



News Release

AZURE DYNAMICS REPORTS ON PROGRESS AND RELEASES 2005 THIRD QUARTER RESULTS

Toronto, Ontario – November 09, 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 September 30, 2005. The Company incurred a net loss of \$4.6 million (\$0.03 per share) compared to a net loss of \$2.6 million (\$0.03 per share) in the comparable 2004 quarter. In 2005, the Company acquired Solectria Corporation in the US and has continued its investment in the commercialization of the merged companies products resulting in higher activity levels and related costs when compared to 2004.

QUARTERLY UPDATE:

Two Important Milestones Achieved

The third quarter of 2005 brought two very important milestones to fruition for Azure and steady development of several other programs which puts the company well on its way towards its commercial objectives. The first major milestone was the initiation of the commercial order for 115 hybrid trucks from Purolator after four months of in-service use of the preproduction fleet. The second was a major (CDN\$10,500,000) order for Azure electronic components for installation in a military application. The Purolator order brings us to the most important stage of our first hybrid product – production, and the component order illustrates the great revenue potential Azure has developed for our electronics components.

The management of Azure is pleased to have met these major milestones and also to have sustained our steady progress on other fronts. What follows is a more detailed review of progress on each of Azure’s programs.

G1 Series Hybrid and Electric Powertrain

The G1 series hybrid powertrain and the G1 electric powertrain utilize most of the same components. These powertrains are applicable to our Citibus as well as our work with SEV Group Ltd. Most importantly in the third quarter, Azure made the announcement that Purolator Courier Ltd. (“Purolator”), Canada’s largest courier company, had executed an order to purchase 115 new hybrid electric vehicles. The order placed by Purolator marks a significant move forward regarding Purolator’s commitment to replace its urban courier vans with environmentally sensitive vehicles. In September 2003, Azure Dynamics and Purolator signed a supply agreement for the replacement of up to 2,000 conventional powered vehicles with Azure-powered hybrid electric vehicle technology. The order now placed by Purolator represents the first commercial production vehicles to be produced by Azure under that agreement and comes after a period of extensive pre-production testing by both Purolator and

Azure. The pre-production series hybrid trucks, delivered to Purolator in the second quarter of 2005, continue to be used for in-service testing. Purolator and Azure are continuing with final quality verification, fault detection and system design improvements prior to their production launch. Purolator has accumulated approximately 40,000 kilometres of in-service mileage with the vans. Deliveries of the first production vehicles will commence in the latter part of 2006.

The United States Postal Service ("USPS") introduced an Azure Series hybrid vehicle into their fleet in the Boston area in June, 2005. The vehicle has been used for testing and validation and has accumulated approximately 4,000 kilometres of in-service operation.

In October, 2005, Azure announced that it had sold two new zero-emission, all-electric Azure CitiVans to the New York Power Authority ("NYPA") for use in the United States Postal Service ("USPS") fleet serving the Flushing Post Office in Queens, New York. There are currently a total of 55 Azure CitiVans in service.

The Canada Post trials of second generation G1 vans continued in the quarter, including the in-service testing of a third generation (pre-production) product. These vans, which are a smaller version of the G1 product, have accumulated approximately 5,300 kilometres of in-service operation.

SEV Group Limited ("SEV") completed the build of an electric delivery vehicle in the quarter and continued the build of an all-electric airport tug demonstrator using Azure's system and components. The delivery van was launched for demonstration purposes in October 2005 and has already generated considerable customer interest. The airport tug is expected to be available for demonstrations in the fourth quarter of 2005.

In July 2005, Azure announced that it had launched the Series Hybrid Shuttle Bus ("CitiBus") in North America based on its G1 series hybrid powertrain product. The Company announced the sale of five hybrid-electric, 20-passenger shuttle buses, to be delivered to the Bronx Overall Economic Development Corporation ("BOEDC") in New York. The Bronx Clean Commuter Van Program is the first hybrid electric bus shuttle initiative in the borough.

