



News Release

AZURE DYNAMICS REPORTS ON PROGRESS AND RELEASES 2005 SECOND QUARTER RESULTS

Toronto, Ontario – August 8, 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 June 30, 2005. The Company incurred a net loss of \$5.6 million (\$0.04 per share) compared to a net loss of \$1.7 million (\$0.02 per share) in the comparable 2004 quarter. The higher loss in the 2005 quarter, compared to 2004, can be attributed to the Company’s continued investment in the commercialization of its products.

QUARTERLY UPDATE:

G1 Series Hybrid Powertrain - Purolator

Probably the most anticipated news in the second quarter was ***Purolator Courier Ltd.’s*** (“Purolator”) public launch of Azure’s product in their Toronto fleet on May 27, 2005. We are in the midst of the controlled rollout out of the diesel series hybrid delivery vans into daily service along with the training of the Purolator drivers, technicians and management in their Toronto Metro-West depot. Purolator has already accumulated over 11,000 km’s of in-service mileage with the vans. During the quarter, the Company also developed a gasoline series hybrid version of the Purolator van and has completed over a month of testing and vehicle controls development on this vehicle. The speed at which we are now able to integrate a major engine change into the design and move into product testing demonstrates the flexibility and technical depth of the Company’s expanded engineering team which has grown as a result of new hires and the Solectria acquisition. We regard our engineering expertise as a vital strategic asset as Azure continues to grow its customer and product base.

G1 Series Hybrid Shuttle Bus - CitiBus™

In keeping with our philosophy of leveraging our product development into multiple markets we are pleased to have launched our North American shuttle bus program with a production order for five shuttle buses from the New York-based ***Bronx Overall Economic Development Commission***. 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, including the Purolator vans. The build of the first hybrid CitiBus™ has commenced and we anticipate it will be available for trade shows in the fourth quarter this year.

As of August 1, 2005, 174 Mayors, representing 36 million inhabitants in U.S. cities, have signed The Climate Protection Agreement to meet or beat Kyoto Protocol emissions reductions goals. With support from funding sources like the Congestion Mitigation and Air Quality (“CMAQ”) Improvement Program, who have already provided approximately \$6.0 billion in

funding for surface transportation and other related projects that contribute to air quality improvements and reduce congestion, Azure will expand upon its programs. Azure is currently in discussions with numerous municipalities in Canada and the U.S. regarding similar programs. We expect the benefits of the hybrid CitiBus™ plus the CMAC funding available in the U.S. to be compelling for operators who typically operate the vehicles at high annual mileage levels and therefore can capitalize on the savings in fuel and operating costs made possible by Azure's hybrid technology.

G1 Series Hybrid and Electric Powertrain – Canada Post, SEV, USPS

The **Canada Post** trials of the second generation G1 vans are scheduled to be complete in the third quarter of 2005. In the second quarter, Azure upgraded one of their five vans to the final generation pre-production design. The Canada Post van is smaller than the Purolator version (9,400 lbs gross vehicle weight ("GVW") compared to 14,100 lbs GVW), but utilizes the same powertrain design with a different mechanical integration. While the initial trial program is winding down, we are planning more in-service operating time for the newly designed pre-production van.

On June 21, 2005 the Company announced a supply agreement with **SEV Group Limited** ("SEV") for up to \$12 million of electric powertrain systems based on its G1 technology. Each powertrain includes the drive, a power steering system, a system controller, a 12V DC supply, and other key driver interface components. The relationship with SEV was also expanded to include the development of an electric airport tug. The build of the first electric delivery demonstrator vehicle was largely completed by SEV in the quarter; vehicle drive optimization and customer demonstrations are planned in the third quarter. In addition, the build of the airport tug is expected to be complete in the third quarter.

The **United States Postal Service** ("USPS") introduced an Azure series hybrid vehicle into their fleet in the Boston area on June 2, 2005. After a period of training and preparation, the vehicle entered in-service operation and has accumulated approximately 1,000 miles of operation.

G2 Series Hybrid and Electric Powertrain – LTI, Delivery Van

A third taxi build for **London Taxis International** ("LTI") was completed in the second quarter. The improved second-generation design has increased the flexibility of the vehicle versus the version launched in London last year. The taxi is in a process of accumulating valuable test miles and is being utilized as a marketing showcase of Azure's technology. The taxi was demonstrated at the Environmental and Sustainable Technology (EAST) show in Manchester, England on July 15, 2005. We are continuing discussions with LTI to resolve the next steps with respect to the hybrid taxi's development.

