



# News Release

For Immediate Release

## **AZURE DYNAMICS REPORTS THIRD QUARTER RESULTS FOR PERIOD ENDING MARCH 31, 2002**

**Vancouver, British Columbia—May 22, 2002** *(Financial numbers are provided in Canadian dollars unless otherwise stated)*

[Azure Dynamics Corporation \(TSX Venture - AZD\)](#) a leading developer of hybrid electric smart energy management systems for commercial vehicles has announced its third 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 March 31, 2002, the Company incurred a net loss of \$1,505,418 or \$0.04 per share. This compares to a net loss for the same quarter of the preceding fiscal year of \$583,931 or \$0.03 per share. The increase in the deficit in the quarter ended March 31, 2002, compared to the quarter ended March 31, 2001, is attributable to the higher level of research and development, marketing and management 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 continues to meet the milestones it has established to ensure successful commercialization of its technology. In the period under review, the Company completed a further round of financing raising \$5.2 million, successfully concluded a six month period of in-service trials of its prototype hybrid electric vehicle with the Canada Post fleet, and commissioned independent economy and emissions tests on our prototype that validated the benefits of our technology."

On March 22<sup>nd</sup>, the company announced that independent trials, conducted by Independent Vehicle Testing Ltd. of Delta, British Columbia, on Azure's prototype hybrid-electric delivery van demonstrated an average fuel economy improvement of 129% when measured against the fuel economy of conventionally powered delivery vehicles. Emission tests of Azure's hybrid vehicle demonstrated 83%, 91%, and 53% reductions of hydrocarbons, carbon monoxide, and nitrous oxides respectively versus a conventionally powered delivery van.

Mr. Deacon further explained that on April 2<sup>nd</sup>, the company announced it had entered into a Research and Development agreement with the Government of Canada, through Technology Partnerships Canada, whereby the government will contribute towards specified research and development expenditures up to a maximum reimbursement of \$9 million. Technology Partnerships Canada, a key element in the federal government's innovation strategy, leverages private sector investments in research, development and innovation in critical, leading-edge technologies. The investment will help the company undertake further pre-commercialization research, development and testing of Azure's smart energy management systems and powertrains for hybrid electric vehicles.

Azure Dynamics Corporation is an innovative company that has developed proprietary hybrid electric vehicle technology for retrofit and new vehicle powertrains in the light and medium duty commercial vehicle categories. 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 practical, both economically and operationally. A series hybrid system (battery plus fuel cell) enables a reduction in the size of the required fuel cell stack and also reduces power electronics complexity thereby lowering the cost of the total fuel cell system and also simplifying many application issues.

**FOR MORE INFORMATION, CONTACT:**

Greg Francis, Vice-President, Finance  
& Chief Financial Officer

Phone: (604) 224-2421 Ext. 667

Email: [gfrancis@azuredynamics.com](mailto:gfrancis@azuredynamics.com)

Steven Glaser, Vice-President, Corporate Affairs

Phone: (416) 367-0220 Ext.105

Email: [sglaser@azuredynamics.com](mailto:sglaser@azuredynamics.com)

Or visit the company's website at [www.azuredynamics.com](http://www.azuredynamics.com)

BC Research Complex, 3650 Wesbrook Mall Vancouver, BC Canada V6S 2L2

**Tel: 604-224-2421 Fax: 604-222-5538**

Email: [info@azuredynamics.com](mailto:info@azuredynamics.com)

*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.

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

## Letter to Shareholders

### Third Quarter 2002

*(Financial numbers are provided in Canadian dollars unless otherwise stated)*

Azure continues to reach key milestones in its development and in realizing our goals of commercializing our technology and becoming a recognized world leader in hybrid electric systems for commercial vehicles.

During the quarter under review, Azure completed a private placement financing raising \$5.2 million, successfully concluded its six month in-service trials of a Canada Post prototype hybrid electric vehicle equipped with Azure's Smart Energy Management Control System, and commissioned a third party to conduct independent tests on the prototype vehicle to validate the benefits of the Company's technology. The Company also issued a prospectus, dated January 31, 2002, and thereby converted, for no additional cash consideration, the outstanding 8,000,000 Special A Warrants (issued June 2001) and the 10,400,000 Special B Warrants (issued January 2002) into 10,800,000 common shares.

