

AZURE DYNAMICS CORPORATION

Annual Information Form

For the Year Ended December 31, 2010

Dated: March 23, 2011



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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This AIF and documents incorporated by reference herein contain forward-looking statements. The use of any of the words "anticipate", "intend", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "goal", "plan" and similar expressions are intended to identify forward-looking statements although not all forward-looking statements contain such words. More particularly, this AIF and documents incorporated by reference herein contain forward-looking statements with respect to:

- Azure's plans for its business development strategy;
- anticipated customer orders, product deliveries, sales and revenues;
- anticipated amounts and timing of expenditures by Azure to satisfy its product development and customer orders;
- Azure's financial and operational projections and anticipated results;
- anticipated impact of environmental laws and regulations on Azure;
- Azure's plans for funding the costs of ongoing and future product development; and
- anticipated impact on Azure of the factors discussed under the heading "Risk Factors".

The forward-looking statements are based on a number of key expectations and assumptions made by Azure, including, but not limited to:

- supply and demand for Azure's products;
- achievement of current timetables for product development programs and sales;
- target market acceptance of Azure's products;
- evolving markets for power for transportation vehicles;
- current and new product performance;
- availability and cost of labour and expertise;
- timing and amount of capital expenditures;
- general economic and financial market conditions;
- government regulation in the areas of environmental protection and government incentive and funding programs pertaining to the transportation industry; and
- success of marketing, sales and strategic partnership activities.

Although Azure believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Azure can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve numerous inherent risks and uncertainties that contribute to the possibility that the forward-looking statements may prove to be incorrect. Actual performance and results could differ materially from those currently anticipated in the forward-looking statements due to a number of factors and risks. These include, but are not limited to:

- Azure's early stage of development;
- lack of historical product revenues and a history of losses;
- the need for additional financing and uncertainties as to access to sufficient capital financing on acceptable terms;
- uncertainty as to commercial viability;
- uncertainty as to product development, commercialization and sales milestones being met;
- uncertainty as to target markets and market acceptance of Azure's products and technologies;
- competition for, among other things, capital, product market share and skilled personnel;
- dependence upon third parties;
- changes in legislation and government policies, including changes in environmental protection laws and government incentive and funding programs relating to the transportation industry;

- uncertainties pertaining to patent and proprietary rights;
- exchange rate and currency fluctuations;
- availability and retention of management and key personnel;
- product defect and product performance risks;
- uncertainties relating to potential delays or changes in plans pertaining to product development or capital expenditures;
- environmental and safety risks;
- uncertainty as to availability of any requisite regulatory approvals; and
- the other factors discussed under the heading "Risk Factors" in this AIF.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this AIF are expressly qualified by this cautionary statement. Azure does not undertake any obligation to publicly update or revise any forward-looking statements other than as required under applicable securities laws.

DEFINITIONS

Unless the context indicates otherwise, the following terms shall have the meanings set out below when used in this Annual Information Form.

“**ABCA**” means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended;

“**AC**” means alternating current;

“**AIF**” means this Annual Information Form;

“**Altec**” means Altec Industries, Inc.;

“**Azure**”, or “**AZD**” or the “**Company**” means Azure Dynamics Corporation, a corporation incorporated under the ABCA;

“**Board of Directors**” means the board of directors of Azure;

“**BSG**” means belt starter generator developed by Azure;

“**CARB**” mean the California Air Resources Board;

“**CBCA**” means the *Canada Business Corporations Act* R.S.C. 1985, c. C-44, as amended;

“**CDN**” means Canadian;

“**Common Shares**” means the common shares in the capital of Azure;

“**CPI**” means CPI Plastics Group Limited;

“**DC**” means direct current;

“**EAE**” means Electro Autos Eficaces;

“**EPA**” means the Environmental Protection Agency;

“**EPRI**” means Electric Power Research Insitute;

“EV” means electric vehicle;

“FedEx” means FedEx Corp.;

“FEAD” means front end accessory drive developed by Azure;

“Ford” means Ford Motor Company;

“FTA” means the Federal Transit Authority;

“GVW” means gross vehicle weight;

“HEV” means hybrid electric vehicle;

“HVIP” means Hybrid Truck and Bus Voucher Incentive Program;

“JCS” means Johnson Controls-Saft;

“Kidron” means Kidron, Incorporated, a division of VT Specialized Vehicles Corporation;

“KWh” means kilowatt hour;

“LEEP” means the low emission electric power systems developed by Azure;

“Li-Ion” means lithium-ion;

“MOU” means memorandum of understanding;

“MY” mean model year;

“NiMH” means nickel-metal hydride;

“OEM” means original equipment manufacturer;

“OTCBB” means Over the Counter Bulletin Board;

“PHEV” mean plug in hybrid electric vehicle;

“Preferred Shares” means the preferred shares in the capital of Azure;

“Purolator” means Purolator Courier Ltd.;

“SQAMD” means South Coast Air Management District;

“Technology” means the proprietary electric and hybrid electric drive technology for the light to heavy duty commercial vehicle category developed by Azure;

“TSX” means the Toronto Stock Exchange;

“U.S.” or **“U.S.A.”** means the United States or the United States of America;

“U.K.” means United Kingdom; and

“Utilimaster” means Utilimaster Corporation.

AZURE DYNAMICS CORPORATION

General

Azure Dynamics Corporation was incorporated under the ABCA as Wild Horse Resources Ltd. on May 14, 1993. The Common Shares trade on the TSX under the symbol “AZD”.

The head office of the Company is located at 14925 West Eleven Mile Road, Oak Park, Michigan 48237, United States of America. The registered office of the Company is located at Suite 1200, 425 – 1st Street S.W., Calgary, Alberta, T2P 3L8.

Inter-corporate Relationships

The Company has four wholly owned subsidiaries:

- Azure Dynamics Inc., incorporated under the CBCA;
- Azure Dynamics Corporation of America (inactive), incorporated under the laws of the state of Delaware, U.S.A.;
- Azure Dynamics Incorporated, incorporated under the laws of the state of Delaware, U.S.A.; and
- Azure Dynamics Limited, incorporated under the laws of England and Wales.

GENERAL DEVELOPMENT OF THE BUSINESS

Azure’s business is the development and sale of proprietary EV and HEV systems and components.

Three Year History

Corporate Developments

In 2008, the Company continued with the organizational changes commenced in 2007. On January 14, 2008 the Company appointed Ryan S. Carr as Chief Financial Officer, replacing Daniel P. Renzella who resigned his position. Mark Federle, Senior Vice President, Sales and Steven Glaser, Vice President, Corporate Affairs resigned their positions in first half of 2008. James C. Gouin was appointed to the Board of Directors on April 17, 2008. Mr. Gouin, previously with the Ford Motor Company, is currently the Chief Financial Officer of Tower Automotive LLC.

On April 27, 2009, the Company appointed J. Brian Colburn to its Board of Directors, replacing Robert A. Donaldson who stepped down. Mr. Colburn had recently retired after serving as a senior executive at Magna International Inc.

In 2010, the Company underwent several changes to its management team. During the first half of the year, Jim Trask joined the Company as Vice President, Business Development and Stephen Lee rejoined the Company as Vice President, Finance and Corporate Controller.

During the second half of 2010 and as part of the initiatives to expand into Europe, the Company re-opened its U.K. subsidiary and appointed Ricardo Espinosa (formerly, Vice President, Engineering) to Managing Director, European Operations to lead that initiative. As a result of this change and due to increasing engineering complexities, the Company promoted Jim Mancuso to Vice President, Current Product Engineering, Beat Arnet to Vice President, Component Engineering and Nicolas Bouchon to Vice President, Product Development.

Also, during the second half of 2010, Juris Pagrabs joined the Company as Vice President, Investor Relations. Finally, in October 2010, the Company appointed John Formisano to its Board of Directors. Mr. Formisano recently retired as Vice President, Global Vehicles of FedEx Express in Memphis, Tennessee. He has been on the Board of Directors of CALSTART since 2005 and has held the Vice Chair Board Member role since 2007.

The executive team of Azure is comprised of the following:

Scott T. Harrison – Chief Executive Officer;
 Ryan S. Carr – Chief Financial Officer;
 Ronald V. Iacobelli – Chief Technology Officer; and
 Curt A. Huston – Chief Operating Officer;

In January 2008, the Company transitioned from a research and development stage enterprise to a profit oriented enterprise. Although it is starting to realize revenues on certain product lines that were previously in the development stage, it still relies on financing to provide much of its working capital needs. The Company has raised approximately CDN \$67.9 million in new equity funds (net of costs) over the past three years. Major fund raising events are summarised in the following table (stated in millions of dollars):

Date	Form of transaction	Amount (CDN\$)
August 2008	Private placement	24.3
August 2009	Private placement	10.0
December 2009	Public offering	30.0
June 2010	Private placement	6.3

In January 2009, in light of challenging economic conditions, Azure implemented restructuring measures that included a 25% workforce reduction, cuts in discretionary spending and a focused effort to share its product development costs with its partners. The restructuring also involved rationalizing its product development efforts to focus on existing products and product programs. Azure also took steps to enable the Company to access low cost U.S. and Canadian government loans supporting development of fuel efficient vehicles.

Also in January 2009, the Company announced a five year supply agreement with JCS under which JCS will supply the Company with its state-of-the-art Li-Ion hybrid batteries.

The Company closed two major fund raising campaigns during 2009. In August 2009, the Company closed a private placement offering for gross proceeds of approximately CDN\$10,000,000. Again in December 2009, the Company closed its offering of Common Shares for a total gross proceeds to the Company of approximately CDN\$30,000,000.

In 2010, the Company closed a private placement with a wholly-owned Canadian subsidiary of Johnson Controls Inc. for a total gross proceeds to the Company of approximately CDN\$6,324,000. Further, the Company announced that it had secured a new multi-year credit facility through Silicon Valley Bank, the primary subsidiary of SVB Financial Group. The facility provides a line of credit up to \$4 million over the next two years. The Company has not drawn down any amounts under the credit facility to date.

Finally, in late 2010, the Company announced that it had started shipping Transit Connect Electrics to customers in North America and to the United Kingdom for a demonstration project. The Transit Connect Electric reached the market 13 months after the collaboration between Ford and Azure to develop the zero-emission vehicle was first announced.

Product Sales and Customer Development - G1 (series hybrid)

In September 2003, Azure signed a supply agreement with Purolator to deliver, subject to achievement of certain performance standards and other contract provisions, up to 2,000 hybrid electric powered chassis over a five-year period. Starting in May, 2005, Purolator introduced 19 series hybrid electric (G1) pre-production diesel series hybrid electric delivery vehicles which have been in service for over five and a half years and continuing to operate. In March 2007, Purolator introduced 30 of the production G1 gasoline powered vehicles into service which have been in service approaching four years at December 2010. Though the mileage on the G1 fleet has not been tracked since the end of 2009, it is estimated that the 49 unit, G1 vehicle fleet with Purolator has accumulated over 2 million miles in service. The G1 series hybrid step van was phased out of production in Q2 of 2008 with the launch of the Balance Hybrid product.

