

NEWS RELEASE

TSX Symbol: P

Railpower Reports 2006 Second Quarter Financial Results

MONTREAL, Quebec, August 14, 2006 – Railpower Technologies Corp. (“Railpower” or the “Company”) (TSX: P), a leader in specialized energy technology systems for the transportation industry, today reported its financial results for the three and six-month periods ended June 30, 2006. *(All dollar amounts are in \$CDN unless stated otherwise.)*

Q2 2006 Summary

- Thirteen locomotives were produced and three locomotives were delivered during the quarter
- Provision for future contract losses and warranties increased by \$5.7 million to reflect completion of the first Generation III GG20B locomotives and estimated increases in labor, material costs and allocation of overhead
- Completion of first European hybrid yard switcher in Sweden by Swedish Train Technology
- Subsequent to quarter end, the Company announced a purchase order from Norfolk Southern for two RP series road switcher kits

“We continue to focus on accelerating our engineering efforts, improving our purchase agreements, implementing stronger manufacturing support and financial controls as our work-in-process increases to meet delivery requirements,” said José Mathieu, President and CEO of Railpower. “Looking ahead, we expect our production levels in the third quarter to be consistent with second quarter levels, as we continue to implement our operational improvements. We are confident that as we complete these initiatives, we will be well positioned to significantly increase locomotive production volumes in the fourth quarter.”

“During the second quarter, we made significant progress on a number of important fronts, including meeting our Q2 production target of 10 to 15 units with 13 units completed and further building key customer relationships with Class I railroads including an agreement with Norfolk Southern for two RP20BD kits,” added Mr. Mathieu.

Financial Results

For the second quarter of 2006, revenue decreased to \$2.7 million from \$4.0 million for the three months ended June 30, 2005. The Company’s decreased revenue in the second quarter is a result of lower locomotive deliveries in the period compared to delivery of five locomotives in the second quarter a year ago. The Company currently has firm orders for 152 locomotives compared to an order book of 79 at end of second quarter of 2005.

Cost of goods sold in the second quarter totaled \$5.0 million compared to \$6.1 million in the second quarter of 2005. Decreased cost of goods sold in the quarter reflects lower locomotive deliveries compared to the second quarter a year ago. Included in costs of goods sold for the second quarter of 2006 is an increase in the allocation of manufacturing overhead expenses which amounted to \$2.3 million for the period. The Company recorded negative gross margin for the second quarter of 2006 of (\$2.3 million) compared to negative gross margin of (\$2.1 million) in the second quarter of 2005, as cost of production exceeded sales revenue in both periods. The Company has not yet achieved sufficient production volumes to gain efficiencies from volume purchasing and long production runs.

Operating expenses, including engineering and research and development (“R&D”), general and administrative (“G&A”), selling and service related expenses, for the second quarter of 2006 totaled \$7.4 million, compared to operating expenses of \$5.1 million for the second quarter of 2005. Increased operating expenses for the three months ended June 30, 2006 resulted primarily from increased service and R&D expenses, and increased consulting expenditures and employee compensation. These

increases are primarily attributable to increased work-in-process levels and employee headcounts. As at June 30, 2006, the number of employees and consultants was 153 compared to 81 as at June 30, 2005. At the end of the quarter, the Company had 44 locomotives in various stages of production, compared to 12 as at June 30, 2005.

Net loss for the second quarter of 2006 was \$15.3 million or (\$0.28) per share, compared to a net loss of \$6.9 million or (\$0.16) per share in the same period a year ago. The Company's increased net loss in the current quarter is primarily attributable to the increase in the provision for future contract losses and increased operating expenses.

For the six months ended June 30, 2006 revenue increased to \$5.0 million compared to revenue of \$4.0 million for the six months ended June 30, 2005, as the Company completed the sale of six locomotives in the period compared to five locomotives in the first half of 2005. Cost of goods sold in the first half of 2006 totaled \$9.5 million compared to \$6.8 million in the second quarter of 2005. Operating expenses, including engineering and research and development ("R&D"), general and administrative ("G&A"), selling and service related expenses, for the first six months of 2006 totaled \$14.5 million, compared to R&D, G&A, selling and service related expenses of \$9.9 million for the first six months of 2005. Net loss for the six months ended June 30, 2006 was \$23.9 million or (\$0.44) per share compared to a net loss of \$12.2 million or (\$0.29) per share in the first six months of 2005.

As at June 30, 2006, the Company had cash and cash equivalents of \$37.4 million, compared to \$76.8 million as at December 31, 2005 and \$60.9 million at March 31, 2006. The Company's decreased cash position as at June 30, 2006 reflects significantly higher levels of inventory related to work-in-process manufacturing and near term product deliveries.

Liquidity

Due to engineering and supplier issues, the Company had to delay its production and delivery schedule. This resulted in additional pressures on liquidity due to the mismatch between inventory levels and actual production and deliveries. In the meantime, working capital requirements to support the revised production schedule, delays in deliveries, and operational expenses will continue to be substantial during the next quarters and will weigh progressively on actual liquidity. Consequently, the Company will require additional financing in the fourth quarter of 2006.

