

Azure Dynamics Provides Update on DRS Contract

Toronto, Ontario - December 7, 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 it has received notice from DRS Sustainment Systems, Inc. ("DRS") that the contract for the Chemical Biological Protective Shelter ("CBPS-M2") has been terminated for convenience. Under the Termination for Convenience clause, the U.S. Government has the unilateral right to cancel any work under a contract in whole or in part whenever it determines that such action is in its best interest. Azure has been informed that the decision to terminate the contract is the result of the U.S. Government's election to abandon its High Mobility Multi-Purpose Wheeled Vehicle platform in favour of more heavily armoured vehicle platforms.

Azure has developed advanced power electronics for the CBPS-M2 contract, such as inverters, converters and under-the-hood export power components which DRS has integrated into the CBPS-M2. Azure will be reimbursed for all approved work on the CBPS-M2, performed up until the termination and for other related work as agreed.

As previously disclosed in Azure's 2006 Third Quarter Management Discussion and Analysis, Azure has already redeployed the engineering resources from this program to its core production programs including the commitment of resources required by its recent agreement with Ford Motor Company.

Azure Dynamics Corporation is a world leader in the development and production of hybrid electric and electric powertrains for commercial and military vehicles and systems. The Company estimates it has more than 25 million miles of vehicle experience. Azure Dynamics' 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, Workhorse Custom Chassis, Productive Concepts Inc., Ford Motor Company, StarTrans, DRS Sustainment Systems, Inc. and AM General LLC. Azure Dynamics Corporation is a public company trading on the TSX (TSX: AZD) in Canada and on the AIM (LSE: ADC) in the UK.

For more company information please visit www.azuredynamics.com.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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.

The TSX Exchange does not accept responsibility for the adequacy or accuracy of this release.

-30-

FOR MORE INFORMATION ON AZURE, CONTACT:

Steven Glaser, Vice President Corporate Affairs (416) 367-0220 ext 105

Email: sglaser@azuredynamics.com