Product Sales and Customer Development – CitiBusTM (series hybrid)

On August 17, 2006, the Company entered into a supply agreement for the production of series hybrid shuttle buses with StarTrans. This product is known as CitiBusTM. During the first quarter of 2008, the first two CitiBusTMs entered into service in New York. Since that time the Company sold and delivered 38 additional buses to various customers throughout the United States. As of December 31, 2010, 40 CitiBusesTM had been delivered and were in service.

2009 was the final model year for production of the G1 hybrid vans and the CitiBusTM. The program will now move into service engineering mode. The high mileage and time in-service data will provide Azure with valuable durability data for future developments. With respect to the shuttle bus customers the Company now supplies a cutaway Balance Hybrid product. For more information on the CitiBusTM series hybrid shuttle buses, see the disclosure under the heading “Description of the Business of Azure – Products and Distribution Methods” in this AIF.

Product Sales and Customer Development - BalanceTM Hybrid Electric (parallel hybrid)

In May of 2007, Azure entered into agreements with FedEx to demonstrate and deliver 20 BalanceTM Hybrid Ford E-450 delivery trucks, which were delivered to FedEx in California during the second quarter of 2008. In November of 2009, FedEx purchased an additional 51 BalanceTM Hybrid delivery trucks.

In August of 2007, Purolator amended its open purchase order with the Company to receive 105 BalanceTM Hybrid Ford based delivery vehicles, which all entered service in the first quarter of 2009. In June 2009, Purolator placed an order for an additional 50 BalanceTM Hybrid Ford based delivery vehicles, and in December of 2009, Purolator placed a further order for an additional 200 BalanceTM Hybrid Ford based delivery vehicles.

In the second quarter of 2009, the Company received: (i) an order for 15 BalanceTM Hybrid vehicles from Metro Mobility in Minnesota; (ii) an order for 4 BalanceTM Hybrid trucks from the University of Alberta; and (iii) an order for 5 BalanceTM Hybrid trucks from the City of Toronto.

In the third quarter of 2009, the Company received: (i) an order for 16 BalanceTM Hybrid buses from the Hybrid Truck User’s Forum’s Small Hybrid Bus Working Group; (ii) an order for 10 BalanceTM Hybrid buses from the State of Kentucky with an option for an additional 40; (iii) an order for 3 NEXBUS’ from NAPA Valley Unified School District in California and Durham School Services; (iv) an order for 5 BalanceTM Hybrid electric buses from Volusia Transit Management Inc.; and (v) 1 BalanceTM Hybrid van to the United States Postal Service.

In the second quarter of 2010, the Company received: (i) an order for 100 BalanceTM Hybrid Electric walk-in vans from Cintas Corporation; (ii) an order for 34 BalanceTM Hybrid Electric buses from the

Illinois Department of Transportation; (iii) an order for 24 Balance™ Hybrid Electric buses from King County, Washington; (iv) an order for 18 Balance™ Hybrid Electric shuttle buses from the North Central Texas Council of Governments; (v) an order for 9 Balance™ Hybrid Electric shuttle buses from Metro Mobility; and (vi) orders for 28 additional Balance™ Hybrid Electric van and bus orders from both new and repeat customers across North America.

In the fourth quarter of 2010, the Company received: (i) an order for 10 Balance™ Hybrid Electric trucks from the ServiceMaster Company (TruGreen); (ii) an order for 5 Balance™ Hybrid electric shuttle buses from CALSTARTS' Hybrid Truck User's Forum; (iii) an order for 2 Balance™ Hybrid electric shuttle buses from Creative Bus Sales; (iv) an order for 1 Balance™ Hybrid electric shuttle bus from River City Transit; (v) an order for 2 Balance™ Hybrid electric shuttle buses from the City of Fargo and (vi) an order for 10 Balance™ Hybrid electric shuttle buses from New Jersey Transit.

With respect to customer sales and development, the Company sells directly to targeted major fleets, as well as direct to industry through participation in various work truck and bus development groups. Also, since the launch of the Balance Hybrid in 2008, the Company has negotiated direct sales and service agreements with certain Ford dealerships, to support both the sales and service of product in the marketplace.

For more information on the Balance™ hybrid products, see the disclosure under the heading "Description of the Business of Azure – Products and Distribution Methods" in this AIF.

Product Sales and Customer Development – LEEP Freeze and LEEP Lift (Low Emission Electric Power)

On October 10, 2007, the Company signed a supply agreement with Kidron. The supply agreement encompasses branding, marketing and sale of Azure's LEEP systems throughout the North American refrigerated truck body market. Kidron markets this product through its direct sales force and distribution channels across North America.

In November of 2007, City Harvest, a non-profit organization devoted to collecting and re-distributing excess food from commercial enterprises in New York, introduced the first Azure/Kidron LEEP refrigerated truck into service in their fleet. In fourth quarter of 2008, 7 LEEP Freeze systems were shipped to Kidron, of which 6 were delivered to Buchy Food Service in Ohio. In the fourth quarter of 2009, the Company received two separate orders from Kidron for a total of 257 LEEP Freeze systems from Schwan Food Company and Foster Farms Dairy. In 2010, the Company delivered 241 LEEP Freeze systems to Kidron, primarily for Schwan's.

Azure entered into a MOU in March 2008 with Altec, a leading manufacturer of aerial boom trucks for the electric utility, telecommunications and contractor markets. Under the terms of the MOU with Altec, Azure will supply LEEP Lift systems that are specifically adapted to boom truck applications. The MOU with Altec includes the branding, marketing and sale of Azure's LEEP Lift systems with electric utility and telecom markets. The pace of product development was slowed in 2009 while two demonstration vehicles were completed and entered a field trial period with potential lead customers including AT&T Kansas. In 2010 Azure delivered an additional 5 LEEP Lift systems to Altec for further demonstrations to various customers. The company continues to monitor the trial units and consider the business case for taking the LEEP Lift product into full series production.

For more information on LEEP products, see the disclosure under the heading "Description of the Business of Azure – Products and Distribution Methods" in this AIF.

Product Sales and Customer Development – Force Drive™ Electric Drive Systems & Components

The Company has developed a full range of electric drive components, including AC motors, inverters and converters and gearbox. Full powertrain kits or electric drive sub-components can be ordered from

the Company. The Company sold 95 Force Drive™ electric drive systems during 2010; 101 Force Drive systems in 2009; and 117 Force Drive systems in 2008. Systems are sold to various customers engaged in the manufacture, development, research or conversion of pure electric vehicles.

Product Sales and Customer Development – Transit Connect Electric

In February of 2010, the Company announced that it has collaborated with Ford to introduce the Transit Connect Electric van, a pure electric version of the 2010 North American Truck of the Year. The agreement was further expanded on May 3, 2010 to collaborate on developing the Transit Connect Electric for the European market. In 2010, the Company established its Lead customer program in North America pursuant to which Lead customers would be exclusively supplied with 2010 Transit Connect Electric vans in the fourth quarter of 2010 provided that they commit to a minimum of ten 2011 Ford Transit Connect Electric vans. The Company has 10 Lead customers including AT&T, Xcel Energy, Canada Post and the New York Power Authority. Pursuant to the Lead program, the Company delivered 13 Transit Connect Electric vans in 2010. In addition to the lead customer vehicles, the Company delivered an additional 17 vans to Ford Motor Company for use in customer development trials in the United Kingdom and Germany. Also in support of the market development and in cooperation with Ford the Transit Connect Electric was displayed at major industry events throughout the year including the Chicago Auto show; the Los Angeles Auto show, and the Hannover Motor Vehicle Show in Germany.

Product Sales and Customer Development – Dealerships

In June of 2008 the Company signed a sales and services agreement with its first dealer, the Palmetto Truck Center in Florida. By the year ended December 31, 2010, the number of dealership sales and service agreements Azure had secured or was in process of negotiating agreements with approached 100. As of the beginning of 2010 the Company had begun, in addition to the Balance Hybrid, add the Transit Connect Electric to the agreements. Also in Q4 of 2010 the Company initiated the process of securing dealership agreements in Europe with a plan to have them in place and trained on time for the launch of the European Transit Connect Electric.

Technology Development

During 2010 the development focus of the Company was the development and launch of the Transit Connect Electric in North America and Europe and the development of a next generation, cost reduced Balance™ parallel hybrid on the Ford E-Series. In support of the Azure's hybrid, electric and LEEP systems development, Azure also completed the development and launch of new generation motor controllers with advancements in technology and performance. Additionally, the Company furthered its development and testing of advanced energy storage systems including the development and production launch of a Li-Ion battery pack for the Balance Hybrid and the development of a 28 KWh Li-Ion battery pack for the Transit Connect Electric. The ultracapacitor development of 2008 was put on hold based on the new Li-Ion development and other cost rationalizations which took place in early 2009.

In 2010 the Company had already completed the final delivery of the last production CitiBus and the program shifted to a maintenance mode of servicing product in the field. Altoona testing in 2007 made the CitiBus™ eligible for various grants by the U.S. Federal Transit Administrations. During 2009, the CitiBus product was already in a production phase, and only minor development of a higher capacity electric air conditioning system was completed, as well as implementing improvements which were based on findings from the product's performance in the field. NiMH battery supply for the production of the Azure CitiBuses™ was secured during 2009.

As a result of the development agreement with Ford signed in October 2006, Azure's commercial Balance™ parallel hybrid development program is focused on the Ford E-450 commercial vehicle chassis. In 2010 Azure released the first phase of major design improvements to the Balance Hybrid,

including product upgrades to the inverter controllers, integration of lower cost auxiliaries and the release of an advanced lithium-ion battery pack. The Company also furthered the development of the advancements to its industry leading belt starter generator system which will launch in 2011. The Balance Hybrid was first launched for the stripped chassis, delivery van market in 2008. With successful completion of Altoona testing the shuttle bus variant was launched in the first quarter of 2009. The production launch of the product was significant in that it marked the successful design and release of an industry first belt-starter-generator system on a V8 engine through the Company's collaboration with Litens Automotive (a leading global supplier of front-end accessory drive systems). The Balance™ hybrid includes a driveline traction motor, as well as the belt starter generator system to deliver full hybrid performance, including engine off and electric only drive and launch capability. The electric drive capability feature not only adds a fuel economy benefit, but makes the design plug-in compatible with future release of higher energy battery systems.

Within 2010, the Company with support of the Electric Power Research Institute (EPRI) and the South Coast Air Management District (SQAMD) initiated the development of a Plug-In Hybrid variant of the Balance E-450 hybrid. The first Balance PHEV shuttle bus prototype build was initiated and near physical completion including the integration of the first prototype 14 KWh Li-Ion PHEV battery pack. The battery pack design leverages the design work already complete for the Transit Connect Electric.

