



Azure Dynamics Announces Second Quarter 2008 Results

Oak Park, MI – August 12, 2008 – Azure Dynamics Corporation (TSX: AZD, LSE: ADC & OTCQX: AZDDF) – (“Azure” or the “Company”), a leading developer of hybrid electric and electric powertrains for commercial vehicles, today reported its second quarter financial results for the period ending June 30, 2008. The Company also provided an update on product development activities.

Second Quarter 2008 Highlights

- Revenue for the second quarter totaled \$3.4M representing an increase of 470% compared to the same quarter last year
- The Company shipped a record number of units during the second quarter: 35 Balance™ Hybrid Electric, 14 CitiBus™ Series Hybrid Electric shuttle buses and 37 Force Drive™ Electric vehicle systems
- Key deliveries were made to FedEx Express, AT&T, Pennsylvania Department of Transportation and several others
- The Company signed its first four dealerships with a Sales & Service agreement that allows each of the dealerships to service the growing market demand for Azure’s vehicles

“The second quarter was a watershed period in meeting Azure’s commitment to commercialization,” said Azure Dynamics’ Chief Executive Officer, Scott T. Harrison. “Production began on our Balance™ Hybrid Electric, integrated on the Ford E450 Chassis, and orders and revenue are following. Customers using the vehicle report that it is meeting or exceeding expectations from both a performance and cost metric. The Balance™ Hybrid Electric was designed and built to serve the delivery vehicle market niche and all of our indicators, including increased sales and growing interest from potential customers, suggest that the market is responding favorably.”

Product Developments

Series Hybrid Electric (G1):

- Purolator’s fleet of 49 G1 hybrid vehicles has accumulated over 700,000 miles as of June 30, 2008. The vehicles are deployed in Montreal, Ottawa, Toronto and Vancouver. Two of the 19 diesel hybrids have now surpassed three years in service, while the 30 G1 gas hybrids will soon be approaching a year and a half in service.
- As of June 30, 2008 the Company had completed assembly of all 59 units in the G1 hybrid cab chassis production run at Product Concepts Inc. Orders have been received for 15 of the 59 which were delivered to Startrans for body build for various customers including Pennsylvania DOT within the quarter.

Balance™ Hybrid Electric (P1):

- The Company delivered 20 pre-production step vans to FedEx Express in California and the vehicles began revenue service.
- The Company initiated the accelerated seven year Altoona durability test on the shuttle bus variant. The Altoona testing is expected to be completed in the third quarter, at which point the Balance™ Hybrid Electric shuttle bus will be eligible for funding programs administered by the Federal Transit Administration (FTA) in the United States.
- An order for 15 hybrid chassis from AT&T was received. These AT&T chassis were hybridized within the quarter and will begin service in the third quarter once their body builds are complete.

LEEP Freeze™ & LEEP Lift™ (Low Emission Electric Power):

- Within the quarter, Azure delivered one LEEP Freeze™ system to Kidron which is being used for sales and marketing purposes.
- Within the quarter the Company continued the development and build of the first demonstration LEEP Lift™ system as part of the memorandum of understanding (MOU) with Altec, a leading manufacturer of aerial boom trucks.

Force Drive™ (Electric Solutions):

- During the quarter, Azure continued the controlled production of its Force Drive™ systems planned for delivery against a 200 unit release within the supply agreement with Electro Autos of Mexico. Azure's scope of supply for the 1,000 Force Drive™ systems includes the motor, controller, gearbox and 12 V converters.

In addition, a number of key sales initiatives are expected to contribute positively to Azure's performance in the second half of 2008, including the following:

- Production has commenced on the Company's largest order to date of 105 Balance™ Hybrid Electric systems for Purolator Courier Ltd., Canada's largest courier company
- The Company's plan to sign approximately 50 dealers over the next year in major metro markets in the United States and Canada is on target. This will broaden Azure's distribution network for its Balance™ Hybrid Electric medium-duty trucks
- New fleets with over 5,000 estimated annual commercial vehicle purchases are either currently engaged in an active product trial or demonstration for the Balance™ Hybrid Electric, or are expected to enter into one during the third quarter
- Beyond major fleet holders, Azure is attracting interest and orders from marquee, civic-minded organizations like the West Harlem Art Fund in Northern Manhattan and the Smithsonian Institution in Washington D.C.

"On July 18, 2007, a barrel of oil cost \$75. Exactly one year later, that same barrel cost \$131. As a result, Americans drove 9.6 BILLION fewer miles in May 2008 compared to May 2007," said Jay Sandler, Azure Dynamics Vice President of Sales. "Most of our commercial customers don't have the option to simply stop driving. Instead, they need transportation to be more

economical without sacrificing any performance or dependability. Our Balance™ Hybrid Electric is a valid solution offering significant economic advantages over conventionally equipped vehicles. The second quarter saw our sales and revenue ramp-up begin, and with increased attention from fleet managers, we expect to continue to grow share in the markets we serve.”

