

No securities regulatory authority in Canada has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. **These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Accordingly, subject to certain exceptions, these securities may not be offered or sold within the United States of America and this short form prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of these securities within the United States of America. See "Plan of Distribution".**

Information has been incorporated by reference in this prospectus from documents filed with the securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of Azure Dynamics Corporation at Suite 1210, 155 University Avenue, Toronto, Ontario, M5H 3B7 (Telephone (416) 367-0220), and are also available electronically at www.sedar.com. For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained without charge from the secretary of Azure Dynamics Corporation at the above-mentioned address and telephone number and is also available electronically at www.sedar.com

SHORT FORM PROSPECTUS

New Issue

October 15, 2007



AZURE DYNAMICS CORPORATION

\$30,007,000

81,100,000 Common Shares

This short form prospectus qualifies the distribution (the "**Offering**") of 81,100,00 common shares ("**Common Shares**") in the capital of Azure Dynamics Corporation ("**Azure**" or the "**Corporation**") at a price of \$0.37 per Common Share (the "**Offering Price**").

The common shares of the Corporation are listed and posted for trading on the Toronto Stock Exchange ("**TSX**") under the trading symbol "AZD" and on the Alternative Investment Market of the London Stock Exchange ("**AIM**") under the trading symbol "ADC". Azure has applied to list the Common Shares distributed under this short form prospectus on AIM. The TSX has conditionally approved the listing of the Common Shares distributed under this short form prospectus. Listing will be subject to Azure fulfilling all of the listing requirements of the TSX on or before December 19, 2007. The closing price of the common shares of the Corporation on the TSX on October 12, 2007, being the last day the common shares traded prior to the date hereof, was \$0.38. The Offering Price was determined by negotiation between Paradigm Capital Inc., Raymond James Ltd., Clarus Securities Inc. and Desjardins Securities Inc. (collectively, the "**Agents**"), on the one hand, and the Corporation, on the other hand.

Price: \$0.37 per Common Share

	<u>Price to the Public</u>	<u>Agents' Fee⁽¹⁾</u>	<u>Net Proceeds to Azure⁽²⁾</u>
Per Common Share	\$0.37	\$0.022	\$0.348
Total	\$30,007,000	\$1,800,420	\$28,206,580

Notes:

- (1) In consideration of the services rendered by the Agents in connection with the Offering, the Corporation has agreed to pay a commission to the Agents equal to 6% of the gross proceeds of the Offering (the "**Agents' Fee**").
- (2) Before deducting the expenses of the Offering, estimated to be \$350,000, which will be paid from the proceeds of the Offering.

The Agents, on behalf of the Corporation, conditionally offer the Common Shares on a “best efforts” basis, subject to prior sale, if, as and when issued and sold by the Corporation in accordance with the conditions contained in the Agency Agreement referred to under “Plan of Distribution” and subject to the approval of certain legal matters on behalf of the Corporation by Fasken Martineau DuMoulin LLP and on behalf of the Agents by Cassels Brock & Blackwell LLP.

Subscriptions for the Common Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Subject to applicable laws, the Agents may over-allot or effect transactions that stabilize or maintain the price of the Common Shares in accordance with applicable market stabilization rules. Such transactions, if commenced, may be discontinued at any time. See “Plan of Distribution”. It is expected that the closing of the Offering will take place on or about October 19, 2007 or on such other date as the Corporation and the Agents may agree (the “**Closing Date**”), but in any event not later than October 30, 2007. The distribution of the Common Shares will remain open no later than the Closing Date. Certificates representing the Common Shares will be available for delivery on or about the Closing Date.

You should rely only on the information contained or incorporated by reference in this short form prospectus. The Corporation and the Agents have not authorized anyone to provide purchasers with information different from that contained or incorporated by reference in this short form prospectus. The Corporation is offering to sell, and seeking offers to buy, the Common Shares only in jurisdictions where, and to persons to whom, offers and sales are lawfully permitted.

Investing in the Common Shares involves risk. The risk factors identified herein and in the documents incorporated by reference herein should be carefully reviewed and evaluated by prospective investors before purchasing the Common Shares offered hereunder. See “Risk Factors”.

The head office of the Corporation is Suite 1210, 155 University Avenue, Toronto, Ontario, M5H 3B7. The registered office of the Corporation is Suite 1200, 425 1st Street S.W., Calgary, Alberta, T2P 3L8.

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Unless otherwise indicated, all references to dollar amounts in this short form prospectus are to Canadian dollars.