The demonstration trial of the **electric G2 powertrain**, installed in a Renault Master Van, has moved from British Airways to Menzies at Heathrow airport. The trials continue to generate considerable market interest and therefore Azure and Leyland Product Development ("LPD") are exploring all avenues to market the product. Due to recent management changes at Renault, it is unlikely that the Renault Master Van can be available as a fully-supported OEM product. Azure and LPD have commenced discussions with alternative suppliers and a similar van has been provided by an OEM for testing at the Company's England facility. Azure has also developed a transaxle for the G2 product which, due to the additional torque provided, can extend the market application of the powertrain to passenger minibuses without compromising performance.

P1 Parallel Hybrid – AM General, USPS

The majority of the components for the drive system of the parallel hybrid High Mobility Multipurpose Wheeled Vehicle (“HMMWV”) have been developed and shipped to **AM General LLC** (“AM General”) in the quarter. We also assembled a duplicate powertrain system on a test dynamometer at the Boston facility so we are in position to support the start-up and testing of the vehicle which is to be assembled by AM General in the third quarter. The vehicle will then commence trials with the US Army.

We are in the process of converting a **USPS** delivery van to the P1 parallel hybrid design at the Boston facility. This van will leverage the hybrid control software which is being tested on the HMMWV. We remain on target to deliver the van to USPS in the fourth quarter of 2005.

The P1 development is exciting for the Company as we expect that this system has the potential to provide the backbone of sustainable high-volume revenues.

P2 Parallel Hybrid – Charmer-Sunbelt

On June 27, 2005, Azure announced the first production order of two P2 parallel hybrid delivery trucks placed by **The Charmer-Sunbelt Group** (“Charmer-Sunbelt”). Charmer-Sunbelt is a distributor of fine wines, spirits, beers, bottled water, and a variety of other non-alcoholic products in the United States. 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 an evolution of the Super 7 product which has been developed over the past two years in Boston. The vehicles to be delivered to Charmer-Sunbelt will be the next generation design and will incorporate a fully automated transmission and production-intent packaging of all of the hybrid powertrain components. The hybrid trucks will be integrated into 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. The build of the trucks has commenced at the Boston facility.

Component Product - EASI

The testing of the electronics for the US\$4.2 million contract with **Engineered Air Systems Inc.** (“EASI”) regarding the HMMWV mounted Chemical/Biological Protective Shelter (“CBPS”) continued in the quarter. Azure was awarded an additional US\$450,000 order for engineering services to provide systems upgrades and cost savings. Engineering design freeze in the third quarter and commencement of production of the 26 system order in the fourth quarter is on schedule. This product holds considerable potential for Azure and the Company in conjunction with EASI, have responded to a request to tender for additional retrofit units of the CBPS and are also jointly developing a response to a request for new production units of the system. If successful, this could be a significant ongoing revenue stream for the company.

New Azure Dynamics UK Facility

Since our last report, we have completed leasehold upgrades and moved into a development and service facility in Kenilworth, England. We have been operating out of the new premises since June 2005. This site will serve as an important platform for European growth as we approach production launches of our product this year and increase our operating capability to better serve our partners and customers.

FINANCIAL UPDATE:

Selected Quarterly Financial Information

	Q2, 2005 (Apr – Jun)	Q1, 2005 (Jan – Mar)	Q4, 2004 (Oct – Dec)	Q3, 2004 (Jul – Sept)
Revenue	\$ 1,524,890	\$ 983,891	\$ -	\$ -
Gross margin	\$ 271,848	\$ 291,040	\$ -	\$ -
Expenses, net	\$ (5,872,413)	\$ (5,212,563)	\$ (2,728,944)	\$ (2,552,900)
Net loss for the period	\$ (5,600,565)	\$ (4,921,522)	\$ (2,728,944)	\$ (2,552,900)
Loss per share	\$ (0.04)	\$ (0.04)	\$ (0.03)	\$ (0.03)
Weighted average number of Shares	141,202,789	124,891,576	94,229,512	87,322,084

	Q2, 2004 (Apr – Jun)	Q1, 2004 (Jan – Mar)	Q4, 2003 (Oct – Dec)	Q3, 2003 (Jul – Sept)
Revenue	\$ -	\$ -	\$ -	\$ -
Expenses, net	\$ (1,709,696)	\$ (1,206,853)	\$ (1,158,309)	\$ (1,255,251)
Net loss for the period	\$ (1,709,696)	\$ (1,206,853)	\$ (1,158,309)	\$ (1,255,251)
Loss per share	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.03)
Weighted average number of Shares	84,032,618	79,525,744	54,547,058	45,044,375

