

SUMMARY – PLAN FOR PRODUCTION OF ELECTRIC VEHICLES

For the future, safety-certified, full-function electric vehicles will not be available in the United States unless companies like AC Propulsion build them. GM, Ford, Toyota, Honda, Nissan, and DaimlerChrysler have dismantled their electric vehicle production lines. No other major automaker plans to make EVs for the US market. Some companies produce small, 25 mph neighborhood electric vehicles but these are not certified to Federal Motor Vehicle Safety Standards. Hybrid electric vehicles are available, but they use only gasoline. Hybrids like the Prius do not use electricity from the grid because they cannot plug in. Fuel cell electric vehicles will not be available for decades, if ever.

Yet demand for electric vehicles persists and the need grows. Air quality, global climate change and increasingly, energy security, are all compelling reasons why electric vehicles need to be commercialized. AC Propulsion plans to develop, certify, manufacture, and sell electric vehicles based on production vehicle platforms such as the Scion xB and xA.



Scion xB

Scion xA

Fun, unique, advanced, efficient, convenient, petroleum-free – AC Propulsion Electric

The time is right for a venture to produce EVs in low volume. When automakers produced electric vehicles from 1997 to 2002, they subsidized their sales to satisfy government requirements, and small companies could not compete. Now that the automakers have abandoned EV production, small companies like AC Propulsion will have the market to themselves.

AC Propulsion projects a current U.S. demand of at least 1000 EVs per year for individuals and fleets. That demand will grow as EV costs come down and as the price of gas goes up. The benefits of petroleum-free transportation accrue to the nation as well as the individual. State and national policy shifts may increase EV demand higher and faster.

AC Propulsion has unique technology that makes EVs exciting and efficient. AC Propulsion designs and manufactures its own induction motors, inverters, chargers, battery management and monitoring systems, battery packaging systems, accessories and instrumentation, so no one else can match the performance and features of AC Propulsion EVs. Since 1992, AC Propulsion has built 20 different prototype electric vehicles and tested them in real world use, some for more than 10 years and 120,000 miles. AC Propulsion electric vehicle technology is ready for commercialization.

In 2003, AC Propulsion pioneered the use of commercial, off-the-shelf Li Ion batteries in electric vehicles, resulting in a huge reduction in the effective cost of Li Ion technology for cars. These batteries, already mass-produced for use in laptop computers, create a new and attractive cost/value equation for electric vehicles by increasing range and reducing weight. With Li Ion batteries, the tzero prototype, AC Propulsion’s astounding electric sports car, achieved 0-60 mph acceleration in 3.6 seconds and 300 mile range without charging. Li Ion batteries are so light that production gasoline cars can be converted to electric power without adding excessive weight.

The first EVs produced by AC Propulsion will be conversions based on the Scion xA and xB because those models offer light weight, low cost, and high feature content. By converting production models, AC Propulsion can later develop other electric vehicles for specific market niches in response to market demand. For early adopters of electric vehicles, performance and features will be as important as reliability and affordability. AC Propulsion EVs will deliver. Compared to the Toyota RAV4 EV and the GM EV1, AC Propulsion EV conversions will accelerate quicker, travel farther, charge faster, and use less energy.

With automakers out of the EV market, AC Propulsion has an opportunity. With technology capable of meeting market requirements, and with eleven years experience building and testing EV conversions, AC Propulsion is well-positioned to respond to the opportunity. AC Propulsion’s portfolio of products, designs, intellectual property, experience, and know-how represents a valuable technology asset. AC Propulsion seeks funding to leverage that technology asset and create high value, uniquely positioned, profitable commercial products – AC Propulsion electric vehicles.

ADVANTAGES FOR THE AC PROPULSION EV PLAN

Customer-Driven	<ul style="list-style-type: none"> • Dedicated to building EVs people want to drive
Li Ion Batteries	<ul style="list-style-type: none"> • Commercial off-the-shelf technology – cost effective

	<ul style="list-style-type: none"> • Highest energy and power, lowest weight
Range, Power, Efficiency	<ul style="list-style-type: none"> • 180+ miles per charge • Acceleration of a sports car • Powerful regenerative braking
Patented Charging Technology with Advanced Features	<ul style="list-style-type: none"> • Plug in anywhere for convenience • Charge in under 3 hours from 50A circuit • Integrated charger - low cost and weight, high power • Bi-directional power – AC power from EV while parked
Made From Production Vehicle	<ul style="list-style-type: none"> • Short time to market • Lower development cost • Safety certified • Versatility: Scion xB, xA, others
Heritage, Experience, and Capability	<ul style="list-style-type: none"> • Fifteen years of innovation in the modern EV era • Patent portfolio • In-house engineering and manufacturing • AC Propulsion tzero outscored every competitor at 2003 Michelin Challenge Bibendum

FUNDING PROPOSAL

The funding required to develop the Scion EV conversion for production is projected at \$1.8 million. AC Propulsion will use the funds to develop an electric vehicle conversion for certify it for sale to retail customers and fleets. The funding will sustain operations during the one-year product development and testing phase of the project including the construction of pre-production conversions for participants.

