



News Release

For Immediate Release

AZURE DYNAMICS REPORTS SECOND QUARTER RESULTS FOR PERIOD ENDING DECEMBER 31, 2001

Vancouver, British Columbia—February 22, 2001

[Azure Dynamics Corporation \(CDNX - AZD\)](#) a leading developer of hybrid electric smart energy management systems for commercial vehicles has announced its second quarter results.

The Company is engaged in the development of its core technologies and as such, it mainly expends monies on research and development activities, and on the management and infrastructure required to develop and commercialize its products. For the quarter ended December 31, 2001, the Company incurred a net loss of \$1,251,482 or \$0.05 per share. This compares to a net loss for the same quarter of the preceding fiscal year of \$380,783 or \$0.02 per share. The increase in the deficit in the quarter ended December 31, 2001, compared to the quarter ended December 31, 2000, is attributable to the higher level of research and development, marketing and other corporate activities, as well as the costs associated with the expansion and strengthening of the technical and managerial teams.

D. Campbell Deacon, Chairman and CEO, stated, "Azure is continuing to make progress in accordance with our business plan and product development timeline which calls for initial commercial production in September, 2003."

Mr. Deacon explained that during the reporting period, the Company was actively laying the groundwork for a further injection of equity funds. In mid-January of 2002, Azure announced that it had successfully conducted a non-brokered private placement financing of \$5,200,000 by way of the issuance of 10,400,000 Special Warrants at a price of \$0.50 per Special Warrant. The transaction was completed on January 29, 2002.

"The financing has strategic importance for Azure," said Mr. Deacon, "because it enables management to move to the next phase of our commercialization plan. Though we are currently in a very difficult economic and unstable investment climate, we are gratified that we were able to attract investors who believe in the potential of Azure's technology and support our corporate objectives."

Azure Dynamics Corporation is an innovative company that has developed proprietary hybrid electric vehicle technology for retrofit and new vehicle powertrains in the light to medium duty commercial category. Azure's intellectual property combined with interchangeable, off-the-shelf components provides an affordable and effective solution for fleet managers in applications such as the postal and courier delivery fleets.

Azure's series hybrid vehicle technology is also a gateway to fuel cells becoming economical and operational. A series hybrid system, used in a fuel cell powered vehicle, enables a reduction in the size and performance requirements of the fuel cell thereby lowering the cost of the system while increasing the overall efficiency of the vehicle through the recapture of regenerative braking energy

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FOR MORE INFORMATION, CONTACT:

Greg Francis, Chief Financial Officer (604) 224-2421 x 667
Email: gfrancis@azuredynamics.com

Steven Glaser, Vice-President, Corporate Affairs (416) 367-0220 Ext.105
Email: sglaser@azuredynamics.com

Or visit the company's website at www.azuredynamics.com

SCHEDULE A: FINANCIAL INFORMATION

Azure Dynamics Corporation
(A Development Stage Enterprise)
Unaudited Interim Consolidated Financial Statements
For the six months ended December 31, 2001

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

As at	December 31 2001 (Unaudited)	June 30 2001 (Audited)	December 31 2000 (Unaudited)
ASSETS			
Current			
Cash and cash equivalents	\$ 652,425	\$ 2,859,452	\$ 1,450,570
Investment tax credits receivable	-	147,341	110,000
Accounts receivable	66,364	242,618	154,837
Notes receivable	-	-	250,000
Prepaid expenses	63,796	73,000	37,500
	<u>782,585</u>	<u>3,322,411</u>	<u>2,002,907</u>
Employee loans	273,501	273,501	-
Related party receivable	-	14,156	(2,105)
Capital assets	541,704	291,516	163,500
Other assets	53,663	48,995	51,430
	<u>\$ 1,651,453</u>	<u>\$ 3,950,579</u>	<u>\$ 2,215,732</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	\$ 611,034	\$ 537,050	\$ 302,120
Current portion of obligations under capital leases	11,555	-	-
	<u>622,589</u>	<u>537,050</u>	<u>302,120</u>
Obligations under capital leases	10,560	-	-
	<u>633,149</u>	<u>537,050</u>	<u>302,120</u>
Shareholders' equity			
Share capital	2,501,918	2,496,918	2,975,029
Special warrants	3,500,000	3,500,000	-
Deficit	(4,983,614)	(2,583,389)	(1,061,418)
	<u>1,018,304</u>	<u>3,413,529</u>	<u>1,913,611</u>
	<u>\$ 1,651,453</u>	<u>\$ 3,950,579</u>	<u>\$ 2,215,732</u>

