



## Azure Dynamics Reports 2nd Quarter 2011 Results

- Record second quarter revenues up 140% to \$9.3 million from \$3.9 million last year
- Second quarter unit sales increases 57% to 202 units from 129 last year
- Six-month order intake for 2011 deliveries total \$22.4 million, representing 540 vehicle orders
- Record six-month revenues up 60%, to \$10.7 million, representing 253 vehicle shipments
- Revises previously issued 2011 revenue guidance

**OAK PARK, MI – August 11, 2011** – Azure Dynamics Corporation (TSX: AZD)(OTC: AZDDF), a world leader in the development and production of hybrid electric and electric components and powertrain systems for light and medium duty commercial vehicles, today announced its financial results for the period ending June 30, 2011 and updated its 2011 financial outlook.

Revenues for the 2011 second quarter increased 140% to \$9.3 million compared to \$3.9 million in the second quarter of 2010. For the six months ended June 2011, revenues rose 60% to \$10.7 million from \$6.7 million for the comparable period a year ago. Unit sales for the 2011 second quarter increased 57% to 202 compared to 129 for the same period last year. The 2011 second quarter included 97 Transit Connect Electric vehicle sales, which launched in April, 2011.

“We are pleased with our record second quarter revenues, which were in line with our expectations,” said Scott Harrison, CEO of Azure Dynamics. “The increase in quarterly revenues was driven by the successful launch of the Transit Connect Electric in both North America and in Europe and validates our customers increasing demands for fuel efficient alternative commercial vehicles to meet their diversified fleet requirements.”

Net loss for the 2011 second quarter totaled \$7.3 million, or \$0.01 per share, compared to a loss of \$6.2 million, or \$0.01 per share, in the second quarter of 2010. Net loss for the 2011 six month period totaled \$16.3 million, or \$0.02 per share, compared to a loss of \$11.1 million, or \$0.02 per share, in the comparable period a year ago. Unit sales for the 2011 six month period totaled 253 compared to 359 for the same period a year ago. The 2010 six-month period included 224 LEEP™ sales compared to one in the comparable 2011 period.

Gross profit for the 2011 second quarter decreased to \$146,000, or 1.6% of sales, from \$301,000, or 7.8% of sales, in the comparable period a year ago. For the 2011 six-month period, gross profit rose to \$303,000, or 2.8% of sales, from \$132,000, or 2.0% of sales, in the comparable period a year ago.

“Our margins during the second quarter were impacted by higher than anticipated initial costs associated with the global production launch of the Transit Connect Electric, as well as changes in product mix resulting from customer delivery date modifications for higher margin product,” continued Harrison. “We are already seeing improvements to our production costs and we expect our margins to improve in each of the next two quarters of 2011.”

New orders received during the second quarter of 2011 relating to current year deliveries were \$5.6 million, representing 102 vehicles, compared with first quarter 2011 orders of \$16.8 million and fourth quarter 2010 orders of \$3.5 million. For the 2011 six-month period, new order intake for 2011 deliveries total \$22.4 million, representing 540 vehicle orders.

Engineering, research and development (“R&D”) expenses in the 2011 second quarter totaled \$4.0 million (including \$2.9 million in product development costs, offset by \$2.4 million in customer contributions), compared to \$3.8 million (including \$3.0 million in product development costs, offset by \$0.6 million in customer contributions and \$1.0 million in government grants) for the same period in 2010. R&D expenses for the 2011 six-month period totaled \$9.4 million (including \$5.9 million in product development costs, offset by \$3.4 million in customer contributions), compared to \$5.5 million (including \$5.8 million in product development costs, offset by \$0.8 million in customer contributions and \$4.4 million in government grants) for the same period in 2010.

As of June 30, 2011, the Company’s net cash and cash equivalents totaled \$11.7 million, and working capital totaled \$14.7 million, compared to cash and cash equivalents of \$17.7 million, and working capital of \$22.1 million, as of March 31, 2011.

