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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

Approved on behalf of the Board:

" signed D. Campbell Deacon" Director
D. Campbell Deacon
"signed Dennis A. Sharp" Director
Dennis A. Sharp

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	**89**	304
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	**6,742**	4,958
Loss from operations	**(6,653)**	(4,654)
Interest and other income, net	**197**	137
Foreign currency losses	**(51)**	(49)
Net loss for the period	**(6,507)**	(4,566)
Deficit, beginning of period	**(67,629)**	(44,195)
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
	(5,712)	(3,524)
Changes in non-cash working capital items	**(319)**	(1,764)
Movement due to exchange impact	**17**	5
Total Cash flows from operating activities	**(6,014)**	(5,283)
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	**(18)**	613
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	**(571)**	(250)
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	**20,592**	15,775

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Operations and Basis of Presentation

Azure Dynamics Corporation (the "Company") or ("ADC") is incorporated under the laws of Alberta. The Company is a development stage enterprise, involved in the development and supply of electric and hybrid electric powertrains and vehicle control systems for commercial vehicle and military applications.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. There are additional development stages to be completed before the marketability, if any, of the Company's technology can be determined. While the Company has derived limited revenue from the performance of development projects and from the sale of components to third parties, its ability to continue operations is uncertain and dependent upon the successful completion of technical development of the technology, obtaining additional financing and achieving profitable operations. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not include any adjustments to the amounts and liabilities that might be necessary should the Company be unable to continue in business.

2. Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Consolidation
The consolidated financial statements include the accounts of the Company and of its wholly owned subsidiaries since the date of acquisition. The Company has four wholly owned subsidiaries; Azure Dynamics Inc., which is incorporated under the Canada Business Corporations Act ("CBCA"); Azure Dynamics Corporation of America (inactive) and Azure Dynamics Incorporated, both of which are incorporated under the laws of the state of Delaware, U.S.A.; and Azure Dynamics Limited, which is incorporated under the laws of England and Wales. Business acquisitions are accounted for using the purchase method. Investments in joint ventures are accounted for using the proportional consolidation method. All transactions within the subsidiaries have been eliminated upon consolidation.

(b) Revenue recognition
Certain product lines within Solectria (acquired in January 2005 - see note 3) are no longer considered development stage. Therefore the Company now recognizes revenues on the sales of those products at the point of shipment, provided that the Company has evidence of an

2. Significant Accounting Policies (b) (cont'd.)

arrangement, the fee is fixed and determinable, delivery has occurred, title and risk of loss have passed to the customer, and collectibility is reasonably assured.

In addition, the Company recognizes revenues on long term engineering contracts within these product lines using the percentage of completion method. The revenue recognized is determined based on the total contract value and the percentage of the contract estimated completed at the end of the reporting period. Because of inherent uncertainties in estimating the costs to complete contracts in progress, it is possible that the estimates used will change within the near term. Changes in estimated job profitability are accounted for as changes in estimates in the current period. Where applicable, the entire amount of future estimated losses on contracts in progress are recognized when they become known.

The Company also recognizes revenues related to a technology and software licensing agreement (see note 6). The agreement provided for non-refundable payments which are being recognized in revenue on a straight-line basis over the period of the license agreement.

Revenues earned from product lines that are considered in the development stage are reflected as a reduction of the related research and development costs.

Customer deposits and deferred revenue primarily represent fees paid by customers in advance of products being shipped, contract revenue recognized, and the license agreement referred to in note 6.

(c) Research and development costs

Research costs are expensed in the year incurred. Development costs are expensed in the year incurred unless the Company believes a development project meets generally accepted criteria for deferral and amortization. No development costs have been deferred to date.

Reimbursements of eligible costs pursuant to government assistance programs are recorded as a reduction of research and development costs when the related costs have been incurred. Claims not settled by the balance sheet date are recorded as "Contributions receivable" on the consolidated balance sheets. The determination of the amount of the claim, and hence the receivable amount, requires management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the programs. The reimbursement claims submitted by the Company are subject to review by the relevant government agencies. Although the Company has used its best judgment and understanding of the related program agreements in determining the receivable amount, it is possible that the amounts could increase or decrease by a material amount in the near term dependent on the review and audit by the government agency.

The government assistance programs typically incorporate repayment provisions that are contingent upon future trigger-events. In these cases, a repayment liability is recorded when the event occurs or it is considered more likely than not that the event will occur. With respect to repayments in the form of future royalty payments based on sales levels achieved, the liability will be recorded as related revenues are recognized by the Company.

