

AZURE DYNAMICS CORPORATION

COMPENSATION AND CORPORATE GOVERNANCE

COMMITTEE MANDATE

Role and Objectives

The Compensation and Corporate Governance Committee (the "Committee") is a committee of the Board of Directors of Azure Dynamics Corporation (the "Corporation") to which the Board has delegated its responsibility for oversight of compensation and related programs for executives and other employees and of corporate governance.

The objectives of the Committee are as follows:

1. To:
 - (a) oversee the alignment of executive compensation philosophy and programs in support of the Corporation's strategic objectives; and
 - (b) review the overall incentive compensation and benefit programs for employees generally and oversee their alignment in support of the Corporation's strategic objectives.
2. With respect to the Chief Executive Officer ("CEO") to:
 - (a) review and approve the performance objectives and goals relevant to the CEO's compensation;
 - (b) evaluate the performance of the CEO against the predetermined performance objectives and goals; and
 - (c) recommend to the Board the total compensation of the CEO based on such evaluation.
3. To review the CEO's evaluation of the other executives' performance and approve the CEO's recommendations for total compensation of the other executives.
4. To review and make recommendations to the Board regarding the adequacy and form of Board compensation.
5. To review the succession planning and related processes for the CEO and other executives.
6. To review executive compensation and corporate governance reporting in public disclosure documents.

7. To:
 - (a) oversee the Corporation's Code of Business Conduct and Ethics and Corporate Disclosure Policy; and
 - (b) review key matters pertaining to corporate values, beliefs and standards of ethical conduct and make recommendations to the Board.
8. To oversee governance matters concerning:
 - (a) Board structure, composition, process and meetings;
 - (b) Board effectiveness, including the orientation and education of directors, and the evaluation of the effectiveness of the Board, its committees and individual directors in fulfilling their responsibilities; and
 - (c) assessing the skills and competencies of each director and of the Board, developing criteria for Board nominees, and identifying and recommending qualified individuals to become Board members.
9. To review and recommend to the Board the mandates of the Board and its Committees as well as position descriptions.
10. To oversee the administration of the Corporation's Stock Option Plan, the Deferred Stock Unit (DSU) Plan and any other equity based plans.

The function of the Committee is one of oversight of management in the execution of their responsibilities. The Committee does not have decision-making authority except where, and to the extent that, such authority is delegated to it by the Board pursuant to this Mandate, a Board resolution or by law.

Composition of the Committee

1. The Committee shall consist of at least three directors appointed by the Board. Members of the Committee shall be appointed at the first meeting of the Board held after each annual meeting of the shareholders of the Corporation and shall hold office until the next annual meeting of shareholders; provided that any member may be removed or replaced at any time by the Board and shall, in any event, cease to be a member of the Committee upon ceasing to be a member of the Board.
2. Each director appointed to the Committee by the Board must be independent. A director is independent if the director has no direct or indirect material relationship with the Corporation. A material relationship means a relationship which could, in the view of the Board, reasonably interfere with the exercise of the director's independent judgment. In determining whether a director is independent of management, the Board shall make reference to Canadian securities regulation for definitions and guidance as to the meaning of "independent".
3. The Board shall appoint one member of the Committee to be the Chair of the Committee.
4. A director appointed by the Board to the Committee shall be a member of the Committee until replaced by the Board or until his or her resignation.

Meetings of the Committee

1. The Committee shall convene a minimum of two times each year at such times and places as may be designated by the Chair of the Committee and whenever a meeting is requested by the Board, the Board Chair, a member of the Committee, or the CEO. Meetings of the Committee shall correspond with the annual review of salaries, the award of bonuses, and the approval of grants under equity based compensation programs.
2. Notice of each meeting of the Committee shall be given to each member of the Committee. Notice of a meeting of the Committee shall:
 - (a) be in writing, including by email or facsimile;
 - (b) state the nature of the business to be transacted at the meeting in reasonable detail;
 - (c) to the extent practicable, be accompanied by copies of documentation to be considered at the meeting; and
 - (d) be given at least two business days prior to the time stipulated for the meeting or such shorter period as the members of the Committee may permit.
3. A quorum for the transaction of business at a meeting of the Committee shall consist of a majority of the members of the Committee. However, it shall be the practice of the Committee to require review, and, if necessary, approval of certain important matters by all members of the Committee.
4. A member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities, as permits all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.
5. In the absence of the Chair of the Committee, the members of the Committee shall choose one of the members present to be Chair of the meeting. In addition, the members of the Committee shall choose one of the persons present to be the Secretary for the meeting.
6. The Committee may, by specific invitation, have other persons in attendance. The Committee shall have the right to determine who shall and who shall not be present at any time during a meeting of the Committee. Directors, who are not members of the Committee, may attend Committee meetings on an ad hoc basis upon prior approval by the Committee Chair or by a majority of the Committee. At the request of the Committee or its Chair, the CEO, the CFO and other members of senior management as well as others may attend Committee meetings, or portions thereof, on an ad hoc or a regular basis; however the Committee shall meet in camera independent of management in the sole discretion of the Committee.
7. Minutes shall be kept of all meetings of the Committee and shall be reviewed and approved by the Committee. The full Board shall be kept informed of the Committee's activities by a report following each Committee meeting.

