

## TO OUR SHAREHOLDERS

Fiscal 2010 was perhaps the most significant and exciting year in the history of our Company. Vehicle electrification has certainly taken center stage, not only nationally, but internationally. Regulations requiring vehicle makers to produce vehicles that consume less fuel, financial incentives to customers who buy fuel efficient vehicles, and billions of dollars in grants and loans to all-electric and plug-in hybrid electric vehicle makers, battery and component suppliers and infrastructure providers, have launched the “plug in” electric vehicle market. This is the opportunity that we have been waiting for and we are in an excellent position to participate.

During the year, there were a number of major developments:

- In July 2009, we signed a ten year agreement with CODA Automotive to supply them with a 100kW (134 hp) electric propulsion system for their all-electric, 4-door passenger sedan expected to be introduced in the California market in late 2010. CODA plans to sell 14,000 vehicles in 2011 and reach an annual sales run rate of 20,000 vehicles, which, if achieved, will result in annual revenue to our company substantially greater than \$50 million.
- In August 2009, we were selected to receive a stimulus grant of \$45.1 million from the U.S. Department of Energy under the American Recovery and Reinvestment Act of 2009 under its electric vehicle component manufacturing initiative. We were one of only seven awardees and the only small business selected.
- In September 2009, we established a relationship with BorgWarner, a world leader in powertrain technologies, to jointly market electric powertrain products for all-electric and hybrid electric passenger automobiles. This collaboration resulted from our joint work on CODA’s vehicle development program to integrate our electric propulsion system with their transmission to meet CODA’s all-electric front-wheel drive requirements.
- In October 2009, we closed on a public offering of 8.625 million shares of the Company’s common stock resulting in net proceeds to the Company of approximately \$32 million. These additional funds are being used for facilities, tooling and equipment expenditures and working capital requirements associated with the launch of volume manufacturing operations for CODA Automotive.
- In December 2009, we acquired a 130,000 square foot facility on a 30 acre site in Longmont, Colorado, located approximately two miles north of our current facility, to meet our expected growth in manufacturing operations. The purchase price of the facility was \$7,585,000, nearly half of which was funded by the U.S. Department of Energy under the stimulus grant.



*Bill Rankin Greeting United States Vice President Joseph Biden*

After fiscal year end, our new facility was visited by the Vice-President of the United States, Joe Biden; members of the Colorado congressional delegation, Senator Mark Udall and Representative Betsy Markey; and the Governor of Colorado, Bill Ritter. This event was attended by an estimated 800 people and received major media coverage. Vice-President Biden’s comments focused on our Company’s advanced technology, its positive role in the developing electric vehicle market, and creating jobs as part of the stimulus program. The event was a very positive experience for our employees, customers, suppliers, partners, investors and others who attended.

Our focus on design for manufacturability, low cost and volume production continues to bear fruit. During fiscal 2010, our gross profit margin on product sales increased to 30.5 percent from 22.1 percent last fiscal year on an increase in product sales revenue of 21.6 percent. The improvement in gross profit dollars of \$.95 million nearly funded the expansion of our production engineering activities which rose by \$1.04 million over last year.

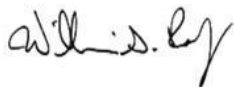
Our position as an early volume producer of automotive qualified and competitively priced electric propulsion systems is attracting serious customers. We have seen an increase in interest from both established international automobile manufacturers and entrepreneurial companies that plan to introduce electrified vehicles over the next several years. This interest is being fueled primarily by the availability in the fall of 2010 of a volume produced 100 kW (134 hp) propulsion motor and controller system. In addition, our marketing collaboration with BorgWarner and our continued work with vehicle electrification integrators are generating significant opportunities.

As we enter fiscal year 2011, our highest priority is the production launch of our 100 kW propulsion motor and controller system. To this end we are heavily involved in planning and execution activities related to production equipment and tooling, supplier selection and product qualification and testing. We are also in the final stages of a multi-million dollar renovation of our new facility in preparation for the relocation of our current operations and the set-up of new volume production lines.

The transformation of our Company over the last year into a volume manufacturer serving automakers has been both exciting and challenging; however, we believe this is only the beginning of a significant journey. With the dedication of our employees and the support of our growing roster of customers and suppliers, we are seizing the many opportunities coming our way.

Thank you for your continuing support. We are looking forward to an even more exciting fiscal 2011.

May 11, 2010



William G. Rankin

Chairman, President and Chief Executive Officer



*Vice President Joe Biden Visits UQM's New Facility*