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

As at	March 31 2004 (Unaudited)	December 31 2003 (Audited)	March 31 2003 (Unaudited)
ASSETS			
Current			
Cash and cash equivalents	**11,738,134**	9,075,219	350,716
Accounts receivable	**693,789**	337,794	25,788
Contributions receivable	**585,707**	780,459	95,238
Prepaid expenses	**372,260**	61,655	47,248
	13,389,890	10,255,127	518,990
Employee loans	**68,509**	91,727	257,429
Property and equipment	**350,950**	162,048	242,749
Other assets	**113,379**	117,279	103,926
	13,922,728	10,626,181	1,123,094
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	**741,298**	567,692	259,777
Obligations under capital leases	**-**	-	6,277
	741,298	567,692	266,054
Shareholders' equity			
Share capital (note 3(b))	**28,120,231**	23,991,665	11,813,905
Special warrants	**-**	-	90,000
Contributed surplus (note 3(e))	**369,026**	167,798	44,693
Deficit	**(15,307,827)**	(14,100,974)	(11,091,558)
	13,181,430	10,058,489	857,040
	13,922,728	10,626,181	1,123,094

** Certain comparative numbers have been restated as described in Note 3(e).*

Approved on behalf of the Board:

"D. Campbell Deacon" Director

"Dennis A. Sharp" Director

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

	For the three months ended March 31	
	2004	**2003**
	$	**$**
Revenue		
Other	**39,673**	6,176
Expenses		
Research and development, net	**269,444**	285,898
Selling and marketing	**348,123**	141,817
General and administrative	**516,902**	301,984
Rent	**71,343**	56,993
Amortization of property and equipment and other assets	**40,714**	42,892
	1,246,526	829,584
Net loss for the period	**(1,206,853)**	(823,408)
Deficit, beginning of period	**(14,100,974)**	(10,268,150)
Deficit, end of period	**(15,307,827)**	(11,091,558)
Loss per share - basic *	**(0.02)**	(0.02)
Weighted average number of shares - basic	**79,525,744**	45,008,264

** No fully diluted earnings per share have been disclosed, as these would be anti dilutive.*
*** Certain comparative numbers have been restated as described in Note 3(e).*

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

	For the three months ended March 31	
	2004	**2003**
	$	$
Cash flows from operating activities		
Net loss for the period	**(1,206,853)**	(823,408)
Adjustments for:		
Amortization of property and equipment and other assets	**40,714**	42,892
Common shares issued in exchange for services	**6,875**	6,250
Stock option compensation expense	**201,228**	44,693
Changes in non-cash working capital items	**(277,617)**	70,754
	(1,235,653)	(658,819)
Cash flows from financing activities		
Issuance of common shares (net of costs)	**4,101,066**	-
Repayment on obligations under capital lease	**-**	(3,519)
	4,101,066	(3,519)
Cash flows from investing activities		
Acquisition of property and equipment	**(221,857)**	-
Acquisition of other assets	**(3,859)**	(17,540)
Changes in loans to employees	**23,218**	-
	(202,498)	(17,540)
Increase (decrease) in cash and cash equivalents	**2,662,915**	(679,878)
Cash and cash equivalents, beginning of period	**9,075,219**	1,030,594
Cash and cash equivalents, end of period	**11,738,134**	350,716

** Certain comparative numbers have been restated as described in Note 3(e).*

1. Nature of Operations and Basis of Presentation

Azure Dynamics Corporation ("the Company") ("ADC") 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. ADI is incorporated under the laws of Canada and is a wholly owned subsidiary of ADC. On December 31, 2002, the Company changed the reporting year-end for the consolidated entities to December 31 from June 30. On March 9, 2004, the Company incorporated Azure Dynamics U.S. Inc. under the laws of the State of Delaware, USA. On April 6, 2004, the Company incorporated Azure Dynamics UK Limited under the laws of England and Wales. Azure Dynamics U.S. Inc. and Azure Dynamics UK Limited are wholly owned subsidiaries of ADC.

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 commercial 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 assets 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 December 31, 2003.

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, 2003 audited financial statements.

3. Share Capital, Warrants and Stock Options

(a) Authorized
Unlimited common shares without par value
Unlimited preferred shares without par value, non cumulative, redeemable, and non voting

3. Share Capital, Warrants and Stock Options (Cont'd.)

(b) Issued and outstanding common shares

	Number of Common Shares	Amount
Balance, December 31, 2003	78,163,836	$ 23,991,665
Private placement	4,861,110	3,901,353
Issued on exercise of agent's compensation options	80,000	39,600
Issued on exercise of stock options	477,999	160,113
Issued in lieu of non-executive directors fees	42,307	27,500
Balance, March 31, 2004	83,625,252	$ 28,120,231

On March 10, 2004, the Company completed a private placement of 4,861,110 common shares of the Company at a price of £0.36 per share (approximately $0.90 per share), for net proceeds of $3,901,353 after deducting share issue costs of $282,897.

(c) Warrants

In conjunction with a private placement financing, completed December 1, 2003, the Company issued 12,691,063 warrants, each warrant being exercisable into one common share of the Company, at a price of $0.62 per share, until December 1, 2004.

(d) Stock options

The Company has a stock option plan (the "Plan") for which up to 6,754,656 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 twelve to twenty-four month period.

As at March 31, 2004, the Company had 7,602,227 stock options outstanding under the Plan, of which 1,572,227 have been granted subject to TSX Venture Exchange and disinterested shareholder approval of a proposed amendment to the Plan at the Annual General Meeting to be held on June 15, 2004. Including agent's compensation options, the Company has 9,847,735 options outstanding of which 7,054,175 were exercisable at a weighted average exercise price of $0.45 per common share. The stock options expire on various dates between December 1, 2004 and March 22, 2009.