In 2010 the LEEP Freeze program had already moved into a production phase and only minor engineering changes were made to address improvements of the product. In 2009, Azure completed the design and release the design of the LEEP system for use with Kidron cold plate refrigerated truck technology. The LEEP Freeze system developed for Kidron stores energy in the cold plate refrigeration system when the engine is running. When the engine is off, the cold plate is used to maintain refrigeration temperatures in the box. The Azure system maintains cooling of the cold plate electrically via powering a generator from a power-take-off. By allowing the system to operate with the engine off, the LEEP system combined with cold plates provides a solution for increasingly strict anti-idle regulations across North America.

In March of 2008 the Company executed a MOU with Altec to develop a LEEP system for use in utility and telecom truck markets. The LEEP Lift system charges on-board high-voltage batteries while the truck is in a normal drive cycle, and when the truck is stationary and the boom is active, the motor/generator drives the hydraulic pump and 12V DC loads using the stored energy in the battery to minimize use of the truck's engine during time spent at work sites. Development units demonstrated approximately 30% fuel savings versus a conventional truck on a representative test cycle. The development of the LEEP Lift system was slowed through 2009 in part as the Company rationalized its concurrent program spending. With respect to the LEEP Lift product, the Company continues to monitor the performance of the trial units in customer service but production development remained on hold.

By December 2010, the Company successfully completed all certification testing on the Transit Connect Electric for North America including brakes and crash testing. The Company also received certification from the Environmental Protection Agency (EPA) and an executive order from the California Air Resources Board (CARB). All Federal Motor Vehicle Safety Standards were demonstrated and along with the EPA certification the Transit Connect Electric vehicles were certified for sale. With the production line set up at AM General the Company produced and delivered 30 Transit Connect Electrics within the fourth quarter which were delivered to lead customers in the United States, United Kingdom, Germany and Canada. With respect to the European design, in 2010 the Company produced 4 development units including right hand drive vehicles for various testing and European homologation testing. The witness testing for the M1 small series category testing was complete by year end and the remaining testing required for the N category European van approval is scheduled to be complete in the early 2011.

DESCRIPTION OF THE BUSINESS OF AZURE

General

Azure has developed proprietary electric and hybrid electric drive technologies principally for the light to heavy duty commercial vehicle category (the “**Technology**”). Azure has expertise in the areas of vehicle controls software, power electronics, electric machine design, vehicle systems engineering and vehicle integration. The principal business of Azure is the supply of HEV and EV control and powertrain systems. HEV systems include an electric motor, an energy storage system, and an additional power source, such as an internal combustion engine/generator. An EV does not include the additional power source and only includes an electric motor and an energy storage system. The Company also has an established portfolio of proprietary component products that complement its core technical skills and makes use of an extensive industry supplier base to offer complete powertrain solutions to its target markets.

Azure has developed three primary product groups, which include: full hybrid electric; mild hybrid electric; and pure electric solutions. Target markets include hybrid electric delivery vans and shuttle buses, as well as electric drive applications. Since its inception, the Company has primarily been engaged in the development and testing of its technologies. Several of the Company’s products are now generating commercial revenues while other products are still in the development stage. The Company uses the supply capacity that exists within the commercial vehicle industry to assemble products to its specifications which are then distributed via existing industry channels to the customer.

Azure seeks to closely align its product development and sales efforts with recognised industry partners (vehicle manufacturers, battery suppliers, component suppliers, distributors, dealerships and customers) thereby gaining access to product development support and established distribution networks which can help accelerate the penetration of its three primary product groups into the commercial vehicle markets.

The Company has ongoing arrangements with Ford, which has facilitated the Company’s efforts in its full hybrid product group. The Balance™ Hybrid Electric (parallel hybrid) serves three primary target market applications: delivery, utility and shuttle buses.

The Company has concluded an additional arrangement with Ford which has facilitated the Company’s efforts for its pure electric product group. Azure Dynamics and Ford Motor Company have joined in a collaborative effort to deliver a pure electric Ford Transit Connect van for the United States and Canadian markets. With this collaboration, Ford will release a Transit Connect glider, which is a complete van without the gas powertrain or its associated systems (fuel and exhaust). Azure will then integrate its Force Drive™ electric powertrain auxiliaries and battery pack and sell the battery electric Transit Connects.

The Company has also concluded an arrangement with Kidron, a division of VT Specialized Vehicles Corporation, which has facilitated the Company’s efforts in its mild hybrid product group. The Company’s arrangement with Kidron for the branding, marketing and sale of Azure’s LEEP Freeze systems targets the refrigerated truck body segment in North America. The Company is currently working in the development stages with Altec, a leading manufacturer of aerial boom trucks targeting the electric utility and telecommunications markets and has delivered two demonstration LEEP Lift systems to AT&T.

Azure has developed intellectual property and key technical capabilities in the areas of: *Controls Software Development, Power Electronics, Electronics and Electric Machine design, and Systems Engineering and Vehicle Integration*. The technical capabilities, described in detail below, along with key supply relationships allow Azure to provide turnkey vehicle or powertrain solutions to the marketplace.

Controls Software Development

Supported by patents, Azure's controls technology offers real-time energy management that optimizes the performance of the propulsion system components and adapts the control system to actual operating conditions. The technology is designed to enable "right sizing" of vehicle components (battery, engine and/or fuel cell) thereby lowering production costs versus other hybrid or electric technologies. In addition, the technology has the potential to reduce operating costs when compared to competitive technologies and also to lower fuel consumption and to reduce tailpipe emissions generally associated with combustion engines.

Azure has developed a flexible embedded software structure with the objective of making the software as reusable as possible. This approach allows the sharing of modules between different applications; and also allows applications to run on different platforms. Azure is one of the first companies to utilize model based embedded software development at the application level for its powertrains. This process allows for the rapid development of new vehicle applications and decreases the time between prototype and production level software.

Azure has expertise and experience in engine controls, transmission controls, motor and generator controls (of both induction and permanent magnet machines), as well as many other power conversion devices.

Power Electronics, Electronics and Electric Machine Design

Azure maintains and continues to grow its technical capability in the design of power electronics and electric machines. Core skills include the development of power electronics products that meet stringent automotive and military environmental requirements. Power electronics and electric machines are an integral part of the future of hybrid and electric vehicles technology, and accordingly, Azure has established a proven family of products, including inverters, DC/DC converters and electric machines that have operated millions of in-vehicle service miles.

Azure's team utilizes its electric machine design and controls capability to work with industry leading electric machine motor manufacturers to modify designs to meet the Company's specific program requirements.

Systems Engineering & Vehicle Integration

Over the past 15 years, Azure has completed many vehicle and product integrations. The Company has developed the capability to design full vehicle powertrain and electrical systems and uses this capability to adapt its powertrain offering to many different vehicle applications. In addition, Azure has also developed a full range of auxiliary devices including DC/DC converters, hi-voltage auxiliary motors, driver's displays, and coolant circulating pumps.

Azure has extensive experience in designing and integrating energy storage solutions including lithium, ultra capacitors, nickel cadmium, NiMH and lead-acid batteries. Development of production Li-Ion packs started in 2009 and continued throughout 2010 with the launch of a new hybrid battery pack for the Balance in 2010 as well as the first saleable electric vehicle packs in the Transit Connect. Also in 2010 the Company in cooperation with JCS initiated the development of a PHEV Li-Ion pack for the Balance Hybrid. Azure has worked with its supply partners including JCS and Cobasys LLC to secure fully validated and warranted solutions.

Technology Application Strategy

Azure's strategy is to deploy its technologies into viable powertrain products for the light to medium duty commercial vehicle markets, focusing initially on urban delivery, postal, courier, taxi and shuttle-bus

applications. Azure has selected these markets in part based on the urban stop and go drive cycle, which is the least efficient application of conventional combustion engine technologies due to the disproportionate amount of energy per mile used when compared to the more typical drive-cycles driven by passenger vehicles. The electric and hybrid technology benefits from some of the inherent inefficiencies in the nature of the drive-cycle of these applications and eliminates other inefficiencies thereby achieving fuel and maintenance cost reductions, as well as reductions in the harmful emissions that contribute towards health and environmental issues. For example, the short trip, stop-start nature of these applications enable the EV and HEV systems to regenerate power by capturing braking energy that is then used to recharge the battery thereby extending the operational range of the vehicle. Azure's HEV system allows the combustion engine to operate at those times and at those levels where it is most efficient, and it operates with an electric-assist or full-electric mode at times when it is not efficient, thereby reducing fuel consumption, emission outputs and noise levels.

Products and Distribution Methods

Azure has developed numerous powertrain platforms and components for hybrid applications:

- Full hybrid product - Balance™ Hybrid Electric (parallel hybrid) (initially known as Azure's P1 parallel product) for the weight category of 10,000 to 19,000 lbs GVW.
- Mild hybrid products - LEEP products for commercial utility and vehicle refrigeration.
- Pure electric products – Transit Connect Electric and Force Drive™ electric vehicle systems and components.
- CitiBus™ series hybrid, which has evolved from Azure's G1 series hybrid product, for vehicles in the medium-duty weight range of 9,000 to 16,000 lbs GVW. 2009 was the final model year for the production of G1 hybrid vans and the CitiBus™.

The CitiBus™ and Balance™ platforms are used for vehicles in a class which typically deliver urban mail, packages and goods and can also be used in small shuttle bus applications.

The Company controls the design and manufacture of its proprietary power electronics. It otherwise designs and procures hardware from leading industry suppliers. These components will include Azure's patented software design installed in its own vehicle control unit which manages and controls the hybrid system. The components are then assembled by third party upfitters either independently or under sub-contract to Azure. Azure works closely with designated vehicle upfitters and fleet operators to assure the final product is commercially viable, manufactured and certified.

The following is a summary of Azure's products, their principal markets, distribution methods, revenues and/or expenses, the stage of research and development and plans for developing the products to commercial production.

Balance™ Hybrid Electric (parallel hybrid) (10,000 to 19,000 lbs gross vehicle weight)

The Balance™ parallel hybrid product has wider application than the CitiBus™ series hybrid product and is intended to address the broader, higher-volume markets. Parallel hybrid technology is more conducive to urban vehicles that also need to operate on highways for extended periods of time. The systems generally use fewer components than series hybrids and therefore are expected to have a lower capital cost. As a result of Azure's agreement with Ford, Azure's commercial Balance™ hybrid development program is now focused on the Ford E-350 and E-450 commercial vehicle stripped and cab chassis.

The agreement to develop a parallel hybrid powertrain on the Ford E-series chassis provides Azure with an avenue to achieve rapid penetration of a higher volume market for commercial vehicles in North America. The Company has launched into production both a stripped hybrid chassis for general delivery vans as well as a cutaway hybrid chassis for use in shuttle buses and other vocational trucks.