ELIGIBILITY FOR INVESTMENT

In the opinion of Fasken Martineau DuMoulin LLP, counsel to the Corporation, and Cassels Brock & Blackwell LLP, counsel to the Agents, based on the current provisions of the *Income Tax Act* (Canada) and the regulations thereunder (the “**Tax Act**”), provided that the Common Shares are listed on a prescribed stock exchange as defined by the Tax Act (which includes the TSX) as of the date of this prospectus, the Common Shares will, if issued on the date hereof, be "qualified investments" under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans.

FORWARD-LOOKING STATEMENTS

This short form prospectus, including the documents incorporated by reference herein, contains forward-looking statements relating to, but not limited to, the Corporation’s expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as “anticipate”, “believe”, “expect”, “goal”, “plan”, “intend”, “estimate”, “may” and “will” or similar words suggesting future outcomes or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements reflect management’s current belief and are based on information currently available to the Corporation’s management and are subject to certain risks, uncertainties and assumptions. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons and no assurances can be given as to actual future results, performance or prospects. Factors that may cause such differences include, but are not limited to, the early stage of development of the Corporation; a lack of product revenues and a history of losses; the need for additional financing; uncertainty as to commercial viability; uncertainty as to product development and commercialization milestones being met; uncertainty as to the market for the Corporation’s products and unproved acceptance of the Corporation’s technology; competition; uncertainty as to target markets; dependence upon third parties; changes in environmental policies; uncertainty as to patent and proprietary rights; uncertainty as to foreign currency exchange; uncertainty as to acquisition integration; availability of management and key personnel; available regulatory approvals; and conflicts of interest by directors and officers of the Corporation. More detailed information about these and other factors is included in the short form prospectus in the section entitled “Risk Factors” and elsewhere herein, in documents incorporated by reference and in other disclosure materials filed from time to time by the Corporation with Canadian securities regulatory authorities. The Corporation is not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Because of the risks, uncertainties and assumptions, you should not place undue emphasis on forward-looking statements.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of the Corporation at Suite 1210, 155 University Avenue, Toronto, Ontario, M5H 3B7, Telephone: (416) 367-0220, and are also available electronically at www.sedar.com. The Corporation's filings through SEDAR are not incorporated by reference in this prospectus except as specifically set out herein. For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the secretary of the Corporation at the above-mentioned address and telephone number and is also available electronically at www.sedar.com.

The documents of Azure listed below, as filed with the various securities commissions or similar authorities in each of the provinces of Canada are incorporated by reference into and form an integral part of this short form prospectus:

1. the annual information form of Azure dated March 21, 2007 for the year ended December 31, 2006;
2. the audited comparative consolidated financial statements of Azure as at and for the financial years ended December 31, 2006 and 2005 together with the notes thereto and together with the auditor's report thereon;
3. management's discussion and analysis of financial condition and results of operations for the financial year ended December 31, 2006;
4. the unaudited comparative interim financial statements of Azure as at and for the three and six month periods ended June 30, 2007 together with the notes thereto;
5. management's discussion and analysis of financial condition and results of operations for the three and six month periods ended June 30, 2007;
6. the management information circular dated April 20, 2007 relating to Azure's annual general and special meeting of shareholders held on June 12, 2007;
7. the management information circular dated May 11, 2006 relating to Azure's annual general and special meeting of shareholders held on July 24, 2006;
8. the material change report of Azure dated April 17, 2007 relating to the retirement of Thomas N. Davidson as chairman of the board of directors of Azure, the appointment of D. Campbell Deacon as chairman of the board of directors of Azure and the appointment of Scott T. Harrison as Chief Executive Officer of Azure, effective in each case as of April 16, 2007;
9. the material change report of Azure dated May 15, 2007 relating to the appointment of James J. Padilla to the board of directors of Azure;
10. the material change report of Azure dated June 21, 2007 relating to the resignation of Wu Tzu Chien from the board of directors of Azure; and
11. the material change report of Azure dated October 2, 2007 relating to the announcing of the Offering.

Any documents of the types referred to above (excluding confidential material change reports) filed by the Corporation with any securities regulatory authorities after the date of this short form prospectus and prior to the termination of this distribution will be deemed to be incorporated by reference into this short form prospectus.