## **SELECTED SECOND QUARTER AND YEAR-TO-DATE HIGHLIGHTS**

- In July, Azure reached an agreement with Ford to initially integrate its plug-in hybrid technology on Ford’s market leading F-Series Super Duty cab and chassis, the F-550, with production expected in early 2013. The commercial cab and chassis industry supports approximately 100,000 vehicles per year and the Ford F-Series platform has greater than 50% share.
- In June, Azure announced its intent to list its shares on the NASDAQ stock market and is seeking shareholder approval on August 19, 2011 for its Board of Directors to effect a share consolidation in order to comply with the NASDAQ listing requirements. The Company expects to realize a number of benefits from listing on a U.S. stock exchange, including access to larger domestic as well as global financial markets, exposure to additional investors and wider coverage by industry and financial analysts.
- In April, the Transit Connect Electric was awarded a four-year GSA contract award allowing federal government agencies and U.S. Armed Forces to purchase the pure electric, zero emission vehicle, via Northside Ford in San Antonio, TX. The GSA estimates the potential value of the contract award over the four year period at more than \$112 million.

## 2011 FINANCIAL OUTLOOK

“The past week’s turbulence in the financial markets has spurred renewed recession concerns and future economic uncertainty and it is difficult to predict how this may affect our fleet customers buying decisions in the near-to-mid-term,” continued Harrison. “Prior to last week, we did see signs of a slow, but gradual recovery in the global light and medium duty commercial truck markets as fleet operators increasingly look for fuel efficient vehicles to replenish their aging fleets. Order flow for the Transit Connect Electric has been steady, and we are encouraged with the strong interest shown by several DOD agencies during last month’s Fed Fleet show held in Florida. However, our Balance™ Hybrid shuttle bus sales remain challenging as they continue to be negatively impacted by tight municipal budgets. These municipalities have substantial vehicle needs and we remain hopeful that they will seek our eco-friendly products, but order flow has become increasingly difficult to forecast. Additionally, anticipated step-van orders from several key customers have been deferred and will likely not occur in 2011, resulting in those deliveries shifting into 2012. While we still anticipate approximately doubling 2010 revenues for 2011, we are revising our previously announced 2011 revenue forecast downward to reflect these current trends.”

Based on current market conditions, orders to date and future order expectations, the Company now expects 2011 revenues to be in the range of \$38 to \$45 million. Unit volume for 2011 is expected to be in the range of 850 to 975 units, consisting of approximately 350 to 400 Balance™ Hybrid Electric drive-trains and 500 to 575 Force Drive™ Electric drive-trains for the Transit Connect Electric.

The Company’s 2011 second 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

Management will host a webcast and conference call Friday, August 12, at 9:00 AM EDT to discuss today’s announcement in more detail. Interested listeners can access the call toll free at 1-877-317-6789. Participants from outside North America can participate in the call by dialing 1-412-317-6789. 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 website no later than August 13.

### 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 light and medium duty commercial vehicles. Azure is strategically targeting the commercial delivery vehicle and shuttle bus markets and is currently working internationally with a variety of 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 Advisory**

*Certain information included in this press release constitutes forward-looking statements and information and future-oriented financial information under applicable securities legislation and is provided for the purpose of expressing management's current expectations and plans for the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions.*

*More particularly, this press release contains statements concerning Azure's anticipated: business development strategy, customer orders, product deliveries, sales, revenue and revenue growth, production costs, gross margins, second quarter 2011 results and financial outlook for 2011. The forward-looking statements are based on a number of key expectations and assumptions made by Azure, including expectations and assumptions concerning achievement of current timetables for development programs and sales, 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 used to develop the forward-looking statements 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 numerous risks and uncertainties that contribute to the possibility that the projections and forecasts in the forward-looking statements will not occur and that actual performance or results could differ materially from those anticipated in the forward-looking statements. These risks and uncertainties include, but are not limited to, the risks associated with Azure's stage of development, history of losses and lack of historical product revenues, unprecedented recent volatility in global financial and capital markets, uncertainty as to product development and sales milestones being met, product defect and performance risks, competition for capital and market share, uncertainty as to target markets, dependence upon third parties, changes in environmental laws or policies, uncertainty as to patent and proprietary rights, availability and retention of management and key personnel, exchange rate and currency fluctuations, uncertainties relating to potential delays or changes in plans with respect to product development or capital expenditures, the ability of Azure to access sufficient capital on acceptable terms, and environmental and safety risks. This is not an exhaustive list and additional information on these risks and other factors that could affect Azure's operations and financial results are included in reports on file with the Canadian securities regulatory authorities and can be accessed through the SEDAR website 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. Additionally, Azure undertakes no obligation to comment on the expectations of, or statements made by, third parties about Azure.*

