



## Azure Dynamics Announces First Quarter Results for 2010

- Azure Dynamics announced revenue of \$2.8M, an improvement of more than 400%, and gross margin improvement of 94% in the quarter
- The Company shipped 230 units in the first quarter
- Transit Connect Electric was successfully introduced and lauded by industry analysts and international media at the Chicago Auto Show in February. Subsequent to the quarter end, Azure and Ford jointly announced Transit Connect Electric program expansion to Europe
- Azure's cash position remains strong with a cash balance of more than \$31 million at quarter end

**Oak Park, MI – May 12, 2010** – Azure Dynamics Corporation ([TSX: AZD](#)) ([OTC: AZDDF](#)) – (“Azure” or the “Company”), developer of environmentally friendly and cost effective hybrid electric and electric technologies for commercial vehicle fleets, today reported first quarter financial results for the period ending March 31, 2010. The Company also provided an update on corporate and product development activities.

“As each quarter is eclipsed, we talk less about expectations and more about accomplishments. In 2009, we focused on our margin improvement plan and maintaining sufficient cash to execute our plan. In Q1 2010, we are pleased with results on both fronts with margins improving by 94% in the quarter and with our quarter ending cash balance at \$31.6 million,” said Scott T. Harrison, Azure Dynamics Chief Executive Officer. “We expect these trends to continue through the fourth quarter 2010 when the Johnson Controls-Saft lithium-ion battery pack shipments begin and our margin improvement should be even more dramatic.

“The first quarter was also noteworthy for the highly successful introduction of the innovative Ford Transit Connect Electric at the Chicago Auto Show in early February. Analysts were impressed that Ford and Azure not only introduced the vehicle on an accelerated timeline, but also took the bold step of offering media test drives on the spot, and on one of the coldest and snowiest days in Chicago in decades. These test drives of an early Transit Connect Electric prototype were a testament to our technology and a tribute to our world-class engineering team.

“As a result of the Transit Connect Electric launch, Azure received extensive media attention in North America and around the globe. The added visibility was especially important in the first quarter as the economic recovery expanded. Our end-market customers have an increasingly optimistic outlook and are on the front-end of their respective fleet rebuilding efforts,” said Harrison. “Azure has never been more top-of-mind.”

## Financial Results

Revenue for the first quarter of 2010 totaled \$2.8 million compared to \$0.6 million in the first quarter of 2009. Net loss for the first quarter of 2010 was \$4.6 million, or \$(0.01) cent per share, compared to a loss of \$7.4 million or \$(0.02) cents per share in the first quarter of 2009.

Before contributions, the Company's engineering, operations and product development expenses for the quarter totaled \$5.3 million (including \$2.7 million in product development costs), compared to \$3.8 million for the same period in 2009 (including \$1.2 million in product development costs).

As of March 31, 2010, the Company's net cash and cash equivalents totaled \$31.6 million, and working capital totaled \$27.7 million, compared to cash and cash equivalents of \$7.9 million, and working capital of \$13.1 million, as of March 31, 2009, and cash and cash equivalents of \$33.6 million, and working capital of \$31.7 million, as of December 31, 2009.

The Company shipped 230 units in the first quarter (33 Balance™ Hybrid Electric; 176 LEEP™, and 21 Force Drive™).

## Sales and Marketing Highlights

- On January 12, Azure announced that its dealer MidWest Transit Equipment had been awarded a contract with Terre Haute Transit for two Azure CitiBus™ vehicles.
- On February 10, the Transit Connect Electric made its debut at the Chicago Auto Show. Azure collaborated with Ford Motor Company to introduce the Transit Connect Electric, a pure electric powered version of the 2010 North American Truck of the Year.
- On March 9, Azure announced that AT&T agreed to become a lead customer for Transit Connect Electric by purchasing two of the initial 2010 units. To participate in the Lead Customer program, customers like AT&T must also agree to purchase a minimum of ten units in 2011.
- On May 3, Azure and Ford Motor Company announced plans to expand the Transit Connect Electric program to the European market. Transit Connect has a successful history in Europe.