The documents referred to above are not incorporated by reference and do not form part of this short form prospectus to the extent that their contents are modified or superseded by a statement contained in this short form prospectus or in any subsequently filed document that is also incorporated by reference in this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for purposes of this short form prospectus, to the extent that a statement contained in this short form prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement is not to be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not, except as so modified or superseded, be deemed to constitute a part of this short form prospectus. Information on the Corporation's website does not constitute part of this short form prospectus.

THE CORPORATION

Azure was incorporated by Certificate of Incorporation pursuant to the *Business Corporations Act* (Alberta) on May 14, 1993 with the name Wild Horse Resources Ltd. and changed its name to its present form by Certificate of Amendment dated April 18, 2001.

Azure has four wholly-owned subsidiaries: Azure Dynamics Inc., which is incorporated under the *Canada Business Corporations Act*; Azure Dynamics Corporation of America (inactive) and Azure Dynamics Incorporated, both of which are incorporated under the laws of the state of Delaware, USA; and Azure Dynamics Limited, which is incorporated under the laws of England and Wales.

DESCRIPTION OF THE BUSINESS

The principal business of Azure is the development and sale of proprietary hybrid electric vehicle (“HEV”) and electric vehicle (“EV”) systems and components. HEV systems include an electric motor, an energy storage system (batteries or ultracapacitors), and an additional power source, such as an internal combustion engine/generator. An EV does not include the additional power source. In support of this business, Azure has developed intellectual property and key technical capabilities in the areas of Controls Software Development; Power Electronics and Electric Machine Design; and Systems Engineering and Vehicle Integration. These technical capabilities, along with key supply relationships, allow Azure to supply turnkey vehicle or powertrain solutions to the marketplace.

RECENT DEVELOPMENTS

Commercial Development Agreement with Owner of Major North American Fleet

On August 28, 2007 Azure announced that it had signed a commercial development and cooperation agreement with a North American company (the “Co-Developer”). Azure will deliver a gasoline parallel hybrid electric Ford E-450 based vehicle for industry viability validation, testing and demonstration within the Co-Developer's North American fleet. The parallel hybrid electric demonstration vehicle will be used to verify the fuel economy improvements, emissions reductions and maintenance cost savings that may be achieved using Azure's patented technology. It is expected that successful completion of the program will result in the Co-Developer becoming a leading customer of Azure's hybrid technology on the Ford E-450 chassis, with the Co-Developer committing to purchase from Azure a minimum of 10 percent of its fleet hybrid technology replacement needs each year.

Increase in Purchase Orders by Purolator

On August 14, 2007 Azure announced that Purolator Courier Ltd. (“**Purolator**”), Canada’s largest courier company, had amended and increased its existing purchase order for Azure hybrid delivery vans. Under the terms of Purolator’s initial purchase order dated September 15, 2005 (the “**Initial Purchase Order**”), Azure supplied 19 HEVs to Purolator. Pursuant to an amendment to the Initial Purchase Order dated August 3, 2006 (the “**First Amendment**”), Azure agreed to supply an additional 115 HEVs to Purolator. To date, 30 of the additional HEVs contemplated by the First Amendment have been delivered to Purolator and are currently in service. Pursuant to a second amendment to the Initial Purchase Order announced on August 14, 2007 (the “**Second Amendment**”), Azure has agreed to supply the remaining 85 HEVs contemplated by the First Amendment to Purolator on its new parallel hybrid-electric Ford E-450 platform. In addition, the Second Amendment increased the Purolator’s purchase order to include an additional 20 HEVs, bringing the total number of HEVs yet to be delivered, as contemplated by the First Amendment and the Second Amendment, to 105, all of which will be provided on the Ford E-450 platform. Azure expects to deliver all 105 Ford E-450 HEVs in the third and fourth quarters of 2008.

Memorandum of Understanding with Utilimaster

On August 2, 2007 Azure announced that it had signed a Memorandum of Understanding (the “**MOU**”) with Utilimaster Corporation (“**Utilimaster**”), a leading builder of step vans, commercial truck bodies and utility vehicles, for the assembly, hybridization and manufacturing engineering of Azure’s P1 hybrid electric commercial delivery vans and shuttle buses. Under the proposed terms of the MOU, Azure will provide Utilimaster with its P1 hybrid electric powertrains, which Utilimaster will integrate into Ford Motor Company’s E-Series commercial chassis at Utilimaster’s manufacturing facilities in Wakarusa, Indiana.