Stock option transactions for the three months ended March 31, 2004, and the number of stock options outstanding are summarized as follows:

	Number of Optioned Common Shares #	**Weighted Average Exercise Price $**
Executive Officers, Directors, Employees and Consultant Options:		
Balance, December 31, 2003	6,173,000	0.44
Options granted	1,922,227	0.67
Options exercised	(477,999)	0.33
Options expired/cancelled	(15,001)	0.56
Balance, March 31, 2004	7,602,227	0.50

3. Share Capital, Warrants and Stock Options (Cont'd.)

(d) Stock options (Cont'd.)

	Number of Optioned Common Shares #	Weighted Average Exercise Price $
Agent's Compensation Options:		
Balance, December 31, 2003	2,325,508	0.495
Options exercised	(80,000)	0.495
Balance March 31, 2004	2,245,508	0.495
Total Options Outstanding, March 31, 2004	**9,847,735**	**0.46**

As at March 31, 2004, the numbers of optioned common shares outstanding and exercisable are as follows:

Expiry date	Number outstanding	Number exercisable	Exercise price
	#	#	$
December 1, 2004	2,245,508	2,245,508	0.495
December 31, 2004	250,000	Nil	0.70
April 25, 2006	2,082,000	2,082,000	0.25
August 20, 2006	170,000	170,000	0.44
November 5, 2006	227,000	227,000	0.45
November 26, 2006	112,000	112,000	0.50
January 22, 2007	50,000	50,000	0.61
February 12, 2007	30,000	30,000	0.61
March 7, 2007	20,000	20,000	0.71
March 11, 2007	1,150,000	1,150,000	0.73
April 12, 2007	30,000	20,000	0.94
May 1, 2007	145,000	96,667	0.80
January 1, 2008	285,000	281,667	0.50
February 1, 2008	154,000	102,667	0.50
August 25, 2008	475,000	183,333	0.30
September 26, 2008	750,000	250,000	0.48
January 1, 2009*	1,547,227	Nil	0.65
February 1, 2009	100,000	33,333	0.85
March 22, 2009*	25,000	Nil	1.06
	9,847,735	7,054,175	

* The vesting of these options is subject to TSX Venture Exchange and disinterested shareholder approval of a proposed increase in the Plan at the Annual General Meeting to be held on June 15, 2004.

(e) Stock compensation expense

Effective January 1, 2003, the Company adopted the revised recommendations in CICA Handbook Section 3870 whereby it measures compensation costs associated with stock-based compensation using the fair value method and the cost is recognized over the vesting period of the stock option. The fair value of each performance share and stock option is determined at each issue or grant date using the Black-Scholes model with the following assumptions: risk free interest rate - 5%, expected life - 5 years, expected dividend yield - nil, and expected volatility – ranging from 17% to 18%. The Company recorded a compensation expense charge of $201,228 for the three months ended March 31, 2004.

3. Share Capital, Warrants and Stock Options (Cont'd.)

(e) Stock compensation expense (Cont'd.)

The comparative numbers for the three months ended March 31, 2003 have been restated to include the compensation expense related to options granted during that period as the change in accounting policy was first implemented in the fourth quarter of 2003, with effect from January 1, 2003, and hence the compensation expense was not previously recorded in the quarterly reporting. Total compensation expense for the three months ended March 31, 2003 was $44,693.

4. Related Party Transactions

a) During the three months ended March 31, 2004, the Company incurred costs of $1,609 (2003 - $3,851) in respect of administrative services provided by Vizon SciTec (formerly B.C. Research Inc.), a significant shareholder.

b) During the three months ended March 31, 2004, the Company incurred costs of $25,743 (2002 - $37,421) in respect of leased premises and equipment provided by Vizon SciTec.

c) During the three months ended March 31, 2004, the Company paid $60,750 (2003 - $57,750) to a company controlled by an officer/director for services rendered to the Company in his capacity as an executive officer.

5. Commitments

Effective February 10, 2004, the Company entered into a sublease and license agreement for premises located at 3900 North Fraser Way, Burnaby, Canada and relocated its Vancouver-based operations to this site. The sub-lease arrangements are such that the Company shares access to the facility with the head leaseholder until May 1, 2004. Effective May 1, 2004, the Company has entered into a five year lease agreement for the premises directly with the Landlord, and also effective May 1, 2004 has entered into a sublease and licence agreement with the outgoing leaseholder, whereby that party continues to share access to the facility until July 31, 2004.

The annual lease commitments relating to this facility, as included in the schedule of commitments in Note 13 to the audited consolidated financial statements for the year ended December 31, 2003, are as follows:

2004	$ 93,194
2005	$ 175,150
2006	$ 179,800
2007	$ 181,350
2008	$ 181,350
2009	$ 60,450

6. Subsequent Events

a) On April 28, 2004, Mr. Jean-René Marcoux resigned from the Board of Director's of the Company.

b) On May 3, 2004, Mr. Roberto Quarta was appointed to the Board of Director's of the Company, subject to the necessary regulatory approvals.

   Also on May 3, 2004, the Company granted 312,000 stock options, at an exercise price $0.90, to directors of the Company. The options are granted subject to TSX Venture Exchange and disinterested shareholder approval of a proposed amendment to the Plan at the Annual General Meeting to be held on June 15, 2004. The options expire on May 3, 2009 and have vesting periods ranging from one to two years.

c) On May 10, 2004, Mr. David E. Deacon was appointed to the Board of Director's of the Company, subject to the necessary regulatory approvals.