(d) Investment tax credits

The benefits of investment tax credits for scientific research and development expenditures are recognized in the year the qualifying expenditure is made provided there is reasonable assurance

2. Significant Accounting Policies (d) (cont'd.)

of recoverability. The investment tax credit reduces the carrying cost of expenditures for capital assets and research and development expense. Since becoming a public company, the Company is no longer eligible to receive cash refunds from the investment tax credit program – all past investment tax credits receivable in cash have been collected. Since becoming a public company, investment tax credits earned are being carried forward to reduce future federal taxes payable. These investment tax credits have not been recorded as their ultimate utilization is uncertain.

(e) Cash and cash equivalents
The Company considers bank balances (including temporary bank overdrafts) and all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

(f) Inventory and related prepayments
Inventory is comprised of product, spare parts, product components and materials held for resale or use in the Company's product development activities or customer projects and include prepayments made for components on order. Work in progress inventory is comprised of material, labour and a portion of overhead costs relating to in-progress customer and internal orders. Inventory is valued at the lower of cost or net realisable value.

(g) Accrued warranty liabilities

The Company generally warranties its products against defects and workmanship for a period of one to three years from the date of shipment, subject to certain guidelines and exclusions. A provision has been established for this warranty obligation. In establishing the accrued warranty liability, management has estimated the likelihood that products sold will experience warranty claims and the estimated costs to resolve the claims received, taking into account the nature of the product and the past and projected claims experience with the products.

(h) Property and equipment
Property and equipment assets are recorded at cost, less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Workshop equipment	5 years	Office furniture and equipment	5 years
Computer software	2 to 3 years	Automotive	3 to 5 years
Computer hardware	3 years	Leasehold improvements	1 to 12 years
Tooling	3 to 5 years		

The building (see note 4) is amortized on a 3% declining balance methodology.

The Company tests long-lived assets for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; the accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and a current expectation that the asset will more likely than not be sold or disposed of significantly before the end of its previously estimated useful life.

2. Significant Accounting Policies (h) (cont'd.)

Recoverability is assessed based on the carrying amount of the asset and the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset or asset group. An impairment loss is recognized when the carrying amount is not recoverable and exceeds the fair value of the asset or asset group. The impairment loss is measured as the amount by which the carrying amount exceeds fair value.

(i) Other assets
Other asset of $54,000 in the prior year quarter is related to a note receivable. The note has since been paid in full.

(j) Intangible assets

Intangible assets include the fair value of identifiable intangible assets acquired in a purchase business combination. The customer order backlog asset is amortized as the underlying orders are executed. Amortization of the product technology asset is provided on a straight-line basis over the estimated useful life of ten years. The costs of acquiring and applying for patents, trademarks and licensed technology are capitalized and amortized on a straight-line basis over their estimated useful lives of five years. The costs of acquiring and applying for patents, trademarks and licensed technology costs do not necessarily reflect present or future values and the ultimate amount recoverable will be dependent upon the successful development and commercialization of products based on these intellectual properties. Management reviews the intellectual properties for impairment whenever events or changes in circumstances indicate that full recoverability is questionable. Management measures any potential impairment by comparing the carrying value to the undiscounted amounts of expected future cash flows.

(k) Goodwill

Goodwill represents the excess of purchase price over the fair value of identifiable assets acquired in a purchase business combination. Goodwill is not amortized but is subject to annual fair value impairment tests or is adjusted if changes in circumstances indicate that the carrying value may not be recoverable.

(l) Variable interest entities
The Real Estate Joint Venture that is described in note 4 is by definition a VIE. The Company has assessed the impact of AcG 15 and determined that the Company is not the primary beneficiary of the variable interest entity and accordingly, the implementation of AcG 15 has not had any impact on the consolidated financial statements.

(m) Financial instruments
The Company carries a number of financial instruments. Unless otherwise indicated, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted. As of January 1, 2007 the Company adopted Section 1530 – Comprehensive Income, Section 3855 – Financial Instrument Recognition and Measurement, Section 3861 – Financial Instruments Disclosure and Presentation, and Section 3865 – Hedges, in accordance with the transitional provisions in each respective Section. As a result of the adoption of these Sections, the Company has determined that currently, there is no current material impact on the consolidated financial statements.

