



News Release

AZURE DYNAMICS REPORTS FISCAL 2005 YEAR END RESULTS

Toronto, Ontario – March 23, 2006 – [Azure Dynamics Corporation](#) (TSX: AZD & LSE: ADC) (“Azure” or the “Company”) a leading developer of hybrid electric and electric powertrains for commercial and military vehicles, today announced its financial results for the fourth quarter and year ended December 31, 2005.

2005 Highlights

- Completed the acquisition of Solectria Corporation
- Received a purchase order from Purolator Courier Ltd. for 115 hybrid electric vehicles
- Entered into a supply agreement with Smith Electric Vehicles (“Smiths”) for up to 1,000 electric powertrain systems
- Secured nine orders for Azure’s CitiBus, the shuttle bus derivative of the G1 series hybrid platform
- Received components order from Engineered Air Systems, Inc. (“EASI”) totalling \$10.5 million
- Revenue totalled \$4.6 million compared to nil in 2004
- Completed equity financings to raise net proceeds of \$26.3 million

“Through the continued execution of our growth strategy and business development plan we achieved a number of milestones in 2005, including receiving our largest hybrid vehicle order to date and an initial multi-unit order for our hybrid shuttle bus,” said Campbell Deacon, Deputy Chairman and Chief Executive Officer of Azure. “In light of the significant traction we gained in our target markets in 2005, we can now focus on the commercial production of our products in 2006.”

The strategy of the Company is to deploy its technology into viable powertrain products for light to heavy duty commercial and military vehicle markets. Initial commercial markets include urban delivery, postal, courier, taxi and shuttle-bus applications. Azure’s products fall within four broad powertrain categories – G1 (series) for vehicles in the medium-duty weight range 7,500 to 16,000 lbs. gross vehicle weight (“GVW”), G2 (series) for the light-duty weight range 5,000 to 7,500 lbs. GVW, P1 (parallel) for the medium-heavy weight category of 10,000 to 19,000 lbs. GVW, and P2 (parallel) for the over 19,000 lbs. GVW heavy weight category. In the execution of its strategy, Azure does not intend to be the ultimate manufacturer of components or assembler of powertrain systems. Rather, the Company intends to use the supply capacity that exists within the commercial and military vehicle industries.

A strategic committee of the Board of Directors has been formed with the objective of leveraging the strategic value of the Company’s technology. Azure has developed expertise in the areas of vehicle controls software, power electronics, electric machine design, vehicle systems engineering and vehicle integration. The Company has an established portfolio of proprietary component products that compliment its core technical skills and makes use of an extensive industry supplier base to offer complete powertrain solutions to its target market. It is the collective view of the Board and Management that the value of Azure Dynamics can be enhanced by gaining strategic access to one or more industry partners to:

- accelerate and/or expand market penetration of the Company's technology and products, not only within its target markets but also in the markets served by potential partners;
- provide procurement and production-related expertise; these skills are not inherent in the Company's core competencies but are essential to achieve rapid and reliable delivery of quality products to customers;
- provide an after-market service network that can help assure customer satisfaction, mitigate warranty expenses, and effectively capture value from the service business.

Since its appointment, the Strategic Committee has been actively evaluating the opportunities available to the Company.

Financial Review

Revenue for the three months ended December 31, 2005 was \$1.0 million compared to nil in the same period of 2004. Revenue for the year ended December 31, 2005 was \$4.6 million compared to nil in 2004. Revenue in 2005 is attributable to Azure's US operation and is mainly comprised of component sales, customer engineering contracts (recognized on a percentage of completion basis), and after-sales service support. Early revenues from Canadian and UK operations have been offset against development costs in accordance with Canadian accounting standards.

Gross margin, after considering (direct and applicable indirect) costs of sales, was \$56,000 for the three months ended December 31, 2005, and \$773,000, or 17% of sales, for the year ended December 31, 2005.

Net loss for the three months ended December 31, 2005 was \$6.7 million versus \$2.7 million for the same period in 2004. For the year ended December 31, 2005, the Company incurred a net loss of \$21.9 million (\$0.15 per share) compared to a net loss of \$8.2 million (\$0.10 per share) in the prior year. The higher net loss in 2005 is mainly attributable to increased research and development ("R&D") investment; business expansion; more selling and marketing activities; increased general and administrative support costs; and the incremental loss related to the US Operation.

As a result of the Solectria acquisition, the Company now has operations in Canada, the US and the UK, employing a total of 109 people, compared to 52 people in September 2004.