Agreement with FedEx Express

On May 15, 2007 Azure and FedEx Express (“**FedEx**”), a subsidiary of FedEx Corp., jointly announced that they had entered into agreements providing for the development by Azure of gasoline parallel hybrid-electric powertrains for FedEx’s delivery fleet. Under the terms of the agreements, Azure has agreed to supply a parallel hybrid-electric test vehicle to FedEx for the Ford E-450 hybrid commercial delivery van development program. Once the development phase is completed, FedEx has committed to purchase a minimum of 20 pre-production parallel hybrid-electric Ford E-450 delivery vans to be delivered by May 2008.

Supply Agreement with Electric Autos of Mexico

On April 9, 2007 Azure announced that it had entered into a supply agreement with Electro Autos Eficaces of Mexico (“**EAE**”). The supply agreement is valued at more than \$7.0 million and provides for an initial order of 1,000 drive systems for integration, over a period of approximately 18 months, into the Nissan Tsuru platform, which is commonly used in the municipal fleet of Mexico City. The Tsurus are being converted from gasoline-powered vehicles to electric vehicles as part of a Mexico City initiative to improve air quality and general health and quality of life in the city. Azure’s scope of supply for the 1,000 drive systems includes the motor, controller, gearbox and DC-DC converters. The supply agreement also includes the potential for Azure to supply a broad range of electric and hybrid electric drive systems and components for various other vehicle applications in Mexico.

USE OF PROCEEDS

After deducting the Agents’ Fee of \$1,800,420 and the expenses of the Offering, estimated to be \$350,000, the Corporation will have received net proceeds from the sale of the Common Shares of \$27,856,580. The Corporation plans to use the net proceeds of the Offering (together with cash generated from operations) to fund its ongoing engineering, product development, and strategic initiatives and for general corporate purposes. Primary areas of cash use are expected to be as follows:

Ongoing engineering and development associated with core products	\$13,500,000
Selling and marketing expenditures	\$ 4,000,000
General and administration	\$ 3,250,000
General working capital	<u>\$ 7,106,580</u>
	\$ 27,856,580

The Corporation intends to spend the funds available to it as stated in this short form prospectus. There may be circumstances, however, where for sound business reasons, a reallocation of funds may be necessary.

PLAN OF DISTRIBUTION

Pursuant to the terms and conditions of an amended and restated agency agreement dated as of October 15, 2007 between the Corporation and the Agents (the “**Agency Agreement**”), the Corporation has appointed the Agents to offer for sale on a “best efforts” basis, subject to compliance with all legal requirements and the terms and conditions contained in the Agency Agreement, 81,100,000 Common Shares at a price of \$0.37 per Common Share, payable in cash against delivery of certificates representing the Common Shares, for gross proceeds of \$30,007,000. Closing of the Offering is expected to be on or about October 19, 2007 or such other date as may be agreed upon by the Corporation and the Agents, but in any event not later than October 30, 2007. The Common Shares are being offered to the public in all of the provinces of Canada. Subject to applicable law, the Agents or their affiliates may offer the Common Shares for the sale outside of Canada.

The terms of the Offering, including the Offering Price, were determined by negotiation among the Corporation and the Agents in the context of prevailing market conditions.

The Agency Agreement provides for payment by the Corporation of the Agents Fee, which is equal to 6% of the gross proceeds raised in the Offering, for various services rendered to the Corporation in connection with the Offering.

While the Agents have agreed to use their best efforts to sell the offered Common Shares, the Agents are not obliged to purchase any Common Shares that are not sold. The obligations of the Agents under the Agency Agreement may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events.

Pursuant to policies of certain Canadian securities regulatory authorities, the Agents may not, throughout the period of distribution under this short form prospectus, bid for or purchase any Common Shares for their own account or for accounts over which they exercise control or discretion. The foregoing restriction is subject to certain exceptions, on the condition that the bid or purchase is not engaged in, for the purpose of creating actual or apparent active trading in or raising the price of the Common Shares. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules administered by Market Regulation Services Inc. relating to market stabilization and passive market making activities, and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Subject to the foregoing, the Agents may over-allot and effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced may be discontinued at any time.

