



News Release

AZURE DYNAMICS REPORTS 2003 SECOND QUARTER RESULTS

Toronto, Ontario — August 21, 2003

[Azure Dynamics Corporation](#) ([TSX Venture – AZD](#)) (“Azure”) a leading developer of hybrid electric powertrains for commercial vehicles is pleased to announce its results for the three months (“quarter”) ended June 30, 2003.

The Company incurred a net loss of \$579,183 or \$0.01 per share in the quarter ended June 30, 2003; the net loss for the same quarter of the preceding year (“2002”) was \$1,850,554 or \$0.04 per share. The cumulative loss for the six months ended June 30, 2003 was \$1,357,898 compared to \$3,355,972 in 2002. The Company’s cost base is significantly lower than in 2002 as cost reduction initiatives were implemented in mid-2002. Also, in the current quarter contributions from government assistance programs, sponsorships, and customers reduced research and development costs by \$575,317 (2002 – \$107,596). Year-to-date these contributions amounted to \$670,555 (2002 – \$567,627). Prior year expenses were also higher due to large expenditure items in respect of third-party product development (\$665,000), corporate finance costs (\$218,539), and lease termination costs (\$457,665) which have not reoccurred in 2003.

Activities

- During the quarter under review, the Company announced, and commenced work on, a contract with Canada Post, whereby the Company will build seven demonstration hybrid electric vehicles, two of which it will retain for further testing. This contract is sponsored by EnCana Corporation who has contributed \$1 million towards the development cost of the demonstration vehicles; Canada Post will itself contribute \$325,000 towards the cost of the vehicles it will acquire from the program.
- The Company also announced an agreement to develop and potentially supply London Taxi International with electric and hybrid electric powertrains to be incorporated into a new range of urban vehicles for commercial applications. This project is in the conceptual design stage. The powertrains to be supplied by Azure to both Canada Post and LTI are consistent with the Company’s G1 product for vehicles with a gross vehicle weight ranging from 8,500 - 15,000 lbs.
- Further, the Company entered into an agreement to supply demonstration taxis to London Taxi International and will receive approximately \$720,000 for its participation in this project. The build program for the taxis, which commenced in the quarter, is complimentary to the Company’s G2r product for vehicles with a gross vehicle weight ranging from 5,000 - 8,500 lbs.
- During the quarter, the Company was awarded its third US patent regarding Azure’s battery management technology.

- Subsequent to June 30, 2003, on July 22, 2003 the Company announced a strategic alliance with ZF Sachs AG, the powertrain and suspension components division of the ZF Group. Under the terms of the strategic alliance, ZF Sachs will adapt their electric traction drive and generator technology specifically to Azure's hybrid electric smart energy management systems. The ZF Sachs components to be sold by Azure will be co-branded.
- The Company also completed, on July 31, 2003, a secured convertible debenture financing raising gross proceeds of \$2.21 million (of which \$1.2 million is subject to certain escrow conditions) to provide it with funds for immediate liquidity and working capital requirements.

"We continue to make progress in our drive to commercialization," said D. Campbell Deacon, Chairman and Chief Executive Officer of Azure. "Our Canada Post/EnCana agreement represents an innovative approach to financing the cost of 'greening' technology that we intend to employ again in the future," he said. "We are also pleased with our growing relationship with ZF Sachs, a Tier 1 supplier with the expertise to provide additional product solutions that we can offer our customers." Mr. Deacon further explained, "Financing, in the current difficult market conditions for technology companies continues to be the major constraint impacting our progress. We are pleased to have secured the support of some of our existing shareholders in the bridge financing completed in July 2003. Our focus now, is to achieve certain near term milestones which we believe will materially demonstrate the commercial viability of our technology".

[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).

- 30 -

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.

FOR MORE INFORMATION, CONTACT:

Greg Francis, Vice-President, Finance and Chief Financial Officer (416) 367-0220 ext 110

Email: gfrancis@azuredynamics.com

Or 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

Azure Dynamics Corporation
(A Development Stage Enterprise)