In October 2005, the company announced the sale of four more 20-passenger hybrid electric shuttle buses to Brooklyn-based United Puerto Rican Organization of Sunset Park ("UPROSE"). UPROSE will distribute the buses to the Al Noor School, the Chinese-American Planning Council, and the Sunset Park Senior Center and through these efforts hopes to raise the awareness of pollution reduction efforts.

The shuttle buses, which will be branded with Azure's CitiBus moniker, leverage the proven G1 series hybrid powered chassis already in use on other customer products. The first prototype shuttle bus is nearing completion in Vancouver and will be used for in-house testing and vehicle controls development. A second-generation bus will be built and prepared to undergo extensive independent testing. Deliveries of the initial shuttle busses to customers are expected to commence in the first quarter of 2006.

G2 Series Hybrid and Electric Powertrain

The second-generation taxi (series hybrid) built for London Taxis International ("LTI") in the second quarter of 2005 is being used for testing and demonstration purposes in the United Kingdom. Leyland Product Development ("LPD") is also continuing to evaluate alternative OEM vehicle platforms for the G2 electric powertrain that it has developed for the European "White

Van” market. Azure’s new integrated electric transaxle, which is targeted for use in the G2 product line was substantially completed in the quarter. The transaxle is a unique hi-speed gearbox with an integrated differential that is designed to fit in the smaller G2 class vehicles and can extend the market application of the powertrain to passenger minibuses without compromising performance. The transaxle, which is proprietary to Azure, is expected to be tested in a van application in the coming quarters.

P1 Parallel Hybrid

During the quarter, Azure continued to design and test a P1 parallel hybrid system applied into a High Mobility Multipurpose Wheeled Vehicle (“HMMWV”) integrated with a third generation Auxiliary Power Distribution System (“APDS”). The system is for delivery to AM General LLC for integration into the HMMWV. Some re-engineering of a component and related assemblies, required as a result of bench-testing the product, is likely to delay final system delivery into the first quarter of 2006. Other required controls and electrical development/testing for the P1 parallel is continuing at our Boston facility.

In other P1 related activities, the build of a parallel hybrid delivery truck for USPS is nearing completion and is expected to be tested and delivered to USPS in the fourth quarter of 2005. The Company also announced in August 2005 that it had signed an agreement with a large North American-based company for the purchase and test of a P1 parallel hybrid electric delivery vehicle. The customer operates a fleet of mostly Class 3 delivery vehicles (in the gross vehicle weight range “GVW” of 10 to 14,000 lbs). The vehicle will be used to demonstrate the fuel economy improvements, emissions reductions and maintenance cost savings that can be achieved using Azure’s patented technology. An independent third party will be used to test and validate the fuel economy and emissions reductions achieved.

P2 Parallel Hybrid

In June 2005, Azure was awarded a contract to supply and integrate two Class 7 parallel hybrid electric drive systems into Kenworth T300 delivery trucks for the Charmer-Sunbelt Group. The P2 parallel hybrid powertrain is designed for Class 7 and 8 trucks ranging from 18,000 lbs GVW to over 30,000 lbs GVW. This product is a second-generation evolution of a system developed over the past two years in our Boston facility. The vehicles will incorporate a fully automated transmission and production-intent packaging of all of the hybrid powertrain components. Delivery is scheduled for the first quarter of 2006. The hybrid trucks will be used in Charmer-Sunbelt’s New York City fleet of over 250 delivery trucks and will operate within New York City’s five boroughs and western Nassau County. During their operation the trucks will also be used to document the fuel savings and performance characteristics of hybrids compared to conventional trucks.