2. Significant Accounting Policies (cont'd.)

(n) Foreign currency translation
Monetary assets and liabilities of integrated operations that are not denominated in Canadian Dollars are translated at the rate of exchange prevailing at the period end, while revenues and expenses are translated at average rates of exchange during the period. Exchange gains and losses arising on the translation of the accounts are included in consolidated earnings. Non-monetary items are translated at historical exchange rates. All of the Company's foreign subsidiaries' operations are considered to be integrated.

For the quarter ended March 31, 2007, a foreign exchange loss of $51,000 was recognized in the consolidated earnings (2006 - foreign exchange loss of $49,000).

(o) Future income taxes
Income taxes are accounted for using the liability method of tax allocation. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the enactment date. Future income tax assets are recorded in the consolidated financial statements if realization is considered more likely than not.

(p) Stock based compensation
The Company grants stock options to officers, directors, employees and consultants pursuant to a stock option plan described in Note 5(d). The Company accounts for the stock-based compensation using the fair-value method as at the grant date. Under this method, compensation expense related to option grants is recorded in the consolidated earnings over the vesting period of the options. The compensation expense amount is based on the fair value of the option as estimated using the Black-Scholes option pricing model. The assumptions used in calculating the value of the stock options issued include management's best estimate, as of the date of grant, of the expected share price volatility over the term of the stock option and expected option life. As such, the amounts reported as compensation expense are subject to measurement uncertainty as the expense amount may vary significantly based on the assumptions used.

(q) Earnings per share
Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with standards approved by the Canadian Institute of Chartered Accountants.

(r) Use of estimates
The preparation of consolidated financial statements requires the Company's management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and notes thereto. Significant areas requiring management to make estimates include inventory valuation, product warranty obligations, revenue recognition and recoverability of intangibles and goodwill. Actual results could differ from those estimates.

2. Significant Accounting Policies (cont'd.)

(s) Comparative figures
Certain comparative figures have been restated to be consistent with current year financial statement presentation.

3. Acquisition of Solectria

On January 31, 2005, the Company completed the acquisition of Solectria Corporation ("Solectria"), a U.S. based hybrid electric powertrain and components supplier. The Company acquired all of the outstanding shares of Solectria in exchange for 25,297,655 of its common shares, resulting in Solectria's former shareholders owning approximately 19.8% of the Company's issued and outstanding common shares at that time. Singapore Technologies Kinetics Ltd. ("STK"), a major Solectria shareholder, held approximately 11% of the Company's common shares immediately post-closing. Solectria now operates as Azure Dynamics Incorporated.

The Company's common shares traded at a weighted average price of approximately $0.88 prior to, and immediately after, the acquisition was announced on December 17, 2004. After considering trading discounts for block share trades and typical issue costs the fair market value of the shares was deemed to be $0.66. The Company issued 25,297,655 common shares, with a deemed value of $16.7 million, and paid cash of $0.4 million in settlement of the purchase price. Total consideration, including acquisition expenses of $0.7 million, is $17.8 million.

The Company has accounted for the acquisition using the purchase method and the results of operations of Solectria have been consolidated into the Company's earnings with effect from February 1, 2005. The aggregate purchase price of $17.8 million was allocated to the assets acquired and liabilities assumed based on their estimated fair values as follows:

(Stated in thousands of dollars)		
Current assets (including cash of $625)	$	3,074
Restricted cash		745
Property and equipment		4,678
Other assets		53
Intangible assets		13,400
Goodwill		2,932
Current liabilities		(4,428)
Notes payable		(2,700)
	$	17,754

Assets and liabilities are recorded based on their estimated fair values at January 31, 2005. Intangible assets are comprised of:

(Stated in thousands of dollars)		
Customer order backlog	$	900
Product technology		12,500
	$	13,400

3. Acquisition of Solectria (cont'd)

The intangible assets associated with this acquisition included on the Consolidated Balance Sheet of $9.9 million at March 31, 2007, $10.2 million at December 31, 2006 and $11.8 million at March 31, 2006 are net of amortization of $3.5 million, $2.2 million and $1.6 million respectively

4. Investment in Real Estate Joint Venture

The Company's US subsidiary, Azure Dynamics Incorporated (formerly Solectria) owns a 50% interest in ND Solectria LLC, a joint venture partnership with NDNE Real Estate, Inc., a real estate development corporation. The investment in the real estate joint venture, which is accounted for using the proportional consolidation method, was formed for the purpose of holding property located in Woburn, Massachusetts. On October 1, 2001, the Company entered into a lease agreement for the Woburn property. The Company provided a security deposit of US$400,000 (Cdn$464,000) and made guarantees of an additional US$600,000 (Cdn$696,000) that is in the form of a letter of credit, which is collateralized by certain cash equivalents. NDNE Real Estate, Inc. maintains the unilateral right to sell the property during the lease term and manages the property. The Company is entitled to 50% of earnings of ND Solectria LLC. During the quarter ended March 31, 2007 the Company's interest in earnings from the real estate joint venture amounted to $57,000 (2006-$38,000).

