



News Release

AZURE DYNAMICS REPORTS FISCAL 2006 YEAR END RESULTS

Toronto, Ontario – March 21, 2007 – Azure Dynamics Corporation (TSX: AZD & LSE: ADC) (“Azure” or the “Company”) a leading developer of hybrid electric and electric powertrains for commercial vehicles, today announced its financial results for the three and twelve-month periods ended December 31, 2006. The Company also provided an update on corporate and product development activities in the year.

2006 Highlights

- Revenue totalled \$5.8 million for 2006 compared to \$4.6 million in 2005
- Completed equity financings raising net proceeds of \$31.9 million
- Established joint development agreement with Ford Motor Company to develop a hybrid electric powertrain for Ford’s E-series commercial platform
- Signed agreement with StarTrans for the production of hybrid shuttle buses
- Signed sales and distribution agreements with twelve StarTrans bus distributors
- Signed MOU with Kidron for the branding, marketing and sale of LEEP (Low Emission Electric Power) system
- Launched the production of the G1 series hybrid shuttle bus and delivery van
- Built a total of 40 production G1 series hybrid electric powered chassis

“In 2006, we made strong progress in building strategic relationships with key industry leaders, as noted above, to advance our product development programs and enhance our penetration into our target markets. In line with these advancements we have focused our development efforts on our core product lines, including our series G1 and P1 delivery vans and shuttle buses,” said D. Campbell Deacon, CEO of Azure Dynamics. “By focusing on the commercialization of these core products we are confident we will secure additional fleets as customers in the current year. Strategically we continue to carefully examine opportunities to utilize our technology developments to maximize the growth of our Company”.

Financial Results

Revenue for the fourth quarter of 2006 totalled \$3.0 million compared to \$1.0 million in the fourth quarter of 2005. For the year ended December 31, 2006 revenue increased to \$5.8 million compared to \$4.6 million in 2005. Net loss for the fourth quarter of 2006 totalled \$5.0 million, or \$(0.03) per share compared to a loss of \$6.7 million or \$(0.04) per share in the fourth quarter of 2005. For the year ended December 31, 2006, the Company’s net loss was \$23.4 million, or \$(0.14) per share, compared to a net loss of \$21.9 million, or \$(0.15) per share in 2005.

Before contributions, the Company’s engineering, research and development (“R&D”) expenses in the quarter totalled \$5.1 million (including \$2.7 million in product development costs), compared to \$3.4 million for the same period in 2005 (including \$1.5 million in product development costs). For the year ended December 31, 2006, the Company’s engineering and

R&D expenses totalled \$17.6 million (including \$10.8 million in product development costs) compared to \$13.2 million during the same period in 2005 (including \$6.4 million in product development costs).

As at December 31, 2006, the Company's cash and cash equivalents totalled \$27.2 million and working capital totalled \$32.5 million, compared to cash and cash equivalents of \$20.7 million and working capital of \$18.5 million as at December 31, 2005. During the year, the Company completed equity financings, raising net proceeds of \$31.9 million to fund ongoing product development, operations and working capital.

Corporate

In the execution of its business development strategy, the Company has been actively seeking a strategic industry partner. The process has turned up several options, but management and the board have not felt that any of the options to date provide the Company or its shareholders significant value over its current plan. Evaluation of these and other alternatives to maximize both value and resources is ongoing. Azure's strategic committee is continuing to engage in discussions with various parties as well as consider other ways to achieve value creation.

Product Developments

Azure has formed significant relationships with industry leaders to increase penetration into its target markets and advance its product development programs. The agreements with Ford and StarTrans provide access to product development support and established distribution networks throughout North America. During the year, Azure launched commercial production of its G1 series hybrid product, on the Workhorse Custom Chassis platform, and expects to increasingly generate commercial revenues from applications of this product. In order to fully capitalize on these recent developments, Azure is now focusing its growth strategy on the four main programs outlined below. Significant product developments in each of these four core product lines for fiscal 2006 included:

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

- Launched the commercial production of the G1 series hybrid shuttle bus and delivery van on the Workhorse Custom Chassis platform.
- Built a total of 40 production G1 series hybrid electric powered chassis. Thirty of these units were fitted with delivery van bodies and are being placed into delivery service in March and April, bringing the total fleet of Azure vehicles in operation by Purolator to 49 units. The remaining 10 hybrid chassis are being used to build hybrid shuttle buses.
- Signed supply agreement for the production of hybrid shuttle buses with StarTrans. The first StarTrans G1 shuttle bus (the CitiBus Hybrid Senator HD or "CitiBus") was completed in October 2006. The first nine customer units are scheduled for delivery in the first half of 2007 which is also when on-line production capacity is anticipated to be established at StarTrans.
- Signed on twelve bus distributors across North America for the marketing and sales of the CitiBus. Azure now has access to a distributor network covering approximately 70% of the targeted shuttle bus market in the US and Canada.