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

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**Azure Dynamics Corporation**  
**Unaudited Interim Consolidated Balance Sheets**

**(Stated in thousands of Canadian dollars, except per share amounts and number of shares)**

<b>As at</b>	<b>June 30 2011</b>	<b>December 31 2010</b>
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	11,724	11,737
Accounts receivable	6,194	10,107
Contributions receivable	482	-
Inventory (Note 3)	10,459	5,590
Prepaid expenses	1,082	949
<b>Total current assets</b>	<b>29,941</b>	<b>28,383</b>
<b>Non-current assets</b>		
Restricted cash	579	597
Investment in ND Solectria, LLC	298	319
Property and equipment	3,307	2,781
Other assets	93	114
Intangible assets	5,004	5,590
Goodwill	2,932	2,932
<b>Total non-current assets</b>	<b>12,213</b>	<b>12,333</b>
<b>Total assets</b>	<b>42,154</b>	<b>40,716</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	13,972	15,783
Customer deposits & deferred revenue	59	96
Current portion of government financial obligations	1,143	993
Current portion of obligations under capital leases	104	82
<b>Total current liabilities</b>	<b>15,278</b>	<b>16,954</b>
<b>Non-current liabilities</b>		
Obligations under capital leases	81	96
Customer deposits & deferred revenue	466	507
Government financial obligations	4,230	4,582
<b>Total non-current liabilities</b>	<b>4,777</b>	<b>5,185</b>
<b>Shareholders' equity</b>		
Share capital	227,156	208,570
Contributed surplus	9,686	8,271
Cumulative translation adjustment	(160)	32
Deficit	(214,583)	(198,296)
<b>Total equity</b>	<b>22,099</b>	<b>18,577</b>
<b>Total equity and liabilities</b>	<b>42,154</b>	<b>40,716</b>

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

	For the three months ended June 30		For the six months ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Revenues</b>	9,277	3,868	10,699	6,715
<b>Cost of sales</b>	9,131	3,567	10,396	6,583
<b>Gross profit</b>	146	301	303	132
<b>Expenses</b>				
Engineering, research, development and related costs, net	4,007	3,830	9,397	5,500
Selling and marketing	982	573	1,785	1,087
General and administrative	2,261	2,124	5,059	4,372
<b>Total expenses</b>	7,250	6,527	16,241	10,959
<b>Loss from operations</b>	(7,104)	(6,226)	(15,938)	(10,827)
Interest and other income, net	29	63	115	128
Interest expense	(254)	(229)	(520)	(449)
Other expense	-	11	-	-
Foreign currency gains/(losses)	8	72	(76)	(71)
	(217)	(83)	(481)	(392)
<b>Net loss before the following</b>	(7,321)	(6,309)	(16,419)	(11,219)
Share of profit from investment in ND Solectria, LLC	66	71	132	142
<b>Net loss for the period</b>	(7,255)	(6,238)	(16,287)	(11,077)
<b>Other comprehensive (loss) income</b>				
Foreign currency translation differences of foreign operations	(97)	(18)	(192)	18
<b>Total comprehensive income (loss) for the period</b>	(7,352)	(6,256)	(16,479)	(11,059)
<b>Loss per share – basic and diluted</b>	(0.01)	(0.01)	(0.02)	(0.02)
Weighted average number of shares – basic and diluted	688,873,469	608,198,963	674,716,562	606,671,969

**Azure Dynamics Corporation**  
**Unaudited Interim Consolidated Statements of Cash Flows**  
**(Stated in thousands of Canadian dollars, except per share amounts and number of shares)**