The Common Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”), or any state securities laws and, subject to certain exemptions, may not be offered or sold or otherwise transferred or disposed of in the United States. The Agents have agreed that they will not offer the Common Shares within the United States except through their U.S. registered broker-dealer affiliates to institutional “accredited investors” that satisfy one of the criteria of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the U.S. Securities Act in accordance with Rule 506 of Regulation D under the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of Common Shares within the United States by a dealer (whether or not participating in this Offering) may violate the registration requirements of the U.S. Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

The Corporation has agreed that it will not, without the prior consent of the Agents, which consent shall not be unreasonably withheld, at any time prior to 90 days from the Closing Date, sell or issue, or negotiate or enter into any agreement to sell or issue, any equity securities of the Corporation, excluding any issuance of equity securities pursuant to: (i) the Corporation's stock option plan; (ii) the exercise or conversion, as the case may be, of securities of the Corporation outstanding as at September 14, 2007; and (iii) in connection with a *bona fide* acquisition by the Corporation (other than a direct or indirect acquisition, whether by way of one or more transactions, of an entity all or substantially all of the assets of which are cash, marketable securities or financial in nature or an acquisition that is structured primarily to defeat the intent of the foregoing provisions).

In addition, the Corporation has agreed to use commercially reasonable efforts to have certain directors and senior officers of the Corporation execute agreements providing that they will not, without the prior written consent of Paradigm Capital Inc., such consent not to be unreasonably withheld, at any time prior to 60 days from the Closing Date, sell any of their common shares of the Corporation, except pursuant to the laws of testate and intestate succession.

The Corporation has agreed to indemnify the Agents against certain liabilities and expenses, including liabilities under applicable securities legislation in certain circumstances, or to contribute to payments the Agents may have to make in respect thereof.

Azure has applied to list the Common Shares distributed under this short form prospectus on AIM. The TSX has conditionally approved the listing of the Common Shares distributed under this short form prospectus. Listing will be subject to Azure fulfilling all of the listing requirements of the TSX on or before December 19, 2007.

DESCRIPTION OF SECURITIES BEING DISTRIBUTED

The Corporation is authorized to issue an unlimited number of Common Shares. Holders of Common Shares are entitled to one vote per share at meetings of shareholders of the Corporation, to receive dividends if, as and when declared by the board of directors of the Corporation (the "**Board of Directors**") and to receive pro rata the remaining property and assets of the Corporation upon its dissolution or winding-up, subject to the rights of shares having priority over the Common Shares. As at the date hereof, a total of 198,276,177 Common Shares are issued and outstanding.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Corporation and its subsidiaries as at the dates indicated. The table should be read in conjunction with the consolidated financial statements of the Corporation and the related notes and management's discussion and analysis in respect of those statements that are incorporated by reference in this short form prospectus.

	<u>Authorized</u>	<u>Outstanding at December 31, 2006 (audited)</u>	<u>Outstanding at June 30, 2007 (unaudited)</u>	<u>Outstanding at June 30, 2007 after giving effect to the Offering⁽⁴⁾</u>
Shareholders' Equity:				
Common Shares ⁽¹⁾⁽²⁾	unlimited	\$112,803,000 (198,253,101 shares)	\$112,822,000 (198,276,177 shares)	\$140,678,580 (279,376,177 shares)
Preferred Shares ⁽³⁾	unlimited	NIL	NIL	NIL
Contributed Surplus	N/A	\$3,816,000	\$4,336,000	\$4,336,000
Deficit	N/A	(\$67,629,000)	(\$81,052,000)	(\$81,052,000)
Total shareholders' equity	N/A	<u>\$48,990,000</u>	<u>\$36,106,000</u>	<u>\$63,962,580</u>
Consolidated capitalization.....	N/A	\$48,990,000	\$36,106,000	\$63,962,580

NOTES:

(1) Does not include common shares in the capital of the Corporation issuable upon exercise of options, as described in Note (2) below.

- (2) The Corporation has a Stock Option Plan in place. As at December 31, 2006 and June 30, 2007 the Corporation had options to purchase 16,685,003 common shares of the Corporation and 15,515,128 common shares of the Corporation, respectively, outstanding under the Stock Option Plan.
- (3) The Corporation's authorized capital includes an unlimited number of Preferred Shares (issuable in series), none of which are currently issued and outstanding. The Corporation has no present intention to issue any such Preferred Shares.
- (4) Assuming the issuance of the maximum number of Common Shares being offered pursuant to the Offering, after deducting the Agents' Fee and the expenses related to the Offering, which are estimated at \$350,000.

There have been no material changes in the share capitalization of the Corporation since June 30, 2007. Since June 30, 2007, no options to purchase common shares of the Corporation have been exercised.

RISK FACTORS

In addition to other information contained in this short form prospectus, prospective investors should carefully consider the following risk factors in an evaluation of the Corporation and its business.

