
Azure Dynamics Corporation
(A Development Stage Enterprise)
Unaudited Interim Consolidated Financial Statements
For the three months ended March 31, 2003

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

As at	March 31 2003 (Unaudited)	December 31 2002 (Audited)	March 31 2002 (Unaudited)
ASSETS			
Current			
Cash and cash equivalents	\$ 350,716	\$ 1,030,594	\$ 3,520,811
Accounts receivable	25,788	28,253	118,268
Contributions receivable	95,238	264,455	460,031
Prepaid and other expenses	47,248	13,320	73,833
	<u>518,990</u>	<u>1,336,622</u>	<u>4,172,943</u>
Employee loans	257,429	259,214	266,357
Capital assets	242,749	276,036	576,472
Other assets	103,926	95,992	97,944
	<u>\$ 1,123,094</u>	<u>\$ 1,967,864</u>	<u>\$ 5,113,716</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current			
Accounts payable and accrued liabilities	\$ 259,777	\$ 347,313	\$ 522,668
Obligations under capital leases	6,277	9,796	12,789
	<u>266,054</u>	<u>357,109</u>	<u>535,457</u>
Obligations under capital leases	-	-	6,466
	<u>266,054</u>	<u>357,109</u>	<u>541,923</u>
Shareholders' equity			
Share capital	11,813,905	11,788,905	11,060,825
Special warrants	90,000	90,000	-
Deficit	(11,046,865)	(10,268,150)	(6,489,032)
	<u>857,040</u>	<u>1,610,755</u>	<u>4,571,793</u>
	<u>\$ 1,123,094</u>	<u>\$ 1,967,864</u>	<u>\$ 5,113,716</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

For the three months ended
March 31

	2003	2002^{***}
Revenue		
Other income	\$ 6,176	\$ 16,393
Expenses		
Research and development, net*	273,740	722,936
Selling and marketing	141,817	163,935
General and administrative	269,449	461,653
Rent	56,993	153,108
Amortization	42,892	20,179
	784,891	1,521,811
Net loss for the period	(778,715)	(1,505,418)
Deficit, beginning of period	(10,268,150)	(4,983,614)
Deficit, end of period	\$ (11,046,865)	\$ (6,489,032)
Loss per share **	\$ (0.02)	\$ (0.04)
Weighted average number of shares	45,008,264	34,328,753

* See Supplementary Information – page 9.

** 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 Consolidated Statements of Cash Flows

For the three months ended
March 31

	2003	2002
Cash flows from operating activities		
Operations		
Net loss for the period	\$ (778,715)	\$ (1,505,418)
Adjustment for:		
Amortization	42,892	20,179
Shares issued in lieu of non-executive directors fees	6,250	-
Doubtful debt provision	1,786	-
Changes in non-cash working capital items	68,968	(596,519)
	<u>(658,819)</u>	<u>(2,081,758)</u>
Cash flows from financing activities		
Issuance of common shares (net of costs)	-	5,058,907
Reduction in employee loan	-	7,144
Payment of obligations under capital leases	(3,519)	(2,861)
	<u>(3,519)</u>	<u>5,063,190</u>
Cash flows from investing activities		
Acquisition of capital assets	-	(70,479)
Acquisition of intellectual properties	(17,540)	(42,567)
	<u>(17,540)</u>	<u>(113,046)</u>
Increase /(Decrease) in cash and cash equivalents	(679,878)	2,868,386
Cash and cash equivalents, beginning of period	<u>1,030,594</u>	<u>652,425</u>
Cash and cash equivalents, end of period	\$ 350,716	\$ 3,520,811

Three Months ended March 31, 2003 and 2002 (unaudited)

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. On December 31, 2002, in order to harmonize its financial reporting requirements with internal operations and its industry sector, the reporting year-end for the consolidated entities was changed to December 31 from June 30.

The Company is a development stage enterprise, involved in developing adaptive 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 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 consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles 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 consolidated 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 six months ended December 31, 2002.

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 December 31, 2002 audited financial statements, unless noted otherwise.

Stock-based compensation

Effective July 1, 2002 the Company adopted the recommendations in the Canadian Institute of Chartered Accountants handbook section 3870 – Stock-Based Compensation and Other Stock-Based Payments. This section requires that direct awards of stock, or plans that create liabilities based on the price of common stock, be measured at fair value at each reporting date, with the change in fair value reported in the statements of income and encourages, but does not require, the use of the fair value method for all other types of stock-based compensation plans.