For the quarter ended June 30, 2005, the Company incurred a net loss of \$5.6 million (\$0.04 per share) compared to a net loss of \$1.7 million (\$0.02 per share) in the comparable 2004 quarter. On a cumulative basis, the net loss incurred was \$10.5 million (2004 – \$2.9 million) or \$0.08 (2004 – \$0.04) per share. The higher loss in the quarter, compared to the second quarter of 2004, is mainly attributable to high activity levels in the Purolator and other development projects – approximately \$2.4 million of development costs were incurred in the quarter (2004 – \$0.8 million). In addition to the higher activity levels on projects, the Company has significantly expanded its activities since March 31, 2004 and now has operations in Boston, Vancouver and in England employing a total of 100 people (March 2004 – 26 people). As a result, the overall level of costs is higher. The incremental loss arising from the Azure US operations was \$1.3 million in the quarter and \$2.0 million on a cumulative basis (including amortization of intangibles).

The increase in revenue in the quarter compared to the prior year quarter is attributable to the US operations and is mainly comprised of sales of components, customer engineering contracts, and after-sales service support. Revenues for the quarter included \$0.5 million (\$0.8 million year-to-date) for the development of the AM General HMMWV system and \$0.3 million (\$0.5 million year-to-date) for the development of the power electronics and drive systems for EASI.

The Company has continued to invest in the development of its products. Approximately, \$4.1 million, before recoveries, was spent on engineering, research and development operations in the quarter (2004 – \$1.4 million), including \$2.4 million in respect of product development costs. Year-to-date the Company has expended \$7.1 million (2004 – \$2.5 million) including \$3.8 million in respect of product development costs. The most significant expenditure has been in

respect of the Company's G1 platform (\$3.3 million year-to-date) as this program will be the first to launch into production. Approximately \$0.9 million (year-to-date \$1.8 million) of the increase in costs compared to the prior year periods is attributable to the growth in the engineering team and facilities, including the addition of the US and UK operations. At June 30, 2005, Azure employed 100 people (June 30, 2004 – 39 people) of which 71 are research, engineering and technical employees.

In the second quarter the Company used \$5.9 million of cash mainly to fund operations (2004 – \$1.4 million). On a cumulative basis, the Company has used \$12.5 million to fund operations (2004 – \$2.1 million). Cash and cash equivalents at June 30, 2005 were \$13.6 million compared to \$14.3 million at December 31, 2004 and \$10.4 million at June 30, 2004. The Company is eligible for further Technology Partnerships Contributions towards certain development projects totalling \$4.9 million at June 30, 2005. In July 2005, the Company finalised the exercise of all of the outstanding common share warrants that were due to expire on July 27, 2005 and as a result has secured new funds of \$3.4 million, net of underwriting and issue costs. The warrant exercise and underwriting transaction is due to close on August 12, 2005.

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 Defence, 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.

- 30 -

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.

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

As at	June 30 2005 (Unaudited)	December 31 2004 (Audited)	June 30 2004 (Unaudited)
	\$	\$	\$
ASSETS			
Current			
Cash and cash equivalents	12,783,586	14,312,708	10,366,435
Accounts receivable	1,326,181	211,459	400,368
Contributions receivable	1,757,179	996,328	602,343
Inventory and related prepayments	2,700,219	1,199,078	-
Prepaid expenses	909,905	284,155	491,173
	<u>19,477,070</u>	<u>17,003,728</u>	<u>11,860,319</u>
Restricted cash	778,086	-	-
Deferred costs	-	-	815,497
Property and equipment	5,524,131	538,972	482,287
Other assets	317,806	270,580	102,281
Intangible assets	12,691,667	-	-
Goodwill	<u>2,888,351</u>	<u>-</u>	<u>-</u>
	<u>41,677,111</u>	<u>17,813,280</u>	<u>13,260,384</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	2,635,070	1,897,306	1,265,007
Customer deposits and deferred revenue	270,794	-	-
Current portion of notes payable	237,850	-	-
	<u>3,143,714</u>	<u>1,897,306</u>	<u>1,265,007</u>
Long-term			
Deferred revenue	1,120,106	-	-
Notes payable	2,486,281	-	-
	<u>3,606,387</u>	<u>-</u>	<u>-</u>
Shareholders' equity			
Share capital	66,184,492	37,893,509	28,503,537
Contributed surplus	1,563,972	721,832	509,363
Deficit	<u>(32,821,454)</u>	<u>(22,299,367)</u>	<u>(17,017,523)</u>
	<u>34,927,010</u>	<u>16,115,974</u>	<u>11,995,377</u>
	<u>41,677,111</u>	<u>17,813,280</u>	<u>13,260,384</u>

Azure Dynamics Corporation
(A Development Stage Enterprise)
Unaudited Consolidated Statements of Operations and Deficit

