



News Release

AZURE DYNAMICS REPORTS FIRST QUARTER 2006 RESULTS

Toronto, Ontario – May 11, 2006 – [Azure Dynamics Corporation](#) ([TSX: AZD](#) & [LSE: ADC](#)) (“Azure” or the “Company”) a leading developer of hybrid electric and electric powertrains for commercial and military vehicles, today announced its financial results for the first quarter ended March 31, 2006. The Company also provided an update on corporate and product development activities in the period.

Azure is also pleased to announce that its annual shareholder meeting will be held at The National Club, 303 Bay Street, Toronto, Ontario at 4:30p.m. (local time) on July 24, 2006.

Q1 2006 Highlights:

- Revenue increased to \$1.1 million from \$1.0 million in Q1 2005;
- Formed Strategic Committee of the Board of Directors and retained Rothschild, a leading independent investment banking group, to advise and assist in a review of strategic, value creation opportunities;
- Delivered first P1 parallel hybrid delivery van to the United States Postal Service;
- Completed proof-of-concept hybrid Ford Transit Van in collaboration with Ingimex Ltd. and GKN Plc for testing and market evaluation purposes; the vehicle was displayed at the Commercial Vehicle Show (Birmingham, England) in April 2006;
- Commenced deliveries of electric powertrain systems to Smith Electric Vehicles under an existing supply agreement; and,
- Commenced product build of second generation P2 parallel hybrid delivery vans, two of which will be delivered to the Charmer-Sunbelt Group in 2006.

“We continued to advance our product commercialization objectives in the quarter including the delivery of our first P1 parallel hybrid van to the United States Postal Service,” said Campbell Deacon, Deputy Chairman and Chief Executive Officer of Azure. “Strategically, we retained the international investment bank, Rothschild, to help evaluate strategic partnership and business alliance opportunities to enable Azure to more fully and quickly exploit the intrinsic value of our core technologies and engineering expertise. Our primary objective in 2006 is to increase commercial volumes and to broaden our market penetration.”

Financial Results

Revenue for the first quarter ended March 31, 2006 increased 10% to \$1.1 million compared to \$1.0 million in the first quarter of 2005. The increase in revenue is primarily attributable to increased activity on funded engineering contracts in the Company’s U.S. based operations. Revenue is mainly comprised of sales of components, customer engineering contracts, and after-sales service support. After considering direct and applicable indirect costs of sales, gross margin in the first quarter of 2006 was \$0.3 million, or 27% of revenue, compared to \$0.3 million or 30% of revenue in the first quarter a year ago.

Net loss for the first quarter of 2006, was \$4.6 million or \$0.03 per share compared to a net loss of \$4.9 million or \$0.04 per share in the corresponding quarter a year ago. Reduced net loss in the first quarter of 2006 is primarily attributable to decreased losses associated with foreign currency translation.

Before contributions, the Company incurred \$2.7 million in engineering and research and development (“R&D”) expenses in the first quarter of 2006, compared to engineering and R&D expenses of \$3.1 million in the comparable 2005 quarter. R&D expenses in the first quarter of 2006 included \$1.6 million in product development costs. Reduced engineering and R&D expenses were a result of higher cost recoveries from increased activity levels on funded engineering programs by technical employees. Expenses were reduced by \$0.3 million in the first quarter of 2006 due to government subsidies and customer contributions. At March 31, 2006, Azure employed 84 research, engineering, and technical employees.

The Company had cash and cash equivalents of \$15.8 million as at March 31, 2006, compared to cash and cash equivalents of \$20.7 million as at December 31, 2005. Net cash outflows were approximately \$4.9 million in the quarter compared to net cash inflows of \$4.9 million in the first quarter of 2005. The prior year quarter included net equity financings of \$11.8 million compared to \$0.7 million in the first quarter of 2006. Net cash outflows in respect of operations, working capital financing, and capital expenditures were approximately \$5.6 million compared to \$6.6 million in the first quarter of 2005. The decrease in cash outflows is attributable to the decreased net loss and lower working capital requirements (\$1.8 million in 2006 compared to \$2.9 million in the prior year). In addition, cash inflows in the first quarter of 2005 included approximately \$0.4 million in cash and cash equivalents acquired through the Company’s acquisition of Solectria.

