



Azure Dynamics Announces Second Quarter 2010 Results

- Azure Dynamics announced revenue of \$3.9 million, an improvement of 215%, over the same quarter 2009. The Company reported a positive gross margin of 8% in the quarter
- During the quarter, Azure closed an equity investment of more than \$6.3 million from a Canadian subsidiary of Johnson Controls, Inc.
- Azure's cash position improved in the quarter with a cash balance of more than \$31.8 million at quarter end
- Azure has shipped 358 units YTD and expects shipments to increase in the second half of 2010

Oak Park, MI – August 12, 2010 – Azure Dynamics Corporation's (TSX: AZD) (OTC:AZDDF) – ("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, 2010. The Company also provided an update on corporate and product development activities.

"Although the second quarter is typically a slower selling period, we outperformed our sales expectations on the Balance™ Hybrid Electric product. The second quarter 2010 also saw a continuation of the positive trend we've been seeing in terms of margin improvement and our cash on hand improved slightly from last quarter," said Scott T. Harrison, Azure Dynamics Chief Executive Officer. "Most importantly, this was the first quarter where we were able to report a positive gross margin since we fully commercialized our product lines."

"Those who know Azure best are familiar with the importance we place on our strategic partnerships, and this quarter the Company saw significant developments on this front. In May, Azure and Ford Motor Company jointly announced that the Transit Connect Electric program will be expanded to include the European market. In June, Johnson Controls' \$6.3 million investment in Azure, at a premium to market, was a meaningful endorsement of our technology by a deeply experienced automotive supplier and a valued Azure partner. Azure also added another highly capable automotive supplier to the Transit Connect Electric team when we named AM General as the upfitter for the project."

"While these relationships were being cultivated and product cost reduction programs were implemented, we continued our concentration on sales. We were pleased to receive new

orders for 212 Balance™ Hybrid Electric systems in the quarter with a fairly even distribution between shuttle buses and delivery vans. Those new orders along with 128 shipments in the quarter kept product moving at a steady pace – a pace that we expect will continue during the second half of the year,” Harrison concluded.

Following are Select Highlights of Second Quarter 2010:

- Azure entered into an agreement with a wholly-owned Canadian subsidiary of Johnson Controls Inc. which agreed to purchase, on a private placement basis, 21,080,000 common shares of Azure at a price of CDN\$0.30 per common share for gross proceeds of \$6,324,000. Following the completion of the Equity Investment, Johnson Controls' Canadian subsidiary owns approximately 3.4% of the issued and outstanding common shares of Azure.
- Ford Motor Company and Azure jointly announced that the Ford Transit Connect Electric program will be expanded to include the European market with shipments beginning in late summer 2011.
- AM General, a well known and experienced vehicle manufacturer and services provider, was selected to upfit the base Ford Transit Connect with the Azure Force Drive™ electric drive train components. The final assembly will be completed at an AM General Engineering and Product Development Center in Livonia, Michigan.
- Cintas Corporation, headquartered in Ohio, agreed to purchase 100 Balance™ Hybrid Electric walk-in vans for deployment at its California facilities and therefore the units qualify for California's Hybrid Voucher Incentive Program funding with incentives of \$25,000 per unit.
- Azure announced a 34 unit Balance™ Hybrid Electric bus sale via the Illinois Department of Transportation (IDOT). IDOT will leverage available funding from a Transit Investments for Greenhouse Gas and Energy Reduction (TIGGER) Grant.
- Azure announced a 24 unit Balance™ Hybrid Electric bus sale to King County, Washington for its Access Transportation services. King County accessed Federal Transit Administration (FTA) stimulus funds to reduce acquisition costs.
- The North Central Texas Council of Governments (NCTCOG) ordered 18 Balance™ Hybrid Electric shuttle buses for deployment in five different rural transit systems. The units are partially funded via an American Recovery and Reinvestment Act of 2009 Transit Capital Assistance program grant.
- Azure Dynamics received a follow-on order from Metro Mobility for nine additional Balance™ Hybrid Electric shuttle buses to join the 15 Azure buses already at work in its fleet.
- Azure announced 28 additional new Balance™ Hybrid Electric van and bus orders from both new and repeat customers across North America. Notable body manufacturers Champion Bus Inc., and Glaval Bus both participated in their inaugural Azure sale.

Financial Results

Revenue for the second quarter of 2010 totaled \$3.9 million compared to \$1.2 million in the second quarter of 2009. For the six months ended June 30, 2010, revenue totaled \$6.7 million compared to \$1.8 million in the same period a year ago. Net loss for the second quarter of 2010 was \$6.4 million, or \$(0.01) per share, compared to a loss of \$6.7 million or \$(0.02) per share in the second quarter of 2009. Net loss for the six months ended June 30, 2010 was \$10.9 million, or \$(0.02) per share, compared to a loss of \$14.1 million or \$(0.04) per share in the same period a year ago.

