



News Release

AZURE DYNAMICS REPORTS 2003 THIRD QUARTER RESULTS

Toronto, Ontario — November 28, 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 September 30, 2003.

“We have achieved significant milestones over the past two quarters under challenging circumstances,” said D. Campbell Deacon, Chairman and Chief Executive Officer of Azure. “The \$10 million financing we announced yesterday will enable Azure to meet significant objectives in its commercialization strategy here in Canada and around the world.”

The Company incurred a net loss of \$1.2 million or \$0.03 per share in the quarter ended September 30, 2003 compared to \$1.1 million or \$0.02 per share in the same quarter of the preceding year. During the quarter, the Company continued to build demonstration vehicles for Canada Post and hence product development costs were \$0.8 million higher than the comparable 2002 quarter. Customer and sponsorship contributions of \$0.6 million in the quarter helped offset the higher costs. The cumulative loss for the nine months ended September 30, 2003 was \$2.6 million compared to \$4.4 million in 2002. Although product development costs were \$0.5 million higher than the comparable period in 2002 the overall loss was lower due to higher government, customer and sponsorship contributions, \$1.3 million compared to \$0.7 million in 2002, and the lower cost base in 2003 due to cost reduction initiatives implemented in mid-2002.

Activities

- During the quarter Azure continued work on its contract with Canada Post for the build, sponsored by EnCana Corporation, of seven demonstration hybrid electric vehicles.
- Azure has continued the build program whereby it will supply three demonstration hybrid taxis to London Taxi International in the United Kingdom. Two of the London Taxis to be converted to hybrid power have been received at the Company’s Vancouver premises; it is anticipated that the taxis will be retrofitted with Azure’s hybrid powertrain technology and returned to London for demonstration purposes by early 2004.
- On July 22, 2003 Azure 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 completed, on July 31, 2003, a secured convertible debenture financing raising gross proceeds of \$2.21 million to provide it with funds for immediate liquidity and working capital requirements.
- On September 22, 2003, Azure announced a supply agreement with Purolator Courier Ltd. whereby the Company will deliver 30 preproduction hybrid vehicles to Purolator and thereafter, subject to achievement of certain performance standards and other contract provisions, up to 400 hybrid electric powered chassis per annum over a five-year period.
- On October 22, 2003, Azure announced a prototype agreement with the United States Postal Service (“U.S.P.S.”) whereby the Company will develop a prototype gas hybrid electric powertrain for U.S.P.S.’s carrier route vehicle as well

as a prototype diesel hybrid electric powertrain for their two-ton step van.

- On November 3, 2003, Azure announced that it had been awarded the second phase of an engineering contract from the Canadian Department of National Defence whereby the Company will provide recommendations regarding the selection and sourcing of the powertrain components that are required to execute Azure's powertrain design previously recommended in the first phase of the program.
- On November 27, 2003, Azure announced that, due to the positive response the Company had received, the size of the its proposed \$5 million private placement was increased and the Company now anticipates that the offering will generate proceeds of \$10 million; closing is scheduled on December 1, 2003.

[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).

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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:

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Azure Dynamics Corporation
(A Development Stage Enterprise)

Consolidated Interim Balance Sheets

	September 30	December 31	September 30
	2003	2002	2002
As at	(Unaudited)	(Audited)	(Unaudited)

ASSETS**Current**

Cash and cash equivalents	\$ 1,320,724	\$ 1,030,594	\$ 1,047,703
Accounts receivable	155,499	28,253	37,336
Contributions receivable	-	264,455	276,481
Prepaid and other expenses	20,003	13,320	26,437
Deferred financing costs	182,029	-	-
	<u>1,678,255</u>	<u>1,336,622</u>	<u>1,387,957</u>
Employee loans	107,799	259,214	259,214
Capital assets	184,665	276,036	323,669
Other assets	115,154	95,992	100,480
	<u>\$ 2,085,873</u>	<u>\$ 1,967,864</u>	<u>\$ 2,071,320</u>