Component Products

One of the benefits of Azure’s development of cost effective components for hybrid and electric vehicles, is that many of these components offer other applications, which hold significant volume and revenue potential. A major milestone was reached in the quarter when the Company announced that it had received a follow-on order to supply power electronics and drive systems to Engineered Air Systems Inc. (“EASI”). The order, valued at CDN\$10.5 million, is for 152 SP-ESS kits, including all the power electronics, operator control panels and under the hood export power systems for integration onto the HMMWV by EASI into the Chemical

Biological Protective Shelter (“CBPS-M2”). The initial contract was to supply 26 systems valued at approximately CDN\$5.2 million and in May 2005, the Company was awarded a contract for additional engineering scope related to this development effort valued at approximately CDN\$0.6 million. Delivery of product is scheduled to commence in mid-2006. The CBPS-M2 leverages Azure’s electric and hybrid electric technology and components and demonstrates the flexibility and interchangeability of Azure’s components in hybrid and electric-based vehicle architecture. This bodes well for Azure’s component sales in other related applications. Apart from early revenues, component sales can provide the additional benefit of reaching higher volume production pricing of components thereby reducing the overall future cost of hybrid powertrains.

FINANCIAL UPDATE:

Selected Quarterly Financial Information

(Stated in thousands except per share amounts)

	Q3, 2005 (Jul – Sep)	Q2, 2005 (Apr – Jun)	Q1, 2005 (Jan – Mar)	Q4, 2004 (Oct – Dec)
Revenue	\$ 1,134	\$ 1,525	\$ 984	\$ -
Gross margin	\$ 154	\$ 272	\$ 291	\$ -
Expenses, net	\$ (4,788)	\$ (5,872)	\$ (5,213)	\$ (2,729)
Net loss for the period	\$ (4,634)	\$ (5,601)	\$ (4,922)	\$ (2,729)
Loss per share	\$ (0.03)	\$ (0.04)	\$ (0.04)	\$ (0.03)
Weighted average number of Shares	146,291	141,203	124,892	94,230

	Q3, 2004 (Jul – Sep)	Q2, 2004 (Apr – Jun)	Q1, 2004 (Jan – Mar)	Q4, 2003 (Oct – Dec)
Revenue	\$ -	\$ -	\$ -	\$ -
Expenses, net	\$ (2,553)	\$ (1,710)	\$ (1,207)	\$ (1,158)
Net loss for the period	\$ (2,553)	\$ (1,710)	\$ (1,207)	\$ (1,158)
Loss per share	\$ (0.03)	\$ (0.02)	\$ (0.02)	\$ (0.02)
Weighted average number of Shares	87,322	84,033	79,526	54,547

For the quarter ended September 30, 2005, the Company incurred a net loss of \$4.6 million (\$0.03 per share) compared to a net loss of \$2.6 million (\$0.03 per share) in the comparable 2004 quarter. On a cumulative basis, the net loss incurred was \$15.2 million (2004 – \$5.5 million) or \$0.11 (2004 – \$0.07) per share. The higher loss in the quarter, compared to the third quarter of 2004, is mainly attributable to higher activity levels across the company and the incremental impact of the acquisition of the US operations. The Company has significantly expanded its customer and product development activities as well as infrastructure since September 30, 2004. It now has operations in Boston, Vancouver and in England employing a total of 107 people (September 2004 – 46). Therefore, the rate of investment in commercialization activities has increased and there are higher levels of cost associated with the infrastructure required to support the Company’s operations. The incremental loss arising

from the US operations was \$1.4 million in the quarter and \$3.4 million on a cumulative basis (including amortization of intangibles recognised as a result of the acquisition).

Revenue for the quarter ended September 30, 2005 was \$1.1 million (2004 – \$Nil) and \$3.6 million year-to-date (2004 – \$Nil). The increase in revenue is attributable to the US operations and is mainly comprised of sales of components, customer engineering contracts, and after-sales service support. Early revenues from Canadian and UK operations have been set off against development costs in accordance with Canadian accounting standards. Revenues for the quarter included \$0.1 million (\$0.9 million year-to-date) for the development of the AM General HMMWV system and \$0.5 million (\$1.0 million year-to-date) for the development of the power electronics and drive systems for EASI. After considering direct and applicable indirect costs of sales, the gross margin contribution from revenue in the quarter was \$154k and year-to-date \$717k (gross margin percentage of sales of 14% and 20% respectively).