On March 22<sup>nd</sup>, the company announced that trials conducted by Independent Vehicle Testing Ltd. of Delta, British Columbia, on Azure's prototype hybrid-electric delivery van demonstrated an average fuel economy improvement of 129% when measured against the fuel economy of four conventional delivery vehicles. The tests were conducted on an urban package delivery route, a residential mail delivery route, and a U.S. Environmental Protection Agency urban driving cycle. Emission tests of Azure's hybrid vehicle demonstrated 83%, 91%, and 53% reductions of hydrocarbons, carbon monoxide, and nitrous oxides respectively versus a conventionally powered delivery van.

On April 2<sup>nd</sup>, the company announced it had entered into a Research and Development agreement with the Government of Canada, through Technology Partnerships Canada, whereby the government will contribute towards specified research and development expenditures up to a maximum reimbursement of \$9 million. Technology Partnerships Canada, a key element in the federal government's innovation strategy, leverages private sector investments in research, development and innovation in critical, leading-edge technologies. The investment will help the company undertake further pre-commercialization research, development and testing of Azure's smart energy management systems and powertrains for hybrid electric vehicles. We were honoured to have the Hon. Allan Rock, Minister of Industry, visit our Vancouver research and development facility on April 12<sup>th</sup> to make the formal announcement.

We have a clear path towards commercialization of our products; our focus is to support this plan with customer participation, forging strategic alliances with key partners who have existing technologies that complement Azure's patented innovation, and raising the required capital to finance activities.

I look forward to keeping you informed about our progress. In the meantime, please visit our website at [www.azuredynamics.com](http://www.azuredynamics.com) for more information.

Sincerely,

D. Campbell Deacon

Chairman

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**(Three and nine-month periods ended March 31, 2002 compared to the three and nine-month periods ended March 31, 2001)**

*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 March 31, 2002, the Company incurred a net loss of \$1,505,418 or \$0.04 per share. This compares to a net loss for the same quarter of the preceding fiscal year ("2001") of \$583,931 or \$0.03 per share. The net loss for the nine months ended March 31, 2002 was \$3,905,643 (\$0.14 per share) compared to \$1,134,034 (\$0.06 per share) in the comparable period of 2001. The increase in the level of losses incurred in 2002, compared to 2001, 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 \$16,393 compared to \$26,609 for the same quarter in 2001. Revenue for the nine months ended March 31, 2002 was \$61,877 (2001 - \$127,994). 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 nine-month periods ended March 31, 2002 (\$10,625 and \$95,450 for the respective three and nine-month periods of 2001). The Company anticipates minimal future revenue from contract sales as it is focused on the research and development activities pertaining to its own products. Other revenue, mainly interest income earned from cash placed in short-term investments, was \$16,393 for the quarter (\$15,984 - 2001) and \$61,877 for the nine months ended March 31, 2002 (\$32,544 - 2001).

#### Cost of contract sales:

The cost of contract sales was \$nil for the three and nine-month periods ended March 31, 2002 (\$829 and \$37,794 for the respective three and nine-month periods of 2001).

#### Research and development, net:

During the quarter under review, the Company incurred research and developments costs of \$1,182,967 (\$366,963 - 2001); the research and development costs were reduced by \$460,031 (\$94,739 - 2001) in respect of government assistance programs and tax credits resulting in net costs of \$722,936 (\$272,224 - 2001). The level of research and development activity is significantly higher when compared to 2001; the total number of research, engineering and other technical employees was 19 people at March 31, 2002 compared to 11 at March 31, 2001. The research and development work is mainly focused on the Company's first development project, a series hybrid electric control system for a commercial vehicle in the 7,500 - 10,000 lbs. gross vehicle weight ("GVW") category. A second project, the development of a 5,000 - 7,500 lbs. GVW hybrid electric vehicle, incorporating advanced body design principles, is at the conceptual and planning stage.

The Company expended \$665,000 in the quarter pursuant to an agreement, dated January 18, 2002, in respect of third-party costs for the research and development of technology applicable to its 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.

