grant Thornton LLP

Denver, Colorado
May 20, 2009