Financial Results

Revenue for the second quarter of 2008 totaled \$3.4 million compared to \$0.6 million in the second quarter of 2007. For the six months ended June 30, 2008, revenue totaled \$3.8 million compared to \$0.7 million in the same period a year ago. The increase in revenue for the three and six months ended June 30, 2008 was due to shipments of Balance™ Hybrid Electric, Azure CitiBus™ and Force Drive™ Electric products. Net loss for the second quarter of 2008 was \$8.1 million, or \$(0.03) cents per share, compared to a loss of \$6.9 million or \$(0.03) cents per share in the second quarter of 2007. Net loss for the six months ended June 30, 2008 was \$16.0 million, or \$(0.06) per share, compared to a loss of \$13.4 million or \$(0.07) per share in the same period a year ago. The higher loss for the three and six months ended June 30, 2008 is primarily attributable to higher levels of engineering expenses and negative gross margin. Engineering expenses were higher as a result of the Company's ongoing technology development. Negative gross margin is primarily the result of negative production variances typically associated with lower volume early stage production.

Before contributions, the Company's engineering, operations and product development expenses for the quarter totaled \$5.7 million (including \$3.4 million in product development costs), compared to \$4.2 million for the same period in 2007 (including \$2.4 million in product development costs). For the first half of 2008, the Company's engineering and R&D expenses totaled \$10.5 million (including \$5.8 million in product development costs), compared to \$8.5 million in the first half of 2007 (including \$4.8 million in product development expenses). During the second quarter, the Company focused on the production and sale of its Balance™ Hybrid Electric program and component development, as well as ongoing production activities associated with a CitiBus™ a Series Hybrid Electric shuttle bus and Force Drive™ Electric components.

As of June 30, 2008, the Company's net cash and cash equivalents totaled \$5.4 million, and working capital totaled \$17.5 million, compared to cash and cash equivalents of \$16.8 million, and working capital of \$19.6 million, as at June 30, 2007, and cash and cash equivalents of \$24.1 million, and working capital of \$32.3 million, as at December 31, 2007. The reduction in net cash and cash equivalents from December 31, 2007 is mainly due to cash used in support of product development and the Company's ongoing efforts to commercialize its products.

The Company's fiscal 2008 second quarter financial statements and MD&A are available at www.sedar.com or on the Company's website at www.azuredynamics.com.

About Azure Dynamics

[Azure Dynamics Corporation \(TSX: AZD\) \(LSE: ADC\) \(OTCQX: AZDDF\)](http://www.azuredynamics.com) is a world leader in the development and production of hybrid electric and electric components and powertrain systems for commercial vehicles. Azure is strategically targeting the commercial delivery vehicle and shuttle bus markets and is currently working internationally with various partners and customers. The Company is committed to providing customers and partners with innovative, cost-efficient, and environmentally friendly energy management solutions.

For more information, please visit www.azuredynamics.com.

The TSX and LSE Exchanges do not accept responsibility for the adequacy or accuracy of this release.

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Forward-looking Statements

This press release contains forward-looking statements. More particularly, this press release contains statements concerning Azure's business development strategy, projected commercial revenues and product deliveries.

The forward-looking statements are based on certain key expectations and assumptions made by Azure, including expectations and assumptions concerning achievement of current timetables for development programs, target market acceptance of Azure's products, current and new product performance, availability and cost of labour and expertise, and evolving markets for power for transportation vehicles. Although Azure believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Azure can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with Azure's early stage of development, lack of product revenues and history of losses, requirements for additional financing, uncertainty as to commercial viability, uncertainty as to product development and commercialization milestones being met, uncertainty as to the market for Azure's products and unproven acceptance of Azure's technology, competition for capital, product market and personnel, uncertainty as to target markets, dependence upon third parties, changes in environmental laws or policies, uncertainty as to patent and proprietary rights, availability of management and key personnel, and acquisition integration risk. These risks are set out in more detail in Azure's annual information form which can be accessed at www.sedar.com.

