



News Release

AZURE DYNAMICS REPORTS ON PROGRESS AND RELEASES 2005 FIRST QUARTER RESULTS

Toronto, Ontario – May 10, 2005

[Azure Dynamics Corporation \(TSX – AZD & LSE - ADC\)](#) (“Azure Dynamics” or the “Company”) a leading developer of hybrid electric and electric powertrains for commercial and military vehicles, is pleased to announce its results for the three months ended March 31, 2005. The Company incurred a net loss of \$4.9 million (\$0.04 per share) compared to a net loss of \$1.2 million (\$0.02 per share) in the comparable 2004 quarter as it continued to invest in the commercialization of its products.

QUARTERLY UPDATE:

Solectria Takeover and Integration

The highlight of the first quarter is the speed at which we have been able to integrate our two companies. We were convinced there was a great deal of synergy in the operations and this has proven to be the case. Since the January 31st closing date, we have held two in depth corporate strategy and planning sessions which have resulted in our engineering teams significantly progressing our programs and collaborating on new business opportunities. We are currently consolidating the customer service and finance functions. The overall size of our company and combined experience has allowed us to slow our hiring process to less than the individual pre merger plans.

Purolator Courier Limited (“Purolator”)

The build of 20 preproduction hybrid powered chassis has been completed in Detroit. The hybrid powered chassis have been delivered to Utilimaster who are contracted by Purolator to fit the delivery van body. This was the first major third party build for us, and while it has taken longer than we had planned, the process has been a very valuable learning curve which we will be able to apply to all future production builds. As the hybrid system included is preproduction, we expect that further modifications to the system will occur and will be applied to upgrade the in-service operation of the vehicles. We are finalizing the details with Purolator for a press event expected to be May 27th to formally announce the commencement of Canadian operations of their hybrid fleet in Toronto.

With respect to the remaining preproduction trucks, we intend to demonstrate a gasoline version of the series hybrid with Purolator so they can make an in-service comparison of performance and emission differences. In North America, regulations are heavily biased against diesel and regulators such as the EPA (US) and CEPA (Canada) have yet to resolve how they will measure hybrids where the drive cycle has such a major impact on vehicle emissions.

Canada Post

The Canada Post trials are scheduled to be complete in the third quarter of 2005. Two trucks operated in Edmonton during the winter, two in Ottawa. The trial has uncovered certain supplier component failures and required design improvements (these components are now sourced from a different supplier for production). Some problems were to be expected as the trial was part of our product development program. We have used the issues highlighted during the in-service trials to develop production solutions and/or upgrades to our existing product. In February we responded to a Request for Information from Canada Post with reference to supplying hybrid and electric vehicle products. We expect this Request for Information to lead to a Request for Proposal in the coming year.

London Taxis International ("LTI")

The third development and second generation taxi should be complete by late May. It was built at LTI's facility in Coventry, England (the first two taxis were designed and built at Azure's facility in Burnaby, BC). The most significant upgrades to the original vehicles are the new Nickel Metal Hydride battery pack and associated software changes. These refinements are designed to improve the performance. They are based upon extensive testing that the first generation vehicles have undergone since last year's launch in London, England. This second generation taxi marks the completion of the final milestone in our demonstration program which has been funded by the UK Energy Savings Trust. We are currently in discussions with LTI to resolve the production, financing and marketing issues in order to move to commercialization.

United States Postal Service ("USPS")

A series hybrid postal truck is about to commence in-service trials. A second truck, which is to be a parallel hybrid, is targeted to be built and delivered in the fourth quarter of 2005. Both vehicles, which are their larger delivery trucks, will be in service in the Boston area where they will be supported and monitored by the Azure Customer Service team based in Boston, MA. With respect to the smaller CRV delivery vehicles, USPS has issued a Request for Quote ("RFQ"). We intend to participate in the process as a powertrain partner to one or more of the four applicants that are responding to the RFQ. This fleet replacement is targeted to begin in the second half of 2006, over an eight year period.

