



Azure Dynamics Announces Second Quarter 2009 Results

Oak Park, MI – August 13, 2009 – Azure Dynamics Corporation (TSX: AZD) – (“Azure” or the “Company”), a leading innovator in the development of environmentally friendly and cost effective hybrid electric and electric technologies for commercial vehicles, today reported its second quarter financial results for the period ending June 30, 2009. The Company also provided an update on corporate and product development activities.

“Although revenues were down from last year’s record second quarter, our current sales outlook suggests a strong second half for Azure in 2009,” said Azure Dynamics Chief Executive Officer Scott T. Harrison. “As the economy recovers and federal stimulus funds are released, we’re bullish on the potential for our business.”

Harrison said that Azure put a number of things in place during the quarter to ensure that the company is able to take advantage of the increased market demand it expects for its products in the second half of the year and beyond. In addition to booking new orders for approximately 75 vehicles during the quarter, the company also expanded its distribution network and signed important new partnership agreements with Collins Bus and Champion Bus.

“As cost reduction and concern for the environment take center stage for all businesses these days, our products directly address both of these issues and take center stage with them,” Harrison said. “When going green and saving green are your issues, Azure is there to be part of the solution.”

Earlier today, Azure Dynamics announced that it has closed a private placement offering of 58,823,529 common shares at a price of CDN\$0.17 per common share (the “Issue Price”) for gross proceeds of approximately CDN\$10,000,000 (the “Offering”). The Offering was conducted through a syndicate of agents co-led by Raymond James Ltd. and TD Securities Inc. and including Paradigm Capital Inc. and Stonegate Securities, Incorporated as co-managers (collectively, the “Agents”). The Company plans to use the net proceeds of the Offering to fund its ongoing product development and commercialization efforts as well as general corporate purposes.

Following are Select Highlights of Second Quarter 2009:

- Purolator Courier Ltd. (“Purolator”) placed an order for an additional 50 Balance™ Hybrid Electric trucks. The trucks will be delivered in the fourth quarter 2009 and will be deployed primarily in Ontario.
- Metro Mobility in Minnesota placed an order for fifteen Balance™ Hybrid Electric shuttle buses. Metro Mobility provides door-to-door ADA paratransit service in the Minneapolis/St. Paul region.

- Four Balance™ Hybrid Electric trucks were sold to the University of Alberta. The trucks will be predominantly used for campus mail delivery to over 100 buildings with more than 1,000 mail delivery and pickup points daily.
- The City of Toronto ordered five Azure trucks for use in various city departments.
- At the Azure Dynamics Annual General Meeting, executives outlined a margin improvement plan that reduces the Balance™ Hybrid Electric bill of material costs by 42% over the next 18 months.
- Azure signed a partnership with Collins Bus Corporation to be its exclusive provider of hybrid electric drive trains for its Type A (short) school buses. Collins is the dominant producer in the Type A bus market with representation across the United States and Canada.
- Azure entered into a partnership with Champion Bus. The agreement allows Champion Bus customers and dealers the option to select Azure's Balance™ Hybrid Electric Drivetrain System in Ford E-450 Shuttle Buses they order from Champion.

Financial Results

Revenue for the second quarter of 2009 totaled \$1.2 million compared to \$3.4 million in the second quarter of 2008. For the six months ended June 30, 2009, revenue totaled \$1.8 million compared to \$3.8 million in the same period a year ago. The decrease in revenue for the three and six months ended June 30, 2009 was due to decreased shipments of Balance™ Hybrid Electric, Azure CitiBus™ and Force Drive™ Electric products. Net loss for the second quarter of 2009 was \$6.7 million, or \$(0.02) cents per share, compared to a loss of \$8.1 million or \$(0.03) cents per share in the second quarter of 2008. Net loss for the six months ended June 30, 2009 was \$14.1 million, or \$(0.04) per share, compared to a loss of \$16.0 million or \$(0.06) per share in the same period a year ago.

The Company's engineering, operations and product development expenses for the quarter totaled \$3.3 million (including \$0.8 million in product development costs), compared to \$5.5 million for the same period in 2008 (including \$3.1 million in product development costs). For the first half of 2009, the Company's engineering and R&D expenses totaled \$7.1 million (including \$2.0 million in product development costs), compared to \$10.2 million in the first half of 2008 (including \$5.5 million in product development expenses).