The Company has continued to invest in the development of its products. Before contributions, the Company expended \$2.7 million on engineering, research and development activities in the quarter (2004 – \$1.9 million), including \$1.1 million in respect of product development costs. Year-to-date the Company has expended \$9.8 million (2004 – \$4.4 million) including \$4.9 million in respect of product development costs. The most significant expenditure has been in respect of the Company's G1 platform (\$3.9 million year-to-date) as this product is readied for commercial production. The Company is active in a number of G1 customer programs, including the Purolator pre-production build, the Canada Post in-service trials, and the launch of a shuttle bus version of the product. Engineering and development costs were reduced by \$0.4 million (2004 – \$0.5 million) in respect of government, customer and sponsorship contributions in the quarter (year-to-date \$1.5 million; 2004 – \$2.0 million). The contributions are comparatively lower in 2005 as the Company has incurred a higher amount of expenditures that are not covered by government or customer programs. At September 30, 2005, Azure employed 79 research, engineering and technical employees (2004 - 33) of which 34 are with the US operations.

Cash and cash equivalents at September 30, 2005 were \$24.7 million compared to \$14.3 million at December 31, 2004 and \$9.0 million at September 30, 2004. In the third quarter the Company's cash and cash equivalents increased by a net \$11.1 million (2004 – decreased by \$1.3 million). The increase in the quarter is primarily related to an equity financing in September 2005 (\$11.0 million in net proceeds) and the exercise of warrants in July and August 2005 (\$3.4 million in net proceeds), and is reduced by \$2.7 million of cash used to fund operations (2004 – \$2.7 million). On a cumulative basis, net cash inflows were approximately \$10.3 million for the nine-month period. Cash inflows include net equity financing of \$26.2 million. The Company has used \$15.1 million of cash to develop its products and infrastructure and to fund operations (2004 – \$4.8 million). The increase in operating cash outflows in 2005 is attributable to the ramp-up in resources that occurred throughout 2005, the acquisition of the US operations, and working capital in respect of current customer projects.

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](#) 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, US Department of Defense, United States Postal Service, SEV Group Limited, Leyland Product Development and London Taxis International. 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 www.azuredynamics.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.

FOR MORE INFORMATION, CONTACT:

Daniel Renzella, Senior Vice-President, Finance and CFO (781) 932-9009 ext 229

Email: drenzella@azuredynamics.com

Steven Glaser, Vice-President, Corporate Affairs (416) 367-0220 ext 105

Email: sglaser@azuredynamics.com

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

As at	September 30 2005 (Unaudited)	December 31 2004 (Audited)	September 30 2004 (Unaudited)
	\$	\$	\$
ASSETS			
Current			
Cash and cash equivalents	23,977	14,313	9,033
Accounts receivable	2,036	211	268
Contributions receivable	1,148	996	842
Inventory and related prepayments	2,668	1,199	604
Prepaid expenses	999	284	344
	30,828	17,003	11,091
Restricted cash	738	-	-
Deferred costs	-	-	530
Property and equipment	5,563	539	510
Other assets	321	271	113
Intangible assets	12,267	-	-
Goodwill	2,940	-	-
	52,657	17,813	12,244
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	2,649	1,696	1,489
Customer deposits and deferred revenue	1,460	-	-
Current portion of notes payable	226	-	-
	4,335	1,696	1,489
Long-term			
Deferred Revenue	1,060	-	-
Notes payable	2,346	-	-
	3,406	-	-
Shareholders' equity			
Share capital	80,640	37,694	29,633
Contributed surplus	1,731	722	692
Deficit	(37,455)	(22,299)	(19,570)
	44,916	16,117	10,755
	52,657	17,813	12,244

Azure Dynamics Corporation
(A Development Stage Enterprise)
Unaudited Consolidated Statements of Operations and Deficit
(Stated in thousands, except per share amounts)

