

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 400, 350 Bay Street, Toronto, Ontario, M5H 2S6 (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 is also available electronically at www.sedar.com

SHORT FORM PROSPECTUS

New Issue

October 31, 2006



AZURE DYNAMICS CORPORATION

\$26,500,000

31,176,471 Common Shares

This short form prospectus qualifies the distribution (the "**Offering**") of 31,176,471 common shares (the "**Common Shares**") in the capital of Azure Dynamics Corporation ("**Azure**" or the "**Corporation**") at a price of \$0.85 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**". The TSX has conditionally approved the listing of the Common Shares distributed under this short form prospectus. Listing is subject to Azure fulfilling all of the listing requirements of the TSX on or before January 22, 2007. The closing price of the common shares of the Corporation on the TSX on October 30, 2006, being the last day the common shares traded prior to the date hereof, was \$0.88. The Offering Price was determined by negotiation among Clarus Securities Inc. and Paradigm Capital Inc. (together, the "**Underwriters**") and the Corporation.

Price: \$0.85 per Common Share

	<u>Price to the Public</u>	<u>Underwriters' Fee⁽¹⁾</u>	<u>Net Proceeds to Azure⁽²⁾⁽³⁾</u>
Per Common Share.....	\$0.85	\$0.051	\$0.799
Total	\$26,500,000	\$1,590,000	\$24,910,000

Notes:

- (1) In consideration of the services rendered by the Underwriters in connection with the Offering, the Corporation has agreed to pay a commission to the Underwriters equal to 6% of the gross proceeds of the Offering.
- (2) Before deducting the expenses of the Offering, estimated to be \$405,000, which will be paid from the proceeds of the Offering.
- (3) The Corporation has granted to the Underwriters an option (the "**Over-Allotment Option**") to purchase up to an additional 3,117,647 Common Shares at the Offering Price within 30 days after the Closing Date (as defined herein) solely to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the Price to the Public, Underwriters' Fee and Net Proceeds to Azure will be \$29,150,000, \$1,749,000

and \$27,401,000, respectively. This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Common Shares to be issued upon exercise of the Over-Allotment Option. See “Plan of Distribution”.

Underwriters’ Position	Maximum Size or Number of Securities Held	Exercise Period / Acquisition Date	Exercise Price or Average Acquisition Price
Over-Allotment Option	3,117,647 Common Shares	30 days following the Closing Date	\$0.85

The Common Shares will be issued and sold pursuant to an underwriting agreement (the “**Underwriting Agreement**”) dated as of October 31, 2006 among the Corporation and the Underwriters.

The Underwriters, as principals, conditionally offer the Common Shares, subject to prior sale, if, as and when issued by the Corporation, and delivered to and accepted by the Underwriters in accordance with the conditions contained in the Underwriting 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 Underwriters by Cassels Brock & Blackwell LLP. See “Plan of Distribution”.

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 Underwriters may over-allot or effect transactions that stabilize or maintain the price of the Common Shares in accordance with applicable market stabilization rules. See “Plan of Distribution”. It is expected that the closing of the Offering will take place on or about November 7, 2006 or on such other date as the Corporation and the Underwriters may agree (the “**Closing Date**”), but in any event not later than November 21, 2006. 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 Underwriters 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 400, 350 Bay Street, Toronto, Ontario, M5H 2S6. The registered office of the Corporation is Suite 1200, 425 1st Street S.W., Calgary, Alberta, T2P 3L8.

