



News Release

AZURE DYNAMICS ANNOUNCES FINANCING OF UP TO \$2.5 MILLION

Vancouver, British Columbia—July 18, 2003

[Azure Dynamics Corporation \(TSX Venture – AZD\)](#) (“Azure”) a leading developer of hybrid electric powertrains for commercial vehicles is pleased to announce a proposed financing of secured convertible debt instruments ("Debentures") of up to \$2.5 million, for which closing is anticipated on July 22, 2003.

The purpose of the financing is to provide Azure with funds needed for immediate liquidity and working capital requirements thereby improving the Company's financial position and enabling it to continue ongoing operations and to progress its current commercialization activities. The Company is of the opinion that it is within reach of certain significant milestones that, if achieved, should support the Company in its endeavours to secure further financing and/or strategic support for its commercialization activities.

Mr. Campbell Deacon, Chairman and CEO of the Company commented, “We have continued to make impressive strides in our commercialization plan. Our biggest challenge has been to raise capital in the prevailing adverse investment climate where investor support for early stage enterprises like ours has been difficult to secure. We are therefore particularly appreciative of the “vote of confidence” from those of our existing shareholders and directors who have provided approximately 72% of this financing in support of the future of Azure and which will serve the Company as a base while we continue to negotiate customer orders, strategic supplier relationships, and follow-on financial support from the investment community and industry.”

The Debentures will have a one year term, maturing June 30, 2004 and will be secured by general security over all the property of the Company and a share pledge of 100% of the equity of the Company's wholly owned subsidiary, Azure Dynamics Inc. (the "Sub"). The Debentures will not bear interest. The Company may repay the Debentures at any time, and at such time each Debenture holder may elect to be repaid in cash or shares. If the Debenture holder elects to be repaid in cash, then the Company shall pay a redemption premium, calculated monthly, commencing July 1, 2003, equal to 2% per month of the face value of the Debenture outstanding, payable in shares ("Redemption Premium Shares"). The Redemption Premium Shares shall be issued at an issuance price based on the 5 day weighted average trading price immediately prior to such month-end. If the Debenture holder elects to be repaid in shares, then such conversion will be at a conversion price equal to \$0.30. The conversion terms of the Debentures will be that each Debenture holder may convert the Debenture into shares of the Corporation at any time before March 31, 2004 at a conversion price of \$0.30. The \$0.30 conversion price was arrived at by negotiations between the Company and the lending group, which concluded on July 15, 2003, at which time the closing trading price for the Company's shares was \$0.32 and the 10 day weighted average closing trading price was \$0.28. The TSX Venture Exchange acceptance of such \$0.30 conversion price has been granted on that basis.

Events of default under the Debentures will include failure to repay by March 31, 2004, failure to maintain a positive net working capital balance, and other standard terms. An event of default will trigger a right of the Debenture holders to either: (a) convert the Debentures into shares of the Corporation at a conversion price equal to the 5 day weighted average trading price prior to the time of the exercise of such default right; or (b) enforce the security.

On closing of the financing, Mr. David Deacon has offered to resign from the Board, to be replaced by a nominee from the lending group. One other nominee from the lending group will also be appointed to the Board on closing. Also on closing, Mr. Campbell Deacon, Chairman and Chief Executive Officer, and Mr. David Deacon, President and Chief Operating Officer, have agreed to forego approximately 50% of their respective annual base remuneration and will therefore instead be compensated on the basis of a base remuneration of \$10,000 per month each and appropriate incentives upon execution of key milestones of the Company's business plan. Mr. Campbell Deacon and Mr. David Deacon have also agreed to the amendment of their respective employment contracts such that the Company's obligation to them upon termination of their employment shall be limited to no greater than three months notice or salary in lieu thereof. An executive committee of the Board will be struck on closing to provide support and guidance to the executive team in the execution of the Company's business plan following closing.

Azure has negotiated the terms of the Debenture financing with a lending group comprised of certain current shareholders. Also, two current directors of the Company will be acquiring indirect interests in the Debentures; namely, Mr. Thomas N. Davidson Sr. who will indirectly acquire an interest in \$100,000 of Debentures, and Mr. J. Brian Aune, who will indirectly acquire an interest in \$156,000 of Debentures. Approximately 28% of the financing has been subscribed for by new investors who are not already shareholders, directors or officers. An independent committee of the Board has been struck to study and consider all the circumstances and aspects of the proposed Debenture financing and to make a recommendation to the Board. The financing is subject to closing conditions, which include Board and regulatory approval. In conjunction with this financing, the Company will be filing with the TSX Venture Exchange a Filing Statement, which will also be available on SEDAR at www.sedar.com.

[Azure Dynamics Corporation](#) is an innovative company that has developed proprietary hybrid electric vehicle technology for the light and medium duty commercial vehicle category. Azure was the recipient of the Canadian Energy Efficiency Award 2003 from Natural Resources Canada in the category of transportation (light duty commercial vehicles) and also received the 2002 Applied Energy Innovation Award from the Canadian Institute of Energy (BC).

The TSX Venture 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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