Approved on behalf of the Board:

"D. Campbell Deacon" _____ Director

"J. Brian Aune" _____ Director

Azure Dynamics Corporation
(A Development Stage Enterprise)
Unaudited Consolidated Statements of Operations and Deficit

	Three Months Ended December 31		Six Months Ended December 31	
	2001	2000	2001	2000
Revenue				
Contract sales	\$ -	\$ 5,625	\$ -	\$ 84,825
Other	<u>15,193</u>	<u>16,042</u>	<u>45,484</u>	<u>16,560</u>
	15,193	21,667	45,484	101,385
Cost of contract sales	<u>-</u>	<u>4,115</u>	<u>-</u>	<u>36,965</u>
	15,193	17,552	45,484	64,420
Expenses				
Research and development, net	659,426	195,910	1,241,051	327,228
General and administrative	504,199	176,672	1,012,528	234,195
Rent	71,091	16,733	124,925	38,080
Amortization	31,959	9,020	67,205	15,020
	<u>1,266,675</u>	<u>398,335</u>	<u>2,445,709</u>	<u>614,523</u>
Net loss for the period	(1,251,482)	(380,783)	(2,400,225)	(550,103)
Deficit, beginning of period	<u>(3,732,132)</u>	<u>(680,635)</u>	<u>(2,583,389)</u>	<u>(511,315)</u>
Deficit, end of period	\$ (4,983,614)	\$(1,061,418)	\$ (4,983,614)	\$ (1,061,418)
Loss per share*	\$ (0.05)	\$ (0.02)	\$ (0.10)	\$ (0.03)
Weighted average number of shares	24,659,226	20,846,362	24,654,188	17,209,331

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

Azure Dynamics Corporation
(A Development Stage Enterprise)
Unaudited Consolidated Statements of Cash Flows

	Three Months Ended December 31		Six Months Ended December 31	
	2001	2000	2001	2000
Cash flows from operating activities				
Operations				
Net loss for the period	\$ (1,251,482)	\$ (380,783)	\$ (2,400,225)	\$ (550,103)
Adjustment for:				
Amortization	31,959	9,020	67,205	15,020
Changes in non-cash working capital Items	212,522	(7,950)	370,257	7,286
	<u>(1,007,001)</u>	<u>(379,713)</u>	<u>(1,962,763)</u>	<u>(527,797)</u>
Cash flows from financing activities				
Issuance of common shares (net of costs)	5,000	2,298,231	5,000	2,298,231
Advance (repayment) to related party	5,625	(55,210)	14,156	5,895
Payment on obligations under capital leases	(2,719)	-	(5,200)	-
Issue (repayment) of long term debt	-	(50,000)	-	(50,000)
	<u>7,906</u>	<u>2,193,021</u>	<u>13,956</u>	<u>2,254,126</u>
Cash flows from investing activities				
Acquisition of capital assets	(69,302)	(117,511)	(253,603)	(121,865)
Acquisition of intellectual properties	-	(1,586)	(4,617)	(1,586)
Note receivable	-	(250,000)	-	(250,000)
	<u>(69,302)</u>	<u>(369,097)</u>	<u>(258,220)</u>	<u>(373,451)</u>
Increase (decrease) in cash and cash equivalents	(1,068,397)	1,444,211	(2,207,027)	1,352,878
Cash and cash equivalents, beginning of period	<u>1,720,822</u>	<u>6,359</u>	<u>2,859,452</u>	<u>97,692</u>
Cash and cash equivalents, end of period	\$ 652,425	\$ 1,450,570	\$ 652,425	\$ 1,450,570

Six Months ended December 31, 2001 and 2000

1. Nature of Operations and Basis of Presentation

Azure Dynamics Corporation (“the Company”) (“ADC”) (formerly Wild Horse Resources Ltd.) is incorporated under the laws of Alberta. The Company was party to a reverse takeover transaction (“RTO”) between ADC (the deemed acquiree) and Azure Dynamics Inc. (“ADI”) (the deemed acquirer), effective April 24, 2001. The corporate structure is currently that ADI is the wholly owned subsidiary of ADC. ADI is incorporated under the laws of Canada. The reporting year-end for the consolidated entities is June 30.