AM General

We continue to make good progress on the development of the parallel hybrid High Mobility Multipurpose Wheeled Vehicle ("HMMWV") and are on schedule to deliver the first vehicle drive system to AM General mid-year. Integrating hybrid technology into tactical vehicles like the HMMWV will improve fuel usage, provide 15Kw of export power and will be capable of silent watch/silent mode operation. We will be working jointly with the AM General engineering team at their South Bend facility to optimize performance prior to sending the vehicle to the US Army test facility at Aberdeen, MD. where it will undergo testing for approximately six months beginning in September 2005. Successful testing should lead to preproduction and production during 2006.

Engineered Air Systems Inc. ("EASI")

Our US\$ 4.2 million contract with EASI to produce the electronics for the HMMWV mounted Chemical/Biological Protective Shelter ("CBPS"), continues to move forward with testing of the

prototypes beginning this past January at their St. Louis test facility. Testing is scheduled to continue until June 2005 when the Joint Program Managers Office is expecting that the design will be “frozen” and production will be launched. Our current production schedule is for shipments to begin in the fourth quarter of 2005. We have also responded to a request for proposal to retrofit existing CBPS units and continue to work with EASI with respect to the future production program to build new CBPS units.

SEV Group Limited (“SEV”)

Further to the Memorandum of Understanding entered into with SEV in February 2005, we shipped the first electric powertrain kit to SEV in March. We anticipate the completion of a demonstration all-electric delivery vehicle at SEV in the second quarter of 2005. This vehicle is based on their current electric delivery van, upgraded for the higher-speed and increased range capability provided by Azure’s technology. The powertrain design and components were rapidly specified by joint collaboration between our Boston and Vancouver engineering groups. The ongoing customer support and integration engineering will be provided by our UK based engineering team. The SEV program demonstrates the value of our international organization.

Renault Trucks UK

The electric Renault Master Delivery Van, which was developed last year, commenced initial customer trials at London’s Heathrow Airport in February 2005 and is currently with British Airways.

New Azure Dynamics UK Facility

With North American growth stabilized since the merger with our Boston operations we are now focusing on growth in the United Kingdom. We have negotiated in principle the lease of a 5,000 sq. ft. facility in Kenilworth, England (near Coventry) to support our application engineering work. This growth is timely to support activity related to SEV development work and operation of our UK demonstration vehicles. The facility will be equipped to complete light vehicle integration activity and testing. It will also serve as a location for stocking service parts and production components.

UK Business Expansion

In conjunction with our increased program activity and new customer interest in the UK, we have hired three new key people: Nigel Base, Vice President Sales; Dan Hart, Engineering Manager; and Julia Bond, office manager/technical coordinator. We are confident that the additions to our team will support our growth objectives and improve our ability to respond to the growing demand for our products in the UK and Europe.

North American Customer Service

Consistent with the rapidity of our corporate integration activity, we have consolidated our North American Customer Service group. This is viewed as a key area of focus due to our anticipated increased level of field service activity associated with the in-service launch of vehicles with Purolator. Our customer service group is entering an intense period of training of Purolator’s technicians and drivers. William Connors, currently responsible for the operation of our profitable Boston customer service group, will be taking the overall leadership responsibility of customer service for the Company.

FINANCIAL UPDATE:

Selected Quarterly Financial Information

	Q1, 2005 (Jan – Mar)	Q4, 2004 (Oct – Dec)	Q3, 2004 (Jul – Sept)	Q2, 2004 (Apr – Jun)
Revenue	\$ 983,891	\$ -	\$ -	\$ -
Gross margin	\$ 291,040	\$ -	\$ -	\$ -
Expenses, net	\$ (5,212,563)	\$ (2,728,944)	\$ (2,552,900)	\$ (1,709,696)
Net loss for the period	\$ (4,921,522)	\$ (2,728,944)	\$ (2,552,900)	\$ (1,709,696)
Loss per share	\$ (0.04)	\$ (0.03)	\$ (0.03)	\$ (0.02)
Weighted average number of Shares	124,891,576	94,229,512	87,322,084	84,032,618