## Product Development Updates

### Balance™ Hybrid Electric

- Design validation testing of upgrades to inverter controllers and DC/DC converters progressed through the first quarter with test completion planned for Q2 in support of a mid-year production introduction
- Within the first quarter, the Company completed the initial design releases to its industry first belt starter generator (BSG) system on a V8 engine. Fabrications of the new prototype BSG commenced in the quarter. An important accelerated life durability test was complete in support of a 2011 model year launch later this year
- The Company continued its development and testing of the lithium-ion battery pack from Johnson Controls-Saft (JC-S) accumulating mileage in AZD's development fleet as well as completing some industry standard testing in support of a Q3, 2010 launch.

### Transit Connect Electric (Force Drive™)

- In January of 2010, Azure completed and delivered to Ford a production representative show vehicle which debuted at the Chicago Auto Show in February
- Also in January, the Company completed an engineering prototype vehicle which underwent performance testing in Detroit including among other tests, cold chamber tests and driving range tests
- Of major significance in the quarter, Azure was able to demonstrate through computer aided analysis that it could achieve federally regulated safety tests performance
- The Company produced the first crash correlation test vehicle

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

- In the first quarter, the Company completed its manufacturing ramp up activities for the LEEP™ Freeze system
- Minor design improvements were made in the quarter to address lessons learned during the increase in production
- AT&T completed its trial of the LEEP Lift trucks within the quarter and purchased the units to have them continue in revenue service in their fleet

### **Conclusion**

“As the economic rebound continues, and government stimulus funds for environmental initiatives continue to be readily available, we expect more customers to rebuild their fleet inventories at an accelerated pace. With our product performing well for our customers and greater corporate focus on sustainability, we anticipate more orders coming our way,” said Harrison. “We are making real strides towards accomplishing our goal of being Part of the Solution for customers, partners, shareholders and society at large.”

The Company’s fiscal 2010 first quarter financial statements and MD&A are available at [www.sedar.com](http://www.sedar.com) or on the Company’s website at [www.azuredynamics.com](http://www.azuredynamics.com).

### **Conference Call**

Please join Scott Harrison, Azure Dynamics Chief Executive Office, and Ryan Carr, Chief Financial Officer for an earnings call today, May 12<sup>th</sup>, at 5:00 PM EST. Interested listeners can access the call toll free at 1-800-941-4658. It is recommended that you access the call at least fifteen minutes before the scheduled start time. An accompanying presentation will be posted to the company’s website, [www.azuredynamics.com](http://www.azuredynamics.com), immediately prior to the call.

For those unable to participate in the live conference, a call replay will be posted on Azure’s site on May 13<sup>th</sup>.

### **Annual General Meeting information**

All interested parties are invited to attend the Annual General Meeting on June 8, 2010 at 4:30 p.m. (local time) at our Corporate Headquarters, 14925 W. 11 Mile Road, Oak Park, Michigan, 48237. In addition to the formal business described in the Management Information Circular there will be a management presentation on business activities and the Company’s 2009 financial results. Immediately following the meeting, guests are encouraged to join Azure management for a reception. Guests will also have an opportunity to experience first-hand select Azure products, including the Ford Transit Connect Electric, on a ride and drive course.

*All figures are in Canadian dollars.*

## **Azure Dynamics**

[Azure Dynamics Corporation \(TSX: AZD\) \(OTC: AZDDF\)](#) 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](http://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](http://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.*

## **FOR MORE INFORMATION, CONTACT:**

Ryan Carr, Chief Financial Officer, (248) 658-7506

Email: [rcarr@azuredynamics.com](mailto:rcarr@azuredynamics.com)

Pat Liebler, Liebler Group, (313) 832-4376

Email: [pat@lieblergroup.com](mailto:pat@lieblergroup.com)