Duties and Responsibilities of the Committee — Compensation Matters

1. Oversee the development of executive compensation philosophy, policies and programs in order to effectively and appropriately support the Corporation's strategic objectives, make recommendations to the Board for approval thereof and oversee the administration thereof.
2. Annually review and recommend to the Board the total executive compensation structure, including executive base salary range, annual incentive opportunity, long-term incentive opportunity, retirement benefits, executive perquisites and supplemental benefits, and any executive employment agreements, and review any material amendments thereto for such executives.
3. Annually:
 - (a) review and approve the performance objectives and goals relevant to the CEO's compensation;
 - (b) evaluate the CEO's performance, including against the preapproved performance objectives and goals; and
 - (c) make recommendations to the Board with respect to the composition of the CEO's compensation and the CEO's total direct and indirect compensation based on this evaluation.
4. Annually:
 - (a) review the CEO's evaluation of the other executives' performance;
 - (b) review the CEO's recommendations for compensation of the other executives; and
 - (c) approve the composition of, and the total direct and indirect compensation to be paid to, executives reporting to the CEO after considering the recommendations of the CEO.
5. Annually receive from senior management recommendations concerning annual compensation policies, programs, amounts and budgets for all employees and make recommendations to the Board.
6. Review any new equity-based compensation plans of the Corporation or significant amendments thereto, including an examination of their cost implications, alignment with strategy and pay-performance linkages and make recommendations to the Board, and oversee the establishment and administration of executive equity-based compensation programs, including the Stock Option and DSU Plans.
7. Periodically review with senior management the overall incentive compensation and benefit programs for employees generally and oversee alignment thereof in support of the Corporation's strategic objectives.
8. Periodically review compensation policies of peer organizations to permit effective comparison with those of the Corporation and assess the market competitiveness of the Corporation's executive compensation policies and make recommendations to the Board.

9. Periodically review the adequacy and form of compensation of directors to ensure that the compensation realistically reflects the responsibility and risks involved in being an effective director and make recommendations to the Board.
10. Annually review the succession planning process and the succession plans for the CEO and the other executives and make recommendations to the Board where advisable.
11. Annually review compliance by the Corporation with applicable securities regulations governing executive compensation and reporting of the Corporation.
12. Annually develop, review and issue the report on executive compensation required by applicable securities regulations.

Duties and Responsibilities of the Committee — Corporate Governance Matters

13. Monitor developments relating to corporate governance issues and develop the Corporation's approach to governance issues, including the development and implementation of principles and systems for the management of corporate governance, and make recommendations to the Board with respect to such principles and systems.
14. Annually develop, review and issue the report on corporate governance practices required by applicable securities regulations.
15. Annually review the Corporation's Code of Business Conduct and Ethics and its Corporate Disclosure Policy and oversee procedures for the implementation and monitoring of the Code and Policy.
16. Periodically review the Corporation's key statements and policies regarding corporate values, beliefs and standards of ethical conduct and social responsibility.
17. Assess and recommend timely changes in the size, composition and structure of the Board, including the role of Board chair, with input from the Board chair, and make annual recommendations to the Board for the composition and chairs of the committees of the Board.
18. With respect to the Board:
 - (a) Assess the needs of the Board in terms of frequency and location of Board meetings, meeting agenda and conduct of meetings;
 - (b) Oversee procedures to permit the independent directors to meet on a regular basis without management present;
 - (c) Ensure that the information needs of the members of the Board are being met and met on a timely basis; and
 - (d) Formulate policies, rules and guidelines governing and regulating the affairs of the Board, such as tenure and retirement of directors.
19. Periodically review the mandates of the Board and its committees and recommend to the Board any amendments thereto.

20. Develop an appropriate orientation and education program for new directors, and ensure that all new members of the Board receive a comprehensive orientation.
21. Establish procedures for, and periodically review and evaluate, the effectiveness of the Board as a whole, the committees of the Board and the contribution and effectiveness of individual directors.
22. Oversee communications between the Corporation and its stakeholders, including measures for receiving feedback from and communicating with the Corporation's stakeholders.
23. When so directed by the Board, identify and recommend to the Board suitable candidates for nomination for election as directors. In doing so:
 - (a) consider the competencies and skills the Board as a whole, should possess;
 - (b) formulate criteria for candidates after considering the competencies and skills of each existing director;
 - (c) consider the competencies and skills of each new nominee and whether or not each new nominee can devote sufficient time and resources to his or her duties as a Board member;
 - (d) establish the procedure for approaching prospective candidates;
 - (e) canvas current Board members for suggestions for candidates; and
 - (f) make a formal recommendation to the Board of proposed nominees for election.

Other Functions

1. Oversee, assess, monitor, review and/or approve such other matters related to the foregoing or as are specifically delegated to it by the Board.
2. Undertake on behalf of the Board such other compensation and governance initiatives as may be necessary or advisable to enable the Board to contribute to the success of the Corporation and enhance shareholder value.

Engagement of Advisors

1. The Committee has the authority to:
 - (i) engage, instruct and terminate independent counsel and other advisors as it determines necessary to carry out its duties;
 - (ii) determine the independence, if applicable, of such advisors;
 - (iii) set the remuneration for and pay any such advisors engaged by the Committee; and
 - (iv) communicate directly with management of the Corporation.

2. The Corporation shall provide for appropriate funding, as determined by the Committee in its capacity as a committee of the Board, for:
 - (i) the remuneration to any advisors engaged by the Committee; and
 - (ii) the payment of ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out the Committee's duties.

Reporting to the Board

1. The Committee shall report to the Board on the activities of the Committee with respect to the foregoing matters at each Board meeting and at any other time deemed appropriate by the Committee or upon request of the Board.