The Company’s complete 2006 first quarter Financial Statements and Management Discussion and Analysis are available at www.sedar.com or on the Company’s website at www.azuredynamics.com. The Company’s financial statements for the three-month period ended March 31, 2006, are attached to this press release.

Corporate

Azure Dynamics formed a Strategic Committee of the Board of Directors and retained Rothschild, a leading international investment bank, to advise and assist in the review of strategic, value creation opportunities available to the Company, including the identification and evaluation of potential strategic partnerships. The primary mandate of the Strategic Committee and Rothschild is to identify opportunities to leverage the intrinsic value of Azure Dynamics’ core technologies and engineering expertise in order to increase commercial production volumes and accelerate broader market penetration.

Product Developments

In the first quarter of 2006, the Company remained focused on deploying its proprietary technology into powertrain products for light to heavy duty commercial and military vehicles. Azure develops hybrid and electric powertrains and components for four broad vehicle categories. Within each vehicle category, Azure leverages its powertrain designs to satisfy a broad range of vehicle applications. The product developments in the first quarter of 2006 included:

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

- Completion of proof-of-concept Ford Transit Van in collaboration with Ingimex and GKN;

- Continued operation of a delivery van for testing and validation purposes by the United States Postal Service;
- Commenced delivery of electric powertrains under a supply agreement with Smith Electric Vehicles;
- Continued collaboration with Smith Electric Vehicles in the development of an all-electric airport tug and the conversion of an OEM delivery vehicle to a full electric platform;
- Commencement of marketing programs for Azure's hybrid "CitiBus" shuttle bus. Azure has received orders for nine buses to date; and,
- Continued development of the second-generation CitiBus to be used for independent testing to qualify for use by US public transit authorities and for marketing.

G2 Series (5,000 to 7,500 lbs. GVW)

- Completed successful design and evaluation of the smaller version of the G1 series hybrid.

P1 Parallel (10,000 – 19,000 lbs. GVW)

- Completion and delivery of the first P1 delivery van for the United States Postal Service; and
- Redesigned components to reassemble the AM General High-Mobility Multipurpose Vehicle integrated with a third generation Auxiliary Power Distribution System for military use. The vehicle is expected to be completed in the 2nd quarter of 2006.

P2 Parallel (over 19,000 lbs. GVW)

- Initiated development of the second generation P2 parallel powertrains; and,
- Commenced building two P2 Class 7 delivery trucks for Charmer-Sunbelt with delivery scheduled for the second half of 2006.

Electric Components

- Continued design, development, and testing of power electronics and drive systems for supply agreement with Engineered Air Systems Inc., valued at approximately CDN\$17 million, with delivery scheduled for late 2006 or early 2007.

About Azure Dynamics

[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's operations are based in North America and Europe.

Azure is currently working internationally with various partners and customers including Purolator Courier Ltd., Canada Post, United States Postal Service, Smith Electric Vehicles, Engineered Support Systems Inc. and AM General LLC. Azure Dynamics Corporation is a public company trading on the TSX (AZD) in Canada and on the AIM (ADC) in the UK. For more company information please visit www.azuredynamics.com.

The TSX and LSE Exchanges do not accept responsibility for the adequacy or accuracy of this release.