The Company has a stock option plan for directors, officers, employees and consultants of the Company which falls within the section 3870 definition of “other types of stock-based compensation plans”. Stock options issued to consultants are accounted for by determining the fair value of the option grant, at the date of the grant, and charging “compensation expense” to the income statement over the vesting period of the option with a corresponding credit to share capital.

Azure Dynamics Corporation
(A Development Stage Enterprise)
Notes to the Consolidated Financial Statements

Three Months ended March 31, 2003 and 2002 (unaudited)

2. Significant Accounting Policies (cont'd)

As permitted by section 3870, the Company does not record compensation expense for director, officer and employee share option grants but instead discloses the pro-forma impact of the amount of compensation expense on earnings and earnings per share in the notes to its financial statements. In both cases, the compensation expense amount is determined based on the fair value of the option as estimated using the Black-Scholes option pricing model.

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

Common Shares	Number of Common Shares	Amount
Balance, December 31, 2002	44,981,042	\$ 11,788,905
Issued in lieu of non-executive directors fees	50,000	25,000
Balance, March 31, 2003	45,031,042	\$ 11,813,905

(c) Issued and outstanding special warrants

Special Warrants	Number of Special Warrants	Amount
Balance, December 31, 2002 and March 31, 2003	200,000	\$ 90,000

On November 21, 2002, the Company completed a private placement of 200,000 Special Warrants of the Company (the "Special Warrant Financing"), at a price of \$0.50 per Special Warrant, for net proceeds of \$90,000 after deducting issue costs estimated at \$10,000. Under the Special Warrant Financing, each Special Warrant is exercisable into one common share of the Company and one Warrant, each Warrant being exercisable into one common share at \$0.55, until November 30, 2003.

Also on November 21, 2002, the Company completed a private placement of 1,300,000 units of the Company (the "Unit Financing"), at a price of \$0.50 per unit, for net proceeds of \$560,000 after deducting issue costs estimated at \$90,000. Under the Unit Financing, each unit was comprised of one common share of the Company and one quarter Warrant, each whole Warrant being exercisable into one common share at \$0.55, until November 30, 2003. On closing of the transaction, the Company issued 1,300,000 common shares. No warrants have been exercised and therefore 325,000 warrants remain outstanding pursuant to the Unit Financing.

Azure Dynamics Corporation
(A Development Stage Enterprise)
Notes to the Consolidated Financial Statements

Three Months ended March 31, 2003 and 2002 (unaudited)

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

(d) Stock Options

The Company has a stock option plan (the "Plan") for which up to 6,461,800 common shares can be reserved for issuance to executive officers and directors, employees and consultants. The exercise price of the options is determined by the Board of Directors' estimate of the fair value of the common shares at the grant date, subject to applicable stock exchange pricing policies. The options have a maximum term of five years and generally vest over a period of twelve to twenty-four months. As at March 31, 2003, the Company had 5,620,000 stock options outstanding under the Plan, of which 4,348,000 were exercisable, at a weighted average exercise price of \$0.45 per common share; after taking into consideration options already exercised there are an additional 521,767 options available for future grant under the Plan. The stock options expire on various dates between April 25, 2006 and February 1, 2008.

Stock option transactions for the three months ended March 31, 2003 and the number of stock options outstanding are summarized as follows:

	Number of Optioned Common Shares #	Weighted Average Exercise Price \$
Stock Option Plan:		
Balance, December 31, 2002	5,005,000	0.44
Options issued January 1, 2003	410,000	0.50
Options issued February 1, 2003	205,000	0.50
Total Options Outstanding, March 31, 2003	5,620,000	0.45

As at March 31, 2003 options outstanding and exercisable are as follows:

Expiry date	Number of optioned common shares outstanding	Number of optioned common shares exercisable	Exercise price
	#	#	\$
April 25, 2006	2,614,000	2,614,000	0.25
August 20, 2006	382,000	254,666	0.44
November 5, 2006	247,000	164,667	0.45
November 26, 2006	112,000	74,667	0.50
January 22, 2007	50,000	33,333	0.61
February 12, 2007	85,000	56,667	0.61
March 7, 2007	20,000	13,333	0.71
March 11, 2007	1,300,000	866,667	0.73
April 12, 2007	30,000	10,000	0.94
May 1, 2007	145,000	48,333	0.80
November 5, 2007	20,000	6,667	0.53
January 1, 2008	410,000	136,667	0.50
February 1, 2008	205,000	68,333	0.50
Total Stock Option Plan	5,620,000	4,348,000	

Three Months ended March 31, 2003 and 2002 (unaudited)

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

Stock option compensation:

The Company does not record compensation expense when stock options are issued to directors, officers and employees, as disclosed in Note 2. Had compensation expense been determined, based on the fair value of the options at the grant dates, the net loss and loss per share would have been increased to the pro forma amounts indicated below:

	<u>As Reported</u>	<u>Pro forma</u>
Net loss for the period	\$ (778,715)	\$ (813,598)
Loss per share	\$ (0.02)	\$ (0.02)

The fair value of the share options was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (Nil), Expected volatility (0.17), risk-free interest rate (5.0%), and a weighted average life of 5 years.

