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Azure Dynamics reports second quarter 2007 results

TORONTO, Aug. 14 /CNW/ - 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 six-month period ended June 30, 2007. The Company also provided an update on corporate and product development activities in the quarter.

2007 Second Quarter Highlights

- Appointment of Scott T. Harrison, former Group President at Hayes Lemmerz, as Chief Executive Officer;
- Appointment of James J. Padilla, former President and COO of Ford Motor Company, to Board of Directors;
- Agreement with FedEx Express to develop hybrid-electric powertrains for their commercial delivery fleet;
- \$7 million supply agreement with Electro Autos Eficaces ('EAE') of Mexico to convert 1,000 electric vehicle systems for Mexico City's municipal automobile fleet;
- Consolidation of operations, with planned strategic relocation of Toronto head office to the Detroit/Windsor area and closure of Kenilworth office and service centre in the UK.

'During the quarter, we made strong progress in advancing the commercialization of our products, with major customer wins in both our hybrid commercial fleet and electric vehicle market segments. FedEx Express, along with Purolator Courier Ltd., are our early lead customers for our Ford E-450 hybrid commercial vehicle. Our agreement with EAE to convert 1,000 municipal gasoline vehicles using our existing electric drive system technologies also represents a significant market development for us and includes the potential for us to supply a broader range of products for other applications in the future,' said Scott T. Harrison, Chief Executive Officer of Azure Dynamics.

'In terms of our operational developments, with the increasing scope of our work with Ford, as well as other leaders in the automotive industry, we believe the relocation of our head office to the Detroit, Windsor area, is a natural next step for Azure as we focus on building our relationships with key industry partners,' continued Mr. Harrison. 'The appointment of Mr. James Padilla to our Board of Directors and the appointment of Curt Huston as our new Chief Operating Officer will significantly enhance our business development initiatives.'

Financial Results

Revenue for the second quarter of 2007 totalled \$0.6 million compared to \$1.2 million in the second quarter of 2006. For the six months ended June 30, 2007, revenue totalled \$0.7 million compared to \$2.4 million in the same period a year ago. The decrease in revenue for the three and six months ended June 30, 2007 was due to decreased activities in funded engineering contracts in the Boston operation, as the Company is now focussed on its core production programs. Net loss for the second quarter of 2007 was \$6.9 million, or \$(0.03) per share, compared to a loss of \$4.8 million or \$(0.03) per share in the second quarter of 2006. Net loss for the six months ended June 30, 2007 was \$13.4 million, or \$(0.07) per share, compared to a loss of \$9.4 million or \$(0.06) per share in the same period a year ago. The increased net loss for the three and six months ended June 30, 2007 is primarily due to lower margin contributions due to lower revenues and higher levels of engineering and operational activities related to the development of the Ford P1 parallel hybrid vehicle, ramp-up of the G1 series production, and enhancement of system

components.

Before contributions, the Company's engineering, research and development ('R&D') expenses in the quarter totalled \$4.2 million (including \$2.4 million in product development costs), compared to \$2.7 million for the same period in 2006 (including \$1.3 million in product development costs). For the first half of 2007, the Company's engineering and R&D expenses totalled \$8.4 million (including \$5.1 million in product development costs), compared to \$5.4 million in the first half of 2006 (including \$2.9 million in product development costs). During the quarter, the Company continued to focus on the development of its P1 program and continued the final engineering and production activities associated with the G1 delivery vans and shuttle bus.

As of June 30, 2007, the Company's net cash and cash equivalents totalled \$16.8 million, and working capital totalled \$19.6 million, compared to cash and cash equivalents of \$20.6 million, and working capital of \$26.1 million, as at March 31, 2007, and cash and cash equivalents of \$27.2 million, and working capital of \$32.5 million, as at December 31, 2006.

Corporate

During the quarter, the Company appointed Scott T. Harrison, former Group President at Hayes Lemmerz, as Chief Executive Officer. Additionally, D. Campbell Deacon, retiring Chief Executive Officer, became Chairman of the Board of Directors and Thomas N. Davidson, outgoing Chairman, retired from the Board of Directors. These changes were made to ensure that the Company has the appropriate skills to successfully transition from the development stage to commercial production. Subsequent to the end of the quarter, it was announced that David E. Deacon, Executive Vice President and Deputy Chairman, and Gregory P. Francis, President and Chief Operating Officer, will resign their positions. Mr. Deacon will continue to serve as a non-executive Director of the Board and Mr. Francis will support the Company's strategic development in an advisory capacity. Guy Pearson, Vice President, Engineering (Vancouver) also resigned effective July 9, 2007. Mr. Pearson's responsibilities have been assumed by Ricardo Espinosa, Vice-President, Engineering (Boston). Further, on August 13, 2007, the Company appointed Curt Huston as Chief Operating Officer. Mr. Huston has extensive experience in automotive industry sales, marketing and global supply chain management and will enhance Azure's ability to build a best-in-class supply chain by attracting industry talent and building the necessary supply chain processes.

In an effort to reduce costs as well as ease interaction with major suppliers and strategic partners, the Company 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 were closed in July and May of 2007, respectively.

Product Developments

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

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

- Delivered first two G1 hybrid shuttle buses (the CitiBus Hybrid Senator HD or 'CitiBus') to StarTrans in June 2007. The remaining seven buses are expected to be delivered during July and August 2007.
- Commenced Altoona testing (process required to qualify for federal capital subsidies) on the 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 the building, testing and optimizing of further design prototypes.
- Signed agreement with FedEx Express for the supply of a P1 E-450 demonstration vehicle. Once the development phase is completed, FedEx Express has committed to purchase a minimum of 20 pre-production parallel hybrid-electric Ford E-450 delivery vans, which are expected to be delivered by May 2008.
- On August 2, 2007, selected Utilimaster as the primary assembly and integration partner for the hybridized E-series chassis.
- On August 14, 2007, received an order from Purolator Courier Ltd. for 105 P1 E-450 vehicles. These vehicles are expected to be delivered by the end of 2008.