The Company's 50% proportional interest in ND Solectria LLC is included in the consolidated balance sheets as follows:

(Stated in thousands of dollars)

		March 31, 2007		March 31, 2006
Cash and equivalents	**$**	**330**	$	308
Accounts receivable		**13**		13
Property and equipment		**3,090**		3,193
Total assets	**$**	**3,433**	$	3,514
Accounts payable and accrued liabilities	**$**	**292**	$	296
Note payable – current		**210**		2,554
Note payable – long term		**2,263**		-
Shareholders' equity		**668**		664
Total liabilities and shareholders' equity	**$**	**3,433**	$	3,514

The note payable is the Company's proportionate share of a mortgage on the Boston property owned by ND Solectria LLC. The note is repayable on November 20, 2011, bears interest at a floating rate of the applicable Treasury rate plus 200 basis points and is secured by the mortgaged premises. As both parties are jointly and severally liable for repayment of the note payable, the maximum exposure to loss as a result of its involvement with this entity is $5.0 million. The principle repayments over the next five years payable by the joint venture are approximately as follows. 2007 -$50,000, 2008 -$71,000, 2009- $77,000, 2010-$83,000, 2011-$89,000.

4. Investment in Real Estate Joint Venture (cont'd)

The Company's 50% proportional interest in ND Solectria LLC is included in the consolidated statements of operations and deficit as follows:

(Stated in thousands of dollars)	**For the quarter ended March 31, 2007**	For the quarter ended March 31, 2006
General and administrative	**$ (100)**	$ (79)
Other Expense	**43**	41
Net income	**$ 57**	$ 38

The Company's 50% proportional interest in ND Solectria LLC is included in the consolidated cash flow statement as follows:

(Stated in thousands of dollars)	**For the quarter ended March 31, 2007**	For the quarter ended March 31, 2006
Net Income	**$ 57**	$ 38
Amortization	**20**	19
Principle payments on note payable	**(10)**	(15)
Changes in short term assets and liabilities	**(53)**	(44)
Net change in cash	**14**	(2)
Cash and cash equivalents beginning of period	**316**	310
Cash and cash equivalents end of period	**$ 330**	$ 308

5. Share Capital, Warrants and Stock Options

a) Authorized

Unlimited common shares without par value
Unlimited preferred shares without par value, non cumulative, redeemable, and non voting

b) Issued and outstanding common shares

(amount stated in thousands of dollars)	**Number of Common Shares**	**Amount**
Balance, December 31, 2006	198,253,101	$ 112,803
Issued on exercise of stock options	23,076	15
Release of costs from contributed surplus on options exercised	-	4
Balance, March 31, 2007	**198,276,177**	**$ 112,822**

5. Share Capital, Warrants and Stock Options (cont'd)

c) Contributed surplus

(amount stated in thousands of dollars)

		Amount
Balance, December 31, 2006	$	3,816
Stock option compensation expense		236
Release to share capital on exercise of stock options		(4)
Balance, March 31, 2007	**$**	**4,048**

d) Stock options

The Company has a stock option plan (the "Plan") which authorizes the Board to issue options to insiders, employees and service providers of the Corporation and its subsidiaries. The maximum number of common shares issuable under stock options, together with common shares as may be subject to options pursuant to other share compensation arrangements, shall not exceed 10% of the outstanding common shares. The exercise price shall not be lower than the closing trading price of the common shares on the TSX, on the last trading day prior to the date on which the option is granted. The options have terms ranging from one to seven years and generally vest over periods of up to twenty-four months. As at March 31, 2007 the Company had 15,283,023 stock options outstanding under the Plan. The stock options are exercisable at a weighted average exercise price of $0.93 per common share. The stock options expire on various dates between April 12, 2007 and March 21, 2014.