During the second quarter, the Company focused on reducing operating costs and reducing the cost of future products. The reduced expenses for Q2 2008 to Q2 2009 are a direct result of actions taken by management at the beginning of 2009 to react to market conditions. These actions reduced non-essential product development costs and focused activities on current product cost reductions. During the second quarter, the engineering and operations teams focused on the identification and validation of the appropriate components and suppliers for 2010 product launch. These actions will reduce the bill of material cost more than 40% throughout calendar year 2010.

As of June 30, 2009, the Company's net cash and cash equivalents totaled \$2.4 million, and working capital totaled \$6.9 million, compared to cash and cash equivalents of \$5.4 million, and working capital of \$17.5 million, as at June 30, 2008, and cash and cash equivalents of \$13.8 million, and working capital of \$19.8 million, as at December 31, 2008.

Product Development Updates

CitiBus (G1) Series (7,500 to 16,000 lbs. gross vehicle weight, "GVW")

- The 49 G1 Purolator fleet crossed over 1.1 million miles in service
- 25 G1 CitiBuses have been delivered and are in service

Balance™ Hybrid Electric (P1) Parallel (10,000 – 19,000 lbs. GVW)

- The Company completed the build and delivery of three Balance™ Hybrid Electric school bus chassis per the Collins Bus agreement announced in Q1
- The Company received notification from the IRS that the 2009 model year Balance™ Hybrid Electric was certified for a Federal Tax Credit as a new qualified heavy-duty hybrid motor vehicle – eligible customers may receive a \$3000 tax credit
- The Company continued design and testing of advancements to the Balance™ Hybrid Electric which will launch in 2010

LEEP Freeze & LEEP Lift (Low Emission Electric Power)

- The field trial of LEEP™ Lift by AT&T in Kansas continued in the quarter
- A second LEEP Lift truck was delivered to Altec for marketing and customer demonstrations
- Customer demonstration trial of LEEP Freeze commenced with Dreyer's in Florida

Sales and Marketing Highlights:

- BlueCross® BlueShield® of Tennessee (BCBST) put an Azure Series CitiBus in service to connect its employees at its new corporate headquarters to other destinations in downtown Chattanooga.
- The Company signed agreements with thirteen additional dealerships to represent Azure's Balance™ Hybrid Electric. The new dealerships serve the metropolitan communities of: Baltimore; Boston; Chicago; Columbus; Denver; Detroit; Edmonton; Kansas City; New York City; Philadelphia; Sacramento; Washington DC and San Juan in Puerto Rico.
- The 2009 Azure Balance™ Hybrid Electric was approved by the Environmental Protection Agency to qualify for a \$3,000 IRS tax deduction.
- Azure technology is currently on the bid-list in numerous U.S. states with many additional states soon to sign. These relationships allow public organizations within the represented states the ability to select Azure technology at a pre-determined and pre-approved price.
- Several current and potential Azure customers have submitted applications for federal grant assistance for purchases. Noteworthy funding programs include the Clean Cities Coalition fund administered by the Department of Energy and the TIGGER Funds administered by the Federal Transit Administration. These funding sources can, in some cases, buy down the total cost of an Azure equipped vehicle by 50% and 100%, respectively.

- The Company was chosen as a winner at the 24th Annual Canadian Advanced Technology Alliance (CATA) Innovation and Leadership Awards. Azure was recognized with an 'Outstanding Product Achievement' award in the Clean Technology category.
- Azure participated in the June 11th "Hybrids on the Hill" event. Sponsored by CALSTART and Environmental Defense Fund, the event showcased hybrid truck technology to an audience of legislators and media in Washington D.C. This event offered unique visibility for Azure in front of policy-makers, key customers, industry associations and media.
- Purolator Courier, Canada's largest courier company and Azure's largest customer, was named the Greenest Company in Canada by the Toronto Star.
- Azure announced 16 sales of its Low Emission Electrical Power (LEEP™) vehicles for use in a major produce fleet. The LEEP system is coupled with Kidron's UltraTemp to deliver a reliable, efficient and clean cold plate refrigeration transport solution.

"In addition to Azure directed business activities, the Company is poised to benefit from significant federal support programs currently in place that offer public entities financial assistance for the purchase of alternative energy, green transportation products," said Harrison. "Programs via the Department of Energy and the Federal Transit Administration, along with regional programs like those in California and Ontario, are now active and are encouraging a wide array of customers to consider Azure technology and its transportation solutions."