On March 31, 2002 the Company entered into a \$9 million Research and Development agreement with the Government of Canada, through its Technology Partnerships Canada ("TPC") program. The agreement provides for a contribution by TPC towards specified expenditures in respect of the research and development of two hybrid electric powertrains up to a maximum reimbursement of \$9 million. The first contribution claim, covering the period October 2001 to March 2002, has been recorded as a reduction of research and development expenditures, in the amount of \$460,031, with a corresponding receivable amount reflected on the company's balance sheet as at March 31, 2002. The Company has not recorded a repayment liability with respect to the TPC contribution as repayment is in the form of royalties, contingent upon future commercial sales revenues. During the quarter, no National Research Council Canada ("NRC") grants or Investment tax Credits were recorded (\$94,739 - 2001) as the Company has exhausted the NRC grant and no longer qualifies for the cash reimbursement of Scientific Research and Experimental Tax Credit Program ("SRED") credits, but instead must accumulate SRED credits for application against future taxable income.

Research and development costs were \$1,963,987 for the nine-month period ended March 31, 2002 (\$599,452 – 2001). The costs were reduced by an amount of \$471,906 (\$ 161,500 – 2001) in the nine-month period being the costs reimbursed by NRC, SRED and the TPC contribution.

#### Selling and Marketing:

Selling and marketing costs were \$163,935 for the quarter ended March 31, 2002 (\$55,648 – 2001) and \$429,743 for the nine-month period ended March 31, 2002 (\$110,203 – 2001). The Company now employs two people directly involved in sales and marketing activities (Nil – 2001); the costs incurred in the comparable periods were in respect of services provided by third parties.

#### General and administrative:

General and administrative costs were \$461,653 for the quarter ended March 31, 2002, compared to \$244,149 for the same quarter in 2001. For the nine-month period ended March 31, 2002, general and administration costs were \$1,208,373 compared to \$423,787 for the comparable period in 2001. The higher cost base evident in the current quarter and nine-month period, when compared to 2001, 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 29 people compared to 15 at March 31, 2001.

### **Liquidity, Capital Resources and Risk Factors**

At March 31, 2002 the Company had \$3,520,811 (June 30, 2001 – \$2,859,452) in cash reserves comprised of cash, cash equivalents and short-term investments. On January 29, 2002 the Company completed a private placement financing of \$5.2 million; net proceeds after issue costs were \$4,999,532. On February 5, 2002 the Company received a receipt for its final prospectus from the British Columbia, Alberta and Ontario Securities Commissions whereupon the 8,000,000 Special A warrants and 10,400,000 Special B warrants, previously issued for cash, were exercised and converted into 18,400,000 common shares for no additional cash consideration. During the nine month period under review, the Company has applied cash reserves to fund operations (\$4,044,521) and for the acquisition of capital assets and intellectual properties (\$371,266). Working capital at March 31, 2002 was \$3,637,486 compared to \$2,785,361 at June 30, 2001. The higher working capital levels at March 31, 2002, compared to June 30, 2001 are primarily a result of the receipt of the net proceeds of the private placement funding, less the use of cash reserves as described above.

Azure has no commercial revenue and is therefore dependant on its financing activities to fund its operations. The proceeds from the recent financing, together with the Technology Partnerships Canada funding, 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 customer contracts. Azure will be required to raise sufficient additional funds to finance its commercialization strategy. The raising of additional 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.

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**Azure Dynamics Corporation**  
**(A Development Stage Enterprise)**  
**Unaudited Interim Consolidated Financial Statements**  
**For the nine months ended March 31, 2002**