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
(Stated in thousands)

As at	March 31 2006 (unaudited)	December 31 2005 (audited)	March 31 2005 (unaudited) **
	\$	\$	\$
ASSETS			
Current			
Cash and cash equivalents	15,775	20,721	18,520
Accounts receivable	583	1,004	891
Contributions receivable	782	597	1,354
Inventory and related prepayments	3,043	2,696	2,440
Prepaid expenses	1,067	980	775
	<u>21,249</u>	<u>25,998</u>	<u>23,980</u>
Restricted cash	701	698	726
Property and equipment	5,615	5,573	5,382
Other assets	54	61	60
Intangible assets, net of amortization of 1,646 (note 3)	11,754	12,133	13,398
Goodwill (note 3)	2,932	2,932	2,875
	<u>42,306</u>	<u>47,395</u>	<u>46,422</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	2,398	3,403	2,175
Customer deposits & deferred revenue	1,042	1,574	1,398
Current portion of notes payable (note 4)	2,554	2,558	372
	<u>5,993</u>	<u>7,535</u>	<u>3,945</u>
Long-term			
Deferred revenue	1,015	1,038	-
Notes payable	-	-	2,331
	<u>1,015</u>	<u>1,038</u>	<u>2,331</u>
Shareholders' equity			
Share capital (note 5)	81,387	80,701	66,145
Contributed surplus (note 5)	2,672	2,316	1,223
Deficit	(48,761)	(44,195)	(27,221)
	<u>35,298</u>	<u>38,822</u>	<u>40,147</u>
	<u>42,306</u>	<u>47,395</u>	<u>46,422</u>

** Certain reclassifications have been made to the March 31, 2005 comparative numbers to conform to the current period presentation

Azure Dynamics Corporation
(A Development Stage Enterprise)
Consolidated Statements of Operations and Deficit
(Stated in thousands, except per share amounts)

	For the three months ending March 31	
	2006	2005 **
	\$	\$
Revenues	1,147	984
Cost of sales	843	693
Gross Margin	304	291
Expenses		
Engineering, research, development and related costs, net	2,416	2,707
Selling and marketing	725	647
General and administrative	1,816	1,604
Total expenses	4,957	4,958
Loss from operations	(4,654)	(4,667)
Interest and other income, net	137	42
Foreign currency loss	(49)	(297)
Net loss for the period	(4,566)	(4,922)
Deficit, beginning of period	(44,195)	(22,299)
Deficit, end of period	(48,761)	(27,221)
Loss per share - basic	(0.03)	(0.04)
Weighted average number of shares - basic *	156,631	124,892

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

** Certain reclassifications have been made to the March 31, 2005 comparative numbers to conform to the current period presentation

Azure Dynamics Corporation
(A Development Stage Enterprise)
Consolidated Statements of Cash Flows
(Stated in thousands)

	For the three months ending March 31	
	2006	2005
	\$	\$
Cash flows from operating activities		
Net loss for the period	(4,566)	(4,922)
Adjustments for:		
Amortization of property and equipment and other assets	193	143
Amortization of intangible assets	401	283
Unrealized foreign currency losses	(39)	301
Stock option compensation expense	424	505
	<u>(3,587)</u>	<u>(3,690)</u>
Changes in non-cash working capital items	(1,764)	(2,864)
Movement due to exchange impact	5	-
Net changes in non-cash working capital items	<u>(1,759)</u>	<u>(2,864)</u>
	<u>(5,346)</u>	<u>(6,554)</u>
Cash flows from financing activities		
Issuance of common shares (net of costs)	617	11,750
Principle payments on notes payable	(15)	(15)
Movement due to exchange impact	11	(243)
	<u>613</u>	<u>11,492</u>
Cash flows from investing activities		
Acquisition of property and equipment	(235)	(290)
Acquisition of other assets	(15)	(97)
Acquisition of subsidiary	-	422
Movement due to exchange impact	64	(39)
	<u>(186)</u>	<u>(4)</u>
Increase (decrease) in cash and cash equivalents	(4,919)	4,934
Exchange loss on cash held in foreign currency	(27)	(1)
Cash and cash equivalents, beginning of period	20,721	13,587
Cash and cash equivalents, end of period	<u>15,775</u>	<u>18,520</u>