The Company is a development stage enterprise, involved in developing hybrid electric vehicle control systems to be used in commercial vehicle applications. The Company has not yet determined the ultimate economic viability of the products under development. The Company is currently in the process of developing and testing its control systems. All costs incurred to date have been recorded as research and development expense. No revenue has been generated from the sale of its products to date.

The unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada for interim financial information, and 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 several 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 research and development projects for 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 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.

The unaudited interim consolidated financial statements and notes do not include all disclosures required for annual statements and should be read in conjunction with the audited financial statements for the year ended June 30, 2001 included in the Company’s Annual Report.

2. Significant Accounting Policies

The unaudited interim consolidated financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in Canada. The accounting policies and methods of application used in preparation of these financial statements are consistent with the June 30, 2001 audited annual financial statements unless noted otherwise.

Six Months ended December 31, 2001 and 2000

3. Share Capital, Special Warrants and Stock Options

(a) Authorized

Unlimited Class A common shares without par value
 Unlimited Class B common shares without par value, non voting
 Unlimited Class C preferred shares without par value, non cumulative, redeemable, and non voting

(b) Issued and outstanding

	Number of Common Shares	Amount
Class A Common Shares		
Balance, June 30, 2001	24,649,009	\$ 2,496,918
Issued during the quarter ended December 31, 2001	20,000	5,000
Balance, December 31, 2001	24,669,009	\$ 2,501,918

(c) Special A Warrants

Special A Warrants issued for cash		\$ 3,600,000
Less estimated issuance costs		(100,000)
Balance, December 31, 2001 and June 30, 2001		\$ 3,500,000

On June 28, 2001 the Company completed a non brokered placement of 8,000,000 Special A Warrants at a price of \$0.45 each for net proceeds of \$3,500,000 after deducting estimated issuance costs of \$100,000. Each Special A Warrant entitles the holder to receive, at no additional cost, one Class A common share. Any unexercised warrants will be deemed to be exercised the earlier of (a) five (5) days following final receipt for a prospectus; and (b) June 8, 2002. As at December 31, 2001, 226,667 of the special warrants are held by directors and officers of the Company.

(d) Stock Options

In conjunction with the RTO, the Company received shareholders approval to adopt a Stock Option Plan (the "Plan"), for which up to 3,670,651 common shares can be reserved for issuance to executive officers and directors, employees and consultants. The exercise price of the options are determined by the Board of Directors estimate of the fair value of the common shares at the grant date. The options have a maximum term of five years and generally vest over a period of eighteen to twenty-four months. On December 7, 2001 the Company received shareholders' approval to increase the maximum number of stock options that may be issued under the terms of the stock option plan from 3,670,651 to 6,461,800.

As at December 31, 2001, the Company had 3,906,000 stock options outstanding under the Plan, of which 1,821,999 were exercisable, at a weighted average exercisable price of \$0.29 per common share. The stock options expire on various dates between April 25, 2006 and November 26, 2006. As at December 31, 2001, the Company had 72,000 Broker Financial Advisory options outstanding, at an exercisable price of \$0.25 per common share, expiring October 25, 2002.

Six Months ended December 31, 2001 and 2000

3. Share Capital, Special Warrants, and Stock Options – continued

Stock option transactions for the six months ended December 31, 2001 and the number of stock options outstanding are summarized as follows:

	Number of Optioned Common Shares #	Weighted Average Exercise Price \$
Balance, June 30, 2001	3,196,000	0.25
Options cancelled on August 13, 2001	(56,000)	0.25
Options granted on August 20, 2001	427,000	0.44
Options granted on November 5, 2001	247,000	0.45
Options exercised on November 15, 2001	(20,000)	0.25
Options granted on November 26, 2001	112,000	0.50
Balance, December 31, 2001	3,906,000	0.29

As at December 31, 2001 employee and broker stock options outstanding and exercisable are as follows:

Number of optioned common shares outstanding #	Exercise price \$	Expiry date	Number of optioned common shares exercisable #	Exercise price of options exercisable \$
3,120,000	0.25	April 25, 2006	1,560,000	0.25
427,000	0.44	August 20, 2006	142,333	0.44
247,000	0.45	November 5, 2006	82,333	0.45
112,000	0.50	November 26, 2006	37,333	0.50
72,000	0.25	October 25, 2002	72,000	0.25