Early Stage Development

Azure is in the development stage. Since its inception, Azure has engaged primarily in research and product development, testing, the establishment of strategic alliances and marketing. The Corporation's products are at various stages in the development cycle. Azure has earned limited revenues to date and has supported its operations through cash flow from product sales, engineering services and various debt and equity financings. Azure's operations are subject to all of the risks inherent in the establishment of a new business enterprise. The likelihood of success of Azure must be considered in light of the problems, expenses and delays frequently encountered in connection with a new business and the development of new products and new technology.

Lack of Product Revenues/History of Losses

Azure has incurred losses since its inception. Azure's operations have not generated sufficient earnings and cash flows to date to result in profitability. Consequently, Azure's continued existence is dependent upon its ability to generate profitable operations by establishing and expanding its customer base and/or raising adequate long term financing. Azure has relied primarily on equity financing, debt financing and government funding to carry on its business to date. The ability of Azure to achieve profitable sustainable operations in the future is uncertain.

Additional Financing/ Dilution

Azure has relied on equity financing, debt financing and governmental funding to carry on its business to date, which has consisted primarily of internal and customer-related product development, the negotiation of strategic alliances and marketing activities. Any future financings may result in substantial dilution of the holdings of shareholders of the Corporation and could have a negative impact on the market price of the common shares of the Corporation. Furthermore, there can be no assurances that such future financings will be possible.

Uncertainty as to Commercial Viability

There can be no assurances as to when or whether Azure will successfully complete the development of commercially viable products for EVs or HEVs for any of its target and prospective markets. The market for HEV light to medium-duty vehicles, Azure's primary target market, is not yet proven. There is potential for delay in entry to this market, due to the complex manufacturing chain for delivery and shuttle bus vehicles (cab and chassis manufacturer/original equipment engine manufacturer/body builder). Customers in this market may not be willing to adopt the EV or HEV technology.

Newly developed battery technology, and in particular the issue of battery life, is unproven. To be successful, Azure needs to demonstrate that EVs and HEVs perform and operate reliably, efficiently and economically and that the long battery life times obtained in the light vehicle and bus businesses can also be obtained in the delivery vehicle market.

To date, Azure has focused primarily on research and development of its technology and the forging of strategic and customer alliances and has minimal experience in distributing its control systems technology on a commercial basis. There can be no guarantees that Azure will develop the capability and processes to meet the quality, price, engineering, design and standards of production volumes required to successfully market Azure's technology. Even if Azure is successful in developing its commercial viability capabilities, there are no assurances that it will do so in time to meet the requirements of its targeted markets. Failure to develop such commercial viability could have an adverse effect on Azure's business and financial results.

Uncertainty as to Product Development and Commercialization Milestones

Azure has established product development and commercialization milestones that it uses to assess its progress towards developing commercially viable products for EVs and HEVs. These milestones relate to technology and design improvements as well as to dates for achieving development goals. To assess progress, Azure tests and evaluates its technology under actual conditions. If such evaluations indicate technical defects or failure to meet cost or performance goals, Azure's commercialization schedule could be delayed and potential purchasers of its initial commercial systems may decline to purchase them or choose to purchase alternative technologies.

Uncertain Market/Unproved Acceptance of Azure's Technology/Target Markets

Azure's technology targets new and still developing markets. A market may never develop for Azure's technology for EVs and HEVs, or may develop more slowly than it anticipates, in which case Azure may be unable to recover the losses it has incurred in the development of its technology and may never achieve profitability. Azure has targeted postal, courier, urban delivery, taxi, shuttle bus, and export power applications as its target markets. Azure cannot guarantee that these markets will develop as planned.

Competition

There are other companies in the electric and hybrid electric area developing technologies. The major automotive manufacturers are targeting passenger vehicles and light duty vehicles and their technology could potentially be applied to medium duty commercial vehicles as well. There can be no assurances that Azure's competitors will not be able to duplicate Azure's technology or provide services and products similar to Azure more efficiently. Many of the potential competitors in the market are also organizations with access to significant resources that may be applied to research and development of EV and HEV technologies.

Other clean vehicle technologies are also progressing and their arrival may change the relative economics of the technology solutions. Although hybrid technology can potentially improve the efficiency of all options, there is no assurance that Azure will have a role in new technologies that emerge.

Dependence Upon Third Parties

To be commercially useful, Azure's technology for EVs and HEVs must, to a certain extent, be integrated into products manufactured by third parties. There are no guarantees that third parties will manufacture appropriate products or, if they do manufacture such products, that they will choose to use Azure's technology. Any integration, design, manufacturing or marketing problems encountered by third parties could adversely affect the market for Azure's control systems technology and Azure's financial results.