	Q1, 2004 (Jan – Mar)	Q4, 2003 (Oct – Dec)	Q3, 2003 (Jul – Sept)	Q2, 2003 (Apr – Jun)
Revenue	\$ -	\$ -	\$ -	\$ -
Expenses, net	\$ (1,206,853)	\$ (1,158,309)	\$ (1,255,251)	\$ (595,857)
Net loss for the period	\$ (1,206,853)	\$ (1,158,309)	\$ (1,255,251)	\$ (595,857)
Loss per share	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.01)
Weighted average number of Shares	79,525,744	54,547,058	45,044,375	45,031,042

The higher loss in the first 2005 quarter, when compared to the first 2004 quarter, is mainly attributable to infrastructure growth and the higher number of ongoing customer projects, and includes the incremental impact of the Solectria Corporation (“Azure US”) acquisition. Azure US is generating revenues and margin contribution and is expected to make a positive contribution to profits in the latter part of the year when the majority of its 2005 customer orders are scheduled to be delivered.

Revenue for the quarter ended March 31, 2005 of \$984k is mainly comprised of sales of components, customer engineering contracts, and after-sales service support. The revenue was derived from the Company’s US operations. The expectation is for revenue growth in 2005 mainly in the latter part of the year.

The Company expended \$3.1 million on engineering, research and development operations in the quarter (2004 – \$1.0 million), including \$1.4 million in respect of product development costs. Approximately \$1.0 million of the increase in development costs is attributable to the growth in the engineering team and facilities. The Company now operates engineering teams and facilities (with light assembly and workshop capability) in Boston and Vancouver. A small facility is being added in Coventry, England to support the UK engineering and sales team. The Company now employs 68 research, engineering and technical employees compared to 16 a year ago. Product development expenses include the costs of the G1 preproduction development, the ongoing maintenance and testing costs of the Canada Post delivery vans, the build of a next-generation London Taxi, and the preparation of a USPS series hybrid truck for in-service trials. The preproduction process and vehicle builds have been conducted via a combination of internal resources, development partner resources, and outsourced contractual labour.

Cash and cash equivalents at March 31, 2005 were \$19.2 million. The Company raised net equity financing of \$11.8 million in the quarter. Net cash outflow in the quarter was approximately \$6.8 million to finance operations and the working capital requirements of in-progress customer jobs.

The Company's interim financial statements and Management's discussion and analysis are available at www.sedar.com or on the Company's website. An extract of the interim financial statements is attached to this press release.

[Azure Dynamics Corporation](http://www.azure-dynamics.com) and its group of companies is a world leader in the development and production of hybrid electric and electric commercial and military vehicles and systems. The group estimates it has over 25 million miles of vehicle experience. Azure Dynamics' operations are based in North America and Europe.

Azure Dynamics is currently working internationally with various partners and customers including Purolator Courier Ltd., Canada Post, DHL, London Taxis International, US Department of Defence, Leyland Product Development, Renault Trucks UK and the United States Postal Service. Azure Dynamics Corporation is a public company trading on the TSX (AZD) in Canada and on AIM (ADC) in the UK. For more company information please visit our website at www.azure-dynamics.com.

The TSX Exchange does not accept responsibility for the adequacy or accuracy of this release.

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NOTE: The foregoing information may contain forward-looking statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Such factors include, but are not limited to: the ability to raise the capital required for product development and operations, product development delays, changing environmental regulations, the ability to attract and retain business partners, competition from other developers of hybrid electric vehicle control systems, competition from other advanced or existing power technologies, evolving markets for power for transportation vehicles. These factors should be considered carefully and readers should not place undue reliance on Azure's forward-looking statements. Investors are encouraged to review the risks detailed from time to time in the company's filings with regulatory authorities.