The Balance™ Hybrid Electric shuttle bus has completed durability testing at Altoona which qualifies Ford E-450 shuttle buses built with Azure's Balance™ Hybrid electric drive train system for Federal Transit Authority (FTA) programs of up to 80% funding when purchased by public transit agencies across the United States. Altoona testing subjects vehicle to a lifetime of usage in just a few months at the Altoona PA accelerated durability test center where harsh road conditions mimic real-world conditions endured by a commercial shuttle bus over a seven year, 200,000 mile cycle.

The 2009 model Balance™ Hybrid was certified as a new qualified heavy-duty hybrid motor vehicle which qualifies for a \$3,000 US Federal tax credit to eligible buyers by the Internal Revenue Service. This program ended in 2010. Azure received notification of certification from the California Air Resources Board (CARB) for the 2009 Azure Balance™ Hybrid E-450. The EPA and CARB certifications are requirements for the Balance™ Hybrid to qualify for the California Hybrid Truck and Bus Voucher Incentive Project (HVIP). The HVIP will provide vouchers of \$25,000 on a first-come, first-served basis for purchase of each eligible new hybrid truck or bus.

By the fourth quarter of 2010, the Company released the first phase of design improvements, including product upgrades to the inverter controllers, integration of lower cost auxiliaries and the release of JCS lithium-ion battery pack. The phase one changes were launched on the model year 2010.5 (MY10.5) Balance hybrid. Also within the quarter the company completed both the pre-production and initial production builds on the MY11 Balance hybrid. The final testing and release of the production Li-Ion battery packs was completed and the MY10.5 vehicle builds were placed into service. The second phase design release includes major advancements to the Company's industry leading belt-starter-generator ("BSG") system and will be released on the 2011 model year vehicle. The BSG system now incorporates an electronically controlled clutch, an industry first, which allows AZD's Balance hybrid to run the auxiliary vehicle systems including power steering, power brakes and air conditioning compressors when the engine is off and the vehicle is in electric mode. This new design eliminated the need for a separate auxiliary pump for steering and brakes, reducing cost, weight and complexity of the Balance hybrid. Design validation testing of the production intent new BSG system continued in the quarter including successful completion of life cycle testing on the new FEAD system.

Also within the fourth quarter the Company released JCS lithium battery service kit hardware for prior year model balance hybrid vehicles. The service release fulfills Azure's objective to make the new battery technology backwards compatible so that existing customers will be able to upgrade to the latest battery technology.

For more information on the commercial development of the Balance™ Hybrid Electric (parallel hybrid), see the disclosure provided under the heading "Three Year History – Product Sales and Development - Balance™ Hybrid (Parallel)" in this AIF.

The Company incurred \$2.0 million (2009 – \$2.5 million) in research and development expenses for the year ended December 31, 2010 related to internally funded Balance™ Hybrid Electric parallel projects. No costs have been deferred or capitalized. During 2010, the Company recognized approximately \$15.7 million (2009 – \$6.0 million) in revenue on sale of 457 (2009 – 157) Balance™ Hybrid Electric systems.

LEEP products for commercial vehicle and refrigeration

Electric Drive Solutions consists of Azure's Low Emission Electric Power (LEEP) and electric drive components. The product name LEEP refers to all systems whereby clean electric power is generated via the vehicles' powertrain (and, in some cases, via the grid) to supply a range of auxiliary systems (e.g. pumps, refrigeration, etc.) and export power applications. The Company has developed two variants: a refrigeration variant (LEEP Freeze); and a utility and telecommunications truck variant (LEEP Lift).

The Company has a supply agreement with Kidron for the LEEP Freeze refrigeration units that encompass branding, marketing and sale of Azure's LEEP Freeze systems throughout the North American refrigerated truck body market. The LEEP Freeze system stores cooling potential in the cold plate refrigeration system when the engine is running. When the engine is off, the cold plate is used to maintain refrigeration temperatures in the box. The LEEP Freeze system has the potential to replace the ancillary motors/generators used in the other method of cooling refrigerated trucks, thereby reducing fuel consumption, noise and emissions.

With the LEEP Freeze product being in production through the year the engineering activity on the program has moved into a program maintenance mode. As such there was limited activity within the latter part of 2010.

The LEEP Lift system is specifically designed to be installed on aerial lift trucks, in which a boom is driven by a hydraulic pump that is normally powered by a transmission power take-off unit. The LEEP Lift system charges onboard high-voltage batteries while the truck is in a normal drive cycle, and when the truck is stationary and the boom is active, the motor/generator drives the hydraulic pump and 12V DC loads using the stored energy to minimize use of the truck's engine during time spent at work sites. The initial unit demonstrated approximately 30% fuel savings versus a conventional truck on a representative test cycle.

AT&T continued to run LEEP Lift trucks which were purchased during the first quarter in their fleet. Azure delivered 5 additional LEEP Lift systems to Altec within 2010 for further customer demonstrations. The Company otherwise had no development activity related to LEEP Lift within the quarter and will cease reporting on this product until such time as it determines to complete a full production release of the product.

For more information on the commercial development of the LEEP product, see the disclosure under the heading "Three Year History – Product Sales and Customer Development – LEEP, Freeze and Lift" in this AIF.

The Company incurred \$0.1 million (2009 - \$0.5 million) in research and development expenses for the year ended December 31, 2010 related to internally funded LEEP projects. No costs have been deferred or capitalized. During 2010, the Company recognized approximately \$1.7 million (2009 – \$0.5 million) in revenue on sale of 248 (2009 - 74) LEEP Freeze Systems.

Transit Connect Electric

Azure and Ford Motor Company have joined in a collaborative effort to deliver a pure battery electric Ford Transit Connect van for the United States and Canadian markets. Within this unique collaboration, Ford will release a unique Transit Connect glider, which is a complete van without the gas powertrain or its associated systems (fuel and exhaust). Azure will then integrate its Force Drive electric powertrain auxiliaries and battery pack and sell the battery electric Transit Connects.

On October 30, 2009 the Company completed the development agreement with Ford for the Transit Connect Electric. By December 1 2009 the Company completed a development and supply agreement

with JCS to collaborate on the lithium ion battery pack for the Ford Transit Connect. Also within the fourth quarter the Company moved rapidly to complete its concept design release as well as produce the initial show vehicle for Ford. Testing on the completed vehicle was in process through the end of 2009, and the delivery to Ford occurred in January 2010. The build of a second engineering vehicle was also started within the fourth quarter.

In 2010, the Company established its Lead customer program pursuant to which Lead customers would be exclusively supplied with 2010 Transit Connect Electric vans in the fourth quarter of 2010 provided that they commit to a minimum of ten 2011 Ford Transit Connect Electric vans. The Company has 10 Lead customers including AT&T, Xcel Energy and the New York Power Authority.

Also in 2010, the Company signed or were in negotiations with up to 70 additional Ford dealerships in North America for to support the sales and service of the Transit Connect Electric. Azure also released the Transit Connect to its new on-line service portal, AZD-Tec where dealers or customers can access service and training materials to for Azure's products.

The Company incurred \$10.8 (2009 - \$2.2 million) in research and development expenses for the year ended December 31, 2010 related to the Transit Connect Electric. Although a significant amount of product development costs have been incurred, the Company anticipates further costs for product development will be incurred in future quarters in order to improve upon existing design and engineer cost reductions into the product. No costs have been deferred or capitalized. During 2010, the Company recognized approximately \$2.6 million (2009 - \$Nil) in revenue on sale of 30 (2009 - Nil) pre-production Transit Connect Electric vans.

Force Drive™ electric vehicle systems and components

The Company has developed a full range of electric drive components, including AC motors, inverters, converters, controllers and battery chargers. Full powertrain kits or electric drive sub-components are sold to various customers engaged in the manufacture or conversion of pure electric vehicles. The Company utilizes its inverter power electronic designs for the Balance™ hybrid, LEEP systems and Force Drive™ products including the Transit Connect Electric.

During the fourth quarter of 2010, the Company released performance and specification upgrades to its inverters which were released in the MY10.5 Balance Hybrid. The preproduction liquid cooled version of the main Force Drive traction inverter was also built in preproduction and incorporated in the production Transit Connect Electrics.

Also within the fourth quarter the company completed the development of a new electric powertrain durability test cell which will be utilized for hi-mileage drivetrain durability testing.

For more information on the commercial development of the electric drive systems, see the disclosure under the heading "Three Year History – Product Sales and Customer Development – Force Drive™ Electric Drive Systems & Components" in this AIF.

The Company recorded \$1.4 million (2009 - \$0.8 million) in revenue on the sale of Force Drive™ electric vehicle systems and components during 2010.

Azure G1 Hybrid and CitiBus™ series hybrid (9,000 to 16,000 lbs gross vehicle weight)

The Azure G1 series hybrid delivery vans and Citibus™ product are specifically designed for inner-city use and are highly suitable for urban general delivery vans and shuttle buses which both have demanding start and stop drive-cycles.

Purolator's fleet of 49 series hybrid vehicles are currently deployed in Montreal, Ottawa, Toronto and Vancouver. All 19 diesel hybrids have now surpassed three years in service and are now outside of their warranty period. The 30 gas series hybrids have surpassed two years in service. In addition to the Purolator fleet, the Bronx Overall Economic Development Corporation has operated their five CitiBus™ hybrids for 16 months. Customer mileage on the bus fleet is not being tracked and reported on by Azure. With the G1 vehicles now coming out of warranty periods, Azure will no longer be reporting on vehicle statistics in 2010.

During the fourth quarter of 2009 the Company shipped two Azure CitiBus™ hybrid chassis (series hybrid) to Startrans bringing the total number of delivered units to 39. The product has completed durability testing at Altoona and is eligible for funding programs administered by the Federal Transit Administration (FTA) in the United States. Azure has signed agreements with various StarTrans bus distributors across North America and therefore has access to a distributor network for the targeted shuttle bus market in the US and Canada. With the increasing sales of the Balance™ Hybrid shuttle bus product, the Company will be discontinuing the G1 CitiBus™ hybrid product line in 2010 and is taking steps to redeploy the remaining useable inventory of parts associated with the product.

With the final production of G1 Hybrid vans and CitiBus™ being complete in 2009, the program will now move into a maintenance mode. The high mileage and years in service of these fleets will serve to provide Azure with valuable durability data for future developments. Azure expects incremental work to continue throughout the life of these products and engineering changes required based on the in-service feedback from G1 van and CitiBus™ customers. Based on customer feedback and further in-service time, the Company released a cold weather powertrain software upgrade in the fourth quarter.

For information regarding recent commercial development of the CitiBus™ product line, see the disclosure provided under the heading "Three Year History – Product Sales and Customer Development – CitiBus™," Series Hybrid in this AIF.

The Company incurred \$0.1 million (2009 – \$0.03 million) in gross research and development expenses for the year ended December 31, 2010 related to these projects. During 2010, the Company recognized approximately \$0.1 million in revenue (2009 - \$1.6 million) on the sale of 1 (2009 – 14) shuttle buses.

