



News Release

AZURE DYNAMICS REPORTS FIRST QUARTER 2007 RESULTS

Toronto, Ontario – May 08, 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 first quarter ended March 31, 2007. The Company also provided an update on corporate and product development activities in the quarter.

“During 2006, we successfully developed strategic relationships with industry leaders such as Ford in our commercial vehicle segment, StarTrans in our shuttle bus segment and Kidron in our Low Emission Electric Power (“LEEP”) or components segment, to drive market penetration in these product areas,” said D. Campbell Deacon, Chairman of the Company’s Board of Directors. “We are now seeing positive market traction resulting from these relationships. In the first quarter, we signed on twelve StarTrans distributors that will give us access to a distributor network covering approximately 70% of the targeted shuttle bus market in the U.S. and Canada. There was also a significant development subsequent to the end of the quarter as we signed a supply agreement with a value in excess of \$7.0 million with Electro Autos Efficaces of Mexico for 1,000 electric vehicle systems for Mexico City’s municipal automobile fleet.”

Corporate

On April 17, 2007 the Company announced the appointment of Scott T. Harrison as Chief Executive Officer. D. Campbell Deacon, retiring Chief Executive Officer, became Chairman of the Board of Directors and Thomas N. Davidson, outgoing Chairman, will retire from the Board of Directors in June 2007. These changes were made to ensure that the Company has the appropriate skills to successfully transition from the development stage to commercial production. Mr. Harrison has extensive production and supply chain experience with both new and established products in the automotive industry.

In an effort to reduce costs as well as ease interaction with major suppliers and strategic partners, Azure will establish a new corporate head office and development center in the heartland of the North American automotive industry. The new location will be selected to ensure the Company can leverage its relationship with Ford and capitalize on the significant opportunities in the mid-sized truck market. The office in Toronto as well as the Kenilworth facility in the UK will be closed. The scope of work with Ford as well as other OEM’s makes the establishment of this new facility a compelling action at this stage of the Company’s development. In addition these practical moves are expected to provide cost savings in excess of \$1.6 million annually. The cost savings are related to both fixed costs for facilities and people as well as in variable costs, such as travel.

During the quarter under review, Management continued to consider strategic proposals from potential industry partners. Although the calibre of the potential partners has been very impressive, it is Management’s assessment (supported by the Board) that the proposals to date do not adequately recognise the value of the Company. This view has been reinforced by recent new customer developments and by the heightened level of interest in the industry in general. The Company will continue to evaluate all alternatives as it progresses.

Financial Results

Revenue for the first quarter of 2007 totalled \$0.2 million compared to \$1.1 million in the first quarter of 2006. The revenue was lower in the first quarter of 2007 due to decreased activities in funded engineering contracts in the Boston operation as the Company is now focused on its core production programs. Net loss for the first quarter of 2007 was \$6.5 million, or \$(0.03) per share, compared to a loss of \$4.6 million or \$(0.03) per share in the first quarter of 2006. The net loss is higher in the 2007 quarter primarily due to lower margin contribution due to lower revenues and higher levels of engineering and operational activities as the development of the Ford P1 parallel hybrid vehicle and ramp-up of the G1 series production progresses.

Before contributions, the Company's engineering, research and development ("R&D") expenses in the quarter totalled \$4.2 million (including \$2.7 million in product development costs), compared to \$2.7 million for the same period in 2006 (including \$1.6 million in product development costs). During the quarter, the Company progressed its P1 development and continued the final engineering and production activities associated with the G1 delivery vans and shuttle bus.

As of March 31, 2007, the Company's net cash and cash equivalents totalled \$21.5 million, and working capital totalled \$26.1 million, compared to cash and cash equivalents of \$27.2 million, and working capital of \$32.5 million, as at December 31, 2006.

Product Developments

The main developments in core product lines for the first quarter of 2007 included the following:

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

- Purolator has completed the introduction of the 30 new hybrid delivery vans into their fleet operations in the first part of 2007; their combined fleet of Azure hybrid vehicles now totals 49;
- Delivered nine hybrid cab-chassis to StarTrans where they are in-progress to produce G1 hybrid shuttle buses (the CitiBus Hybrid Senator HD or "CitiBus").

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

- Advanced the P1 parallel hybrid vehicle through the initial concept phase, including the build and testing of alternative design prototypes. The selected concept is now undergoing detailed design work which will include building, testing and optimizing further design 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.

Other product developments

- In the process of designing and building the initial prototype of the LEEP system with a refrigerated truck body supplied by Kidron. The LEEP system is expected to be in production by the second-half of 2007.

- On April 9, 2007, the Company entered into a supply agreement with Electro Autos Eficaces of Mexico (“EAE”) for 1,000 electric drive systems for integration into the Nissan Tsuru sedan for use in Mexico City’s municipal fleet. The first converted vehicle was completed in April 2007 and was unveiled at the International Electric Vehicle Forum on May 8, 2007 in Mexico City.

The Company’s fiscal 2007 first quarter financial statements and MD&A are available at www.sedar.com or on the Company’s website at www.azuredynamics.com.