Before contributions, the Company incurred \$13.2 million in engineering, operating and R&D expenses in the year compared to \$6.3 million in 2004. R&D included \$6.4 million in product development costs. The majority of the R&D investment related to the Company's G1 platform (\$4.9 million in the year) as this product is readied for commercial production. The Company is active in a number of G1 customer programs, including the Purolator pre-production build, the Canada Post in-service trials, the United States Postal Service in-service trials, and the launch of a shuttle bus version of the product. Engineering and development costs were reduced by \$1.7 million (2004 – \$2.5 million) with respect to government and customer contributions in the year. The contributions are comparatively lower in 2005 as the Company has incurred a higher amount of expenditures that are not covered by government or customer programs.

The Company had cash and cash equivalents of \$21.4 million at December 31, 2005 versus \$14.3 million at December 31, 2004. Working capital was \$20.8 million at December 31, 2005, compared with \$15.3 million for the previous year. For the year ended December 31, 2005, Azure raised gross proceeds of \$26.3 million, net of issue costs through equity financings. These financings included a private placement in February 2005 (\$11.6 million in net proceeds),

the exercise of warrants in July and August 2005 (\$3.4 million in net proceeds), and a private placement in September 2005 (\$11.0 million in net proceeds).

Corporate Developments

In 2005, the Company was focused on deploying its proprietary technology into powertrain products for light to heavy-duty commercial and military vehicles. Azure develops powertrains, including electric components, for four broad vehicle categories. Within each vehicle category, Azure leverages its powertrain designs to satisfy a broad range of vehicle applications. Significant product developments and commercial milestones in 2005 included:

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

- In-service launch of the first series hybrid delivery vans for Purolator
- A follow-on purchase order for 115 series hybrid electric vehicles, representing the first commercial production vehicles to be produced by Azure for Purolator
- Signed a supply agreement with Smiths for 1,000 electric powertrain systems
- The G1 series platform was also used to launch the "Citibus" shuttle bus and orders were secured for five busses from the Bronx Overall Economic Development Corporation and for four buses from the United Puerto Rican Organization of Sunset Park

G2 Series (5,000 to 7,500 lbs. GVW)

- Completed successful testing of a taxi and an all-electric van application in the United Kingdom

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

- Awarded a contract to develop a hybrid High Mobility Multipurpose Wheeled Vehicle integrated with an Auxiliary Power Distribution System for AM General LLC
- Signed an agreement with a large North American based company to purchase and test Azure's P1 parallel hybrid electric delivery vehicle
- The build and delivery of a P1 delivery van for the United States Postal Service was initiated in 2005 and completed in the first quarter of 2006

P2 Parallel (over 19,000 lbs. GVW)

- Awarded a contract from the Charmer-Sunbelt Group to supply Class 7 Parallel hybrid electric drive systems for two of their 250 delivery trucks in New York City. The trucks will be used to document the fuel savings and enhanced performance of Azure's P2 hybrid powertrain compared to conventional Class 7 trucks

Electric Components

- Azure is leveraging its proprietary technology and engineering expertise to drive incremental revenue streams through the sale of electric components for specialized applications. Strong potential exists for components in future installations in military and commercial applications requiring both stationary and mobile power generation. Increased component sales can effectively help reduce future costs of hybrid powertrains.

The Company's financial statements and Management's discussion and analysis are available at www.sedar.com or on the Company's website. An extract of the financial statements is attached to this press release.

[Azure Dynamics Corporation](http://www.azure-dynamics.com) is a world leader in the development and production of hybrid electric and electric commercial and military vehicles and systems. The group estimates it has over 25 million miles of vehicle experience. Azure Dynamics' operations are based in North America and Europe.

Azure Dynamics is currently working internationally with various partners and customers including Purolator Courier Ltd., Canada Post, U.S. Department of Defense, United States Postal Service, Tanfield Engineering Systems, Ltd., EASI, and AM General. Azure Dynamics Corporation is a public company trading on the TSX (AZD) in Canada and on the AIM (ADC) in the UK. For more company information please visit www.azure-dynamics.com.

The TSX Exchange does not accept responsibility for the adequacy or accuracy of this release.

NOTE: The foregoing information may contain forward-looking statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Such factors include, but are not limited to: the ability to raise the capital required for product development and operations, product development delays, changing environmental regulations, the ability to attract and retain business partners, competition from other developers of hybrid electric vehicle control systems, competition from other advanced or existing power technologies, evolving markets for power for transportation vehicles. These factors should be considered carefully and readers should not place undue reliance on Azure's forward-looking statements. Investors are encouraged to review the risks detailed from time to time in the company's filings with regulatory authorities.