Stock option transactions for the three months ended March 31, 2007, and the number of stock options outstanding are summarized as follows:

	Number of Optioned Common Shares	Weighted Average Exercise Price $
Executive Officer, Director, Employee and Consultant Options:		
Balance, December 31, 2006	16,685,003	0.92
Options granted	45,000	0.38
Options exercised	(23,076)	0.65
Options expired/cancelled	(1,423,904)	0.77
Balance, March 31, 2007	**15,283,023**	0.93

5. Share Capital, Warrants and Stock Options (d) (cont'd)

As at March 31, 2007 the numbers of optioned common shares outstanding and exercisable are as follows:

Expiry Date	Number Outstanding	Number Exercisable	Exercise Price $
April 12, 2007	30,000	30,000	0.94
May 1, 2007	45,000	45,000	0.80
January 1, 2008	225,000	225,000	0.50
February 1, 2008	77,000	77,000	0.50
August 25, 2008	275,000	275,000	0.30
September 26, 2008	235,000	235,000	0.48
January 1, 2009	1,314,923	1,314,923	0.65
May 3, 2009	312,000	312,000	0.90
August 12, 2009	260,000	260,000	0.68
October 4, 2009	33,333	33,333	0.60
September 9, 2011	240,000	240,000	0.53
January 18, 2012	2,069,187	2,069,187	0.86
February 17, 2012	31,580	31,580	0.95
February 24, 2012	1,285,000	1,285,000	0.99
April 6, 2012	70,000	46,667	1.06
April 18, 2012	25,000	16,667	1.08
May 2, 2012	60,000	40,001	1.05
June 21, 2012	30,000	20,001	0.95
July 4, 2012	50,000	33,334	0.93
July 4, 2012	20,000	13,334	0.94
July 18, 2012	50,000	33,334	0.95
November 16, 2012	10,000	6,667	1.10
December 23, 2012	2,275,000	1,516,670	1.07
January 17, 2013	1,212,500	808,371	1.11
February 13, 2013	50,000	33,333	1.15
March 23, 2013	90,000	60,000	1.04
May 11, 2013	5,000	1,667	1.30
July 29, 2013	10,000	3,334	0.88
November 22, 2013	75,000	25,000	0.85
December 10, 2013	2,525,000	1,191,669	0.87
December 19, 2013	2,247,500	749,204	0.83
March 21, 2014	45,000	15,000	0.38
Grand Total	**15,283,023**	**11,047,276**	

5. Share Capital, Warrants and Stock Options (cont'd)

e) Stock compensation expense

The fair value of each performance share and stock option is determined at each issue or grant date using the Black-Scholes model with the following assumptions: risk free interest rate - 5% (2006 – 5%), expected life – 4 years (2006 - 4 Years), expected dividend yield – nil (2006 - nil), and expected volatility – 40% (2006 - 35%). The Company recorded a compensation expense charge of $0.2 million to consolidated earnings for the three months ended March 31, 2007 (2006 - $0.4 million) with a corresponding credit to contributed surplus. Approximately $4,000 was released from contributed surplus and added to share capital in respect of options exercised in the quarter (2006 - $68,000).

6. Related Party Transactions

In November 2003, Solectria entered into a Transfer of Technology and Software Licensing Agreement ("TTA Agreement") with STK. Under the terms of the agreement, the Company transferred specified technology to STK and granted an exclusive license to use and manufacture the technology. The Company also provided STK with the training necessary for the transfer of the technology. The license expires in November 2020, and is subject to automatic one-year renewals thereafter. The Company received cash consideration for the license and transfer of technology, and for the training in the aggregate amount of US$1.0 million (Cdn$1.2 million). As discussed in note 2(b), revenues from the TTA Agreement are being recognized on a straight-line basis over the period of the license agreement. As of March 31, 2007, the Company has deferred revenue associated with the TTA Agreement in the amount of $0.9 million. During the three months ended March 31, 2007, revenues recognized by the Company from the sale of products to STK and its related companies and from certain other contractual arrangements totalled approximately $17,000 (2006 - $17,000). As of March 31, 2007, accounts receivable includes $11,000 (2006 - $11,000) due from STK and customer deposits includes $43,000 received from STK (2006 - $43,000).