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

As at	March 31 2002 (Unaudited)	June 30 2001 (Audited)	March 31 2001 (Unaudited)
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 3,520,811	\$ 2,859,452	\$ 634,868
Investment tax credits receivable	-	147,341	147,500
Accounts receivable	578,299	242,618	368,713
Prepaid expenses	73,833	73,000	204,857
	<u>4,172,943</u>	<u>3,322,411</u>	<u>1,355,938</u>
<b>Employee loans</b>	<b>266,357</b>	273,501	-
<b>Related party receivable</b>	-	14,156	-
<b>Capital assets</b>	<b>576,472</b>	291,516	185,239
<b>Other assets</b>	<b>97,944</b>	48,995	56,252
	<u>\$ 5,113,716</u>	<u>\$ 3,950,579</u>	<u>\$ 1,597,429</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>			
Accounts payable and accrued liabilities	\$ 522,668	\$ 537,050	\$ 231,874
Current portion of obligations under capital leases	12,789	-	-
	<u>535,457</u>	<u>537,050</u>	<u>231,874</u>
<b>Obligations under capital leases</b>	<b>6,466</b>	-	-
	<u>541,923</u>	<u>537,050</u>	<u>231,874</u>
<b>Shareholders' equity</b>			
Share capital	11,060,825	2,496,918	3,010,904
Special warrants	-	3,500,000	-
Deficit	(6,489,032)	(2,583,389)	(1,645,349)
	<u>4,571,793</u>	<u>3,413,529</u>	<u>1,365,555</u>
	<u>\$ 5,113,716</u>	<u>\$ 3,950,579</u>	<u>\$ 1,597,429</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 March 31		Nine Months Ended March 31	
	2002	2001	2002	2001
<b>Revenue</b>				
Contract sales	\$ -	\$ 10,625	\$ -	\$ 95,450
Other	<b>16,393</b>	15,984	<b>61,877</b>	32,544
	<u>16,393</u>	<u>26,609</u>	<u>61,877</u>	<u>127,994</u>
<b>Cost of contract sales</b>	<u>-</u>	<u>829</u>	<u>-</u>	<u>37,794</u>
	<b>16,393</b>	<b>25,780</b>	<b>61,877</b>	<b>90,200</b>
<b>Expenses</b>				
Research and development, net	<b>722,936</b>	272,224	<b>1,963,987</b>	599,452
Selling and marketing	<b>163,935</b>	55,648	<b>429,743</b>	110,203
General and administrative	<b>461,653</b>	244,148	<b>1,208,373</b>	423,787
Rent	<b>153,108</b>	21,782	<b>278,033</b>	59,863
Amortization	<b>20,179</b>	15,909	<b>87,384</b>	30,929
	<u>1,521,811</u>	<u>609,711</u>	<u>3,967,520</u>	<u>1,224,234</u>
<b>Net loss for the period</b>	<b>(1,505,418)</b>	(583,931)	<b>(3,905,643)</b>	(1,134,034)
Deficit, beginning of period	<u>(4,983,614)</u>	<u>(1,061,418)</u>	<u>(2,583,389)</u>	<u>(511,315)</u>
<b>Deficit, end of period</b>	<b>\$ (6,489,032)</b>	\$(1,645,349)	<b>\$(6,489,032)</b>	\$ (1,645,349)
<b>Loss per share *</b>	<b>\$ (0.04)</b>	\$ (0.03)	<b>\$ (0.14)</b>	\$ (0.06)
<b>Weighted average number of shares</b>	<b>34,328,753</b>	23,079,140	<b>27,835,839</b>	19,082,801

\* 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 March 31		Nine Months Ended March 31	
	2002	2001	2002	2001
<b>Cash flows from operating activities</b>				
Operations				
Net loss for the period	\$ (1,505,418)	\$ (583,931)	\$ (3,905,643)	\$ (1,134,034)
Adjustment for:				
Amortization	20,179	15,909	87,384	30,929
Changes in non-cash working capital Items	(596,519)	(238,979)	(226,262)	(231,693)
	<u>(2,081,758)</u>	<u>(807,001)</u>	<u>(4,044,521)</u>	<u>(1,334,798)</u>
<b>Cash flows from financing activities</b>				
Issuance of common shares (net of costs)	5,058,907	35,875	5,063,907	2,334,106
Advance (repayment) to related party	-	(2,105)	14,156	3,790
Employee loans	7,144	-	7,144	-
Payment on obligations under capital leases	(2,861)	-	(8,061)	-
Issue (repayment) of long term debt	-	-	-	(50,000)
	<u>5,063,190</u>	<u>33,770</u>	<u>5,077,146</u>	<u>2,287,896</u>
<b>Cash flows from investing activities</b>				
Acquisition of capital assets	(70,479)	(37,310)	(324,082)	(159,175)
Acquisition of intellectual properties	(42,567)	(5,161)	(47,184)	(6,747)
Note receivable	-	-	-	(250,000)
	<u>(113,046)</u>	<u>(42,471)</u>	<u>(371,266)</u>	<u>(415,922)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>2,868,386</b>	<b>(815,702)</b>	<b>661,359</b>	<b>537,176</b>
Cash and cash equivalents, beginning of period	<u>652,425</u>	<u>1,450,570</u>	<u>2,859,452</u>	<u>97,692</u>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,520,811</b>	<b>\$ 634,868</b>	<b>\$ 3,520,811</b>	<b>\$ 634,868</b>

## **1. Nature of Operations and Basis of Presentation**

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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.