TABLE OF CONTENTS

ELIGIBILITY FOR INVESTMENT.....	3	CONSOLIDATED CAPITALIZATION	7
FORWARD-LOOKING STATEMENTS.....	3	RISK FACTORS	8
DOCUMENTS INCORPORATED BY		LEGAL MATTERS	12
REFERENCE.....	4	AUDITOR, REGISTRAR AND TRANSFER	
THE CORPORATION.....	5	AGENT	13
DESCRIPTION OF THE BUSINESS.....	5	STATUTORY RIGHTS OF WITHDRAWAL AND	
USE OF PROCEEDS	5	RESCISSION.....	13
PLAN OF DISTRIBUTION.....	6	AUDITOR'S CONSENT	14
DESCRIPTION OF SECURITIES BEING		CERTIFICATE OF THE CORPORATION.....	C-1
DISTRIBUTED	7	CERTIFICATE OF THE UNDERWRITERS.....	C-2

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

ELIGIBILITY FOR INVESTMENT

Based on legislation in effect at the date hereof and subject to compliance with the prudent investment standards and general investment provisions and restrictions of the statutes referred to below (and, where applicable, the regulations made under those statutes) and, in certain cases, subject to the satisfaction of additional requirements relating to investment or lending policies, standards, procedures and goals and, in certain cases, subject to the filing of such policies, standards, procedures or goals, the Common Shares, if issued on the date hereof, would not be precluded as investments under the following statutes:

<i>Insurance Companies Act (Canada)</i>	<i>an Act respecting insurance (Québec) (for an insurer, as defined therein, incorporated under the laws of the province of Québec, other than a guarantee fund corporation)</i>
<i>Pension Benefits Standards Act, 1985 (Canada)</i>	
<i>Trust and Loan Companies Act (Canada)</i>	
<i>Financial Institutions Act (British Columbia)</i>	<i>Supplemental Pension Plans Act (Québec) (for a plan governed thereby)</i>
<i>Pension Benefits Standards Act (British Columbia)</i>	<i>an Act respecting trust companies and savings companies (Québec) (for a trust company, as defined therein, investing its own funds and deposits it receives, and a savings company, as defined therein, investing funds)</i>
<i>Loan and Trust Corporations Act (Alberta)</i>	
<i>Insurance Act (Alberta)</i>	
<i>Employment Pension Plans Act (Alberta)</i>	
<i>Alberta Heritage Savings Trust Fund Act</i>	
<i>Loan and Trust Corporations Act (Ontario)</i>	
<i>Pension Benefits Act (Ontario)</i>	

In addition, provided that the Common Shares are listed on a prescribed stock exchange, which includes the TSX, the Common Shares, if issued on the date hereof, would be "qualified investments" under the *Income Tax Act* (Canada) and the Regulations 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 400, 350 Bay Street, Toronto, Ontario, M5H 2S6, 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 the provinces of Ontario, British Columbia, Alberta and Québec are incorporated by reference into and form an integral part of this short form prospectus:

1. the revised annual information form of Azure dated March 23, 2006 for the year ended December 31, 2005;
2. the audited comparative consolidated financial statements of Azure for the financial years ended December 31, 2005 and 2004 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, 2005;
4. the unaudited comparative interim financial statements of Azure for the three and six month periods ended June 30, 2006 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, 2006;
6. the management information circular dated May 11, 2006 relating to Azure's annual general and special meeting of shareholders held on July 24, 2006;
7. the material change report of Azure dated October 13, 2006 relating to the agreement with Ford Motor Corporation to enable Azure to develop a hybrid electric powertrain for Ford's E-Series commercial platform;
8. the material change report of Azure dated October 30, 2006 relating to the filing of the preliminary short form prospectus in respect of the Offering; and
9. the press release of Azure dated March 30, 2006 relating to the engagement of international investment bank Rothschild to assist and advise Azure in its review of strategic options.

Any documents of the types referred to above (excluding press releases and 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 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 supply of hybrid electric vehicle (“**HEV**”) and electric vehicle control and powertrain systems for commercial and military vehicles (“**Technology**”). To date, the Corporation has invested in the development and testing of its Technology. Commercial revenues from certain products, which are no longer in the development stage, commenced in 2005.

USE OF PROCEEDS

After deducting the Underwriters' fee of \$1,590,000 and the expenses of the Offering, estimated to be \$405,000, the Corporation will have received net proceeds from the sale of the Common Shares of \$24,505,000. The Corporation plans to use the net proceeds of the Offering (together with the net proceeds of the UK Offering and 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;
- Working capital and selling and marketing expenditures required to support revenue growth;
- General corporate purposes including administrative and operational support; and
- Strategic initiatives relative to the achievement of commercialization objectives.