The Company is actively pursuing various options with potential lenders which, if accepted, will, in management's view, enable the Company to achieve its business plans. No agreements with potential lenders have been reached yet and there can be no assurance that such agreements will be reached. The Company expects to finalize asset-based debt financing arrangements in the fourth quarter.

Provision for warranties, future contract losses and development costs

During the three months ended March 31, 2006, Railpower completed a review of its contracts using new data obtained from its manufacturing sites and from units in service. Based on this review and actual data collected during the first quarter of 2006, and prior thereto, the Company increased its estimate of the provision for future contract losses to account for additional labor and material costs and reduced the provision for battery replacement based on the estimated extended battery life. This review was also conducted as at June 30, 2006 using the most recent data available from completed Generation III GG20B locomotives at the end of the quarter. As a result, the company increased its estimate for future contact losses by \$5,643,356 to reflect an increase in the labor and material costs.

As at June 30, 2006, Railpower's provision for warranties, future contract losses and development costs related to the Company's GG-series hybrid yard switcher locomotive models totaled \$27.6 million. Management is actively working on a plan to mitigate losses related to the reserve taken in 2005 and 2006 from certain contracts.

The interim consolidated financial statements and the company's Management's Discussion and Analysis ('MD&A') as at June 30, 2006, were prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars, except where indicated otherwise. The full statements and MD&A will be filed on SEDAR (www.sedar.com) today.

Notice of Conference Call and Webcast:

José Mathieu, President and CEO of Railpower, will host a conference call on August 14 at 9:00 am (EST) to review the financial results. All interested parties are invited to participate. A live audio webcast of the call will be available at www.railpower.com or www.newswire.ca. A taped replay of the conference call will also be available until Monday, August 21, 2006 by calling 416-640-1917 or 1-877-289-8525 reference number 21198080#.

About Railpower

Railpower (TSX: P), (www.railpower.com) is a leader in specialized energy technology systems for the transportation industry. Its origins and initial focus are in the development, construction, marketing and sales of specialized energy technology systems for railroad applications. Railpower's technologies significantly reduce fuel usage, operating and maintenance costs, and emissions. While Railpower's origins are in the transportation industry, its technologies have broad potential and applications in other markets and industries. Railpower is headquartered in Montreal, Quebec. Its U.S. office is located in Erie, Pennsylvania.

Caution regarding forward-looking statements

Certain statements contained in this release contain forward-looking statements. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions may be used to identify forward-looking statements. Those statements reflect our current views with respect to future events or conditions, including prospective results of operations, financial position, predictions of future actions, plans or strategies. Certain material factors and assumptions were applied in drawing our conclusions and making those forward looking statements. By their nature, those statements reflect management's current views, beliefs and assumptions and are subject to certain risks and uncertainties, known and unknown, including, without limitation, product development or manufacturing delays, changing environmental regulations, the ability to attract and retain business partners, the acceptance of our existing and new products, future levels of government funding, the need to obtain and maintain proprietary rights over our technology, competition from other technologies, the ability to access the capital required for research, product development, operations and marketing, the need to generate positive cash flow in the foreseeable future, changes in energy prices and currency levels. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by these forward-looking statements. Should one or more of these risks or uncertainties materialize, or should the assumptions underlying our projections or forward-looking statements prove incorrect, our actual results may vary materially from those described in this report as intended, planned, anticipated, believed, estimated, or expected. We do not intend and do not assume any obligation to update these forward-looking statements whether as a result of new information, plans, events or otherwise.

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RAILPOWER TECHNOLOGIES CORP.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

	June 30, 2006 (Unaudited)	December 31, 2005 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 37,355,337	\$ 76,829,474
Restricted cash	4,464,803	4,713,189
Accounts receivable	2,675,079	6,282,433
Deposits to supplier	920,865	-
Inventory	41,134,785	13,849,922
Prepaid expenses	274,520	595,317
	<u>86,825,389</u>	<u>102,270,335</u>
Plant and equipment	1,611,848	1,229,914
Lease and demonstration fleet	6,008,199	5,350,173
Patents	360,960	365,760
Deferred development costs	718,622	805,984
	<u>\$ 95,525,018</u>	<u>\$ 110,022,166</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 19,271,161	\$ 11,179,140
Current portion of long-term debt	2,781,198	3,086,796
Current portion of warranty provision	474,809	318,563
Current portion of contract losses provision	4,648,691	10,988,707
	<u>27,175,859</u>	<u>25,573,206</u>
Warranty provision	3,545,956	4,783,955
Provision for contract losses	18,904,237	12,029,664
Government grants	2,225,399	1,711,691
Shareholders' equity:		
Share capital	145,940,600	145,454,777
Contributed surplus	3,047,456	1,862,772
Deficit	(105,314,489)	(81,393,899)
	<u>43,673,567</u>	<u>65,923,650</u>
	<u>\$ 95,525,018</u>	<u>\$ 110,022,166</u>

RAILPOWER TECHNOLOGIES CORP.