Markets

Azure's focus has been on introducing its products into the medium to heavy duty commercial vehicle market with the development of a hybrid electric propulsion system for postal, courier, delivery and shuttle bus applications. While Azure's technology has broad applications, the Company has taken the view that a focus on this sector presents the most viable commercial opportunity for Azure due to the market's relatively large size, regulatory and legislative pressure on end users of vehicles in these class sizes, fuel cost pressures on large fleet operators and duty cycle characteristics. The low speed, stop-start nature of the urban duty cycle is well suited to the EV and HEV concept due to the regenerative energy captured from frequent braking and the inefficiency of conventional internal combustion engines at low speed. Vehicles that comprise this segment can also realize much greater emission reductions than more conventional over-the-road passenger cars and trucks. Azure's technology is designed to enable fleet operators to reduce emission levels and also reduce operating costs over the life cycle of a vehicle.

In addressing these markets, Azure adds value in its patented systems and software as well as in the design, component specification, integration, and marketing of powertrain applications. The manufacturing and assembly functions are expected to be performed by existing businesses in the industry, thereby assuring customers that their traditional sources of supply are uninterrupted.

In implementing these plans, it became clear that the fleet buyers were very interested in having an established OEM (Original Equipment Manufacturer) involved in this process. As a result, Azure

developed an agreement with Ford to develop powertrains for their E-350 and E-450 chassis. Additionally, Azure added new agreements with Ford to develop the Transit Connect Electric in both North America and Europe.

Suppliers and Components

In the execution of its strategy, Azure can be considered as a design, engineering and customer support operation. Azure's designed products are assembled using components manufactured, and where necessary, adapted to the specific powertrain application, by recognized industry suppliers. The assembly process itself is performed by specialist automotive assembly and manufacturing operations that currently serve the OEMs Azure is working with.

It is an important part of Azure's strategy to be aligned with partners who are recognized suppliers to the industry in order to achieve its goals. Azure is now working with major industry players such as Ford, Litens Automotive Group, JCS, Siemens, StarTrans, Cobasys LLC, Maxwell and Workhorse Custom Chassis (part of the Navistar International Group).

Competition

There are several companies in the market with hybrid electric product offerings. In management's assessment, most of these competitors fall on either side of Azure's chosen market, i.e. in the light duty passenger market (large OEM's such as Toyota) or the heavy duty market (component manufacturers and system integrators such as ISE Corporation or Eaton Corporation). A brief review of some of these companies follows:

BAE Systems Inc. has a hybrid electric propulsion system for large vehicles in city transit buses, military and commercial trucks. The ISE Corporation is a supplier of electric and hybrid-electric drive systems for heavy-duty bus and truck applications. The Eaton Corporation is developing hybrid electric and hybrid hydraulic powertrains for commercial vehicles in both the medium and heavy duty markets. Enova Systems, Inc. is developing electric powertrain components with the Hyundai Heavy Industries division with a focus on medium and heavy duty markets. Allison Transmission, Inc., a major manufacturer of automatic transmissions and powertrain components for the truck and bus industries, is currently developing an electric engine-assist module that would replace the automatic transmission in a bus or heavy truck.

Several major automotive OEM's, including Toyota, Honda, General Motors, Ford and Nissan currently have hybrid passenger vehicles available in the market and several others, including Daimler Chrysler, Nissan and General Motors, have announced their intention to market HEV passenger cars and light trucks over the next few years with an increasing product line-up including a new "two-mode" hybrid for light trucks. However, Azure does not consider such efforts to be in direct competition as evidenced by the agreement with Ford. Azure is concentrating on specific powertrain applications for commercial vehicle fleets whereas generally, the automotive retail market develops standard passenger vehicle platforms for the broader consumer market.

The Company has protected much of its intellectual property through the filing for and the award of patents in all areas of its expertise including controls software, hardware design and system integration expertise. Azure's system design also enables the Company to employ smaller powertrain components than would typically be required thereby containing the hybrid cost premium. The intent is to provide customers with an effective environmental solution without sacrificing sound economic principles. Azure's sales approach is to demonstrate these factors through in-service performance tests with its customers.

Azure's data acquisition and modeling approach is based on early and repetitive customer interface thereby customizing a solution that best fits end-user needs. Azure has identified potential fleet customers that understand the benefits of hybrid technology and have already indicated a strong interest in purchasing hybrid vehicles. With vehicle performance specifications jointly agreed at the initial stages, such customers essentially become partners in the development process.

Patents and Proprietary Rights

Azure has developed significant knowledge associated with its technologies and particularly its inventions in the development of control systems for hybrid vehicles. Azure 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. Initially, such knowledge is protected as confidential information and Azure takes reasonable steps to ensure that such information is kept confidential by employees and strategic partners through non-disclosure and confidentiality agreements. Where applicable, inventors have assigned patent and other intellectual property rights to Azure.

If a particular development seems appropriate for patent protection, Azure proceeds with patent filing and prosecution. Azure or its subsidiaries have obtained patents or have made patent applications for key elements of its hybrid vehicle control and battery management technologies. By the end of 2010, Azure had filed for or obtained patents for 21 different inventions, the details of which are as follows:

Internal AZD Number	Patent Number	Title of Invention
PAT001	Issued US 5,898,282 Canada 2,182,630	A Control System for a Hybrid Vehicle
PAT002	Issued US 6,242,873 Canada 2,397,074 Granted also GB, FR, IT, DE & ES	Method and Apparatus for Adaptive Hybrid Vehicle Control
PAT003	Issued US 6,555,991 Granted also CN, MX & SG, GB, FR, IT, DE, ES & HK Pending: CA 2,473,817, BR & IN	Battery Operating Condition Dependent Method and Apparatus for Controlling Energy Transfer Between an Energy Bus and a System of Batteries
PAT004	Issued US 6,909,200 Granted also GB, FR, DE, ES, HK, MX, CN & SG Pending: CA 2,475,597, BR, IN & KR	Methods of Supplying Energy to an Energy Bus in a Hybrid Electric Vehicle, and Apparatuses, Media and Signals for the Same
PAT005	Issued US 6,879,054 Granted also GB, FR, IT, DE, ES, CN, MX, SG & HK, Pending: CA 2,477,072, BR, IN & KR	Process, Apparatus, Media and Signals for Controlling Operating Conditions of a Hybrid Electric Vehicle to Optimize Operating Characteristics of the Vehicle
PAT006	Issued US 5,562,178	Rear Drive Electric Vehicle
PAT007	Issued US 5,637,971	Suppression of Multiple Noise-Related Signals in Pulse Width Modulated Signals
PAT008	Issued US 5,808,427	Vehicle Drive Control System
PAT009	Issued US 6,643,149	Switching System
PAT012	Issued US 6,768,621	Contactors Feedback and Pre-Charge / Discharge Circuit

PAT013	Pending: US2008/0132378 & CA 2,666,723	Method and Apparatus for Starting an Engine in a Hybrid Vehicle
PAT014	Issued US 7,728,448 Pending: CA 2,650,224, EP & MX	Process and Apparatus for Reducing Nitrogen Oxide Emissions in Genset Systems
PAT015	Issued US 7,577,006	Non-Linear Droop Control System and Method for Isochronous Frequency Operation
PAT016	Pending: US2008/0122228, CA 2,659,087 & EP	Method, Apparatus, Signals and Media for Selecting Operating Conditions of a Genset
PAT018	Issued US 7,826,939, CA 2,661,718 & EP	Method, Apparatus, Signals and Media for Managing Power in a Hybrid Electric Vehicle
PAT019	Issued US 7,397,675	Inverter-Filter Non-Linearity Blanking Time and Zero Current Clamping Compensation System and Method
PAT020	Issued US 7,561,008 Pending: CA 2,677,293 & EP	Improved Filter package
PAT021	Issued US7,741,798 Pending: CA 2,669,085 & EP	RFI/EMI Filter for Variable Frequency Motor Drive System
PAT022	Issued US 7,560,895 Pending CA 2,681,037 & EP	Indirect Rotor Resistance Estimation System and Method
PAT028	Pending: US 2010/0251984, CA20709022, & EP	Method and Apparatus for Starting an Internal Combustion Engine
PAT029	Issued US 7,893,650 Pending: CA 2,713,403 MX & EP	Method and System for Multiphase Current Sensing

Certain of Azure's technology is subject to a Transfer of Technology and Software Licensing Agreement between Azure Dynamics Incorporated and Singapore Technologies Kinetics Ltd. dated as of November 3, 2003. Singapore Technologies Kinetics Ltd. has a non-exclusive, transferable license to utilize certain Azure technology concerning vehicle drive systems and associated components in specified markets in Asia. The term of the license is 17 years.

Operations

At December 31, 2010, Azure had the following facilities:

- Engineering and testing facilities (20,000 square feet) near Vancouver, British Columbia located at 3900 North Fraser Way, Burnaby, British Columbia, V5J 5G1.
- Sales and engineering facility (77,000 square feet) near Boston, Massachusetts at 9 Forbes Road, Woburn, Massachusetts, U.S.A., 01801.
- Service and support centre (13,000 square feet) in Mississauga, Ontario at 4020A Sladeview Crescent, Unit 6-7, Mississauga, Ontario L5L 6B1.
- Sales and support centre (4,000 square feet) in Stevenage Herts, England at Unit 10, The IO Centre, Arlington Business Park, Gunnels Wood Road, Stevenage Herts, England SG1 2BD.
- Corporate head office and development centre (36,000 square feet) near Detroit, Michigan at 14925 West Eleven Mile Road, Oak Park, Michigan U.S.A., 48237.

Personnel

The Company employed 163 people at December 31, 2010, operating out of facilities in the United States, Canada and Europe.

Specialized Skills and Knowledge

The Company has recruited an experienced commercialization team, including executive, administrative, technical, engineering, operational, sales and marketing personnel. New hires in 2010 included positions in engineering, operations and sales, engineers/technicians and operational support personnel. Of the 163 employees of the Company as at December 31, 2010, 132 were employed in an engineering or technical capacity.

Seasonality

There are currently no established seasonality patterns for the financial results of the Company. Historically, variations in revenues, gross margin, expenses and net loss are driven primarily by the timing of development projects which vary on a project by project basis. Financial results for 2010 reflect early production revenues from the above mentioned programs and it is expected that variations in future financial results will be driven by expected increases in orders as the Company gains additional customers and completes the product launches of the above mentioned programs. Further, as most of the Company's customers are related to major fleets throughout North America, typically, their buying cycles will determine the outcome of Azure's revenues based on deliveries. Most truck deliveries occurred during the 2nd half of 2010.

RISK FACTORS

An investment in securities of the Company is highly speculative and involves significant risks. The risks described herein and in the documents incorporated by reference are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems immaterial, may also substantially and adversely affect its business. In addition to other information contained in this AIF, investors should carefully consider the following risk factors in an evaluation of the Company and its business.