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 the Underwriting Agreement dated as of October 31, 2006 between the Corporation and the Underwriters, the Corporation has agreed to issue and sell, and the Underwriters have agreed to purchase, 31,176,471 Common Shares on the Closing Date of the Offering, which is expected to be on or about November 7, 2006 or such other date as may be agreed upon by the Corporation and the Underwriters, but in any event not later than November 21, 2006, subject to the conditions stipulated in the Underwriting Agreement, at a price of \$0.85 per Common Share, payable in cash against delivery of certificates representing the Common Shares. The Common Shares are being offered to the public in the provinces of Ontario, British Columbia, Alberta and Québec. Subject to applicable law, the Underwriters 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 Underwriters in the context of prevailing market conditions.

The Underwriting Agreement provides for payment by the Corporation of a fee to the Underwriters equal to 6% of the gross proceeds raised in the Offering for various services rendered to the Corporation in connection with the Offering.

The Corporation has also granted the Underwriters an Over-Allotment Option, exercisable not later than 30 days after the Closing Date, to purchase up to an additional 3,117,647 Common Shares, at the Offering Price. The Over-Allotment Option is exercisable in whole or in any part only for the purpose of covering over-allotments, if any, made by the Underwriters in connection with the Offering and for market stabilization purposes. If the Underwriters exercise the Over-Allotment Option in full, the number of Common Shares issued under the Offering will be 34,294,118, the price to the public will be \$29,150,000, the Underwriters' fee will be \$1,749,000 and the net proceeds to the Corporation (excluding expenses of the Offering) will be \$27,401,000. This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Common Shares issuable on exercise of the Over-Allotment Option.

The obligations of the Underwriters under the Underwriting 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. The Underwriters are, however, severally obligated to take up and pay for all Common Shares they have obliged themselves to purchase if any of the Common Shares are purchased under the Underwriting Agreement.

Pursuant to policies of certain Canadian securities regulatory authorities, the Underwriters 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 Underwriters 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 or to U.S. persons. The Underwriters have agreed that they will not offer or sell the Common Shares within the United States except to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act) or to institutional accredited investors in accordance with 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 Underwriters, such consent not to be unreasonably withheld or delayed, for a period of 90 days from the Closing Date, sell or issue, or agree to sell or issue, any of the Corporation's equity securities or securities convertible, exchangeable or that can in any manner be substituted for, the Corporation's equity securities, except in conjunction with: (i) the grant or exercise of options and similar issuances pursuant to any common share compensation plan or arrangement or any outstanding option to acquire common shares in the capital of the Corporation; (ii) the issuance of securities in connection with the currently outstanding convertible securities of the Corporation; and (iii) the issuance of securities in connection with a strategic relationship, partnership or arrangement that the Corporation may enter into, provided however, that the Corporation shall, subject to applicable law, immediately notify the Underwriters of the terms and conditions of any such strategic partnership, relationship or arrangement, and provided further that, in the event that such strategic relationship, partnership or arrangement involves the issuance of common shares of the Corporation or securities exercisable for, or convertible into, common shares of the Corporation for consideration per such security less than \$0.85, then the prior written approval of each Underwriter, not to be unreasonably withheld or delayed, shall be required in connection with such strategic relationship, partnership or arrangement.

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

The Corporation also intends to complete a £1,724,000 (approximately \$3.7 million) brokered private placement offering of 4,310,000 common shares in the capital of the Corporation in the United Kingdom at a price of £0.40 (\$0.85) per common share, which private placement is being undertaken contemporaneously with the Offering (the "**UK Offering**"). Numis Securities Limited ("**Numis**") has been retained as Azure's agent in connection with the UK Offering. Numis, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as agent to the Company in relation to the UK Offering and is not acting for any other person and will not be responsible to any other person for providing the protections afforded to customers of Numis nor for advising them on the matters described in this document or any other matter in relation to either the Offering or the UK Offering. Completion of the UK Offering is contingent upon the Offering being completed for gross proceeds to the Corporation of not less than \$10,000,000. The Underwriters will not participate in the UK Offering in any capacity.