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## **2. Significant Accounting Policies**

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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.

**Azure Dynamics Corporation**  
**(A Development Stage Enterprise)**  
**Notes To Consolidated Financial Statements**  
**(unaudited)**

Nine Months ended March 31, 2002 and 2001

**3. Share Capital, Special 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

	Number of Common Shares	Amount
Balance, June 30, 2001	24,649,009	\$ 2,496,918
Issued on exercise of options	20,000	5,000
Balance, December 31, 2001	24,669,009	2,501,918
Issued on conversion of Special A and B Warrants	18,400,000	8,499,532
Issued on exercise of options	237,500	59,375
<b>Balance, March 31, 2002</b>	<b>43,306,509</b>	<b>\$ 11,060,825</b>

(c) Special A and B Warrants

	Number of Special Warrants	Amount
Special A Warrants issued for cash, net of issuance costs	8,000,000	\$ 3,500,000
Balance, December 31, 2001 and June 30, 2001	8,000,000	3,500,000
Special B Warrants issued for cash, net of issuance costs	10,400,000	4,999,532
Less Special A and B Warrants converted to shares	(18,400,000)	(8,499,532)
<b>Balance, March 31, 2002</b>	<b>-</b>	<b>\$ -</b>

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 common share.

On January 29, 2002 the Company completed a non-brokered placement of 10,400,000 Special B Warrants at a price of \$0.50 each for the net proceeds of \$4,999,532 after deducting estimated issuance costs of \$200,468. Each Special B Warrant entitles the holder to receive, at no additional cost, one common share.

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 and 10,400,000 Common Shares issuable upon the exercise of 10,400,000 Special B Warrants, whereupon the Special A and B Warrants were exercised and converted into common shares.

(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 prices 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.

**Azure Dynamics Corporation**  
**(A Development Stage Enterprise)**  
**Notes To Consolidated Financial Statements**  
**(unaudited)**

**Nine Months ended March 31, 2002 and 2001**

**3. Share Capital, Special Warrants and Stock Options (cont.)**

(d) Stock Options (cont.)

As at March 31, 2002, the Company had 5,183,000 stock options outstanding under the Plan, of which 2,181,331 were exercisable, at a weighted average exercise price of \$0.42 per common share. The stock options expire on various dates between April 25, 2006 and March 11, 2007.

As at March 31, 2002, the Company had 72,000 Broker Financial Advisory options outstanding, all of which are exercisable, at an exercise price of \$0.25 per common share, expiring October 25, 2002.

Stock option transactions for the nine months ended March 31, 2002 and the number of stock options outstanding are summarized as follows:

	<b>Number of Optioned Common Shares</b>	<b>Weighted Average Exercise Price</b>
	#	\$
<b>Stock Option Plan:</b>		
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
Options granted on January 17, 2002	110,000	0.50
Options granted on January 22, 2002	50,000	0.61
Options granted on February 12, 2002	85,000	0.61
Options cancelled on February 28, 2002	(29,500)	0.25
Options cancelled on March 5, 2002	(21,000)	0.25
Options exercised on March 5, 2002	(88,500)	0.25
Options granted on March 7, 2002	20,000	0.71
Options exercised on March 12, 2002	(112,000)	0.25
Options exercised on March 27, 2002	(37,000)	0.25
Options granted on March 11, 2002	1,300,000	0.73
Balance, March 31, 2002	5,183,000	0.42
<b>Broker Financial Advisory Options:</b>		
Balance, June 30, 2001 and March 31, 2002	72,000	0.25
<b>Total Options Outstanding, March 31, 2002</b>	<b>5,255,000</b>	<b>0.42</b>

**Azure Dynamics Corporation**  
**(A Development Stage Enterprise)**  
**Notes To Consolidated Financial Statements**  
**(unaudited)**

**Nine Months ended March 31, 2002 and 2001**

**3. Share Capital, Special Warrants and Stock Options (cont.)**

(d) Stock Options (cont.)

