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Azure Dynamics reports third quarter 2007 results

OAK PARK, MI, Nov. 7 /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 nine-month periods ended September 30, 2007. The Company also provided an update on corporate and product development activities in the quarter.

2007 Third Quarter Highlights

- Established new head office in Oak Park, Michigan;
- Signed a commercial development and cooperation agreement with a major fleet, which became Azure's third lead customer for the P1 Delivery Van Program;
- Finalized agreement with Kidron Inc. ('Kidron') for 1,000 Low Emission Electric Power ('LEEP') systems;
- Received initial purchase order release from Electro Autos Eficaces of Mexico ('EAE') for 200 drive systems;
- Awarded the 2007 Deloitte Technology Green 15 as a top performer in environmental technology;
- Completed equity financing subsequent to the quarter end for \$30.0 million in gross proceeds.

'During the third quarter of 2007, we established our new corporate headquarters in Oak Park, Michigan, in the heart of the U.S. auto industry,' said Scott T. Harrison, Chief Executive Officer of Azure. 'Relocating our corporate office to this strategic location will help us expand our relationships with key industry partners, such as the Ford Motor Company, and further our ongoing business development and commercialization initiatives.'

'We made major progress in the commercialization of our core products, Delivery Vans, Shuttle Busses, and Electric Drive Solutions during the third quarter. We signed a commercial development and cooperation agreement with a major delivery fleet on the Ford E-450 chassis,' continued Mr. Harrison. 'The successful completion of this program will result in this customer purchasing a minimum of 10 percent of their annual delivery truck buy from Azure Dynamics. Also in the quarter, we completed an additional 6 shuttle busses for the BOEDC and UPROSE contracts. In addition, we continued to move forward with our LEEP program, and finalized an agreement with Kidron for 1000 LEEP systems to provide auxiliary power for cold storage trucking applications.'

Financial Results

Revenue for the third quarter of 2007 totalled \$1.5 million compared to \$0.4 million in the third quarter of 2006. For the nine months ended September 30, 2007, revenue totalled \$2.3 million compared to \$2.8 million in the same period a year ago. The increase in revenue for the three months ended September 30, 2007 was due to the ramp up of deliveries from the G1 shuttle bus program. Net loss for the third quarter of 2007 was \$8.5 million, or \$(0.04) per share, compared to a loss of \$9.0 million or \$(0.06) per share in the third quarter of 2006. Net loss for the nine months ended September 30, 2007 was \$21.9 million, or \$(0.11) per share, compared to a loss of \$18.4 million or \$(0.12) per share for the same period a year ago. The increased net loss for the nine months ended September 30, 2007 was primarily related to higher levels of activity in operations, product support and sales and marketing, as well as one-time charges for the exit costs related to facility closures and senior management changes.

Before contributions, the Company's engineering, operations and product development expenses for the quarter totalled \$4.4 million (including \$2.6 million in product development costs), compared to \$7.1 million for the

same period in 2006 (including \$5.6 million in product development costs). For the first nine months of 2007, the Company's engineering, operations and product development expenses totalled \$12.8 million (including \$7.4 million in product development costs), compared to \$12.5 million in the nine months ended September 30, 2006 (including \$8.2 million in product development costs). During the third quarter, the Company continued to focus on the development of its P1 program and electric drive solutions, as well as ongoing production activities associated with the G1 shuttle buses and electric components.

As of September 30, 2007, the Company's net cash and cash equivalents totalled \$5.8 million, and working capital totalled \$11.5 million, compared to cash and cash equivalents of \$3.8 million, and working capital of \$3.3 million, as at September 30, 2006, and cash and cash equivalents of \$27.2 million, and working capital of \$32.4 million, as at December 31, 2006.

Corporate

In the third quarter of 2007, Azure finalized previously announced arrangements to relocate its head office and, on September 19, 2007, announced that it had established its new corporate headquarters in Oak Park, Michigan. The facility's strategic location, close to Azure's key industry partners, is expected to meet all of the Company's ongoing business development and production needs. The State of Michigan has granted Azure a tax credit valued at more than US\$1.7 million over the next seven years. The city of Oak Park has also proposed an 11-year local tax abatement worth an estimated US\$55,400.

The Company does not anticipate any material changes to employee counts at its other facilities. Azure will maintain its electric drive solutions business unit and facility in Boston, Massachusetts, and the bulk of its hybrid and hybrid-electric systems engineering and technology development team will remain at its facility in Vancouver, British Columbia. The Company will also maintain a service facility in Mississauga, Ontario to support major customers in the Toronto area.

On September 20, 2007, Azure announced that it had been presented the 2007 Deloitte Technology Green 15, awarded as a top performer in environmental technology. 'The Deloitte Technology Green 15 Awards recognize those Canadian companies that offer solutions to global environmental challenges by creating intellectual property (IP) and technology that reduce society's environmental impact,' said John Ruffolo, National Leader, Technology, Media & Telecommunications Industry Group, Deloitte. 'Companies such as Azure Dynamics are creating technology solutions that have a significant environmental impact and demonstrate a compelling return on investment.'

Subsequent to the end of the third quarter, Azure completed an equity financing for \$30.0 million in gross proceeds. The Company plans to use the proceeds of the offering to fund its ongoing product development, as well as general corporate purposes.

Product Developments

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

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

- Purolator Courier Ltd. ('Purolator') continued to operate its fleet of 49 G1 hybrid delivery vans in Toronto, Ontario, Montreal, Quebec and Vancouver, British Columbia.
- Continued G1 shuttle bus production and completed an additional six hybrid buses in the quarter.
- Subsequent to the end of the third quarter, Azure completed the durability testing of a shuttle bus at the U.S. Federal Transit Administration's Altoona Bus Research and Testing Center. In the U.S., successful completion of durability testing is required in order to be eligible for federal capital subsidies in public transit applications.