	For the three months ended September 30		For the nine months ended September 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
Revenues	1,134	-	3,643	-
Cost of sales	980	-	2,926	-
Gross Margin	<u>154</u>	<u>-</u>	<u>717</u>	<u>-</u>
Expenses				
Engineering, research, development and related costs, net	2,270	1,439	8,276	2,413
Selling and marketing	806	502	2,254	1,281
General and administrative	1,872	873	5,535	1,915
Total expenses	<u>4,948</u>	<u>2,814</u>	<u>16,065</u>	<u>5,609</u>
Loss from operations	<u>(4,794)</u>	<u>(2,814)</u>	<u>(15,348)</u>	<u>(5,609)</u>
Interest and other income, net	70	81	153	148
Foreign currency gains/(losses)	90	-	39	(8)
Net loss for the period	<u>(4,634)</u>	<u>(2,553)</u>	<u>(15,156)</u>	<u>(5,469)</u>
Deficit, beginning of period	<u>(32,821)</u>	<u>(17,018)</u>	<u>(22,299)</u>	<u>(14,101)</u>
Deficit, end of period	<u>(37,455)</u>	<u>(19,570)</u>	<u>(37,455)</u>	<u>(19,570)</u>
Loss per share - basic	<u>(0.03)</u>	<u>(0.03)</u>	<u>(0.11)</u>	<u>(0.07)</u>
Weighted average number of shares - basic *	146,291	87,322	137,542	83,593

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

** Certain reclassifications have been made to the September 30, 2004 comparative numbers to conform to the current period presentation.

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

	For the three months ended September 30		For the nine months ended September 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
Cash flows from operating activities				
Net loss for the period	(4,634)	(2,553)	(15,156)	(5,469)
Adjustments for:				
Amortization of property and equipment and other assets	207	45	544	138
Amortization of intangible assets	425	-	1,133	-
Unrealized foreign currency gains	89	-	167	-
Common shares issued in exchange for services	-	-	-	28
Stock option compensation expense	179	126	1,027	468
	<u>(3,734)</u>	<u>(2,382)</u>	<u>(12,285)</u>	<u>(4,835)</u>
Changes in non-cash working capital items	1,023	(340)	(2,790)	40
Movement due to exchange rate impact	(34)	-	(67)	-
Net changes in non-cash working capital items	<u>989</u>	<u>(340)</u>	<u>(2,857)</u>	<u>40</u>
	<u>(2,745)</u>	<u>(2,722)</u>	<u>(15,142)</u>	<u>(4,795)</u>
Cash flows from financing activities				
Issuance of common shares (net of costs)	14,443	2,648	26,232	7,073
Alternative Investment Market listing costs	-	(212)	-	(967)
Capital Assurance Agreement costs	-	(965)	-	(965)
Principal payments on notes payable	(14)	-	(28)	-
Movement due to exchange rate impact	(319)	-	(368)	-
	<u>14,110</u>	<u>1,471</u>	<u>25,836</u>	<u>5,141</u>
Cash flows from investing activities				
Acquisition of property and equipment	(227)	(64)	(683)	(451)
Acquisition of other assets	(23)	(18)	(62)	(29)
Cash acquired from acquisition of subsidiary, net of costs	(52)	-	357	-
Changes in loans to employees	-	-	-	92
	<u>(302)</u>	<u>(82)</u>	<u>(388)</u>	<u>(388)</u>
Increase/(decrease) in cash and cash equivalents	<u>11,063</u>	<u>(1,333)</u>	<u>10,306</u>	<u>(42)</u>
Exchange gain on cash held in foreign currency	90	-	96	-
Cash and cash equivalents, beginning of period	<u>13,562</u>	<u>10,366</u>	<u>14,313</u>	<u>9,075</u>
Cash and cash equivalents, end of period	<u>24,715</u>	<u>9,033</u>	<u>24,715</u>	<u>9,033</u>
Restricted cash *	738	-	738	-
Cash available	<u>23,977</u>	<u>9,033</u>	<u>23,977</u>	<u>9,033</u>
	<u>24,715</u>	<u>9,033</u>	<u>24,715</u>	<u>9,033</u>

* 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.

Certain reclassifications have been made to the September 30, 2004 comparative numbers to conform to the current period presentation.