**Azure Dynamics Corporation**  
**Consolidated Balance Sheets**  
(Stated in thousands of Canadian dollars)

<b>As at</b>	<b>March 31 2010 (unaudited)</b>	<b>December 31 2009 (audited)</b>
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	31,604	33,588
Accounts receivable	1,109	2,632
Inventory (Note 3)	5,002	5,215
Prepaid expenses	937	974
	<u>38,652</u>	<u>42,409</u>
<b>Restricted cash</b>	<b>1,006</b>	<b>1,041</b>
<b>Property and equipment</b>	<b>5,261</b>	<b>5,277</b>
<b>Intangible assets</b>	<b>6,463</b>	<b>6,755</b>
<b>Goodwill</b>	<b>2,932</b>	<b>2,932</b>
	<u>54,314</u>	<u>58,414</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	10,592	9,837
Customer deposits & deferred revenue	159	746
Current portion of notes payable	65	66
Current portion of obligations under capital leases	117	99
	<u>10,933</u>	<u>10,748</u>
<b>Long-term</b>		
Obligations under capital leases	156	117
Customer deposits & deferred revenue	627	644
Notes payable	1,970	2,055
	<u>13,686</u>	<u>13,564</u>
<b>Shareholders' equity</b>		
Share capital (Note 4)	202,239	202,250
Contributed surplus (Note 4)	7,513	7,139
Deficit	(169,124)	(164,539)
	<u>40,628</u>	<u>44,850</u>
	<b>54,314</b>	<b>58,414</b>

**Nature of operations and going concern (Note 1)**

**Commitments (Note 5)**

Approved on behalf of the Board:

"signed D. Campbell Deacon" Director

D. Campbell Deacon

"signed James C. Gouin" Director

James C. Gouin

The accompanying notes are an integral part of these consolidated financial statements.

**Azure Dynamics Corporation**  
**Consolidated Statements of Operations, Comprehensive Loss, and Deficit**  
(Stated in thousands of Canadian dollars, except per share amounts and number of shares)

	For the three months ended March 31 (unaudited)	
	2010	2009
	\$	\$
<b>Revenues</b>	<b>2,847</b>	573
<b>Cost of sales</b>	<b>3,017</b>	1,106
<b>Gross margin</b>	<b>(170)</b>	(533)
<b>Expenses</b>		
Engineering, research, development and related costs, net	1,743	3,839
Selling and marketing	514	562
General and administrative	2,334	2,083
<b>Total expenses</b>	<b>4,591</b>	6,484
<b>Loss from operations</b>	<b>(4,761)</b>	(7,017)
Interest and other income, net	137	147
Interest expense	(26)	(31)
Other expense	(11)	(526)
Foreign currency gains	76	6
<b>Net loss and comprehensive loss for the period</b>	<b>(4,585)</b>	(7,421)
Deficit, beginning of period	(164,539)	(136,731)
<b>Deficit, end of period</b>	<b>(169,124)</b>	(144,152)
<b>Loss per share - basic and diluted</b>	<b>(0.01)</b>	(0.02)
Weighted average number of shares - basic and diluted	605,128,008	379,376,177

The accompanying notes are an integral part of these consolidated financial statements.

**Azure Dynamics Corporation**  
**Consolidated Statements of Cash Flows**  
(Stated in thousands of Canadian dollars)

For the three months ended  
**March 31**  
(unaudited)

	2010	2009
	\$	\$
<b>Cash flows from operating activities</b>		
Net loss for the period	(4,585)	(7,421)
Adjustments for:		
Amortization of property and equipment	243	280
Amortization of intangible assets	326	349
Unrealized foreign currency (gains)/losses	(188)	113
Stock option compensation expense	322	177
Deferred share units compensation expense	58	62
	(3,824)	(6,440)
Changes in non-cash working capital items	2,068	629
<b>Total cash flows from operating activities</b>	(1,756)	(5,811)
<b>Cash flows from financing activities</b>		
Issuance of common shares (net of costs)	(17)	-
Principal payments on notes payable	(17)	(19)
Repayment of obligations under capital lease	(64)	(24)
<b>Total cash flows from financing activities</b>	(98)	(43)
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(101)	(7)
Acquisition of intangible assets	(34)	(65)
<b>Total cash flows from investing activities</b>	(135)	(72)
Decrease in cash and cash equivalents	(1,989)	(5,926)
Exchange impact on cash held in foreign currency	5	8
Cash and cash equivalents, beginning of period	33,588	13,803
<b>Cash and cash equivalents, end of period</b>	31,604	7,885
<b>Supplemental cash flow information</b>		
Cash paid for interest	26	31
Non cash investing and financing activities:		
Vehicles and equipment acquired under capital lease	126	-

The accompanying notes are an integral part of these consolidated financial statements.