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

- Completed agreement with Ford Motor Company to enable Azure to develop a hybrid electric powertrain for Ford's E-series commercial platform. This agreement will provide Azure with an avenue to achieve rapid penetration of the volume market for commercial vehicles in North America. The P1 product is expected to have wider application than the G1 series product and is intended to address the broader, higher-volume markets.
- Completed a number of concept P1 parallel hybrid vehicles for commercial and military applications.
- The Company is currently evaluating and testing next-generation prototypes. Demonstration prototypes will be scheduled for customer in-service trials in mid-2007. Thereafter, a quantity of pre-production units for lead customers is anticipated to be built, commencing in late-2007 with full production commencing in 2008. It is intended, subject to formal agreement, to distribute the hybridized chassis through Ford's distribution channels.
- Completed two funded military programs, the AM General High Mobility Multipurpose Wheeled Vehicle integrated with a third generation Auxiliary Power Distribution System ("APDS") and a ground-support aviation APDS developed for the US Air Force. Both of these programs will require minimal future support from Azure.

P2 Parallel (over 19,000 lbs. GVW)

- Updated existing design and built second-generation prototypes.
- Two delivery trucks were delivered to the Charmer-Sunbelt Group in October 2006 and are being evaluated in-service.

LEEP product (formerly referred to as Under-The-Hood)

- Signed a MOU with Kidron, a division of VT Specialized Vehicles Corporation, for the branding, marketing and sale of Azure's LEEP systems throughout the North American refrigerated truck body segment. Kidron has committed to provide a base vehicle to Azure by mid-March 2007. The LEEP system is expected to be in production by the second-half of 2007.

The Company's complete fiscal 2006 audited year end financial statements and MD&A are available at www.sedar.com or on the Company's website at www.azuredynamics.com.

About Azure Dynamics

[Azure Dynamics Corporation \(TSX: AZD\) \(LSE: ADC\)](http://www.azuredynamics.com) is a world leader in the development and production of hybrid electric and electric components and powertrain systems for commercial vehicles. Azure is strategically targeting the commercial delivery vehicle and shuttle bus markets and is currently working internationally with various partners and customers. The Company is committed to providing customers and partners with innovative, cost-efficient, and environmentally-friendly energy management solutions. Azure Dynamics' operations are based in North America and Europe.

For more information please visit www.azuredynamics.com.

Forward-looking Statements

This press release contains forward-looking statements. More particularly, this press release contains statements concerning Azure's business development strategy, projected commercial revenues and product deliveries.

The forward-looking statements are based on certain key expectations and assumptions made by Azure, including expectations and assumptions concerning achievement of current timetables for development programs, target market acceptance of Azure's products, current and new product performance, availability and cost of labor and expertise, and evolving markets for power for transportation vehicles. Although Azure believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Azure can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with Azure's early stage of development, lack of product revenues and history of losses, requirements for additional financing, uncertainty as to commercial viability, uncertainty as to product development and commercialization milestones being met, uncertainty as to the market for Azure's products and unproven acceptance of Azure's technology, competition for capital, product market and personnel, uncertainty as to target markets, dependence upon third parties, changes in environmental laws or policies, uncertainty as to patent and proprietary rights, availability of management and key personnel, and acquisition integration risk. These risks are set out in more detail in Azure's annual information form which can be accessed at www.sedar.com.