Before contributions, the Company's engineering, operations and product development expenses for the quarter totaled \$5.4 million (including \$3.0 million in product development costs), compared to \$3.3 million for the same period in 2009 (including \$0.8 million in product development costs). For the first half of 2010, before contributions, the Company's engineering and R&D expenses totaled \$10.7 million (including \$5.8 million in product development costs), compared to \$7.1 million in the first half of 2009 (including \$2.0 million in product development expenses).

As of June 30, 2010, the Company's net cash and cash equivalents totaled \$31.8 million, and working capital totaled \$28.0 million, compared to cash and cash equivalents of \$2.4 million, and working capital of \$6.9 million, as at June 30, 2009, and cash and cash equivalents of \$33.6 million, and working capital of \$31.7 million, as at December 31, 2009.

Azure recorded revenue from 128 units (48 LEEP™, 57 Balance™, 23 Force™ Drive and 1 CitiBus) during the quarter, compared to 68 for the same period in 2009. For the first half of 2010, the Company recorded revenue from 358 units (224 LEEP, 90 Balance™ Hybrid Electric, 44 Force Drive™ systems and 1 G1 CitiBus) compared to 110 for the same period of 2009.

Q2 2010 Product Development Updates

Balance™ Hybrid Electric

- The Company continued development and testing of advancements to the current production Balance™ Hybrid system which will reduce the cost and weight versus the current system.
- The design validation testing for the model year (MY) 10.5 design release, including upgraded inverters and JC-S lithium-ion batteries was completed within the second quarter.
- The MY10.5 pre-production build was completed in May and the production build commenced in June for the stripped chassis variant. The shuttle bus MY10.5 variant is scheduled for production start in the third quarter, 2010.
- Testing on MY11 design release including major advancements to the Company's industry leading belt-starter-generator (BSG) system which will now include an integral clutch at the crankshaft, was completed in the quarter. The clutched BSG system allows Azure's Balance™ Hybrid to run the auxiliary vehicle systems including power steering, power brakes and A/C compressors when the engine is off and the vehicle is in electric mode.
- The Company continued its development and testing of the lithium-ion battery pack from JC-S. Third generation prototype (C-Samples) battery packs were received and tested in the Azure development vehicles.

Transit Connect Electric:

- The show vehicle produced in the first quarter continues to be demonstrated at various shows across the country and has received positive press for its driving characteristics.
- Within the second quarter Azure produced prototype vehicles for occupant safety and crash testing. Front and rear impact tests were completed and demonstrated the effectiveness of Azure's mechanical integration design and correlated the simulation model.
- The validation prototype (VP) design phase was progressed in the quarter preparing for the VP build in the third quarter.
- In May, Azure completed the preliminary CAD packaging assessment for the European variants of the Transit Connect Electric including both right hand and left hand drive platforms.
- The company also entered into a contract with a European Certification Authority, the VCA, and completed the homologation test plan which will be followed by Azure to complete a whole vehicle type approval for the European Union.

Low Emission Electric Power (LEEP™):

- During the quarter the company released further upgrades to the LEEP™ Freeze software to improve performance based in experience with a greater number of units in the field.
- The company delivered an additional prototype LEEP™ Lift system in the quarter for further market development and model year updates.

Force Drive™ Electric Components:

- During the second quarter, the Company continued to progress on performance and specification upgrades to its inverters.
- The initial design validation testing on the prototype inverters including vehicle level testing was successfully completed in the quarter.
- Volume production of the air-cooled inverters for the Balance™ Hybrid MY10.5 production commenced in June, liquid cooled versions for the Transit Connect are in validation testing.

Operational Updates

- In support of the European launch of the Transit Connect Electric, Azure took steps to reopen its European operation, Azure Dynamics UK LTD and open an interim office in the UK close to Ford's Dunton headquarters in England.
- Ricardo Espinosa was named our new Managing Director of Azure Europe and is in the process of transferring from his role as Vice President of Engineering out of our Boston office, to the UK.

Conclusion:

"The significant developments of the second quarter were directly aligned with our stated strategic priorities. The AM General relationship reflects Azure's approach of limiting internal manufacturing costs by leveraging existing industry capacity with established partners eager to

be involved in electric propulsion. For product cost reductions, we were able to implement programs to reduce cost and improve margin. Our channel distribution strategy earned inaugural sales from two new body vendors and saw repeat network sales accelerating. And, of course, key partnerships with Ford and JCI were deepened and expanded, and we continue to explore further expansions of these and other relationships.”

The Company's fiscal 2010 second quarter financial statements and MD&A are available at www.sedar.com or on the Company's website at 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, August 12th, at 5:00 PM EST. Interested listeners can access the call toll free at 1-800-786-6018. 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, immediately prior to the call.

For those unable to participate in the live conference, a call replay will be posted on Azure's site by Monday August 16th.

For more information on how Azure Dynamics products are Driving a World of Difference, please visit www.azuredynamics.com.

About 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.

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 labor 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.