Annual General Meeting

All interested parties are invited to attend the Annual Shareholder Meeting on June 12, 2007 at 4:30 p.m. (local time) at The National Club, 303 Bay Street, Toronto, Ontario. In addition to the formal business described in the Management Information Circular, there will be a management presentation on business activities and the Company’s 2006 financial results.

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

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

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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 labour 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.

FOR MORE INFORMATION, CONTACT:

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

| As at | March 31 2007 (unaudited) | December 31 2006 (audited) | March 31 2006 (unaudited) |
|--|--|---|--|
| | \$ | \$ | \$ |
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents | 20,592 | 27,192 | 15,775 |
| Accounts receivable | 3,553 | 3,394 | 583 |
| Contributions receivable | 557 | 1,274 | 782 |
| Inventory and related prepayments | 4,561 | 3,821 | 3,043 |
| Prepaid expenses | 953 | 831 | 1,067 |
| | 30,216 | 36,512 | 21,250 |
| Restricted cash | 914 | 699 | 701 |
| Property and equipment | 5,733 | 5,614 | 5,615 |
| Other assets | - | - | 54 |
| Intangible assets, net of amortization (Note 3) | 10,217 | 10,542 | 11,754 |
| Goodwill (Note 3) | 2,932 | 2,932 | 2,932 |
| | 50,012 | 56,299 | 42,306 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current | | | |
| Accounts payable and accrued liabilities | 2,715 | 2,814 | 2,397 |
| Customer deposits & deferred revenue | 1,164 | 1,046 | 1,042 |
| Current portion of notes payable (Note 4) | 210 | 212 | 2,554 |
| | 4,089 | 4,072 | 5,993 |
| Long-term | | | |
| Deferred revenue | 926 | 943 | 1,015 |
| Notes payable (note 4) | 2,263 | 2,294 | - |
| | 3,189 | 3,237 | 1,015 |
| Shareholders' equity | | | |
| Share capital (Note 5) | 112,822 | 112,803 | 81,387 |
| Contributed surplus (Note 5) | 4,048 | 3,816 | 2,672 |
| Deficit | (74,136) | (67,629) | (48,761) |
| | 42,734 | 48,990 | 35,298 |
| | 50,012 | 56,299 | 42,306 |

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

For the three months ended
March 31
(unaudited)

| | 2007 | 2006 |
|---|-----------------|-----------------|
| | \$ | \$ |
| Revenues | 156 | 1,147 |
| Cost of sales | 67 | 843 |
| Gross Margin | <u>89</u> | <u>304</u> |
| Expenses | | |
| Engineering, research, development and related costs, net | 3,947 | 2,416 |
| Selling and marketing | 831 | 725 |
| General and administrative | 1,964 | 1,817 |
| Total expenses | <u>6,742</u> | <u>4,958</u> |
| Loss from operations | <u>(6,653)</u> | <u>(4,654)</u> |
| Interest and other income, net | 197 | 137 |
| Foreign currency losses | <u>(51)</u> | <u>(49)</u> |
| Net loss for the period | (6,507) | (4,566) |
| Deficit, beginning of period | <u>(67,629)</u> | <u>(44,195)</u> |
| Deficit, end of period | (74,136) | (48,761) |
| Loss per share - basic | (0.03) | (0.03) |
| Weighted average number of shares - basic * | 198,275 | 156,631 |

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

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

For the three months ended
March 31
(unaudited)

| | 2007 | 2006 |
|---|-----------------------|-----------------------|
| | \$ | \$ |
| Cash flows from operating activities | | |
| Net loss for the period | (6,507) | (4,566) |
| Adjustments for: | | |
| Amortization of property and equipment and other assets | 214 | 193 |
| Amortization of intangible assets | 337 | 401 |
| Unrealized foreign currency gains/(losses) | 8 | 25 |
| Stock option compensation expense | 236 | 424 |
| | <u>(5,712)</u> | <u>(3,524)</u> |
| Changes in non-cash working capital items | (319) | (1,764) |
| Movement due to exchange impact | 17 | 5 |
| Total Cash flows from operating activities | <u>(6,014)</u> | <u>(5,283)</u> |
| Cash flows from financing activities | | |
| Issuance of common shares (net of costs) | 15 | 617 |
| Principle payments on notes payable | (10) | (15) |
| Movement due to exchange impact | (23) | 11 |
| Total Cash flows from financing activities | <u>(18)</u> | <u>613</u> |
| Cash flows from investing activities | | |
| Acquisition of property and equipment | (334) | (235) |
| Acquisition of other assets | (12) | (15) |
| Changes in restricted cash | (225) | - |
| Total Cash flows from investing activities | <u>(571)</u> | <u>(250)</u> |
| Decrease in cash and cash equivalents | (6,603) | (4,919) |
| Exchange impact on cash held in foreign currency | 3 | (27) |
| Cash and cash equivalents, beginning of period | 27,192 | 20,721 |
| Cash and cash equivalents, end of period | <u>20,592</u> | <u>15,775</u> |