Early-Stage Technology Development and Manufacturing Capability

Azure continues to be in the development stage, both in terms of its technology and in terms of its manufacturing capability. Since its inception, Azure has engaged primarily in research and product development, testing, the establishment of strategic alliances and marketing, although more recently the Company has increased its focus on vehicle assembly and production. The Company'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. While the Company's revenues have increased considerably in recent years, to date this has not resulted in profitability. In addition, although Azure anticipates that its revenues will continue to grow at an increased rate going forward, there can be no assurance that such growth in revenues will be realized or, if realized, that profitability will be achieved as a result of such increased revenues. Azure's operations continue to be subject to all of the risks inherent in an early-stage development business enterprise. The likelihood of success of Azure must be considered in light of the problems, expenses and delays frequently encountered in connection with an early-stage development business and the development and introduction 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 or positive cash flow. 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, partner funding and government funding to carry on its business to date. The ability of Azure to achieve profitable sustainable operations in the future is uncertain.

The Company has not yet demonstrated its ability to consistently achieve positive gross margins and its ongoing efforts to reduce product costs may be insufficient to result in profitability. Moreover, reducing product costs alone may not be sufficient enough for the Company to achieve profitability as it may prove difficult for the Company to reach a sufficient level of sales with positive gross margins to cover its operating expenses.

Current Global Financial Conditions

Current global financial markets have been subject to significant volatility, with numerous financial institutions having either gone into bankruptcy or having to be rescued by government authorities. Access to financing has been negatively impacted by both the sub-prime mortgage market in the United States and elsewhere and the liquidity crisis affecting the asset-backed commercial paper market. As such, the Company is subject to counter-party risk and liquidity risk. The Company is exposed to various counter-party risks including, but not limited to: (i) risks relating to financial institutions that hold the Company's cash; (ii) risks relating to companies that have payables to the Company; and (iii) risks relating to the Company's insurance providers.

The current state of the global financial markets may negatively impact the ability of the Company to obtain loans and other credit facilities in the future and, if obtained, on terms favourable to the Company. If these increased levels of volatility and market turmoil continue, the Company's planned growth could be adversely impacted and the trading price of the Company's securities could be adversely affected.

Additional Financing Dilution

Azure has relied on equity financing, debt financing, partner funding 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 Company and could have a negative impact on the market price of the common shares of the Company. Furthermore, there can be no assurances that such future financings will be successful.

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 electric vehicles ("EV") or hybrid electric vehicles ("HEV") for any of its target and prospective markets. The market for HEV light to medium-duty commercial 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, although more recently the Company has increased its focus on vehicle component and systems development and production. Azure continues to have limited experience in distributing its control systems technology on a commercial basis. There can be no guarantees that Azure will adequately develop its manufacturing capabilities to the extent necessary to meet the quality, price, engineering, design and standards of production volumes required to successfully market its product offerings. Even if Azure is successful in further developing its commercial viability capabilities, there are no assurances that it will do so sufficiently to meet the requirements of its targeted markets. Failure to sufficiently develop such commercial viability in a timely manner 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 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 sufficient 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 HEV and EV 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 HEV and EV technologies.

Other clean vehicle technologies are also progressing and their arrival may change the relative economics of the technology solutions. Although hybrid electric and electric 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 product offerings 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. In particular, Azure depends significantly upon third-party subcontractors, both in North America and Europe, for certain of its component manufacturing and assembly requirements in connection with each of its major product offerings. A breach by any such third-party subcontractor of its contractual obligations to Azure, or any failure by such a third-party subcontractor to produce components or provide assembly services at standards necessary to meet the specific performance requirements of Azure's products could adversely affect Azure's ability to meet customer delivery requirements and/or performance expectations and, as such, could adversely affect Azure's consolidated financial results. In such circumstances, there can be no assurance that Azure would be able to identify alternative third-party subcontractors with suitable and available resources to meet Azure's needs or, if such third-party subcontractors could be identified, that their products or services would be available to Azure at affordable rates. Likewise, no assurance can be provided that, in connection with future product offerings, Azure will be able to identify third-party subcontractors with suitable and available resources to meet Azure's needs or, if such third-party subcontractors can be identified, that their products or services will be available to Azure at affordable rates.

Azure receives financial support for certain of its product development efforts in the form of cost sharing arrangements agreed to by Azure with third parties. No assurance can be provided that such third parties will honour these agreements. Any failure by such third parties to comply with their obligations in respect of such cost sharing arrangements could adversely affect Azure's consolidated financial results by requiring Azure to incur additional expenses in the form of product development costs.

Additionally, Azure relies upon long-term supply agreements with certain suppliers, which, in some instances, also involve the development of new technology to meet specifications required for the performance of Azure's products. No assurance can be provided that such third parties will honour these supply agreements or that the development of new technology by such third parties will meet the specifications required for the performance of Azure's products. A breach of a supply agreement by a third party, or any inability of a third party to develop the new technology necessary to meet the specific performance requirements of Azure's products, could adversely affect Azure's ability to meet customer delivery requirements and/or performance expectations and, as such, could adversely affect Azure's consolidated financial results.

Changes in Environmental Policies and Government Stimulus and Funding Programs

To date, the markets targeted by Azure have been partially influenced by environmental laws, regulations and policies and government stimulus and funding programs emerging in various parts of the world. There can be no guarantee that these laws, regulations and policies and government stimulus programs will not change. Changes in these laws, regulations and policies and government stimulus programs 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 and government stimulus programs 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 Company relies on a combination of patent, 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 or trademark registrations will issue from currently pending or future applications or that Azure's existing patents or trademark registrations or any new patents or trademark registrations will be sufficient in scope or strength to provide meaningful protection or any commercial advantage to Azure. There can be no assurance that existing, pending or future patents, industrial design registrations or trademark registrations will not be challenged, invalidated, ignored, circumvented or otherwise rendered unenforceable.

Similarly, there can be no assurance that Azure's existing or future 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.

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, 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. 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 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, in whole or in part, or any other aspects of Azure's business infringe, or may infringe, their proprietary (e.g. patent, trademark, copyright or trade secret) rights. Any such claims, with or without merit, could be time consuming and expensive to resolve, could result in costly litigation and diversion of technical and management personnel, could cause product shipment delays or require Azure to 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. Thus, Azure's business, operating results and financial condition could be materially adversely affected by such a claim, whether or not it has any merit.

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

Azure 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. Azure operates in foreign markets and has foreign subsidiaries and is therefore exposed to foreign currency exchange risk. A significant portion

of the operating expenses of Azure and its foreign subsidiaries are incurred in United States dollars. Fluctuations in the value of the United States dollar relative to the Canadian dollar could have a material impact on Azure's consolidated financial statements by creating gains or losses.

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.

Product Defect Risk

A malfunction or the inadequate design of Azure's products could result in product liability or other tort claims. Accidents involving Azure's products could lead to personal injury or physical damage. Any liability for damages resulting from malfunctions could be substantial and could materially adversely affect Azure's business and results of operations. In addition, a well-publicized actual or perceived problem could adversely affect the market's perception of Azure's products. This could result in a decline in demand for Azure's products, which would materially adversely affect Azure's financial condition and results of operations.

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 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 of interest.

Multi-year Contract with Purolator

Under Azure's contract with Purolator, 200 units of the Balance hybrid electric are to be delivered in 2011. An additional 200 units are scheduled in both 2012 and 2013, subject to annual authorizations by Purolator's board of directors. There can be no assurance that Purolator's board of directors will authorize the purchase of the additional units in 2012 and/or 2013. Failure by the board of directors of Purolator to authorize the purchase of the additional units in 2012 and/or 2013 could materially adversely affect Azure's financial condition and results of operations for such periods.

DIVIDENDS

The payment of dividends on the shares of the Company will be within the discretion of the Board of Directors and will depend upon the Company's future earnings, its capital requirements, its financial condition and other relevant factors. It is not currently anticipated that any dividends will be declared in the foreseeable future. Azure has never paid a dividend on its Common Shares.

DESCRIPTION OF CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of Common Shares and an unlimited number of Preferred Shares. The holders of Common Shares are entitled to dividends as may be declared by the Company, to vote at any meeting of shareholders of the Company, and to receive the remaining property of the Company on dissolution. As at the date of this AIF, a total of 627,409,973 Common Shares were issued and outstanding. The Preferred Shares are non-cumulative redeemable shares which may be issued for such consideration and bearing such rights, privileges, restrictions and conditions, as determined by the directors of the Company prior to issuance. Currently there are no Preferred Shares issued or outstanding.

MARKET FOR SECURITIES

The Common Shares of the Company commenced trading on the TSX under the symbol "AZD" on June 4, 2004. Prior to this date, they traded on the TSX Venture Exchange under the trading symbol "AZD". The Common Shares of the Company also trade on the OTCBB under the symbol "AZDDF". The following table sets forth the reported market price ranges and the aggregate trading volumes for the Common Shares for the periods indicated, as reported by both the TSX and OTCBB respectively.

Common Shares

Period	TSX			OTCBB		
	Price Range			Price Range		
	High	Low	Trading Volume	High	Low	Trading Volume
2010						
January	\$0.220	\$0.185	10,234,477	\$0.235	\$0.168	680,121
February	\$0.220	\$0.175	11,701,417	\$0.216	\$0.165	1,737,754
March	\$0.280	\$0.190	32,636,250	\$0.276	\$0.179	3,804,044
April	\$0.275	\$0.235	13,597,011	\$0.279	\$0.226	2,331,089
May	\$0.310	\$0.235	19,753,229	\$0.307	\$0.201	3,361,827
June	\$0.360	\$0.270	23,920,317	\$0.360	\$0.258	3,894,764
July	\$0.350	\$0.300	8,153,710	\$0.340	\$0.278	923,033
August	\$0.360	\$0.280	14,088,536	\$0.356	\$0.260	2,431,080
September	\$0.315	\$0.285	9,049,771	\$0.308	\$0.268	1,062,511
October	\$0.300	\$0.240	19,853,792	\$0.305	\$0.236	1,900,689
November	\$0.320	\$0.270	9,010,161	\$0.311	\$0.258	1,240,699
December	\$0.315	\$0.280	11,927,670	\$0.320	\$0.276	1,785,616
2011						
January	\$0.405	\$0.305	20,101,803	\$0.400	\$0.295	4,378,113
February	\$0.345	\$0.300	7,260,569	\$0.353	\$0.300	1,477,051
March ⁽¹⁾	\$0.335	\$0.245	35,236,325	\$0.350	\$0.254	876,936

NOTES:

(1) Price ranges and trading volumes based from March 1 – 15, 2011.