Consolidated Statements of Operations and Deficit
(Expressed in Canadian dollars)
(Unaudited)

	3 Months Ended June 30		6 Months Ended June 30	
	2006	2005	2006	2005
Sales	\$ 2,712,837	\$ 4,010,733	\$ 4,972,227	\$ 4,010,733
Cost of goods sold	(4,991,255)	(6,105,612)	(9,470,091)	(6,782,099)
Provision for future contract losses	(5,698,474)	-	(6,569,626)	-
Amortization of plant and equipment and	(173,367)	(141,474)	(328,934)	(248,886)
Amortization and write-down of patents	(437,851)	(3,300)	(440,251)	(5,924)
Amortization of government grants	20,177	23,455	40,353	23,455
Warranty recovery (expense)	(77,963)	(120,322)	933,243	(120,322)
	(8,645,896)	(2,336,520)	(10,863,079)	(3,123,043)
Selling expenses	(391,509)	(359,412)	(858,265)	(669,710)
Service expenses	(1,357,990)	(851,701)	(3,005,924)	(1,282,500)
Engineering and research and development	(2,949,694)	(2,052,400)	(5,598,725)	(4,555,783)
General and administrative	(2,670,569)	(1,850,949)	(4,997,428)	(3,337,602)
Operating loss	(16,015,658)	(7,450,982)	(25,323,421)	(12,968,638)
Interest income	521,833	288,520	1,178,026	609,112
Foreign exchange gain	309,769	329,922	351,288	265,413
Interest expense	(63,581)	(20,422)	(126,483)	(83,301)
Loss for the period	(15,247,637)	(6,852,962)	(23,920,590)	(12,177,414)
Deficit, beginning of period	(90,066,852)	(26,806,871)	(81,393,899)	(21,482,419)
Deficit, end of period	\$ (105,314,489)	\$ (33,659,833)	\$ (105,314,489)	\$ (33,659,833)
Net loss per weighted average common share; basic and diluted	\$ (0.28)	\$ (0.16)	\$ (0.44)	\$ (0.29)
Weighted average number of common shares outstanding; basic and diluted	54,840,578	42,670,504	54,775,555	42,557,270

RAILPOWER TECHNOLOGIES CORP.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
(Unaudited)

	3 Months Ended June 30		6 Months Ended June 30	
	2006	2005	2006	2005
Cash flows from operating activities:				
Loss for the period	\$ (15,247,637)	\$ (6,852,962)	\$ (23,920,590)	\$ (12,177,414)
Items not involving cash:				
Amortization of plant and equipment and lease and demonstration fleet	173,367	141,474	328,934	248,886
Amortization and write-down of patents and deferred development costs	437,851	3,300	440,251	5,924
Amortization of government grants	(20,177)	(23,455)	(40,353)	(23,455)
Stock-based compensation	585,007	336,998	1,226,920	542,933
Changes in non-cash operating assets and liabilities:				
Decrease (increase) in accounts receivable	(1,030,695)	(2,359,225)	3,607,354	(2,456,957)
Increase in deposits to supplier	(920,865)	-	(920,865)	-
Increase in inventory	(17,046,931)	(2,364,214)	(27,284,863)	(1,620,206)
Decrease (increase) in prepaid expenses	159,078	(401,046)	320,797	(1,350,729)
Increase in accounts payable and accrued liabilities	7,544,069	2,036,188	8,092,021	1,704,185
Decrease in customer deposits	-	(223,594)	-	(221,599)
Decrease in warranty provision	(74,491)	-	(1,081,753)	-
Increase in provision for contract losses	2,093,489	-	534,557	-
Net cash used in operating activities	(23,347,935)	(9,706,536)	(38,697,590)	(15,348,432)
Cash flows from investing activities:				
Decrease (increase) in restricted cash	(135,614)	109,539	248,386	108,581
Expenditures on patents	-	(59,892)	-	(124,265)
Expenditures on plant and equipment	(317,694)	(168,322)	(641,317)	(214,626)
Lease and demonstration locomotive sold	-	616,727	-	616,727
Investment in lease and demonstration fleet	(40,673)	(21,865)	(727,577)	(3,823,065)
Increase in deferred development costs	(266,008)	(476,850)	(348,089)	(486,394)
Net cash used in investing activities	(759,989)	(663)	(1,468,597)	(3,923,042)
Cash flows from financing activities:				
Issuance of long-term debt	-	-	-	2,358,720
Repayment of long-term debt	(223,969)	(53,777)	(305,598)	(79,127)
Issuance of common stock for cash, net of share issue costs	400,000	381,517	443,587	817,726
Increase in government grants	342,061	1,775,498	554,061	1,775,498
Net cash provided by financing activities	518,092	2,103,238	692,050	4,872,817
Net decrease in cash and cash equivalents	(23,589,832)	(7,603,961)	(39,474,137)	(14,398,657)
Cash and cash equivalents, beginning of period	60,945,169	47,118,288	76,829,474	53,912,984
Cash and cash equivalents, end of period	\$ 37,355,337	\$ 39,514,327	\$ 37,355,337	\$ 39,514,327