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

As at	December 31 2005	December 31 2004
	\$	\$
ASSETS		
Current		
Cash and cash equivalents (Note 6)	20,721	14,313
Accounts receivable	1,004	211
Contributions receivable (Note 15)	597	996
Inventory and related prepayments (Note 7)	2,696	1,199
Prepaid expenses	980	284
	25,998	17,003
Restricted cash (Note 4)	698	-
Property and equipment (Note 9)	5,573	539
Other assets (Note 8)	61	-
Intangible assets (Note 10)	12,133	271
Goodwill (Note 3)	2,932	-
	47,395	17,813
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	3,403	1,697
Customer deposits and deferred revenue	1,574	-
Current portion of notes payable (Note 4)	2,558	-
	7,535	1,697
Long-term		
Deferred Revenue	1,038	-
	1,038	-
Shareholders' equity		
Share capital (Note 13)	80,701	37,693
Contributed surplus (Note 13)	2,316	722
Deficit	(44,195)	(22,299)
	38,822	16,116
	47,395	17,813

Azure Dynamics Corporation
(A Development Stage Enterprise)
Consolidated Statements of Operations and Deficit
(Stated in thousands, except per share amounts)

	For the years ended December 31		Cumulative Since Inception **
	2005	2004 **	
	\$	\$	
Revenues	4,608	-	4,608
Cost of sales	3,835	-	3,835
Gross Margin	773	-	773
Expenses			
Engineering, research, development and related costs, net	11,443	3,754	20,567
Selling and marketing	3,360	1,852	7,091
General and administrative	8,178	2,766	18,139
Total expenses	22,981	8,372	45,797
Loss from operations	(22,208)	(8,372)	(45,024)
Interest and other income, net	290	208	841
Foreign currency gains/(losses)	22	(34)	(12)
Net loss for the period	(21,896)	(8,198)	(44,195)
Deficit, beginning of period	(22,299)	(14,101)	-
Deficit, end of period	(44,195)	(22,299)	(44,195)
Loss per share - basic	(0.15)	(0.10)	
Weighted average number of shares - basic *	142,224	86,254	

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

** Certain reclassifications have been made to the December 31, 2004 and Cumulative Since Inception comparative numbers to conform to the current period presentation

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

	For the years ended		Cumulative
	December 31		Since
	2005	2004 *	Inception *
	\$	\$	\$
Cash flows from operating activities			
Net loss for the period	(21,896)	(8,198)	(44,195)
Adjustments for:			
Amortization of property and equipment and other assets	661	270	1,495
Amortization of intangible assets	1,591	-	1,591
Unrealized foreign currency losses	170	-	170
Accretion expense on convertible debentures	-	-	74
Amortization of deferred financing costs	-	-	88
Lease termination	-	-	458
Common shares issued in exchange for services	-	28	78
Stock option compensation expense	1,618	497	2,247
	<u>(17,856)</u>	<u>(7,403)</u>	<u>(37,994)</u>
Changes in non-cash working capital items	(362)	(381)	(1,529)
Movement due to exchange rate impact	(76)	-	(76)
Net changes in non-cash working capital	<u>(438)</u>	<u>(381)</u>	<u>(1,805)</u>
	(18,294)	(7,784)	(39,599)
Cash flows from financing activities			
Issuance of common shares (net of costs)	26,287	15,896	60,444
Alternative Investment Market listing costs	-	(1,000)	(1,000)
Capital Assurance Agreement costs	-	(965)	(965)
Convertible debenture 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)
Principal payments on notes payable	(42)	-	(42)
Movement due to exchange rate impact	(374)	-	(374)
	<u>25,871</u>	<u>13,731</u>	<u>63,495</u>
Cash flows from investing activities			
Acquisition of property and equipment	(864)	(598)	(2,267)
Acquisition of other assets	(71)	(203)	(766)
Changes in restricted cash	(698)	-	(698)
Cash acquired from acquisition of subsidiary, net of costs	365	-	365
Changes in loans to employees	-	92	92
	<u>(1,268)</u>	<u>(709)</u>	<u>(3,274)</u>
Increase in cash and cash equivalents	6,309	5,238	20,622
Exchange gain on cash held in foreign currency	99	-	99
Cash and cash equivalents, beginning of period	<u>14,313</u>	<u>9,075</u>	<u>-</u>
Cash and cash equivalents, end of period	20,721	14,313	20,721

* Certain reclassifications have been made to the December 31, 2004 and Cumulative Since Inception comparative numbers to conform to the current period presentation