Electric Power Products and other production:

- Built initial prototype of the LEEP ('Low Emission Electric Power') system with a refrigerated truck body supplied by Kidron. The first customer demonstration unit is in progress. The Company expects to launch pre-production volumes of the LEEP system before the end of 2007.
- Signed supply agreement with Electro Autos Eficaces of Mexico for 1,000 electric drive systems for integration into the Nissan Tsuru platform, for use in Mexico City's municipal fleet. During the quarter, the first converted vehicle was completed and unveiled at the International Electric Vehicle Forum. Azure expects to complete the conversion of 1,000 vehicles over the following 18 months.

The Company's fiscal 2007 second quarter 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) 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.

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.

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

	June 30 2007 (unaudited)	December 31 2006 (audited)	June 30 2006 (unaudited)
	\$	\$	\$
ASSETS			
Current			
Cash and cash equivalents	16,847	27,192	10,747
Accounts receivable	319	3,394	1,130
Contributions receivable	608	1,274	639
Inventory and related prepayments	5,433	3,821	4,328
Prepaid expenses	890	831	1,017
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	24,097	36,512	17,861
Restricted cash	843	699	670
Property and equipment	5,851	5,614	5,789
Other assets	-	-	44
Intangible assets, net of amortization (Note 3)	9,869	10,542	11,411
Goodwill (Note 3)	2,932	2,932	2,932
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	43,592	56,299	38,707

 LIABILITIES AND SHAREHOLDERS' EQUITY

Current			
Accounts payable and accrued liabilities	3,367	2,814	3,043
Customer deposits & deferred revenue	939	1,046	912
Current portion of notes payable (Note 4)	194	212	2,427
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	4,500	4,072	6,382
Long-term			
Deferred revenue	906	943	986
Notes payable	2,080	2,294	-
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	2,986	3,237	986
Shareholders' equity			
Share capital (Note 5)	112,822	112,803	82,178
Contributed surplus (Note 5)	4,336	3,816	2,768
Deficit	(81,052)	(67,629)	(53,607)
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	36,106	48,990	31,339
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	43,592	56,299	38,707

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

	For the three months ended June 30 (unaudited)		For the six months ended June 30 (unaudited)	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenues	593	1,205	749	2,353
Cost of sales	603	1,129	670	1,972
Gross Margin	----- (10)	----- 76	----- 79	----- 381
Expenses				
Engineering, research, development and related costs, net	3,921	2,320	7,869	4,737
Selling and marketing	863	823	1,694	1,548
General and administrative	2,157	1,935	4,122	3,752
Total expenses	----- 6,941	----- 5,078	----- 13,685	----- 10,037
Loss from operations	----- (6,951)	----- (5,002)	----- (13,606)	----- (9,656)

Interest and other income, net	106	118	304	255
Foreign currency gains/(losses)	(71)	38	(121)	(11)
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Net loss for the period	(6,916)	(4,846)	(13,423)	(9,412)
Deficit, beginning of period	(74,136)	(48,761)	(67,629)	(44,195)
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Deficit, end of period	(81,052)	(53,607)	(81,052)	(53,607)
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Loss per share - basic	(0.03)	(0.03)	(0.07)	(0.06)
Weighted average number of shares - basic(x)	198,276	158,638	198,276	157,569

(x)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 June 30 (unaudited)		For the six months ended June 30 (unaudited)	
	2007	2006	2007	2006
	\$	\$	\$	\$
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Cash flows from operating activities				
Net loss for the period	(6,916)	(4,846)	(13,423)	(9,412)
Adjustments for:				
Amortization of property and equipment and other assets	225	193	440	386
Amortization of intangible assets	404	408	741	808
Unrealized foreign currency gains/(losses)	(79)	120	(72)	(34)
(Gain)/Loss on Disposal of Assets	166	-	166	-
Stock option compensation expense	288	214	524	639
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	(5,912)	(3,911)	(11,624)	(7,613)
Changes in non-cash working capital items	2,636	(1,110)	2,316	(2,873)
Movement due to exchange impact	146	(43)	164	(39)
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	2,782	(1,153)	2,480	(2,912)
Total Cash flows from operating activities	(3,130)	(5,064)	(9,144)	(10,525)
Cash flows from financing activities				
Issuance of common shares (net of costs)	-	673	15	1,290
Principle payments on notes payable	(9)	(14)	(19)	(28)
Movement due to exchange impact	(191)	(113)	(214)	(103)
Total Cash flows from financing activities	(200)	546	(218)	1,159
Cash flows from investing activities				
Acquisition of property and equipment	(508)	(367)	(841)	(601)
Acquisition of other assets	(56)	(54)	(69)	(69)
Changes in Restricted Cash	-	-	(225)	-
Total Cash flows from investing activities	(564)	(421)	(1,135)	(670)
Decrease in cash and cash equivalents	(3,894)	(4,939)	(10,497)	(10,036)
Exchange impact on cash held in foreign currency	149	(89)	152	62
Cash and cash equivalents, beginning of period	20,592	15,775	27,192	20,721
Cash and cash equivalents, end of period	16,847	10,747	16,847	10,747

Certain reclassifications have been made to the June 30 2006 comparative numbers to conform to the current period presentation.

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