LIABILITIES AND SHAREHOLDERS' EQUITY**Current**

Accounts payable and accrued liabilities	\$ 753,653	\$ 347,313	\$ 273,325
Obligations under capital leases	-	9,796	13,142
Convertible debentures	2,070,772	-	-
	<u>2,824,425</u>	<u>357,109</u>	<u>286,467</u>

Shareholders' equity

Share capital	11,850,125	11,788,905	11,197,971
Special warrants	90,000	90,000	-
Convertible debentures	177,500	-	-
Deficit	(12,856,177)	(10,268,150)	(9,413,118)
	<u>(738,552)</u>	<u>1,610,755</u>	<u>1,784,853</u>
	<u>\$ 2,085,873</u>	<u>\$ 1,967,864</u>	<u>\$ 2,071,320</u>

Azure Dynamics Corporation
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Unaudited Consolidated Interim Statements of Operations
and Deficit

For the three months ended
September 30

For the nine months ended
September 30

2003

2002***

2003

2002***

The accompanying notes are an integral part of these consolidated interim financial statements.

Revenue								
Other income	\$	9,540	\$	11,799	\$	23,390	\$	44,783
Expenses								
Research and development, net		694,316		419,141		1,034,438		1,573,927
Selling and marketing		138,521		176,433		432,285		628,265
General and administrative		237,078		376,805		774,946		1,334,132
Rent		53,606		59,905		167,442		343,895
Amortization of capital and other assets		43,923		53,047		130,081		136,403
Amortization of deferred financing costs		39,953		-		39,953		-
Accretion expense on convertible debentures		32,272		-		32,272		-
		1,239,669		1,085,331		2,611,417		4,016,622
Net loss for the period before other items		(1,230,129)		(1,073,532)		(2,588,027)		(3,971,839)
Lease termination		-		-		-		457,665
Net loss for the period		(1,230,129)		(1,073,532)		(2,588,027)		(4,429,504)
Deficit, beginning of period		(11,626,048)		(8,339,586)		(10,268,150)		(4,983,614)
Deficit, end of period	\$	(12,856,177)	\$	(9,413,118)	\$	(12,856,177)	\$	(9,413,118)
Earnings per share **								
	\$	(0.03)	\$	(0.02)	\$	(0.06)	\$	(0.11)
Weighted average number of shares								
		45,044,375		43,555,999		45,024,998		40,431,527

** 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 Interim Statements of Cash Flows

	For the three months ended September 30		For the nine months ended September 30	
	2003	2002	2003	2002
Cash flows from operating activities				
Operations				
Net loss for the period	\$ (1,230,129)	\$ (1,073,532)	\$ (2,588,027)	\$ (4,429,504)
Adjustment for:				
Amortization on capital and other assets	43,923	53,047	130,081	136,403
Lease termination	.	-	.	457,665
Shares issued in lieu of non-executive directors fees	6,250	-	18,750	-
Bad debt write-off (recovery)	(1,336)	-	450	-
Accretion expense on convertible debentures	32,272	-	32,272	-
Amortization of deferred financing costs	39,953	-	39,953	-
Changes in non-cash working capital items	(152,019)	179,359	(456,886)	(778,720)
	(1,261,086)	(841,126)	(2,823,407)	(4,614,156)
Cash flows from financing activities				
Issuance of common shares (net of costs)	36,220	2,933	36,220	5,196,053
Research and development sponsorship funds received	.	-	1,000,000	-
Convertible debentures funds received (net of costs)	1,994,019	-	1,994,019	-
Reduction in employee loans	150,966	-	150,966	14,287
Repayment of obligations under capital lease	(2,575)	(3,181)	(9,796)	(8,975)
	2,178,630	(248)	3,171,409	5,201,365
Cash flows from investing activities				
Acquisition of capital assets	(5,636)	(145)	(8,882)	(139,158)
Acquisition of intellectual properties	(24,158)	(7,026)	(48,990)	(52,773)
	(29,794)	(7,171)	(57,872)	(191,931)
Increase (decrease) in cash and cash equivalents	887,750	(848,545)	290,130	395,278
Cash and cash equivalents, beginning of period	432,974	1,896,248	1,030,594	652,425
Cash and cash equivalents, end of period	\$ 1,320,724	\$ 1,047,703	\$ 1,320,724	\$ 1,047,703