

With their Balance™ Hybrid Electric, Mild Hybrid LEEP™ Freeze and Full Electric Force Drive™ that They Already Have a Deal to Incorporate into the Ford Transit Connect, Azure Dynamics Corporation is Leading the Way into the Future of Hybrid and Electric Vehicles



**Commercial Vehicle
Electric Components
(AZD-TSX, AZDDF-OTC)**



**Ryan S. Carr
Chief Financial Officer**

BIO: Mr. Carr is Chief Financial Officer for the company and is responsible for all financial, information technology and human resources activities. Mr. Carr came to Azure Dynamics from Ryko Enterprises, a leading global car wash equipment manufacturing and service organization, where he served as Chief

Financial Officer. Mr. Carr was successful in leading a number of initiatives to improve liquidity, working capital, operational efficiencies and overall profitability. Mr. Carr has also worked in various financial and operational leadership capacities for leading global companies such as Hayes-Lemmerz, AlliedSignal and Ernst & Young. With over 15 years of finance and operations leadership experience, Mr. Carr has a solid track record of helping companies to achieve their financial objectives.

Company Profile: AZD has developed proprietary electric and hybrid electric drive technology for the light to heavy duty commercial vehicle categories.

AZD has expertise in the areas of vehicle controls software, power electronics, electric machine design, vehicle systems engineering and vehicle integration. The principal business of AZD is the supply of hybrid electric vehicle and electric vehicle control and powertrain systems.

AZD also has an established portfolio of proprietary component products that compliment its core technical skills and makes use of an extensive industry supplier base to offer complete power train solutions to our target markets including delivery vans, shuttle buses and electric drive applications.

AZD is certified to the ISO 9001:2008 Quality Management System standard. Our certification and compliance to ISO 9001 standards and requirements demonstrates the maturity of

our quality management system, and our commitment to ensure the highest level of quality in the products and services we provide.

AZD is a public company (TSX:AZD & OTC:AZDDF) headquartered in Detroit with offices in Boston, Toronto, Vancouver and London.

OUR BRAND
We are a solutions partner driving a world of difference for our customers and our planet. To reinforce this identity we have focused our core philosophy on Best People, Best Partners, Tomorrow's Technology and Today's Solution. We have made a commitment to make a difference—every day in every way.

The total integration of our identity, behavior, and core values allows us to uphold the essential promise of our brand: to be the world leader in developing proprietary electric and hybrid electric drive technology for commercial vehicles.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com**

CEOCFO: Mr. Carr, what attracted you to Azure Dynamics?

Mr. Carr: I have a long history in the automotive industry and I was very intrigued and excited to be part of the next generation of technology with electric and hybrid-electric vehicles.

CEOCFO: Azure claims the best technology, best partners, best value; what does Azure offer?

Mr. Carr: We have three main technology families. We have a full hybrid product that we market under the name Balance™ Hybrid Electric, we have a full electric product that we offer under the trademark name Force Drive™, and we have a mild hybrid that we market under the trademark LEEP™ Freeze. We take any of those technologies and find an existing vehicle platform to integrate the technology into. The best example would be with Ford Motor Company where we have taken our all-electric Force Drive and are integrating it into the Ford Transit Connect to offer an all-electric vehicle. In terms of best value, we focus on selling our product to commercial fleets and we sell it on a value proposition whereby the customer can see from the incremental cost of the technology, how they could save money in both fuel and maintenance costs.

CEOCFO: LEEP is a mild electric, what does that mean?

Mr. Carr: That basically means that we focus on electrifying a specific auxiliary power function for the vehicle, such as refrigeration or aerial lift technology. Therefore, the vehicle would otherwise idle and instead of idling would run that function off of the battery.

CEOCFO: Do you think now is really the time when people are looking to make these improvements?

Mr. Carr: We definitely believe so. We have sold our product to some of the biggest fleets in the world and many of them have made repeat purchases. In addition, with the outlook for fuel in almost all cases being looking at a substantial increase in coming years, customers are preparing for that now and making sure that they understand the best, most efficient technologies are to integrate into their fleet.

CEOCFO: Does your customer tell you what they want or do you work with them on figuring what is best?

Mr. Carr: It is definitely a collaborative effort. We acknowledge that our

technology is not necessarily the best solution to every possible application, so we work together and if our technology is right for them it is demonstrated. If it is not the best technology for them, then we will both know and understand that. Many customers are motivated by our products demonstrable ROI, others favor the environmental savings. In all cases, our technology is reliable and has proven itself in many of the hardest working fleets.

CEOCFO: Would you give us an example of how the savings work out, when will they see a difference and what kind of difference?

Mr. Carr: With the full hybrid product, Balance Hybrid Electric, currently the additional cost of the hybrid feature is about \$30 thousand, and in a lot of

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cases our customers were able to secure subsidies from the government last year. Our customers received about 50% of the incremental cost paid for by various government subsidy programs. In California in 2010, that percentage was substantially higher. Then, after acquisition cost, the customers save annually on fuels, based on the number of miles they drive, and they also save considerable on maintenance costs to the tune of about \$7 thousand a year. Just to summarize, \$30 incremental for the technology, about half of that paid for by the government currently, and that leaves \$15 thousand for incremental cost and then you get the fuel savings over the life of the vehicle and about \$7 thousand in annual savings for maintenance. Therefore, they save

the incremental cost in just over two years and they generally hold these vehicles for ten to twelve years, so there is a great savings opportunity for them.