The forward-looking statements contained in this press release are made as of the date hereof and Azure undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

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

As at	December 31 2006	December 31 2005
	\$	\$
ASSETS		
Current		
Cash and cash equivalents (Note 6)	27,192	20,721
Accounts receivable	3,394	1,004
Contributions receivable (Note 14)	1,274	597
Inventory and related prepayments (Note 7)	3,821	2,696
Prepaid expenses	831	980
	<u>36,512</u>	<u>25,998</u>
Restricted cash (Note 6)	699	698
Property and equipment (Note 8)	5,614	5,573
Other assets	-	61
Intangible assets, net of amortization (Note 9)	10,542	12,133
Goodwill (Note 3)	2,932	2,932
	<u>56,299</u>	<u>47,395</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	2,814	3,403
Customer deposits & deferred revenue	1,046	1,574
Current portion of notes payable (Note 4)	212	2,558
	<u>4,072</u>	<u>7,535</u>
Long-term		
Deferred revenue	943	1,038
Notes payable (Note 4)	2,294	-
	<u>3,237</u>	<u>1,038</u>
Shareholders' equity		
Share capital (Note 12)	112,803	80,701
Contributed surplus (Note 12)	3,816	2,316
Deficit	(67,629)	(44,195)
	<u>48,990</u>	<u>38,822</u>
	<u>56,299</u>	<u>47,395</u>

Azure Dynamics Corporation
(A Development Stage Enterprise)
Consolidated Statements of Operations and Deficit
(Stated in Thousands)

	For the years ended December 31		Cumulative Since Inception
	2006	2005	
	\$	\$	\$
Revenues	5,771	4,608	10,379
Cost of sales	4,590	3,835	8,425
Gross Margin	<u>1,181</u>	<u>773</u>	<u>1,954</u>
Expenses			
Engineering, research, development and related costs, net	13,466	11,443	34,033
Selling and marketing	3,171	3,360	10,262
General and administrative	8,376	8,178	26,515
Total expenses	<u>25,013</u>	<u>22,981</u>	<u>70,810</u>
Loss from operations	<u>(23,832)</u>	<u>(22,208)</u>	<u>(68,856)</u>
Interest and other income, net	487	290	1,328
Foreign currency gains/(losses)	(89)	22	(101)
Net loss for the period	<u>(23,434)</u>	<u>(21,896)</u>	<u>(67,629)</u>
Deficit, beginning of period	<u>(44,195)</u>	<u>(22,299)</u>	<u>-</u>
Deficit, end of period	<u>(67,629)</u>	<u>(44,195)</u>	<u>(67,629)</u>
Loss per share - basic	<u>(0.14)</u>	<u>(0.15)</u>	
Weighted average number of shares - basic *	164,130	142,224	

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

Azure Dynamics Corporation
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Consolidated Statements of Cash Flows
(Stated in Thousands)

	For the years ended		Cumulative
	December 31	December 31	Since
	2006	2005	Inception
	\$	\$	\$
Cash flows from operating activities			
Net loss for the period	(23,434)	(21,896)	(67,629)
Adjustments for:			
Amortization of property and equipment and other assets	780	661	2,275
Amortization of intangible assets	1,749	1,591	3,340
Unrealized foreign currency gains/(losses)	(245)	170	(75)
Accretion expense on convertible debentures	-	-	74
Amortization of deferred financing costs	-	-	88
Lease termination	-	-	458
Common shares issued in exchange for services	-	-	78
Stock option compensation expense	1,696	1,618	3,943
	(19,454)	(17,856)	(57,448)
Changes in non-cash working capital items (note 16)	(5,232)	(362)	(6,761)
Movement due to exchange impact	(24)	(76)	(100)
	(24,710)	(18,294)	(57,448)
Total Cash flows from operating activities			
Cash flows from financing activities			
Issuance of common shares (net of costs)	31,905	26,287	92,349
Alternative Investment Market listing costs	-	-	(1,000)
Capital Assurance Agreement costs	-	-	(965)
Convertible debentures funds received (net of costs)	-	-	2,009
Issuance of special warrants	-	-	3,500
Repayment of obligations under capital lease	-	-	(27)
Repayment of long term debt	-	-	(50)
Principle payments on notes payable	(54)	(42)	(96)
Movement due to exchange impact	4	(374)	(370)
	31,855	25,871	95,350
Total Cash flows from financing activities			
Cash flows from investing activities			
Acquisition of property and equipment	(820)	(864)	(3,087)
Acquisition of other assets	(97)	(71)	(863)
Changes in Restricted Cash	-	(698)	(698)
Cash acquired from acquisition of subsidiary, net of costs	-	365	365
Changes in loans to employees	-	-	92
Movement due to exchange impact	238	-	238
	(679)	(1,268)	(3,953)
Total Cash flows from investing activities			
Increase in cash and cash equivalents	6,466	6,309	33,948
Exchange impact on cash held in foreign currency	5	99	104
Cash and cash equivalents, beginning of period	20,721	14,313	-
Cash and cash equivalents, end of period	27,192	20,721	34,052