The TSX has conditionally approved the listing of the Common Shares distributed under this short form prospectus. Listing is subject to Azure fulfilling all of the listing requirements of the TSX on or before January 22, 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 159,536,983 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.

	Authorized	Outstanding at December 31, 2005 (audited)	Outstanding at June 30, 2006 (unaudited)	Outstanding at June 30, 2006 after giving effect to the Offering⁽⁴⁾
Shareholders' Equity:				
Common Shares ⁽¹⁾⁽²⁾	unlimited	\$80,701,000 (156,134,272 shares)	\$82,178,000 (159,139,445 shares)	\$107,088,000 (190,315,916 shares)
Preferred Shares ⁽³⁾	unlimited	NIL	NIL	NIL
Contributed Surplus	N/A	\$2,316,000	\$2,768,000	\$2,768,000
Deficit	N/A	(\$44,195,000)	(\$53,607,000)	(\$53,607,000)
Total shareholders' equity	N/A	\$38,822,000	\$31,339,000	\$56,249,000
Consolidated capitalization	N/A	\$38,822,000	\$31,339,000	\$56,249,000

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, 2005, the Corporation had outstanding options to purchase 14,030,914 common shares in the capital of the Corporation pursuant to 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) Does not include the common shares in the capital of the Corporation issuable on completion of the UK Offering.

There have been no material changes in the share capitalization of the Corporation since June 30, 2006. Since June 30, 2006, 397,538 options have been exercised for gross proceeds to the Corporation of approximately \$247,223.

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. Azure has earned limited revenues to date and has supported its operations through 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 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 government funding to carry on its business to date, which has consisted primarily of 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. 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 Technology for HEVs for all of its target and prospective markets. The development of the market for HEV light to medium-duty vehicles, Azure's target market, is not certain. 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 HEV Technology.

Current battery technology for HEVs, and in particular the issue of battery life, is unproven. To be successful, Azure needs to demonstrate that 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 the development of its Technology and the forging of strategic and customer alliances and has minimal experience in distributing its 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 Technology for HEVs. These milestones relate to technology and design improvements as well as 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 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 the postal, courier, urban delivery, taxi and shuttle bus markets. Azure cannot guarantee that these markets will develop as planned.

Rapid Technological Change May Impact Azure's Ability to Sell its Product

There are substantial uncertainties associated with Azure's efforts to develop new products and services for evolving markets and external factors, such as the development of competitive alternatives and rapid technological change may impact Azure's ability to sell its product. If Azure does not adequately anticipate or respond to changes in technology, it could have a material adverse effect on Azure's operating results and stock price.

Competition

With the development of the hybrid industry in general, Azure expects that new competitors will emerge, including competitors in the commercial vehicle niche market within which Azure operates. The major automotive manufacturers are targeting passenger vehicles and light duty vehicles and their technologies 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 HEV technologies.

Other clean vehicle technologies are also progressing and their arrival may change the relative economics of the Corporation's 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 Strategic Partnerships and Third Parties

The success of Azure's business strategy is dependent upon the execution of current strategic partnerships and the development of future strategic partnerships. There can be no assurance that Azure's current strategic partnerships will be successful or that Azure will be able to establish successful strategic alliances with other third parties in the future.

To be commercially useful, Azure's Technology for HEVs must, to a certain extent, be integrated into products manufactured by third parties. There are no guarantees that third parties will continue to manufacture appropriate products. In addition, any integration, design, manufacturing or marketing problems encountered by third parties could adversely affect the market for Azure's Technology and Azure's financial results.

Azure remains in the development stage and has yet to establish substantial internal resources. Azure's strategy is to effectively utilize the resources that exist in the automotive sector, and therefore Azure substantially depends upon third parties for several critical elements of its business plan, including, but not limited to, technological development and testing. There can be no assurances that such third parties will continue to be suitable or in a position to assist Azure in achieving its objectives.