DIRECTORS AND OFFICERS

The name and municipality of residence, position with the Company and the present principal occupation of each of the directors and executive officers of the Company are as follows. Directors serve their term until the expiry thereof at the next annual general meeting of shareholders of the Company:

<u>Name and Residence</u>	<u>Position with Azure</u>	<u>Date Appointed Director</u>	<u>Principal Occupation During Previous Five Years</u>
Nicholas O. Brigstocke London, UK ⁽¹⁾⁽²⁾	Director	October 4, 2001	Independent businessman, Chairman of UK Equity Capital Markets at Credit Suisse First Boston Ltd. from 1998 to 2001.
D. Campbell Deacon Toronto, Ontario	Director, Chairman of the Board	April 24, 2001	Chairman of Deacon and Company, a limited market investment dealer since August 2007. Chairman of the Board from April 2007 to present. Chief Executive officer of Azure from January 2000 to August 2007; Deputy Chairman of the Board of Azure from January 2004 to April 2007.
J. Brian Colburn ⁽²⁾ Toronto, Ontario	Director	April 27, 2009	Independent consultant since May 2009. Mr. Colburn was a senior officer of Magna International Inc. from September 1981 until April 2009.
Dennis A. Sharp ⁽¹⁾⁽²⁾ Calgary, Alberta	Director	April 24, 2001	Independent businessman since October 2010. Chairman and director of UTS Energy Corporation from February 1998 to September 2010.
Scott T. Harrison Birmingham, Michigan	Director, Chief Executive Officer	April 16, 2007	Chief Executive Officer and Director of Azure since March 2007; Business Unit President of Hayes Lemmerz International Inc. from October 2001 until February 2007.
James J. Padilla Sarasota, Florida	Director	May 11, 2007	President and Chief Operating Officer of Ford until July 2006.
James C. Gouin ⁽¹⁾ Belle River, Ontario	Director	April 17, 2008	Chief Financial Officer of Tower Automotive LLC since November 2007; Senior managing director at FTI Consulting from June 2007 until November 2007; Held several senior management and executive positions with Ford from May 1979 to March 2007; In his last role with Ford, Mr. Gouin was Vice President, Finance, Business Development and Growth for International Operations.
John Formisano Severna Park, Maryland	Director	October 22, 2010	Independent consultant since May 2010. Vice President of Fedex Express from October 1983 to April 2010.
Curt A. Huston Commerce Township, Michigan	Chief Operating Officer	N/A	Chief Operating Officer of Azure since August 2007; Vice President, North American Wheel Operations of Hayes Lemmerz International Inc. from December 2001 to July 2007.
Ronald V. Iacobelli Vancouver, British Columbia	Chief Technology Officer	N/A	Chief Technology Officer of Azure since September 2005; Senior Vice President, Development & Operations of Azure from January 2004 to September 2005;
Ryan S. Carr Canton, Michigan	Chief Financial Officer	N/A	Chief Financial Officer of Azure since January 2008; Strategic consultant for Hayes Lemmerz International Inc. from May 2007 to January 2008; Chief Financial Officer of Ryko Enterprises Inc. from February 2006 to May 2007; Business Unit Controller of Hayes Lemmerz International Inc. from March 2002 until February 2006.
Ricardo Espinosa Surrey, UK	Managing Director, European	N/A	Managing Director, European Operations since June 2010. Vice President, Engineering of Azure from 1994 to June 2010, prior thereto led the design and integration

Name and Residence	Position with Azure Operations	Date Appointed Director	Principal Occupation During Previous Five Years of EVs and HEVs at Solectria Corp.
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NOTES:

- (1) Member of the Audit Committee.
(2) Member of the Compensation and Corporate Governance Committee

The Board of Directors of Azure has an Audit Committee, and a Compensation and Corporate Governance Committee. As of the date of this AIF, the directors and executive officers of the Company, as a group, beneficially own, directly or indirectly, or exercise control or direction over 33,220,720 Common Shares of the Company representing 5.3% of the issued and outstanding Common Shares of the Company.

Corporate Cease Trade Orders

To the knowledge of Azure's management, no director or executive officer of the Company is, as at the date of this AIF, or has been, within 10 years before the date of this AIF, a director, a chief executive officer or a chief financial officer of any company that, while that person was acting in that capacity, (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days, (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days.

Bankruptcies

To the knowledge of Azure's management, other than as otherwise disclosed herein, no director or executive officer of the Company is, as at the date of this AIF, or has been within 10 years before the date of this AIF, a director or executive officer of a company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

In October 2001, Scott T. Harrison was appointed as an officer and Business Unit President for Hayes Lemmerz International, Inc. In December 2001, certain U.S. subsidiaries of Hayes Lemmerz International, Inc. filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In June 2003, the company emerged from bankruptcy.

On January 7, 2009, the principal secured lender to CPI demanded immediate repayment of all CPI's credit facilities and applied for the court appointment of an interim receiver over all of CPI's assets. Receivership proceeding with respect to CPI commenced on January 8, 2009. D. Campbell Deacon was a director of CPI from May 2006 until January 2009 and J. Brian Colburn was a director of CPI from January 2003 until January 2009.

No director or executive officer of the Company has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

Penalties or Sanctions

To the knowledge of Azure's management, no director or officer, or any shareholder holding a significant number of Common Shares of Azure to affect materially the control of Azure, has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with the Canadian securities regulatory authority; or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

The directors and officers of Azure are engaged in and will continue to engage in other activities in the technology and automotive industry and may be 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 and officers of Azure may become subject to conflicts of interest. The ABCA provides that, in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the ABCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the ABCA. As of the date hereof Azure is not aware of any existing or potential material conflicts of interest between Azure and a director or officer of Azure.

AUDIT COMMITTEE

Audit Committee Charter

The audit committee of the Board of Directors of the Company operates under a written charter that sets out its responsibilities and composition requirements. A copy of the charter is attached to this AIF as Schedule "A".

Composition of the Audit Committee

As at the date hereof, the members of the Audit Committee are: James C. Gouin (Chair), Dennis A. Sharp and Nicholas O. Brigstocke. All members of the Audit Committee are independent and financially literate (as those terms are defined in Multilateral Instrument 52-110 – Audit Committees). The following sets out the education and experience of each director, relevant to the performance of his duties as a member of the Audit Committee.

James C. Gouin (Chair)

Mr. Gouin is the Chief Financial Officer of Tower Automotive LLC. Prior to Tower Automotive, Mr. Gouin has held several senior financial position including Senior Managing Director at FTI Consultants. Prior to that he held numerous senior management and executive positions with Ford, with the latest position as Vice President, Finance, Business development and Growth for International Operations.

Dennis A. Sharp

Mr. Sharp was the Chairman of UTS Energy Corporation until September, 2010 and served as director of several companies including EnCana Corporation. He has served as a Governor of the Canadian Association of Petroleum Producers from March 1994 to July 1997, Vice Chairman of Canadian Association of Petroleum Producers from 1995 to 1996 and Chairman from 1996 to 1997. He is a geological engineer and he founded CS Resources Ltd. in 1984, which he led until its acquisition in July

1997 by Pan Canadian Petroleum Ltd. In 1993, CS Resources Ltd. received the Alberta Science and Technology award for outstanding commercial achievement. In 1997, Mr. Sharp was honoured as one of Canada's Master Entrepreneurs.

Nicholas O. Brigstocke

Mr. Brigstocke retired in 2001 as Chairman of UK Equity Capital Markets at Credit Suisse First Boston. He joined Credit Suisse First Boston when it purchased Barclays de Zoete Wedd in 1998, at which time he was Chairman and Managing Director of Barclays de Zoete Wedd's United Kingdom corporate broking business and a member of the Equity Management Committee. He is currently a non-executive director of Pipeline Management Inc. (Inter Pipeline Fund), Dynamic Digital Depth Group PLC, Healthcare Enterprise Group PLC and Turbo Power Systems Inc. and serves as a member of the audit committee on three of these companies.

The Audit Committee charter requires all members to be financially literate and independent within the meaning of applicable securities laws. All members of the audit committee meet these requirements. The audit committee has in place a policy to restrict the provision of non-audit services by the auditors. Any such services must be permitted services and must be pre-approved by the Audit Committee. The Audit Committee also pre-approves the audit services and the fees to be paid.

Auditors' Fees

PricewaterhouseCoopers LLP have been the Company's auditors since December 2009. Fees paid to PricewaterhouseCoopers LLP are detailed below. For year ended December 31, 2009, fees were also paid to BDO Dunwoody LLP.

	Year ended December 31, 2010	Year ended December 31, 2009
Audit fees ⁽¹⁾	\$ 187,500	\$ 165,000
Audit-related fees ⁽²⁾	25,000	131,870
Tax fees ⁽³⁾	46,130	6,000
All other fees	31,000 ⁽⁵⁾	62,145 ⁽⁴⁾
Total	\$ 289,630	\$ 365,015

Notes:

- (1) Audit fees consist of fees for the audit of annual financial statements or services that are normally provided in connection with statutory and regulatory filings or engagements. The services provided in this category include quarterly review fees.
- (2) Audit-related fees consist of fees for assurance and related services that are reasonably related to the performance of the audit or review of Azure's financial statements and are not reported as Audit Fees. The services provided in this category included review of quarterly financial statements and MD&A and review of IFRS related adjustments and proposals in anticipation of the upcoming changeover to IFRS.
- (3) Fees for tax compliance, tax advice and tax planning.
- (4) These fees consisted of services performed by BDO Dunwoody LLP in respect of work completed to review Azure's preliminary and final short form prospectus dated November 18, 2009 and December 15, 2009 respectively.
- (5) These fees consisted of engagement fees related to the review of the Company's tax and corporate structure.

The Audit Committee charter requires that any non-audit services by Azure's auditors must be pre-approved by the Audit Committee. The Audit Committee has passed a resolution providing the Chair of the Audit Committee with delegated authority to approve the provision of non-audit services by Azure's auditors from time to time, provided that: (i) such services are provided pursuant to a written engagement letter setting out the services to be provided and the applicable fees; (ii) the provision of such services is

otherwise in compliance with the Audit Committee's charter; (iii) such services could not be reasonably seen to result in the auditors performing any management function, auditing their own work or serving in an advocacy role on behalf of Azure; (iv) the fees for such services do not exceed \$50,000 per engagement; and (v) the Chair reports to the Committee at the next regularly scheduled meeting any approval of non-audit services made pursuant to the authority delegated under the resolution.

The Audit Committee also pre-approves all audit services and the fees to be paid.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no outstanding legal proceedings material to the Company to which the Company is or was a party or in respect of which any of its properties are or were such during the most recently completed financial year, nor are there any such proceedings known to the Company to be contemplated.

There were no penalties or sanctions imposed against the Company by, or settlement agreements with, a court or a securities regulatory authority relating to securities legislation during the most recently completed financial year and there were no other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as may be disclosed elsewhere in this AIF or in the documents incorporated by reference herein, no director, officer or principal shareholder of the Company, nor any affiliate or associate of that person, has or has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect the Company.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar of the Company in connection with its TSX listing is Equity Transfer Services Inc., at their offices in Toronto, at 200 University Avenue, Suite 400, Toronto Ontario M5H 4H1.