The forward-looking statements contained in this press release are made as of the date hereof and Azure undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

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Azure Dynamics Corporation
Consolidated Balance Sheet
(Stated in Thousands)

As at	June 30 2008 (unaudited)	December 31 2007 (audited)
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	5,428	24,133
Accounts receivable	3,151	590
Contributions receivable	1,127	1,128
Inventory (Note 3)	11,374	10,201
Prepaid expenses	1,039	702
	<u>22,119</u>	<u>36,754</u>
Restricted cash	1,206	1,172
Property and equipment	5,867	5,746
Intangible assets, net of amortization	8,674	9,283
Goodwill	2,932	2,932
	<u>40,798</u>	<u>55,887</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	4,399	4,275
Customer deposits & deferred revenue	153	166
Current portion of notes payable (Note 4)	38	35
Current portion of obligations under capital leases (Note 5)	35	-
	<u>4,625</u>	<u>4,476</u>
Long-term		
Obligations under capital leases (Note 5)	141	-
Customer deposits & deferred revenue	1,046	941
Notes payable (Note 4)	2,103	2,064
	<u>3,290</u>	<u>3,005</u>
Shareholders' equity		
Share capital (Note 6)	140,663	140,665
Contributed surplus (Note 6)	6,110	5,605
Deficit	(113,890)	(97,864)
	<u>32,883</u>	<u>48,406</u>
	40,798	55,887

Azure Dynamics Corporation
Consolidated Statements of Operations, Comprehensive Loss, and Deficit
(Stated in Thousands)

	For the three months ended June 30 (unaudited)		For the six months ended June 30 (unaudited)	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenues	3,383	593	3,753	749
Cost of sales	3,565	603	4,082	670
Gross Margin	<u>(182)</u>	<u>(10)</u>	<u>(329)</u>	<u>79</u>
Expenses				
Engineering, research, development and related costs, net	5,505	3,921	10,243	7,869
Selling and marketing	691	863	1,613	1,694
General and administrative	1,663	2,157	3,550	4,122
Total expenses	<u>7,859</u>	<u>6,941</u>	<u>15,406</u>	<u>13,685</u>
Loss from operations	<u>(8,041)</u>	<u>(6,951)</u>	<u>(15,735)</u>	<u>(13,606)</u>
Interest and other income, net	99	106	245	304
Interest expense	(3)	-	(3)	-
Other Expense	(109)	-	(561)	-
Foreign currency gains/(losses)	(65)	(71)	28	(121)
Net loss and comprehensive loss for the period	<u>(8,119)</u>	<u>(6,916)</u>	<u>(16,026)</u>	<u>(13,423)</u>
Deficit, beginning of period	<u>(105,771)</u>	<u>(74,136)</u>	<u>(97,864)</u>	<u>(67,629)</u>
Deficit, end of period	<u>(113,890)</u>	<u>(81,052)</u>	<u>(113,890)</u>	<u>(81,052)</u>
Loss per share - basic	(0.03)	(0.03)	(0.06)	(0.07)
Weighted average number of shares - basic *	279,376	198,276	279,376	198,276

* No fully diluted earnings per share have been disclosed, as these would be anti dilutive.

Azure Dynamics Corporation
Consolidated Statements of Cash Flows
(Stated in Thousands)

	For the three months ended June 30 (unaudited)		For the six months ended June 30 (unaudited)	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash flows from operating activities				
Net loss for the period	(8,119)	(6,916)	(16,026)	(13,423)
Adjustments for:				
Amortization of property and equipment and other assets	224	225	447	440
Amortization of intangible assets	374	404	716	741
Unrealized foreign currency gains/(losses)	(1)	(79)	21	(72)
(Gain) / Loss on Disposal of Assets	-	166	-	166
Stock option compensation expense	98	288	452	524
Deferred Share Units compensation expense	21		53	
	<u>(7,403)</u>	<u>(5,912)</u>	<u>(14,337)</u>	<u>(11,624)</u>
Changes in non-cash working capital items	(703)	2,636	(3,888)	2,316
Movement due to exchange impact	69	146	35	164
Total Cash flows from operating activities	<u>(8,037)</u>	<u>(3,130)</u>	<u>(18,190)</u>	<u>(9,144)</u>
Cash flows from financing activities				
Issuance of common shares (net of costs)	(1)	-	(1)	15
Principle payments on notes payable	(9)	(9)	(18)	(19)
Proceeds from obligations under capital lease	(8)	-	(10)	-
Movement due to exchange impact	-	(191)	-	(214)
Total Cash flows from financing activities	<u>(18)</u>	<u>(200)</u>	<u>(29)</u>	<u>(218)</u>
Cash flows from investing activities				
Acquisition of property and equipment	(195)	(508)	(385)	(841)
Acquisition of intangible assets	(45)	(56)	(108)	(69)
Changes in Restricted Cash	-	-	-	(225)
Total Cash flows from investing activities	<u>(240)</u>	<u>(564)</u>	<u>(493)</u>	<u>(1,135)</u>
Increase (decrease) in cash and cash equivalents	(8,295)	(3,894)	(18,712)	(10,497)
Exchange impact on cash held in foreign currency	(5)	149	7	152
Cash and cash equivalents, beginning of period	13,728	20,592	24,133	27,192
Cash and cash equivalents, end of period	<u>5,428</u>	<u>16,847</u>	<u>5,428</u>	<u>16,847</u>
Non cash investing and financing activities:				
Vehicles and equipment acquired under capital lease	77	-	185	-