Azure's strategy is to effectively utilize the resources that exist in the automotive sector, and accordingly, its internal resources are focused on core product development and related activities. Azure substantially depends upon third parties for several critical elements of its business plan, including, but not limited to, product and component manufacturing and assembly, technological development and testing. There can be no assurances that such third parties' resources will be suitable, available, and affordable or that they will assist Azure in achieving its objectives.

Changes in Environmental Policies

To date, the markets targeted by Azure have been influenced by environmental laws, regulations and policies emerging in various parts of the world. There can be no guarantee that these laws, regulations and policies will not change. Changes in these laws, regulations and policies could result in decreased interest and demand by Azure's targeted markets in Azure's technology for EVs and HEVs. In addition, there can be no assurance that changes in environmental laws, regulations and policies or their application will not require further expenditures by Azure to further develop its technology.

Patents and Proprietary Rights

Azure's success may depend, in part, upon its proprietary technology. The Corporation relies on a combination of patent, industrial design, copyright, trademark and trade secret laws, nondisclosure agreements and other contractual provisions to establish, maintain and protect its proprietary rights, all of which afford only limited protection.

The process of seeking patent, industrial design and trademark protection can be time consuming and expensive. There can be no assurance that patents, industrial design registrations or trademark registrations will issue from currently pending or future applications or that Azure's existing patents, industrial designs or trademark registrations or any new patents, industrial design registrations or trademark registrations that may be issued will be sufficient in scope or strength to provide meaningful protection or any commercial advantage to Azure. There can be no assurance that any pending or future patent, industrial design or trademark applications will be granted in respect of Azure's technology and business or that any existing, pending or future patents, industrial design registrations or trademark registrations will not be challenged, invalidated, ignored, circumvented or otherwise rendered unenforceable, or that the rights granted under such patents, industrial design registrations or trademark registrations will provide meaningful protection or competitive advantages to Azure.

Similarly, there can be no assurance that common law trademark rights (if any), copyright, trade secret and non-disclosure agreements and other contractual provisions will provide meaningful protection or any commercial advantage to Azure, or that Azure's existing or future common law trademark rights (if any), copyrights, trade secrets and non-disclosure agreements and other contractual provisions will not be challenged, invalidated, ignored, circumvented or otherwise rendered unenforceable, or that the rights arising under Azure's existing or future common law trademark rights (if any), copyrights, trade secrets and non-disclosure agreements and other contractual provisions will provide meaningful protection or any commercial advantage to Azure.

Despite Azure's efforts to protect its proprietary rights, unauthorized parties may copy aspects of Azure's products, technology or proprietary rights or obtain and use information that Azure regards as proprietary. Moreover, effective intellectual property protection by way of patents, industrial designs, trademarks, copyrights, trade secrets, or the like may be unavailable or limited in Canada or certain foreign countries, making the possibility of misappropriation of Azure's products, technology or proprietary rights more likely. There can be no assurance that the steps taken by Azure to protect its products, technology or proprietary rights will prevent misappropriation of such products, technology or proprietary rights and such protections may not preclude competitors or others from developing proprietary rights, products or technology with functionality or features similar to Azure's products, technology or proprietary rights. In addition, there can be no assurance that other persons will not apply for patent, industrial design or trademark protection for similar aspects of Azure's business. Litigation may be necessary to protect Azure's proprietary technology. Any claims or litigation can be time-consuming and expensive, with no assurance of success. The possibility that Azure may not be able to adequately protect its products, technology and proprietary rights through patent and trademark registrations could have a material adverse effect on Azure's business, results of operations and financial condition.

Although Azure does not believe that it is infringing the intellectual property rights of others, others may claim that Azure is infringing their intellectual property rights. There can be no assurance that third parties will not assert that Azure's products or any other aspects of Azure's business infringe, or may infringe, their proprietary rights. Azure may in the future receive letters and other communications from third parties asserting patent rights, industrial design rights, trademark rights, copyrights, trade secret rights or other intellectual property rights covering, in whole or in part, certain of Azure's products, designs or business. Any such claims, with or without

merit, could be time consuming and expensive, could result in costly litigation and diversion of technical and other personnel, cause product shipment delays or require Azure to develop or discontinue certain products or processes or the use of certain technology or require Azure to develop non-infringing products, processes or technology or to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to Azure or at all. In the event of a successful claim of infringement against Azure and damages are awarded or Azure is unable to develop non-infringing technology or to license the infringed or similar technology, Azure's business, operating results and financial condition could be materially adversely affected.