	For the three months ended June 30		For the six months ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Cash flows from operating activities</b>				
Net loss for the period	(7,255)	(6,238)	(16,287)	(11,077)
Adjustments for:				
Amortization of property and equipment	314	229	608	455
Amortization of intangible assets	331	328	661	654
Amortization of other assets	17	-	33	-
Unrealized foreign currency (gains)/losses	(13)	25	(69)	48
Share of profit receivable from ND Solectria, LLC	(64)	(71)	(120)	(142)
Stock option compensation expense	275	160	1,317	508
Deferred share units compensation expense	74	59	148	117
Accretion expense on government financial obligations	250	222	512	434
	<u>(6,071)</u>	<u>(5,286)</u>	<u>(13,197)</u>	<u>(9,003)</u>
Changes in non-cash working capital items	1,200	(339)	(3,489)	1,551
<b>Total net cash flows from operating activities</b>	<u>(4,871)</u>	<u>(5,625)</u>	<u>(16,686)</u>	<u>(7,452)</u>
<b>Cash flows from financing activities</b>				
Proceeds from issue of common shares	40	6,333	20,196	6,342
Payment for share issuance costs	-	(24)	(1,660)	(49)
Principal repayments on government financial obligations	(713)	-	(713)	(26)
Repayment of obligations under capital lease	(21)	(30)	(46)	(93)
Other assets	(12)	-	(12)	-
<b>Total cash flows from financing activities</b>	<u>(706)</u>	<u>6,279</u>	<u>17,765</u>	<u>6,174</u>
<b>Cash flows from investing activities</b>				
Acquisition of property and equipment	(372)	(434)	(1,115)	(535)
Acquisition of intangible assets	(46)	(34)	(75)	(68)
Dividend received from ND Solectria, LLC	69	72	136	140
Changes in restricted cash	-	(12)	-	(12)
<b>Total cash flows from investing activities</b>	<u>(349)</u>	<u>(408)</u>	<u>(1,054)</u>	<u>(475)</u>
Increase/(Decrease) in cash and cash equivalents	(5,926)	246	25	(1,753)
Exchange impact on cash held in foreign currency	(35)	(41)	(38)	(22)
Cash and cash equivalents, beginning of period	17,685	31,502	11,737	33,482
<b>Cash and cash equivalents, end of period</b>	<u>11,724</u>	<u>31,707</u>	<u>11,724</u>	<u>31,707</u>

**Azure Dynamics Corporation**  
**Unaudited Interim Consolidated Statement of Changes in Equity**  
**(Stated in thousands of Canadian dollars, except per share amounts and number of shares)**

For the six months ended June 30, 2011 and 2010

	Number of shares	Share capital	Contributed surplus	Cumulative translation adjustment	Retained earnings (deficit)	Total
<b>January 1, 2011</b>	<b>626,880,454</b>	<b>\$ 208,570</b>	<b>\$ 8,271</b>	<b>\$ 32</b>	<b>\$(198,296)</b>	<b>\$ 18,577</b>
Equity financing	60,984,848	20,125	-	-	-	20,125
Share issue costs	-	(1,660)	-	-	-	(1,660)
Exercise of options	1,517,194	71	-	-	-	71
Reclass on exercise of options to share capital	-	50	(50)	-	-	-
Share-based compensation	-	-	1,317	-	-	1,317
Awards of Deferred share units	-	-	148	-	-	148
Net loss	-	-	-	-	(16,287)	(16,287)
Effects of foreign currency translation	-	-	-	(192)	-	(192)
<b>June 30, 2011</b>	<b>689,382,496</b>	<b>227,156</b>	<b>9,686</b>	<b>(160)</b>	<b>(214,583)</b>	<b>\$ 22,099</b>
<b>January 1, 2010</b>	<b>605,084,932</b>	<b>202,250</b>	<b>7,150</b>	<b>-</b>	<b>(169,081)</b>	<b>40,319</b>
Equity financing	21,080,000	6,324	-	-	-	6,324
Share issue costs	-	(49)	-	-	-	(49)
Exercise of options	442,500	18	-	-	-	18
Reclass on exercise of options to share capital	-	11	(11)	-	-	-
Share-based compensation	-	-	508	-	-	508
Awards of Deferred share units	-	-	117	-	-	117
Net loss	-	-	-	-	(11,077)	(11,077)
Effects of foreign currency translation	-	-	-	18	-	18
<b>June 30, 2010</b>	<b>626,607,432</b>	<b>\$ 208,554</b>	<b>\$ 7,764</b>	<b>\$ 18</b>	<b>\$(180,158)</b>	<b>\$ 36,178</b>