FOR MORE INFORMATION, CONTACT:

Ryan Carr, Chief Financial Officer, 248-658-7506
Email: rcarr@azuredynamics.com

Mike Elwood, Vice President-Marketing (905) 607-3486 x6203
Email: melwood@azuredynamics.com

Pat Liebler, Liebler Group, (313) 832-4376
Email: pat@lieblergroup.com

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

As at	June 30 2010 (unaudited)	December 31 2009 (audited)
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	31,819	33,588
Accounts receivable	2,563	2,632
Contributions receivable	520	-
Inventory (Note 3)	5,326	5,215
Prepaid expenses	938	974
	41,166	42,409
Restricted cash	1,067	1,041
Property and equipment	5,449	5,277
Intangible assets	6,170	6,755
Goodwill	2,932	2,932
	56,784	58,414
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LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	12,859	9,837
Customer deposits & deferred revenue	165	746
Current portion of notes payable	68	66
Current portion of obligations under capital leases	108	99
	13,200	10,748
Long-term		
Obligations under capital leases	142	117
Customer deposits & deferred revenue	610	644
Notes payable	2,048	2,055
	16,000	13,564
Shareholders' equity		
Share capital (Note 4)	208,554	202,250
Contributed surplus (Note 4)	7,714	7,139
Deficit	(175,484)	(164,539)
	40,784	44,850
	56,784	58,414

Nature of operations and going concern (Note 1)

Commitments (Note 6)

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 June 30 (unaudited)		For the six months ended June 30 (unaudited)	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenues	3,868	1,228	6,715	1,801
Cost of sales	3,567	2,403	6,583	3,510
Gross margin	301	(1,175)	132	(1,709)
Expenses				
Engineering, research, development and related costs, net	3,774	3,274	5,518	7,114
Selling and marketing	573	423	1,088	985
General and administrative	2,223	2,063	4,556	4,146
Total expenses	6,570	5,760	11,162	12,245
Loss from operations	(6,269)	(6,935)	(11,030)	(13,954)
Interest and other income, net	136	140	273	287
Interest expense	(24)	(28)	(50)	(59)
Other income/(expense)	11	(93)	-	(618)
Foreign currency (losses)/gains	(215)	254	(138)	261
Net loss and comprehensive loss for the period	(6,361)	(6,662)	(10,945)	(14,083)
Deficit, beginning of period	(169,123)	(144,152)	(164,539)	(136,731)
Deficit, end of period	(175,484)	(150,814)	(175,484)	(150,814)
Loss per share - basic and diluted	(0.01)	(0.02)	(0.02)	(0.04)
Weighted average number of shares - basic and diluted	608,198,963	379,405,157	606,671,969	379,390,747

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 June 30 (unaudited)		For the six months ended June 30 (unaudited)	
	2010	2009	2010	2009
	\$	\$	\$	\$
Cash flows from operating activities				
Net loss for the period	(6,361)	(6,662)	(10,945)	(14,083)
Adjustments for:				
Amortization of property and equipment	246	255	489	535
Amortization of intangible assets	328	353	654	702
Unrealized foreign currency losses/(gains)	250	(195)	62	(83)
Stock option compensation expense	148	87	469	264
Deferred share units compensation expense	59	60	116	122
	<u>(5,330)</u>	<u>(6,102)</u>	<u>(9,155)</u>	<u>(12,543)</u>
Changes in non-cash working capital items	(241)	808	1,827	1,436
Total cash flows from operating activities	<u>(5,571)</u>	<u>(5,294)</u>	<u>(7,328)</u>	<u>(11,107)</u>
Cash flows from financing activities				
Issuance of common shares (net of costs)	6,309	1	6,293	1
Principal payments on notes payable	(16)	(17)	(33)	(36)
Repayment of obligations under capital lease	(30)	(72)	(94)	(95)
Total cash flows from financing activities	<u>6,263</u>	<u>(88)</u>	<u>6,166</u>	<u>(130)</u>
Cash flows from investing activities				
Acquisition of property and equipment	(434)	(28)	(535)	(35)
Acquisition of intangible assets	(34)	(60)	(68)	(124)
Sale of property and equipment	-	35	-	35
Changes in restricted cash	(12)	62	(12)	62
Total cash flows from investing activities	<u>(480)</u>	<u>9</u>	<u>(615)</u>	<u>(62)</u>
Increase/(Decrease) in cash and cash equivalents	212	(5,373)	(1,777)	(11,299)
Exchange impact on cash held in foreign currency	3	(69)	8	(61)
Cash and cash equivalents, beginning of period	31,604	7,885	33,588	13,803
Cash and cash equivalents, end of period	<u>31,819</u>	<u>2,443</u>	<u>31,819</u>	<u>2,443</u>
Supplemental cash flow information				
Cash paid for interest	24	21	50	43
Cash paid for taxes	13	-	13	-
Non cash investing and financing activities:				
Vehicles and equipment acquired under capital lease	-	24	126	24

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