Customer Concentration

Due to the nature of Azure's business, a small number of customers account for a high proportion of its sales. Azure is therefore subject to the trends in these customers' market conditions such that cancellation of a significant order by any such customer, the loss of any of major customer, or reduced sales by any such customer could materially and adversely affect Azure's business, results of operations and financial condition. Customers may delay or cancel orders or stop doing business with Azure for a number of reasons including: customer departures from historical buying patterns; general market conditions; economic conditions or increased competition in the markets in which Azure participates.

Changes in Environmental Policies

To date, the markets targeted by Azure have been, to a degree, 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 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, non-disclosure 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 management 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 that a successful claim of infringement is made against Azure and damages are awarded or that 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.

Potential Fluctuations in Financial Results make Financial Forecasting Difficult

The Corporation expects its revenues, expenses, cash flows and other operating results to vary significantly from quarter to quarter. Sales, margins and expenses may be lower than anticipated due to general economic conditions and market-related factors, product quality, performance and safety issues and competitive factors.

Expenditures and cash receipts may also vary from quarter to quarter due to the timing of such expenditures and cash collections from customers, government entities and other entities providing funding to the Corporation. As a result, quarter-to-quarter comparisons of revenues, expenses, cash flows and other operating results may not be meaningful. In addition, due to the Corporation's early stage of development, the Corporation cannot accurately predict its future revenues, cash flows or results of operations. It is likely that in one or more future quarters, financial results will fall below the expectations of securities analysts and investors. If this occurs, the trading price of the Common Shares may be materially and adversely affected.

Lengthy Sales Cycle

The sales cycle between initial customer contact and execution of a contract or license agreement with a customer can vary widely. Azure's sales cycle is generally relatively long due to customer concerns about the introduction of new products and technologies, and a customer evaluation process that is often quite extensive. As a result of the long sales cycle, it can take a substantial amount of time for Azure to generate revenue from its sales efforts. It is therefore difficult for Azure to forecast the amount and timing of specific sales. In addition, any delay in selling products could lead prospective customers to find alternatives to Azure.

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 risk 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 HEVs must receive 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 Board of Directors, 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 Underwriters by Cassels Brock & Blackwell LLP. As of October 31, 2006, the partners and associates of Fasken Martineau DuMoulin LLP and the partners and associates of Cassels Brock & Blackwell LLP, each as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding common shares of the Corporation.

AUDITOR, REGISTRAR AND TRANSFER AGENT

The auditor of the Corporation is BDO Dunwoody LLP at its principal office in Toronto, Ontario. Equity Transfer & Trust Company, at its principal office in Toronto, Ontario, is the registrar and transfer agent for the common shares of the Corporation.

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 31, 2006 relating to the issue and sale of 31,176,471 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, 2005 and 2004 and the consolidated statements of operations and deficit, and cash flows for the years then ended. Our report is dated February 8, 2006.

Toronto, Ontario
October 31, 2006

(Signed) BDO Dunwoody, LLP
Chartered Accountants

CERTIFICATE OF THE CORPORATION

Dated: October 31, 2006

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 short form prospectus as required by the securities legislation of the provinces of Ontario, British Columbia, Alberta and Québec. For the purpose of the Province of Québec, this simplified prospectus, together with the 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.

(Signed) D. Campbell Deacon
Chief Executive Officer

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

On behalf of the Board of Directors

(Signed) David E. Deacon
Director

(Signed) Robert A. Donaldson
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: October 31, 2006

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 short form prospectus as required by the securities legislation of the provinces of Ontario, British Columbia, Alberta and Québec. For the purpose of the Province of Québec, to our knowledge, this simplified prospectus, together with the 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.

CLARUS SECURITIES INC.

PARADIGM CAPITAL INC.

By: (Signed) Rod Campbell

By: (Signed) Peter Greenwood