Of these funds, \$1.2 million dollars will be used for product development, building prototype conversions, engineering and testing for safety certification, designing and sourcing component parts and systems, and developing and optimizing the conversion process for efficient and high quality production. The balance of funds will be spent to set up a production facility, hire and train production workers, and launch production.

The development phase, from purchase of the first vehicle for prototype conversion to readiness for production, will require 12 months. Additional funding for working capital requirements to finance production materials and inventory will be raised separately from this proposal.

Participation

AC Propulsion Inc. (AC Propulsion) proposes to raise at least \$1,800,000 from one or more participants. The payment from each participant will be allocated \$40,000 for conversion of a new Scion to a full-function electric vehicle using AC Propulsion power systems and Li Ion batteries giving 180-mile range. The remainder of the payment will be allocated for purchase of shares of AC Propulsion common stock at a price per share of \$8.12 (approximately 776,000 shares are currently outstanding). Participants may elect to forgo purchase of the vehicle conversion. The minimum investment is a unit payment of \$140,000.

At the offered share price of \$8.12, the pre-cash valuation of the company is \$6.3 million. AC Propulsion is a privately held corporation with 87% shares held by company executives as of this date.

For the conversion, participants will purchase the Scion vehicle new. AC Propulsion will then convert each participant's vehicle to electric power. The vehicle purchase price, fees, and taxes represent additional cash outlays for the participant estimated at \$16,000 to \$17,000.

The allocation of \$40,000 for building an EV conversion is an important element of this proposal. Automotive development requires production and testing of prototype vehicles. At least two prototypes are absolutely required, one for driving and durability testing and one for safety testing. These testing prototypes will be kept by AC Propulsion. Additional prototypes are also essential for development because they allow the production process to be streamlined and the overall conversion design and production process to be optimized. These additional prototypes represent a major cost element. It is economically efficient to place these vehicles in service after they are built. AC Propulsion will receive the development benefit of building additional prototypes and receiving operating feedback from drivers. Participants will receive the benefits of owning and driving an electric vehicle built by AC Propulsion engineers in advance of availability of production vehicles, in effect, an early benefit from their participation.

The conversions will be built from the Scion xA and xB. These cars are built from the Toyota Echo platform which includes the Toyota Echo, the Scions, and other models for European and Asian markets. The Scion xB, a light-weight, high-capacity compact utility vehicle with versatile and comfortable interior accommodations will appeal to families and fleet operators, and will be the first conversion. Two versions of the xB conversion are planned for production, a base model and a premium model with a larger battery giving higher power and extended range. The conversions built for participants will be the premium model. Preliminary specifications for the Scion conversions are available.

Conversions will be completed within approximately nine months after receipt of the donor vehicle from the participant, and will be delivered, as new, after shakedown testing of less than 500 miles. Vehicle title will remain in the name of the participant. Under current regulations, these vehicles will be eligible for HOV stickers that entitle the vehicle to carpool lane access with the driver only. In cases where there is material difference between pre-production and production specification, each participant's vehicle will be retro-fitted to the specification of initial production EV conversions. Each participant's vehicle will be covered by the same limited warranty provided with production conversions, and that warranty coverage will start on the date of completion of the first production job. Prior to the first production job, AC Propulsion will provide service for the conversion prototypes, with the exception of tires and crash damage, as part of the vehicle development program.

Return on Investment

AC Propulsion is an established company well-positioned to participate in the necessary, probably inevitable, and possibly imminent transition away from petroleum-fueled automotive transportation. AC Propulsion's patents, technology portfolio, and a variety of developing business relationships not discussed in this document, all represent opportunities in which investors will participate. The Scion conversion project for which this funding is sought,

represents a strategic initiative planned to establish market presence in the most timely and cost-effective manner.

Delivery of production-intent conversions prior to actual production assures that participants will receive a valuable consideration, namely an AC Propulsion electric car, in the near term even if the production program cannot be launched as planned. Over the longer term, conversion operations are expected to yield operating profits within two years from start of production and to establish AC Propulsion technology as a desirable brand in the market. Continuing growth in production along with joint ventures and technology licensing arrangements, some of which are already being negotiated, will provide a route to increasing profitability and liquidity for investors.

AC Propulsion is a closely-held corporation and its shares are not publicly traded. Participation is limited to qualified investors only. Participants may not be able to re-sell common shares of stock in AC Propulsion. Purchase of AC Propulsion common stock should be considered a highly speculative investment and should only be considered by those investors able to afford complete loss of their investment. A variety of risk factors may adversely affect AC Propulsion liquidity and its ability to implement its business strategy.

A complete offering package is available to interested and qualified investors.