4. Subsequent Events

- (a) On January 17, 2002, the Company issued 110,000 stock options exercisable at \$0.50 per common share expiring on December 31, 2002.
- (b) Effective January 18, 2002, the Company entered an agreement pursuant to the terms of which the Company is committed to expending \$665,000 in three equal monthly instalments towards the research and development of technology applicable to light and medium duty commercial vehicles using hybrid-electric powertrains. Under the terms of the agreement, the Company can acquire an exclusive license to the technology and certain related assets upon certain conditions being met. The terms of the license and the assets to be acquired are to be at terms that are mutually agreeable to both parties.
- (c) On January 22, 2002 the Company issued 50,000 employee stock options exercisable at \$0.61 per common share expiring on January 22, 2007.

Six Months ended December 31, 2001 and 2000

4. Subsequent Events - continued

- (d) On January 29, 2002 the Company closed a non-brokered private placement financing of \$5.2 million via the issuance of 10,400,000 Special B Warrants at \$0.50 per Special B Warrant. Each Special B Warrant is convertible into one common share within 12 months of closing.
- (e) On February 5, 2002 the Company received a receipt for its final prospectus (dated January 31, 2002) from the British Columbia, Alberta, and Ontario Securities Commissions relating to the qualification of 8,000,000 Common Shares issuable upon the exercise of 8,000,000 Special A Warrants (Note 3(c)) and 10,400,000 Common Shares issuable upon the exercise of 10,400,000 Special B Warrants (Note 4(d)).

Six Months ended December 31, 2001 and 2000

Research and Development Expenses

Breakdown by major category:

	Three Months Ended December 31		Six Months Ended December 31	
	2001	2000	2001	2000
Salaries & benefits	\$ 350,320	\$ 111,217	\$ 656,792	\$ 204,272
Consulting fees	51,053	97,316	132,668	115,349
Consumable supplies	197,542	41,116	296,792	56,622
Recruitment costs	23,352	571	83,176	571
Travel expenses	27,614	8,236	46,674	11,651
Miscellaneous costs	9,569	4,215	36,824	5,524
	\$ 659,450	\$ 262,671	\$ 1,252,926	\$ 393,989
Less: Government assistance programs and Investment tax credits	(24)	(66,761)	(11,875)	(66,761)
	\$ 659,426	\$ 195,910	\$ 1,241,051	\$ 327,228

General and Administrative Expenses

Breakdown by major category:

	Three Months Ended December 31		Six Months Ended December 31	
	2001	2000	2001	2000
Salaries & benefits	\$ 245,726	\$ 51,472	\$ 445,939	\$ 63,191
Consulting fees	36,175	12,012	133,326	29,560
Office supplies	10,332	859	18,168	1,611
Recruitment costs	482	1,546	48,446	1,546
Contract services	9,789	3,750	22,016	13,938
Travel expenses	78,496	13,144	129,012	15,623
Audit and tax services	7,151	33,000	7,151	37,000
Legal fees	25,816	40,849	59,471	42,848
Regulatory filing and transfer agent fees	11,606	-	16,291	-
Miscellaneous costs	78,626	20,040	132,708	28,878
	\$ 504,199	\$ 176,672	\$ 1,012,528	\$ 234,195

SCHEDULE B: SUPPLEMENTARY INFORMATION

SECTION 1 – Year-to-Date July 1, 2001 to December 31, 2001.

a) Breakdown of Deferred Costs:
Accumulated Net Book

	Cost \$	Amortization \$	Value \$
Patents	13,827	2,060	11,767
Licensed technology	1	-	1
Trademarks	5,129	734	4,395
Deferred Charge (i)	50,000	12,500	37,500
	68,957	15,294	53,633

(i) A \$50,000 non-interest bearing unsecured employee loan was advanced during the year ended June 30, 2000. The loan is to be forgiven in the amount of \$12,500 for each of the next four years commencing May 19, 2001 provided that the employee remains in the employment of the Company. In the event that the employee leaves the Company's employment for any reason, the remaining balance of the loan which has not been forgiven shall become immediately repayable.

b) Breakdown by major category of research and development expenses:

Please refer to the Supplementary Information schedule in the unaudited interim consolidated financial statements for details.

c) Breakdown by major category of general and administrative expenses:

Please refer to the Supplementary Information schedule in the unaudited interim consolidated financial statements for details.