The Company's fiscal 2009 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 \(TSX: AZD\)](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 Exchange does 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	Jun 30 2009 (unaudited)	December 31 2008 (audited)
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	2,443	13,803
Accounts receivable	749	2,317
Inventory (Note 4)	9,555	8,318
Prepaid expenses	627	675
	13,374	25,113
Restricted cash	1,312	1,440
Property and equipment	5,684	6,194
Intangible assets	7,434	8,012
Goodwill	2,932	2,932
	30,736	43,691
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	5,972	4,806
Customer deposits & deferred revenue (Note 5)	300	360
Current portion of notes payable (Note 3)	72	74
Current portion of obligations under capital leases (Note 6)	121	114
	6,465	5,354
Long-term		
Obligations under capital leases (Note 6)	177	263
Customer deposits & deferred revenue (Note 5)	703	839
Notes payable (Note 3)	2,311	2,459
	3,191	3,561
Shareholders' equity		
Share capital (Note 7)	165,012	165,007
Contributed surplus (Note 7)	6,882	6,500
Deficit	(150,814)	(136,731)
	21,080	34,776
	30,736	43,691

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)	
	2009 \$	2008 \$	2009 \$	2008 \$
Revenues	1,228	3,383	1,801	3,753
Cost of sales	2,419	3,565	3,532	4,082
Gross Margin	(1,191)	(182)	(1,731)	(329)
Expenses				
Engineering, research, development and related costs, net	3,258	5,505	7,092	10,243
Selling and marketing	423	577	985	1,267
General and administrative	2,063	1,777	4,146	3,896
Total expenses	5,744	7,859	12,223	15,406
Loss from operations	(6,935)	(8,041)	(13,954)	(15,735)
Interest and other income, net	140	99	287	245
Interest expense	(28)	(3)	(59)	(3)
Other expense	(93)	(109)	(618)	(561)
Foreign currency gains/(losses)	254	(65)	261	28
Net loss and comprehensive loss for the period	(6,662)	(8,119)	(14,083)	(16,026)
Deficit, beginning of period	(144,152)	(105,771)	(136,731)	(97,864)
Deficit, end of period	(150,814)	(113,890)	(150,814)	(113,890)
Loss per share - basic and diluted	(0.02)	(0.03)	(0.04)	(0.06)
Weighted average number of shares - basic and diluted *	379,405,157	279,376,177	379,390,747	279,376,177

* 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		For the six months ended	
	June 30		June 30	
	(unaudited)		(unaudited)	
	2009	2008	2009	2008
	\$	\$	\$	\$
Cash flows from operating activities				
Net loss for the period	(6,662)	(8,119)	(14,083)	(16,026)
Adjustments for:				
Amortization of property and equipment	255	224	535	447
Amortization of intangible assets	353	374	702	716
Unrealized foreign currency (gains)/losses	(195)	68	(83)	56
Stock option compensation expense	87	98	264	452
Deferred share units compensation expense	60	21	122	53
	<u>(6,102)</u>	<u>(7,334)</u>	<u>(12,543)</u>	<u>(14,302)</u>
Changes in non-cash working capital items	808	(703)	1,436	(3,888)
Total cash flows from operating activities	<u>(5,294)</u>	<u>(8,037)</u>	<u>(11,107)</u>	<u>(18,190)</u>
Cash flows from financing activities				
Issuance of common shares (net of costs)	1	(1)	1	(1)
Principle payments on notes payable	(17)	(9)	(36)	(18)
Repayment of obligations under capital lease	(72)	(8)	(95)	(10)
Total cash flows from financing activities	<u>(88)</u>	<u>(18)</u>	<u>(130)</u>	<u>(29)</u>
Cash flows from investing activities				
Acquisition of property and equipment	(28)	(195)	(35)	(385)
Acquisition of intangible assets	(60)	(45)	(124)	(108)
Sale of property and equipment	35	-	35	-
Changes in restricted cash	62	-	62	-
Total cash flows from investing activities	<u>9</u>	<u>(240)</u>	<u>(62)</u>	<u>(493)</u>
Decrease in cash and cash equivalents	(5,373)	(8,295)	(11,299)	(18,712)
Exchange impact on cash held in foreign currency	(69)	(5)	(61)	7
Cash and cash equivalents, beginning of period	7,885	13,728	13,803	24,133
Cash and cash equivalents, end of period	<u>2,443</u>	<u>5,428</u>	<u>2,443</u>	<u>5,428</u>
Supplemental cash flow information				
Cash paid for interest	21	18	43	36
Non cash investing and financing activities:				
Vehicles and equipment acquired under capital lease	24	77	24	185