CEOCFO: Azure works with some well-known name companies; typically are they doing pilot projects or whole geographic areas; how are you making inroads into the customer relationship?

Mr. Carr: It varies. Most customers start with pilot orders that can range from five vehicles to fifteen vehicles. They generally put them into one specific geographic area so that they can build an expertise at a particular fleet location. We have had customers buy as many as 100 to 250 trucks on their first purchase. As our products continue to build a reputation in the market,

the need for pilot units lessens. We also have customers that are now buying 100% of their fleet needs from us where our technology is applicable. So it does vary, but it is typically a trial period and then what we expect to see from there is year to year growth in terms of the quantity they purchase based on the performance that they see.

CEOCFO: What is the competitive landscape for Azure?

Mr. Carr: In the hybrid truck space there is one main competitor today, but certainly a number of companies are looking to enter. As a metric, we have about 60% share of the medium duty hybrid electric market in North America. On the electric vehicle space, we are going to be the first into the market with our Transit Connect Electric vehicle, but again a number of companies are expecting to follow. The short answer is there is not a lot of companies that have the technology that we have today, but certainly many are coming and our objective is we are already one or two steps ahead of them and we continue that lead. While they are launching their first generation of technology, we are launching our second and third generations in technology. We already

have great relationships and customer base.

CEO CFO: Would you tell us about the new relationships with dealerships?

Mr. Carr: Because of our main hybrid electric product and our main all-electric product are on Ford vehicles, we have individual sales and service agreements with Ford dealerships. This is a big benefit to our customers because they can buy and have their vehicle serviced at the same places that they are accustomed to. You do not have to take your vehicle for a service repair anywhere differently, you do not have to bring it to a Azure Dynamics location; you can take it to a Ford dealership to have it serviced. Also, many of our largest customers maintain their own service operation and we offer them robust training tools.

CEO CFO: Are you looking to add additional dealerships?

Mr. Carr: Yes, absolutely. We have obviously targeted the major markets first. We have over 100 dealerships signed now across North America and are in the process of signing dealerships in Europe. As the product grows we will continue to sign up more dealers.

CEO CFO: Would you tell us about Azure's new office in Europe?

Mr. Carr: We opened an office in Europe specifically as a result of us launching the Ford Transit Connect Electric into Europe. We will have a limited number of people there from an engineering, and sales and marketing and service standpoint that will support the Transit Connect Electric in Europe. We've just announced that Lotus will be our manufacturing partner in Europe and that Norwegian Post in our first customer with a 20 unit Transit Connect Electric order.

CEO CFO: Do you do much R & D?

Mr. Carr: It is very significant. It is our largest expenditure with our second generation hyper technology. We took

about 40% of the cost of the system out from the first generation. We are a market leader and an innovator.

CEO CFO: That is substantial!

Mr. Carr: Definitely, very substantial. We have not set a specific percentage, but on a third generation of technology we will target to take more cost out. Certainly, the objective for us and the industry is to reduce the differential between internal combustion engine and a hybrid or an electric, so that the economics become more and more compelling. So cost reduction is critical for us and the industry as a whole to really develop its full potential.

CEO CFO: Are people coming to you nowadays?

Mr. Carr: We have a sales approach that is three-pronged. We have a direct sales force that targets the top 300 corporate fleets in North America and Europe. Then the Ford dealerships that we have probably sell to the next level down fleets that are more used to negotiating with the dealership as opposed to directly with the OEM themselves. This in a traditional sense would be somebody like Ford directly to make their vehicle purchased, but in the case of the hybrid electric and the electric that we offer they would negotiate directly with us. Then the third way is for certain specialty vehicles such as the lead product for refrigerated truck or for a smaller shuttle bus, there are distributors that distribute the specialty type vehicles. To summarize, there is a direct sales force, we use the Ford Dealership Network and then we use various distributor networks for other specialty vehicles. We call this our channel distribution strategy and its proving to be successful.

CEO CFO: Where do you see the most growth from the three different areas or products you offer?

Mr. Carr: Definitely in the near term from the large commercial fleet. They are certainly technology leaders and will be critical to the success of the

overall industry adoption. They understand and appreciate our economic payback model and have the upfront funds to manage the higher acquisition costs.

CEO CFO: What is the financial picture for Azure Dynamics today?

Mr. Carr: We are making substantial progress in terms of revenue and our product profitability. 2010 showed a 133% revenue improvement to almost \$22 million. We are still investing very heavily in research and development, so we still have a net loss. However, our cash position is very strong, so we feel we have the resources and future access to resources to grow the company to where we are profitable and generating positive cash flow.

CEO CFO: Is the investment community paying attention?

Mr. Carr: Absolutely! We have a great shareholder base and the relationship with Ford and Johnson Controls really help bring visibility to us. Therefore, the number of perspective investors that we talk to on a regular basis is growing everyday.

CEO CFO: In closing, why should potential investors consider Azure Dynamics today?

Mr. Carr: Azure Dynamics has a long history with proven technology. We are a leader in an industry that is going to be hyper growth in the next decade. We have great established partnerships and customer relationships that are going to allow us to capitalize on that hyper growth. Our technology is flexible and can be incorporated into virtually any vehicle architecture.



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