



News Release

AZURE DYNAMICS REPORTS 2004 FIRST QUARTER RESULTS AND OTHER DEVELOPMENTS

Toronto, Ontario - May 11, 2004

[Azure Dynamics Corporation](#) ([TSX Venture – AZD](#)) (“Azure” or the “Company”) a leading developer of hybrid electric powertrains for commercial vehicles is pleased to announce its results for the three months (“quarter”) ended March 31, 2004 and the appointment of Mr. David Deacon, President and Chief Operating Officer, to the Board of Directors.

Mr. Tom Davidson, Chairman of the Board, stated, “The addition of David Deacon adds a critical dimension to the Board of Directors. His marketing expertise and industry knowledge will be of considerable value as the Company continues to grow its customer base and expand its relationships.” The Azure Board of seven Directors now includes five independent members and two management representatives.

“First quarter results reflect the continuation of product and market development momentum we gained in 2003,” said Mr. D. Campbell Deacon, Deputy Chairman and Chief Executive Officer. “We have progressed our customer programs and announced an important new initiative to develop electric vehicles with industry recognised partners, strengthened our financial base and acquired much needed infrastructure in the form of a new facility. Additional executive, sales, engineering and financial support will further enhance our organization.”

For the quarter ended March 31, 2004, the Company incurred a net loss of \$1,206,853 (\$0.02 per share) compared to a net loss of \$823,408 (\$0.02 per share) in 2003. The loss is higher in the quarter ended March 31, 2004, compared to the quarter ended March 31, 2003, as the Company has expanded its infrastructure, increased its headcount, and is more active in its sales, marketing and financing activities. Development costs are also significantly higher in the first quarter of 2004, when compared to the first quarter of 2003 (\$1.0 million compared to \$0.4 million), due to the increased number of active programs, including prototype components and vehicle build costs, but the higher costs have been offset by contributions from customers, sponsors and government funding. Contributions, which are recorded as an offset to research and development expenses, totalled \$0.7 million for the quarter ended March 31, 2004 compared to \$0.1 million for the comparable period in 2003. In the fourth quarter of 2003, the Company adopted the recommendations of the Canadian Institute Of Chartered Accountant’s Handbook, Section 3870, whereby the Company is required to expense stock option grants and, consistent with this policy, has charged the income statement with \$0.2 million of compensation costs in the first quarter of 2004 (\$0.05 million in the quarter ended March 31, 2003).

The Company completed an equity financing of \$10.7 million (gross) and gained access to a further \$5 million of its available \$9 million contribution facility with Technology Partnerships Canada in December 2003. In March 2004, the Company completed a further equity financing raising \$4.2 million (gross). As a result of these initiatives, the Company has the available finances to continue the process of building its team and the infrastructure required to support

its ongoing and future operations. Personnel and infrastructure costs are anticipated to increase in 2004 as the Company prepares for its commercial product launch.

On May 3, 2004 the Company granted 312,000 stock options, at an exercise price of \$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.

[Azure Dynamics Corporation](#) provides Hybrid Electric Vehicle technology for light and medium duty commercial vehicles. Azure became a public company in 2001 when it listed on the Canadian TSX Venture Exchange. The company is currently working with various partners and customers worldwide including Purolator Courier, Canada Post, London Taxi International, Leyland Product Development, Renault Trucks UK, and the United States Postal Service. Azure has 32 employees based in Canada, the United States and the United Kingdom.

- 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, Senior 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 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
	<u>13,389,890</u>	<u>10,255,127</u>	<u>518,990</u>
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
	<u>13,922,728</u>	<u>10,626,181</u>	<u>1,123,094</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	741,298	567,692	259,777
Obligations under capital leases	-	-	6,277
	<u>741,298</u>	<u>567,692</u>	<u>266,054</u>
Shareholders' equity			
Share capital	28,120,231	23,991,665	11,813,905
Special warrants	-	-	90,000
Contributed surplus	369,026	167,798	44,693
Deficit	(15,307,827)	(14,100,974)	(11,091,558)
	<u>13,181,430</u>	<u>10,058,489</u>	<u>857,040</u>
	<u>13,922,728</u>	<u>10,626,181</u>	<u>1,123,094</u>

* Certain comparative numbers have been restated.

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
	<u>1,246,526</u>	<u>829,584</u>
Net loss for the period	(1,206,853)	(823,408)
Deficit, beginning of period	<u>(14,100,974)</u>	<u>(10,268,150)</u>
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.

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.