4. Related Party Transactions

- a) The Company incurred costs of \$3,851 (2002 - \$2,818) in respect of administrative services provided by B.C. Research Inc., a principal shareholder, during the three months ended March 31, 2003.
 - b) The Company incurred costs of \$37,421 (2002 - \$40,787) in respect of leased premises and equipment provided by B.C. Research Inc. during the three months ended March 31, 2003.
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5. Subsequent Events

- a) On October 28, 2002, the Company entered into a Memorandum of Understanding with Purolator Courier Ltd. for the supply of hybrid powertrains by the Company to Purolator. The terms of the Memorandum of Understanding also granted to Purolator, for a consideration of \$50,000, an option to acquire 2 million shares of the Company, at a price of \$0.50, expiring on February 28, 2003 providing certain pre-qualifying conditions were met. As of the date hereof, the option agreement has not been executed; the parties continue to collaborate on the project and are negotiating with a view to amend and extend the proposed option agreement and to agree definitive terms for the proposed supply agreement.
 - b) On April 4, 2003, the Company announced a \$1 million sponsorship by EnCana Corporation of an 18-month pilot program to begin in-service test and evaluation of five retrofitted Canada Post delivery vans utilizing Azure's hybrid electric powertrains; a further two vans will be retrofitted and retained by Azure for in-house test and evaluation.
 - c) On April 7, 2003, the Company, along with UK based Manganese Bronze Holdings, through its subsidiary London Taxis International ("LTI"), announced an agreement to develop the 'London taxi' with hybrid electric powertrains. Under the terms of the agreement, LTI will provide Azure with three conventional black taxis which Azure will re-power with hybrid electric powertrains incorporating its Smart Energy Management technology. Azure will receive £311,000 (approximately C\$720,000) for its participation in this program from LTI. LTI in turn will receive support from the United Kingdom government's Energy Saving Trust.
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Three Months ended March 31, 2003 and 2002 (unaudited)

5. Subsequent Events (cont'd)

- d) On May 7, 2003, the Company and Manganese Bronze Holdings, through its subsidiary LTI, announced an agreement for Azure to supply electric and hybrid electric powertrains for a new multi-purpose urban delivery vehicle. Azure and LTI will cooperate in the development and production of electric and hybrid electric delivery vehicles, incorporating LTI's vehicle technology and Azure's Smart Energy Management Technology. Initially, the supply agreement will cover the UK and Continental Europe although the vehicles are expected to suit markets world-wide.

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

Three Months ended March 31, 2003 and 2002

Breakdown by major category:

Research and Development Expenses

	Three Months Ended March 31	
	2003	2002
Salaries & benefits	\$ 286,134	\$ 405,282
Recruitment and relocation costs	850	7,110
Consulting fees	38,711	15,465
Legal fees	8,636	-
Product development costs	7,947	678,952
Travel expenses	17,185	47,128
Telephone, fax and internet costs	1,100	2,599
Miscellaneous costs	8,414	26,431
	\$ 368,977	\$ 1,182,967
Less: Government assistance programs	(95,237)	(460,031)
	\$ 273,740	\$ 722,936

Selling and Marketing Expenses

	Three Months Ended March 31	
	2003	2002
Salaries & benefits	\$ 103,927	\$ 90,115
Consulting fees	500	-
Travel expenses	30,029	45,321
Telephone, fax and internet costs	3,988	4,609
Marketing, advertising and PR	3,373	23,890
	\$ 141,817	\$ 163,935

General and Administrative Expenses

	Three Months Ended March 31	
	2003	2002
Salaries & benefits	\$ 153,630	\$ 192,730
Directors' fees	6,250	-
Recruitment and relocation costs	4,000	7,100
Consulting fees	14,693	154,070
Office supplies	1,363	6,407
Contract services	3,851	2,818
Travel expenses	23,677	39,024
Legal fees	15,887	48,913
Insurance	12,064	10,623
Telephone, fax and internet costs	12,895	20,022
Miscellaneous costs	21,139	(20,054)
	\$ 269,449	\$ 461,653

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