	For the three months ended		For the six months ended	
	June 30		June 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
Revenues	1,524,890	-	2,508,781	-
Cost of sales	1,253,042	-	1,945,893	-
Gross margin	<u>271,848</u>	<u>-</u>	<u>562,888</u>	<u>-</u>
Expenses				
Engineering, research, development and related costs,	3,298,046	666,236	6,005,448	974,157
Selling and marketing	801,188	413,199	1,448,344	778,221
General and administrative	2,059,516	672,730	3,663,310	1,242,798
Total expenses	<u>6,158,750</u>	<u>1,752,166</u>	<u>11,117,102</u>	<u>2,995,176</u>
Loss from operations	<u>(5,886,902)</u>	<u>(1,752,166)</u>	<u>(10,554,214)</u>	<u>(2,995,176)</u>
Interest and other income, net	40,062	47,417	82,509	87,090
Foreign currency gain/(losses)	246,275	(4,947)	(50,381)	(8,463)
Net loss for the period	<u>(5,600,565)</u>	<u>(1,709,696)</u>	<u>(10,522,086)</u>	<u>(2,916,549)</u>
Deficit, beginning of period	<u>(27,220,889)</u>	<u>(15,307,827)</u>	<u>(22,299,367)</u>	<u>(14,100,974)</u>
Deficit, end of period	<u>(32,821,454)</u>	<u>(17,017,523)</u>	<u>(32,821,454)</u>	<u>(17,017,523)</u>
Loss per share - basic	<u>(0.04)</u>	<u>(0.02)</u>	<u>(0.08)</u>	<u>(0.04)</u>
Weighted average number of shares - basic *	<u>141,202,789</u>	<u>84,032,618</u>	<u>133,095,238</u>	<u>81,779,593</u>

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

** Certain reclassifications have been made to the March 31, 2004 comparative numbers to conform to the current period presentation.

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

	For the three months ended June 30		For the six months ended June 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
Cash flows from operating activities				
Net loss for the period	(5,600,565)	(1,709,696)	(10,522,086)	(2,916,549)
Adjustments for:	-			
Amortization of property and equipment and other assets	193,305	52,529	336,745	93,243
Amortization of intangible assets	425,000	-	708,333	-
Unrealized foreign currency (gains)/losses	(192,439)	-	68,017	-
Common shares issued in exchange for services	-	20,825	-	27,500
Stock option compensation expense	342,442	140,337	847,872	341,565
Movement due to exchange rate impact	(32,646)	-	(32,645)	-
Changes in non-cash working capital items	(878,369)	681,581	(3,811,629)	383,339
	<u>(5,743,272)</u>	<u>(814,624)</u>	<u>(12,405,393)</u>	<u>(2,070,902)</u>
Cash flows from financing activities				
Issuance of common shares (net of costs)	38,541	362,681	11,788,800	4,484,372
Deferred costs	-	(815,497)	-	(815,497)
Principal payments on notes payable	375	-	(14,230)	-
Movement due to exchange rate impact	(35,131)	-	(35,131)	-
	<u>3,785</u>	<u>(452,816)</u>	<u>11,739,439</u>	<u>3,668,875</u>
Cash flows from investing activities				
Acquisition of property and equipment	(165,330)	(165,183)	(455,658)	(387,040)
Acquisition of other assets	57,359	(7,586)	(39,159)	(11,445)
Cash acquired from acquisition of subsidiary, net of costs	(12,866)	-	408,657	-
Changes in loans to employees	-	68,509	-	91,727
	<u>(120,837)</u>	<u>(104,260)</u>	<u>(86,160)</u>	<u>(306,758)</u>
Increase/(decrease) in cash and cash equivalents	<u>(5,860,324)</u>	<u>(1,371,700)</u>	<u>(752,114)</u>	<u>1,291,215</u>
Exchange impact on cash held in foreign currency	176,645	-	1,079	-
Cash and cash equivalents, beginning of period	<u>19,245,351</u>	<u>11,738,135</u>	<u>14,312,708</u>	<u>9,075,220</u>
Cash and cash equivalents, end of period	<u><u>13,561,672</u></u>	<u><u>10,366,435</u></u>	<u><u>13,561,672</u></u>	<u><u>10,366,435</u></u>
Restricted cash *	<u>778,086</u>	<u>-</u>	<u>778,086</u>	<u>-</u>
Cash available	<u><u>12,783,586</u></u>	<u><u>10,366,435</u></u>	<u><u>12,783,586</u></u>	<u><u>10,366,435</u></u>
	<u><u>13,561,672</u></u>	<u><u>10,366,435</u></u>	<u><u>13,561,672</u></u>	<u><u>10,366,435</u></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 June 30 2004 comparative numbers to conform to the current period presentation.