7. Commitments

As of March 31, 2007, the Company has contractually committed to lease payments for premises and equipment requiring minimum payments in future periods as follows:

(Stated in thousands of dollars)		
2007	$	2,567
2008		1,310
2009		1,128
2010		1,028
2011		1,029
2012		1,003
	$	8,065

7. Commitments (cont'd)

(a) Azure Dynamics Incorporated leases its operating facility in Woburn, Massachusetts under a non-cancellable lease agreement. Through a joint venture agreement, the Company has a 50% interest in the lessor, ND Solectria LLC (Note 4). The lease agreement provides for a minimum monthly rental payment plus certain operating costs. The Company's lease agreement contains escalation clauses and expires in September 2016. In May, 2004 Azure Dynamics Inc. entered into a lease for a facility in Burnaby, British Columbia, which supports engineering and operations activities. The lease is for a 5 year term, concluding on April 20, 2009. In June 2005, Azure Limited leased a workshop and test facility in Kenilworth, England to support its European operations. The lease agreement expires in July 2011.

(b) Pursuant to a contractual agreement with the National Research Council Canada, the Company is required to make royalty payments in the event that the Company successfully commercializes its intellectual properties specified in this agreement. The royalty payments, if any, are calculated at a rate of 1% of yearly gross sales earned from its intellectual properties. The obligation to make royalty payments expires at the earlier of January 2011 or when aggregate royalty payments reach $296,000.

(c) Pursuant to a contractual agreement with Technology Partnerships Canada ("TPC"), the Company is required to make royalty payments equal to the greater of 0.28% of yearly gross business revenues or in accordance with a fixed repayment schedule, with repayment amounts ranging from $0.7 million to $1.0 million per year starting in 2008 and totalling $1.3 million, provided that certain minimum sales levels are achieved. The obligation to make royalty payments commences when the minimum sales levels are achieved and continues until the earliest of 2015 or when a cumulative payment ceiling of $20.5 million is reached. On March 23, 2005, the Company entered into a contract amendment with TPC whereby the royalty payment period was extended to December 31, 2020.

(d) Pursuant to an agreement with EnCana Corporation, whereby EnCana sponsored the development of power train product, the Company is required to make royalty payments equal to 1% of gross revenue from sales of the power train product up to a maximum payment of $1.0 million.

(e) The Company has entered into employment agreements with certain executive directors and officers. In addition to defining the terms of employment, the agreements entitle the executives to termination payments, ranging from one to two years compensation and the immediate vesting of all options previously granted, in the event of termination without cause and in some cases in the event of termination due to a change in the control of the Company.

All other commitments have been disclosed in note 15 to the Company's audited consolidated annual financial statements.

8. Segmented financial information

Management currently organizes and views the Company's activities as one operating segment. A geographic analysis of revenues by customer locations and of assets employed is as follows:

Stated in thousands	**Revenues**		**Total Assets**		**Property, Plant, Equipment and Goodwill**	
	Three months ended March 31, 2007		**March 31, 2007**		**March 31, 2007**	
Canada	**$**	**nil**	**$**	**25,890**	**$**	**774**
Europe		**nil**		**386**		**172**
United States		**139**		**23,736**		**7,719**
Asia		**17**		**Nil**		**Nil**
Total	**$**	**156**	**$**	**50,012**	**$**	**8,665**
	Three months ended March 31, 2006		March 31, 2006		March 31, 2006	
Canada	$	nil	$	18,525	$	622
Europe		3		374		159
United States		1,127		23,407		7,766
Asia		17		nil		Nil
Total	**$**	**1,147**	$	**42,306**	$	**8,547**

The percentage of revenues derived from the Company's largest customers is as follows:

	Three months ended March 31, 2007	Three months ended March 31, 2006
First	**24%**	45%
Second	**16%**	16%
Third	**13%**	15%
Others	**47%**	24%
Total	**100%**	100%

9. Subsequent Events

a) On April 9, 2007 the Company announced it has signed a supply agreement with Electro Autos Eficaces of Mexico ("EAE"). The initial order is for 1,000 drive systems for integration into the Nissan Tsuru platform, which is commonly used in the municipal fleet of Mexico City.

b) On April 17, 2007 the Company announced the appointment of Scott T. Harrison as Chief Executive Officer. Campbell Deacon, retiring Chief Executive Officer, will become Chairman of the Board. Thomas N. Davidson, outgoing Chairman, will retire from the Board at the Annual Meeting of the company in June.

9. Subsequent Events (cont'd)

c) On April 17. 2007, the Company issued 500,000 employee stock options, exercisable at $0.67 per share, subject to applicable shareholder and regulatory approvals. The options vest over a twenty-four month period and expire on April 17, 2014.

d) On May 7, 2007, the Company announced a new corporate head office and development center will be opened and that the Canadian Toronto office as well as the Kenilworth office and service center in the UK will be closed.