SECTION 2 – Year-to-Date July 1, 2001 to December 31, 2001.

Related Party Transactions

- a) The Company paid \$141,190 (2000 - \$48,422) in fees for management services to companies controlled by senior officers.
- b) Administrative services provided by B.C. Research Inc., a significant shareholder, during the six months ended December 31, 2001 were \$22,016 (2000 - \$13,938).
- c) The Company paid \$80,965 in rent to B.C. Research Inc. for leased premises and equipment during the six months ended December 31, 2001 (2000 - \$38,080).

SECTION 3 – Year-to-Date July 1, 2001 to December 31, 2001.

a) Summary of securities issued during the six months ended December 31, 2001

20,000 common shares, issued for cash, at \$0.25 each, on the exercise of stock options on November 15, 2001.

b) Summary of options granted during the six months ended December 31, 2001

Name of Optionee	NO. of Options	Exercise Price	Grant Date	Expiry Date
Directors and Officers:				
J. Brian Aune	112,000	\$0.44	August 20, 2001	August 20, 2006
Nicholas O. Brigstocke	112,000	\$0.45	November 5, 2001	November 5, 2006
Gregory P. Francis	100,000	\$0.45	November 5, 2001	November 5, 2006
Thomas N. Davidson, Sr.	112,000	\$0.50	November 26, 2001	November 26, 2006
Employees	315,000	\$0.44	August 20, 2001	August 20, 2006
Employees	35,000	\$0.45	November 5, 2001	November 5, 2006
Total	786,000			

SCHEDULE B: SUPPLEMENTARY INFORMATION

SECTION 4 – As at the quarter ended December 31, 2001.

a) Authorized Capital

Please refer to Note 3(a) of the unaudited interim consolidated financial statements for details.

b) Issued Capital

Please refer to Note 3(b) of the unaudited interim consolidated financial statements for details.

c) Options Outstanding

Please refer to Note 3(d) of the unaudited interim consolidated financial statements for details.

d) Shares subject to escrow and pooling agreements

There are 10,716,150 common shares subject to escrow restrictions as at December 31, 2001. 2,143,230 common shares will be released from escrow on each subsequent date that is 12,18,24,30, and 36 months from the issue date of April 24, 2001.

e) List of Directors

J. Brian Aune – Director

Nicholas O. Brigstocke – Director (since October 4, 2001)

Thomas N. Davidson, Sr. – Director (since October 31, 2001)

D. Campbell Deacon – Director, Chairman, Chief Executive Officer

David E. Deacon – Director (since December 7, 2001), President, and Chief Operating Officer

Ray A. Geddes – Director

Senator Michael J.L. Kirby – Director

Jean-Rene Marcoux – Director (since February 12, 2002)

Dennis A. Sharp – Director

f) List of Officers

Wesley M. Arnold – Vice President, Vehicle Design (since February 12, 2002)

Piotr Drozd – Vice President, Technology

Gregory P. Francis – Vice President, Finance (since February 12, 2002) and Chief Financial Officer

Steven Glaser – Vice President, Corporate Affairs (since February 12, 2002)

Ronald V. Iacobelli – Vice President, Quality and Supply Chain (since February 12, 2002)

James R. Ireton – Vice President, Product Development (since February 12, 2002)

Ronald G. Murray – Corporate Secretary

SCHEDULE C: MANAGEMENT'S DISCUSSION AND ANALYSIS

(Three and six-month periods ended December 31, 2001 compared to the three and six-month periods ended December 31, 2000)

This "Management's Discussion And Analysis" should be read in conjunction with the unaudited interim Consolidated Financial Statements and Notes of the Company included in this Quarterly Report, and with the audited Consolidated Financial Statements and Notes, included in the Company's Annual Report for the year ended June 30, 2001.

Results of Operations

The Company is engaged in the development of its core technologies and as such, it mainly expends monies on research and development activities, and on the resources and infrastructure required to develop and commercialize its products. For the three months ("quarter") ended December 31, 2001, the Company incurred a net loss of \$1,251,482 or \$0.05 per share. This compares to a net loss for the same quarter of the preceding fiscal year ("2000") of \$380,783 or \$0.02 per share. The net loss for the six months ended December 31, 2001 was \$2,400,225 (\$0.10 per share) compared to \$550,103 (\$0.03 per share) in the comparable period of 2000. The increase in the level of losses incurred in 2001, compared to 2000, is attributable to the higher levels of activity in research and development, as well as the costs associated with the expansion and strengthening of the technical and managerial teams.