As at March 31, 2002 employee and broker stock options outstanding and exercisable are as follows:

Expiry date	Number of optioned common shares outstanding	Number of optioned common shares exercisable	Exercise price
	#	#	\$
September 30, 2002	10,000	3,333	0.44
December 31, 2002	110,000	27,500	0.50
April 25, 2006	2,832,000	1,406,834	0.25
August 20, 2006	417,000	139,000	0.44
November 5, 2006	247,000	82,333	0.45
November 26, 2006	112,000	37,333	0.50
January 22, 2007	50,000	16,667	0.61
February 12, 2007	85,000	28,333	0.61
March 7, 2007	20,000	6,666	0.71
March 11, 2007	1,300,000	433,332	0.73
<b>Total Stock Option Plan</b>	<b>5,183,000</b>	<b>2,181,331</b>	
Broker Financial Advisory Options	72,000	72,000	0.25
	<b>5,255,000</b>	<b>2,253,331</b>	

**4. Subsequent Events**

- (a) On April 12, 2002, the Company issued 30,000 employee stock options exercisable at \$0.94 per common share expiring on April 12, 2007.

**Azure Dynamics Corporation**  
**(A Development Stage Enterprise)**  
**Supplementary Information**  
**(unaudited)**

**Nine Months ended March 31, 2002 and 2001**

**Research and Development Expenses**

Breakdown by major category:

	Three Months Ended March 31		Nine Months Ended March 31	
	2002	2001	2002	2001
Salaries & benefits	\$ 405,282	\$ 193,327	\$ 1,062,074	\$ 397,599
Recruitment costs	7,110	-	90,286	571
Product development costs	694,417	151,635	1,123,877	323,606
Travel expenses	47,128	6,830	93,802	18,481
Telephone, fax and internet costs	2,599	265	5,608	382
Miscellaneous costs	26,431	14,906	60,246	20,313
	<b>\$ 1,182,967</b>	<b>\$ 366,963</b>	<b>\$ 2,435,893</b>	<b>\$ 760,952</b>
Less: Government assistance programs and Investment tax credits	<b>(460,031)</b>	<b>(94,739)</b>	<b>(471,906)</b>	<b>(161,500)</b>
	<b>\$ 722,936</b>	<b>\$ 272,224</b>	<b>\$ 1,963,987</b>	<b>\$ 599,452</b>

**Selling and Marketing Expenses**

Breakdown by major category:

	Three Months Ended March 31		Nine Months Ended March 31	
	2002	2001	2002	2001
Salaries & benefits	\$ 90,115	\$ 14,994	\$ 222,712	\$ 21,652
Consulting fees	-	32,365	36,294	75,300
Travel expenses	45,321	8,289	111,045	10,041
Telephone, fax and internet costs	4,609	-	13,182	-
Marketing/ advertising and PR	23,890	-	46,510	3,210
	<b>\$ 163,935</b>	<b>\$ 55,648</b>	<b>\$ 429,743</b>	<b>\$ 110,203</b>

**General and Administrative Expenses**

Breakdown by major category:

	Three Months Ended March 31		Nine Months Ended March 31	
	2002	2001	2002	2001
Salaries & benefits	\$ 192,730	\$ 65,582	\$ 469,779	\$ 79,180
Consulting fees	154,070	96,790	287,396	126,350
Office supplies	6,407	4,882	24,575	6,493
Recruitment costs	7,100	4,657	55,546	6,203
Contract services	2,818	6,343	24,834	20,281
Travel expenses	39,024	20,556	102,312	34,426
Audit and tax services	-	(6,280)	7,151	30,720
Legal fees	48,913	6,774	108,384	49,622
Regulatory filing and transfer agent fees	12,735	-	29,026	-
Telephone, fax and internet costs	20,022	4,208	56,360	13,484
Miscellaneous costs	(22,166)	40,636	43,010	57,028
	<b>\$ 461,653</b>	<b>\$ 244,148</b>	<b>\$ 1,208,373</b>	<b>\$ 423,787</b>