Azure has licensed, in limited circumstances, from third parties technology for incorporation into or use with Azure's products or business and Azure may in the future license technology for incorporation into Azure's products. Furthermore, as Azure expands into the design and supply of existing or future products, Azure may be required to negotiate licenses with certain third parties. Should Azure be unable to obtain necessary licenses, the future development or use, in whole or in part, of Azure's products, processes or technology could be adversely affected.

Foreign Currency Exchange

The Corporation holds substantially all of its cash at a recognized Canadian national financial institution, and as such is exposed to all of the risks associated with that institution. The Corporation operates in foreign markets and has foreign subsidiaries and is therefore exposed to foreign currency exchange risk.

Management and Key Personnel

Azure is a small company dependent upon a small pool of key individuals. The loss of any of these key management or technical individuals could have a significant adverse effect on Azure. Azure does not maintain key man insurance. In addition, the future success of Azure will depend in large part on its ability to attract and retain qualified personnel and there can be no assurances that such personnel will be attracted and maintained.

Regulatory Approvals

Azure's technology for EVs and HEVs may require regulatory approvals in a number of jurisdictions and Azure may have to re-qualify for approvals in jurisdictions from time to time due to changing regulatory standards. Azure may also have to obtain separate regulatory approval for various applications of its technology or reapply for approval after making modifications to its existing technology. Failure to obtain such approval may have a significant adverse effect on the marketing potential and development of Azure.

Conflicts of Interest

Certain of Azure's directors and officers are directors and officers of other reporting companies or have significant shareholdings in other companies and, to the extent that such other companies may participate in ventures in which Azure may participate, the directors of Azure may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the directors of Azure, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In appropriate cases, Azure will establish a special committee of independent directors to review a matter in which several directors or management have a conflict.

LEGAL MATTERS

Legal matters in connection with the Offering will be passed upon on behalf of the Corporation by Fasken Martineau DuMoulin LLP and on behalf of the Agents by Cassels Brock & Blackwell LLP. As of October 12, 2007, the partners and associates of Fasken Martineau DuMoulin LLP and the partners and associates of Cassels Brock & Blackwell, each as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding Common Shares.

AUDITOR, REGISTRAR AND TRANSFER AGENT

The auditor of the Corporation is BDO Dunwoody LLP at its principal office in Toronto, Ontario. BDO Dunwoody LLP has confirmed that it is independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accounts of Ontario.

Equity Transfer & Trust Company, at its principal office in Toronto, Ontario, is the registrar and transfer agent for the Common Shares.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment thereto. In several of the provinces of Canada, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

AUDITOR'S CONSENT

We have read the short form prospectus of Azure Dynamics Corporation (the "**Corporation**") dated October 15, 2007 relating to the issue and sale of 81,100,000 Common Shares of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit, and cash flows for the years then ended and for the period from inception to December 31, 2006. Our report is dated March 6, 2007.

Toronto, Ontario
October 15, 2007

(Signed) BDO Dunwoody, LLP
Chartered Accountants

CERTIFICATE OF THE CORPORATION

Dated: October 15, 2007

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of all of the provinces of Canada. For the purpose of the Province of Québec, this simplified prospectus, together with documents incorporated herein by reference and as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

"Scott T. Harrison"

(Signed) Scott T. Harrison
Chief Executive Officer

"Daniel P. Renzella"

(Signed) Daniel P. Renzella
Senior Vice President, Finance and Chief Financial Officer

On behalf of the Board of Directors

"D. Campbell Deacon"

(Signed) D. Campbell Deacon
Chair and Director

"Robert A. Donaldson"

(Signed) Robert A. Donaldson
Director

CERTIFICATE OF THE AGENTS

Dated: October 15, 2007

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of all of the provinces of Canada. For the purpose of the Province of Québec, to our knowledge, this simplified prospectus, together with documents incorporated herein by reference and as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

PARADIGM CAPITAL INC.

“Peter Greenwood”

By: (Signed) Peter Greenwood

RAYMOND JAMES LTD.

“Jimmy Leung”

By: (Signed) Jimmy Leung

CLARUS SECURITIES INC.

“Rod Campbell”

By: (Signed) Rod Campbell

DESJARDINS SECURITIES INC.

“Dennis Logan”

By: (Signed) Dennis Logan