Consolidated Interim Balance Sheets

As at	June 30 2003 (Unaudited)	December 31 2002 (Audited)	June 30 2002 (Audited)
ASSETS			
Current			
Cash and cash equivalents	\$ 432,974	\$ 1,030,594	\$ 1,896,248
Accounts receivable	61,714	28,253	68,327
Contributions receivable	72,680	264,455	567,626
Prepaid and other expenses	41,174	13,320	53,961
	<u>608,542</u>	<u>1,336,622</u>	<u>2,586,162</u>
Employee loans	257,429	259,214	259,214
Capital assets	212,663	276,036	372,019
Other assets	101,286	<u>97,992</u>	<u>97,005</u>
	\$ 1,179,920	\$ 1,967,864	\$ 3,314,400
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	\$ 372,125	\$ 347,313	\$ 442,625
Deferred sponsorship contributions	527,363	-	-
Obligations under capital leases	2,575	9,796	13,748
	<u>902,063</u>	<u>357,109</u>	<u>456,373</u>
Obligations under capital leases	-	-	2,575
	<u>902,063</u>	<u>357,109</u>	<u>458,948</u>
Shareholders' equity			
Share capital	11,813,905	11,788,905	11,195,038
Special warrants	90,000	90,000	-
Deficit	(11,626,048)	(10,268,150)	(8,339,586)
	<u>277,857</u>	<u>1,610,755</u>	<u>2,855,452</u>
	\$ 1,179,920	\$ 1,967,864	\$ 3,314,400

Approved on behalf of the Board:

"D. Campbell Deacon" Director

"J. Brian Aune" Director

**Azure Dynamics Corporation
(A Development Stage Enterprise)**

**Unaudited Consolidated Interim Statements of Operations
and Deficit**

	For the three months ended June 30		For the six months ended June 30	
	2003	2002**	2003	2002**
Revenue				
Other income	\$ 7,674	\$ 16,592	\$ 13,850	\$ 32,985
Expenses				
Research and development, net	58,933	431,850	340,122	1,154,786
Selling and marketing	151,948	287,898	293,765	451,833
General and administrative	275,868	495,675	537,868	957,328
Rent	56,843	130,882	113,836	283,990
Amortization	43,265	63,176	86,157	83,355
	586,857	1,409,481	1,371,748	2,931,292
Net loss for the period before other items	(579,183)	(1,392,889)	(1,357,898)	(2,898,307)
Lease termination	-	457,665	-	457,665
Net loss for the period	(579,183)	(1,850,554)	(1,357,898)	(3,355,972)
Deficit, beginning of period	(11,046,865)	(6,489,032)	(10,268,150)	(4,983,614)
Deficit, end of period	\$ (11,626,048)	\$ (8,339,586)	\$ (11,626,048)	\$(8,339,586)
Earnings per share *	(0.01)	(0.04)	(0.03)	(0.07)
Weighted average number of shares	45,031,042	43,308,430	45,019,716	38,843,397

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

** Certain comparative figures have been restated to conform with the current period presentation.

Azure Dynamics Corporation
(A Development Stage Enterprise)

Unaudited Interim Consolidated Statements of Cash Flows

	For the three months ended June 30		For the six months ended June 30	
	2003	2002	2003	2002
Cash flows from operating activities				
Operations				
Net loss for the period	\$ (579,183)	\$ (1,850,554)	\$ (1,357,898)	\$ (3,355,972)
Adjustment for:				
Amortization	43,265	63,176	86,157	83,355
Lease termination	-	457,665	-	457,665
Shares issued in lieu of non-executive directors fees	6,250	-	12,500	-
Bad debt write-off	-	-	1,786	-
Changes in non-cash working capital items	(373,833)	(361,559)	(304,865)	(958,078)
	(903,501)	(1,691,272)	(1,562,320)	(3,773,030)
Cash flows from financing activities				
Issuance of common shares (net of costs)	-	134,213	-	5,193,120
Research and development sponsorship funds received	1,000,000	-	1,000,000	-
Reduction in employee loans	-	7,143	-	14,287
Repayment of obligations under capital lease	(3,702)	(2,933)	(7,222)	(5,794)
	996,298	138,423	992,778	5,201,613
Cash flows from investing activities				
Acquisition of capital assets	(3,246)	(68,534)	(3,246)	(139,013)
Acquisition of intellectual properties	(7,293)	(3,180)	(24,832)	(45,747)
	(10,539)	(71,714)	(28,078)	(184,760)
Increase (decrease) in cash and cash equivalents	82,258	(1,624,563)	(597,620)	1,243,823
Cash and cash equivalents, beginning of period	350,716	3,520,811	1,030,594	652,425
Cash and cash equivalents, end of period	\$ 432,974	\$ 1,896,248	\$ 432,974	\$ 1,896,248