Revenue:

Revenue for the quarter was \$15,193 compared to \$21,667 for the same quarter in 2000. Revenue for the six months ended December 31, 2001 was \$45,484 (2000 - \$101,385). The Company currently has no commercial sales revenue; contract sales (revenue earned from research services performed for third parties) were \$nil in the three and six-month periods ended December 31, 2001 (\$5,625 and \$84,825 for the respective three and six-month periods of 2000). The Company anticipates minimal future revenue from contract sales as it is focused on the research and development activities pertaining to its own products. Interest income earned from cash placed in short-term investments was \$15,193 for the quarter (\$16,042 - 2000) and \$45,484 for the six months ended December 31, 2001 (\$16,560 - 2000).

Cost of contract sales:

The cost of contract sales was \$nil for the three and six-month periods ended December 31, 2001 (\$4,115 and \$36,965 for the respective three and six-month periods of 2000).

Research and development, net:

The Company incurred research and development costs of \$659,426 during the quarter (\$195,910 - 2000). The level of research and development activity is significantly higher when compared to 2000; the total number of research, engineering and other technical employees was 17 people at December 31, 2001 compared to 6 at December 31, 2000. The research and development work is mainly focused on the hybrid electric propulsion system controls for vehicles in the 7,500 - 10,000 lbs. gross vehicle weight ("GVW") class, the Company's first development project. A second project, the design and development of lightweight commercial hybrid electric vehicles, in the 5,000 - 7,500 lbs. GVW class, incorporating advanced body design principles, is in the conceptual and planning stage.

Research and development costs were \$1,241,051 for the six-month period ended December 31, 2001 (\$327,228 - 2000). The costs were reduced by an amount of \$11,875 (\$66,761 - 2000) in the six-month period being the costs reimbursed under the terms of a grant from the National Research Council Canada ("NRC") as well as Investment Tax Credits granted under the terms of the Federal Government's Scientific Research and Experimental Tax Credit Program ("SRED"). A minimal amount was recorded for these items during the quarter (\$66,761 - 2000) as the Company has exhausted the NRC grant and no longer qualifies for the cash reimbursement of SRED credits, but instead must accumulate SRED credits for application against future taxable income.

General and administrative:

General and administrative costs were \$504,199 for the quarter ended December 31, 2001, compared to \$176,672 for the same quarter in 2000. For the six-month period ended December 31, 2001, general and administration costs were \$1,012,528 compared to \$234,195 for the comparable period in 2000. The higher cost base evident in the current quarter and six-month period, when compared to 2000, is due to the increase in people, infrastructure and support services necessary to effect the implementation of the Company's product development and commercialization strategy. The Company now employs a total of 26 people compared to 9 at December 31, 2000.

Liquidity, Capital Resources and Risk Factors

At December 31, 2001 the Company had \$652,425 (June 30, 2001 – \$2,859,452) in cash reserves comprised of cash, cash equivalents and short-term investments. Cash reserves have been applied to fund operations (\$1,963,000) and for the acquisition of capital assets and intellectual properties (\$258,000). Working capital at December 31, 2001 was \$159,996 compared to \$2,785,361 at June 30, 2001. The lower working capital levels at December 31, 2001, compared to June 30, 2001 are primarily a result of the use of cash reserves as described above and also the receipt during the period of investment tax credit and accounts receivable monies.

Azure has no commercial revenue and is therefore dependant on its financing activities to fund its operations. The Company has been in discussions with potential investors to raise additional equity and has also applied for further funding from government agencies. Subsequent to the reporting period, on January 29, 2002, the Company closed a private placement financing raising \$5.2 million in additional equity capital. The proceeds from this financing, together with further government funding currently being sought, will be applied to finance the Company's ongoing research and development and pre-commercialization activities and to support its efforts to obtain the award of a customer contract. Azure's strategy will then be to raise sufficient additional funds to finance its ongoing and contemplated projects at that time. The raising of finance to fund operations is subject to uncertainty. There is no assurance that such financing will be available on commercially reasonable terms, if at all.

Azure's operations are subject to all of the risks inherent in the establishment of a new business enterprise and in particular Azure will require significant additional financing in the future to develop and market its technology to its full potential.