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

- Signed a commercial development and cooperation agreement with a third lead customer for its P1 Delivery Van Program. Azure will deliver a gasoline parallel hybrid electric Ford E-450 based vehicle for industry viability validation, testing and demonstration within the company's North American fleet. Successful completion of the program will result in the company committing to use Azure's hybrid technology on the Ford E-450 chassis for a minimum of 10 percent of their annual fleet replacement purchases.
- Built three prototype 2008 E-450 hybrid vehicles with production intent hardware.
- Completed FedEx and Purolator demonstration vehicles and commenced internal testing.

Electric Drive Solutions and other production:

- Concluded arrangements with Kidron for the branding, marketing and sale of Azure's LEEP systems throughout the North American refrigerated truck body segment.
- Received initial purchase order release from EAE for 200 electric drive systems to be integrated into the Nissan Tsuru platform, for use in Mexico City's municipal fleet. During the second quarter of 2007, 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 next 15 months.

The Company's fiscal 2007 third 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)			
As at	September 30, 2007 (unaudited)	December 31, 2006 (audited)	September 30, 2006 (unaudited)
	\$	\$	\$

ASSETS			
Current			
Cash and cash equivalents	5,852	27,192	3,818
Accounts receivable	691	3,394	777
Contributions receivable	865	1,274	604
Inventory and related prepayments	7,876	3,821	4,308
Prepaid expenses	879	831	962
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	16,163	36,512	10,469
Restricted cash	977	699	671
Property and equipment	5,806	5,614	5,707
Other assets	-	-	-
Intangible assets, net of amortization (Note 3)	9,548	10,542	11,085
Goodwill (Note 3)	2,932	2,932	2,932
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	35,426	56,299	30,864

LIABILITIES AND SHAREHOLDERS' EQUITY

Current

Accounts payable and accrued liabilities	4,148	2,814	4,237
Customer deposits & deferred revenue	307	1,046	541
Current portion of notes payable (Note 4)	181	212	2,417

	4,636	4,072	7,195
Long-term			
Deferred revenue	945	943	965
Notes payable	1,934	2,294	-
	2,879	3,237	965
Shareholders' equity			
Share capital (Note 5)	112,734	112,803	82,356
Contributed surplus (Note 5)	4,683	3,816	2,970
Deficit	(89,506)	(67,629)	(62,622)
	27,911	48,990	22,704
	35,426	56,299	30,864

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

	For the three months ended September 30 (unaudited)		For the nine months ended September 30 (unaudited)	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenues	1,534	411	2,283	2,757
Cost of sales	1,731	577	2,401	2,550
Gross Margin	(197)	(166)	(118)	207
Expenses				
Engineering, research, development and related costs, net	4,132	6,414	11,949	11,151
Selling and marketing	940	717	2,603	2,265
General and administrative	1,870	1,780	5,864	5,532
Total expenses	6,942	8,911	20,416	18,948
Loss from operations	(7,139)	(9,077)	(20,534)	(18,741)
Interest and other income, net	156	65	460	321
Other Expense	(1,537)	-	(1,748)	-
Foreign currency gains/(losses)	66	(3)	(55)	(7)
Net loss for the period	(8,454)	(9,015)	(21,877)	(18,427)

Deficit, beginning of period	(81,052)	(53,607)	(67,629)	(44,195)
Deficit, end of period	(89,506)	(62,622)	(89,506)	(62,622)
Loss per share - basic	(0.04)	(0.06)	(0.11)	(0.12)
Weighted average number of shares - basic(x)	198,276	159,206	198,276	158,143

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

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

	For the three months ended September 30 (unaudited)		For the nine months ended September 30 (unaudited)	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash flows from operating activities				
Net loss for the period	(8,454)	(9,015)	(21,877)	(18,427)
Adjustments for:				
Amortization of property and equipment and other assets	226	204	665	589
Amortization of intangible assets	348	365	1,090	1,174
Unrealized foreign currency gains/(losses)	20	(9)	(52)	162
Loss on disposal of assets	19		185	
Stock option compensation expense	284	208	809	846
Deferred share units compensation expense	63	-	63	-
	(7,494)	(8,247)	(19,117)	(15,656)
Changes in non-cash working capital items	(2,796)	1,267	(480)	(1,606)
Movement due to exchange impact	(79)	(2)	85	(40)
	(2,875)	1,265	(395)	(1,646)
Total Cash flows from operating activities	(10,369)	(6,982)	(19,512)	(17,302)
Cash flows from financing activities				
Issuance of common				

shares (net of costs)	(88)	172	(73)	1,462
Principle payments on notes payable	(8)	(13)	(27)	(41)
Movement due to exchange impact	(151)	3	(365)	(99)
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Total Cash flows from financing activities	(247)	162	(465)	1,322
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Cash flows from investing activities				
Acquisition of property and equipment	(201)	(122)	(1,042)	(723)
Acquisition of other assets	(27)	4	(96)	(65)
Changes in restricted cash	(201)	-	(426)	-
Movement due to exchange impact	-	6	-	(198)
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Total Cash flows from investing activities	(429)	(112)	(1,564)	(986)
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Decrease in cash and cash equivalents	(11,045)	(6,932)	(21,541)	(16,966)
Exchange impact on cash held in foreign currency	50	3	201	63
Cash and cash equivalents, beginning of period	16,847	10,747	27,192	20,721
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Cash and cash equivalents, end of period	5,852	3,818	5,852	3,818
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Certain reclassifications have been made to the September 30, 2006 comparative numbers to conform to the current period presentation.

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