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Azure Dynamics Corporation
(A Development Stage Enterprise)
Consolidated Balance Sheets

As at	March 31 2005 (Unaudited)	December 31 2004 (Audited)	March 31 2004 (Unaudited)
	\$	\$	\$
ASSETS			
Current			
Cash and cash equivalents	18,519,591	14,312,708	11,738,134
Accounts receivable	891,111	211,459	693,789
Contributions receivable	1,354,299	996,328	585,707
Inventory and related prepayments	2,439,832	1,199,078	-
Prepaid expenses	775,131	284,155	372,260
	<u>23,979,964</u>	<u>17,003,728</u>	<u>13,389,890</u>
Restricted cash	725,760	-	-
Employee loans	-	-	68,509
Property and equipment	5,382,138	538,972	350,950
Other assets	342,303	270,580	113,379
Intangible assets	13,116,668	-	-
Goodwill	2,875,485	-	-
	<u>46,422,318</u>	<u>17,813,280</u>	<u>13,922,728</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	2,175,015	1,697,306	741,298
Customer deposits and deferred revenue	1,397,829	-	-
Current portion of notes payable	372,000	-	-
	<u>3,944,844</u>	<u>1,697,306</u>	<u>741,298</u>
Long-term			
Notes payable	2,330,881	-	-
Shareholders' equity			
Share capital	66,144,780	37,693,510	28,120,231
Contributed surplus	1,222,702	721,831	369,026
Deficit	(27,220,889)	(22,299,367)	(15,307,827)
	<u>40,146,593</u>	<u>16,115,974</u>	<u>13,181,430</u>
	<u>46,422,318</u>	<u>17,813,280</u>	<u>13,922,728</u>

Azure Dynamics Corporation
(A Development Stage Enterprise)
Unaudited Consolidated Statements of Operations and Deficit

	For the three months ending March 31	
	2005	2004 **
	\$	\$
Revenues	983,891	-
Cost of sales	692,850	-
Gross Margin	291,041	-
Expenses		
Engineering, research, development and related costs, net	2,707,402	307,920
Selling and marketing	647,156	365,022
General and administrative	1,603,796	570,068
Total expenses	4,958,354	1,243,010
Loss from operations	(4,667,313)	(1,243,010)
Interest and other income, net	42,447	39,673
Foreign exchange loss	(296,656)	(3,516)
Net loss for the period	(4,921,522)	(1,206,853)
Deficit, beginning of period	(22,299,367)	(14,100,974)
Deficit, end of period	(27,220,889)	(15,307,827)
Loss per share - basic	(0.04)	(0.02)
Weighted average number of shares - basic *	124,891,576	79,525,744

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

** Certain reclassifications have been made to the March 31, 2004 comparative numbers to conform to the current period presentation.

Azure Dynamics Corporation
(A Development Stage Enterprise)
Unaudited Consolidated Statements of Cash Flows

	For the three months ending March 31	
	2005	2004
	\$	\$
Cash flows from operating activities		
Net loss for the period	(4,921,522)	(1,206,853)
Adjustments for:		
Amortization of property and equipment and other assets	143,437	40,714
Amortization of intangible assets	283,333	-
Unrealized foreign exchange loss	299,612	-
Common shares issued in exchange for services	-	6,875
Stock option compensation expense	505,430	201,228
Changes in non-cash working capital items	(2,864,161)	(277,617)
	(6,553,871)	(1,235,653)
Cash flows from financing activities		
Issuance of common shares (net of costs)	11,750,260	4,101,066
Principal repayments of notes payable	(14,605)	-
Foreign exchange loss	(243,450)	-
	11,492,205	4,101,066
Cash flows from investing activities		
Acquisition of property and equipment	(290,328)	(221,857)
Acquisition of other assets	(96,518)	(3,859)
Cash acquired from acquisition of subsidiary, net of costs	421,523	-
Changes in loans to employees	-	23,218
Foreign exchange loss	(39,156)	-
	(4,479)	(202,498)
Increase in cash and cash equivalents	4,933,855	2,662,915
Exchange loss on cash held in foreign currency	(1,212)	-
Cash and cash equivalents, beginning of period	14,312,708	9,075,219
Cash and cash equivalents, end of period	19,245,351	11,738,134
Restricted cash *	725,760	-
Cash available	18,519,591	11,738,134
	19,245,351	11,738,134

* Restricted cash represents monies invested in US treasury bills to support a Letter of Credit security deposit on a property lease agreement – see note 4.