MATERIAL CONTRACTS

Pursuant to a contractual agreement with Technology Partnerships Canada, the Company is required to make royalty payments equal to the greater of 0.28% of yearly gross business revenues or in accordance with a fixed repayment schedule, with repayment amounts ranging from \$0.7 million to \$1.3 million per year starting in 2010, provided that certain minimum sales levels are achieved. The obligation to make royalty payments commences when the minimum sales levels are achieved and continues until the earlier of 2017 or when a cumulative payment ceiling of \$20.5 million is reached. On November 17, 2009, the Company entered into a contract amendment with Technology Partnerships Canada whereby the royalty payment period was extended to December 31, 2025. To date, the Company has made payments of approximately \$0.1 million.

Pursuant to a contractual agreement with Cenovus Energy, Inc. (formerly EnCana Corporation), whereby Cenovus sponsored the development of a specific powertrain product, the Company is required to make royalty payments equal to 1% of gross revenue from sales of the certain powertrain product up to a maximum payment of \$1.0 million. To date, the Company has made such royalty payments of approximately \$16,500.

On June 9, 2009, the shareholders of the Company approved a shareholders' rights plan, a copy of which is available on SEDAR at www.sedar.com. The plan is designed to encourage the fair treatment of Azure's shareholders should a take-over bid be made for Azure by providing the Board of Directors and the shareholders with more time to evaluate any unsolicited take-over bid and, if appropriate, to pursue alternatives to maximize shareholder value. The plan has not been adopted in response to any specific proposal to acquire control of Azure and Azure is not aware of any such proposal.

No other contracts material to Azure, other than contracts entered into in the ordinary course of business, were entered into within the most recently completed financial year, or before the most recently completed financial year that are still in effect.

INTERESTS OF EXPERTS

The Company's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have prepared an independent auditors' report dated March 23, 2011 in respect of the Company's consolidated financial statements as at December 31, 2010 for the year then ended. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

ADDITIONAL INFORMATION

Additional information including directors' and officers' remuneration and indebtedness, principal holders of securities of the Company, securities authorized for issuance under equity compensation plans, and interests of insiders in material transactions, where applicable, is contained in the most recent information circular of the Company dated May 5, 2010 in respect of its last annual meeting of the holders of Common Shares held on June 8, 2010. Financial information is provided in the Company's audited annual consolidated financial statements and management's discussion and analysis for the year ended December 31, 2010. Additional information relating to the Company can also be found under Azure's profile on SEDAR at www.sedar.com or at the Company's website, www.azuredynamics.com, or by contacting the Chief Financial Officer of the Company at the Company's head office, 14925 West Eleven Mile Road, Oak Park, Michigan 48237 United States of America.

SCHEDULE “A”

AZURE DYNAMICS CORPORATION (the “Company”)

AUDIT COMMITTEE

TERMS OF REFERENCE

Role and Objective

The Audit 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 the nature and scope of the annual audit, management’s reporting on internal accounting standards and practices, financial information and accounting systems and procedures, financial reporting and statements and recommending, for Board approval, the audited consolidated financial statements and other mandatory disclosure releases containing financial information of the Corporation. The objectives of the Audit Committee are as follows:

1. to assist directors in fulfilling their legal and fiduciary obligations (especially for accountability) in respect of the preparation and disclosure of the financial statements of the Corporation and related matters;
2. to oversee the audit efforts of the external auditors of the Corporation;
3. to maintain free and open means of communication among the directors, the external auditors, the financial and senior management of the Corporation;
4. to satisfy itself that the external auditors are independent of the Corporation; and
5. to strengthen the role of the outside directors by facilitating in depth discussions between directors on the Committee, management and external auditors.

The function of the Committee is one of oversight of management and the external auditors in the execution of their responsibilities. Management is responsible for the preparation, presentation and integrity of the financial statements of the Corporation, maintaining appropriate accounting and financial reporting principles and policies and implementing appropriate internal controls and procedures. The external auditors are responsible for planning and carrying out a proper audit of the annual financial statements of the Corporation and reviewing the financial statements of the Corporation prior to their filing with securities regulatory authorities and other procedures.

Composition of the Committee

1. The Audit Committee shall consist of at least three directors. The Board shall appoint one member of the Audit Committee to be the Chair of the Audit Committee.
2. Each director appointed to the Audit 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 National Instrument

52-110 – *Audit Committees* or the then current legislation, rules, policies and instruments of applicable regulatory authorities.

3. Each member of the Audit Committee shall be “financially literate”. In order to be financially literate, a director must be, at a minimum, able to read and understand financial statements that present a breadth and complexity of accounting issues generally comparable to the breadth and complexity of issues expected to be raised by the Corporation's financial statements.
4. A director appointed by the Board to the Audit Committee shall be a member of the Audit Committee until replaced by the Board or until his or her resignation.

Meetings of the Committee

1. The Audit Committee shall convene a minimum of four times each year at such times and places as may be designated by the Chair of the Audit Committee and whenever a meeting is requested by the Board, a member of the Audit Committee, the auditors, or a senior officer of the Corporation. Meetings of the Audit Committee shall correspond with the review of the quarterly financial statements and management discussion and analysis of the Corporation.
2. Notice of each meeting of the Audit Committee shall be given to each member of the Audit Committee. The auditors shall be given notice of each meeting of the Audit Committee at which financial statements of the Corporation are to be considered and such other meetings as determined by the Chair and shall be entitled to attend each such meeting of the Audit Committee.
3. Notice of a meeting of the Audit Committee shall:
 - (a) be in writing, including by email;
 - (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 Audit Committee may permit.
4. A quorum for the transaction of business at a meeting of the Audit Committee shall consist of a majority of the members of the Audit Committee. However, it shall be the practice of the Audit Committee to require review, and, if necessary, approval of certain important matters by all members of the Audit Committee.
5. A member or members of the Audit Committee may participate in a meeting of the Audit 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.
6. In the absence of the Chair of the Audit Committee, the members of the Audit Committee shall choose one of the members present to be Chair of the meeting. In addition, the members of the Audit Committee shall choose one of the persons present to be the Secretary of the meeting.
7. The Chairman of the Board, senior management of the Corporation and other parties may attend meetings of the Audit Committee; however the Audit Committee (i) shall meet *in camera* with the external auditors independent of management as necessary, in the sole discretion of the

Committee, but in any event, not less than quarterly; and (ii) may meet separately with management.

8. Minutes shall be kept of all meetings of the Audit Committee and shall be signed by the Chair and the Secretary of the meeting.

Duties and Responsibilities of the Committee

1. It is the responsibility of the Audit Committee to oversee the work of the external auditors, including resolution of disagreements between management and the external auditors regarding financial reporting. The external auditors shall report directly to the Audit Committee.
2. The Audit Committee shall, in the exercise of its powers, authorities and discretion so authorized, conform to any regulations or restrictions that may from time to time be made or imposed upon it by the Board or the legislation, policies or regulations governing the Corporation and its business.
3. It is the responsibility of the Audit Committee to satisfy itself on behalf of the Board that the Corporation's system of internal controls over financial reporting and disclosure controls and procedures are satisfactory for the purpose of:
 - (a) identifying, monitoring and mitigating the principal risks intended to be addressed by such controls and procedures;
 - (b) complying with the legal and regulatory requirements related to such controls and procedures;

and to review with the external auditors their assessment of the internal controls over financial reporting and the disclosure controls of the Corporation, their written reports containing recommendations for improvement, and management's response and any follow-up to any identified weaknesses.

4. It is the responsibility of the Audit Committee to review the annual financial statements of the Corporation and, if deemed appropriate, recommend the financial statements to the Board for approval. This process should include but be not to be limited to:
 - (a) reviewing and accepting, if appropriate, the annual audit plan of the external auditors of the Corporation, including the scope of audit activities, and monitor such plan's progress and results during the year;
 - (b) reviewing changes in accounting principles, or in their application, which may have a material impact on the current or future years' financial statements;
 - (c) reviewing significant accruals, reserves or other estimates such as the ceiling test calculation;
 - (d) reviewing the methods used to account for significant unusual or non-recurring transactions;
 - (e) reviewing compliance with covenants under loan agreements;
 - (f) reviewing disclosure requirements for commitments and contingencies;
 - (g) reviewing adjustments raised by the external auditors, whether or not included in the financial statements;

- (h) reviewing unresolved differences between management and the external auditors;
 - (i) obtain explanations of significant variances with comparative reporting periods;
 - (j) review of business systems changes and implications;
 - (k) review of authority and approval limits;
 - (l) review the adequacy and effectiveness of the accounting and internal control policies of the Corporation and procedures through inquiry and discussions with the external auditors and management;
 - (m) confirm through private discussion with the external auditors and the management that no management restrictions are being placed on the scope of the external auditors' work;
 - (n) review of tax policy issues; and
 - (o) review of emerging accounting issues that could have an impact on the Corporation.
5. It is the responsibility of the Audit Committee to review the interim financial statements of the Corporation and, if deemed appropriate, to recommend the financial statements to the Board for approval and to review all prospectuses, management discussion and analysis, annual information forms and all other public disclosure containing significant audited or unaudited financial information, including the financial information to be contained in press releases relating to interim or annual financial results, before release and prior to Board approval. The Audit Committee must be satisfied that adequate procedures are in place for the review of the Corporation's disclosure of all other financial information and shall periodically assess the accuracy of those procedures.
6. The Audit Committee shall have the authority to:
- (a) inspect any and all of the books and records of the Corporation, its subsidiaries and affiliates;
 - (b) discuss with the management and senior staff of the Corporation, its subsidiaries and affiliates, any affected party and the external auditors, such accounts, records and other matters as any member of the Audit Committee considers necessary and appropriate;
 - (c) engage independent counsel and other advisors as it determines necessary to carry out its duties; and
 - (d) to set and pay the compensation for any advisors employed by the Audit Committee.

7. With respect to the appointment of external auditors by the Board, the Audit Committee shall:
 - (a) recommend to the Board the appointment of the external auditors;
 - (b) review the performance of the external auditors and make recommendations to the Board regarding the replacement or termination of the external auditors when circumstances warrant;
 - (c) oversee the independence of the external auditors by, among other things, requiring the external auditors to deliver to the Audit Committee, on a periodic basis, a formal written statement delineating all relationships between the external auditors and the Corporation and its subsidiaries;
 - (d) recommend to the Board the terms of engagement of the external auditor, including the compensation of the auditors and a confirmation that the external auditors shall report directly to the Committee; and
 - (e) when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change.
8. Audit Committee shall review annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of the Corporation and its subsidiaries.
9. The Audit Committee must pre-approve all non-audit services to be provided to the Corporation or its subsidiaries by external auditors. The Audit Committee may delegate, to one or more members, the authority to pre-approve non-audit services, provided that the member report to the Audit Committee at the next scheduled meeting and such pre-approval and the member comply with such other procedures as may be established by the Audit Committee from time to time.
10. The Audit Committee shall review adherence to the risk management policies and procedures of the Corporation (i.e. hedging, litigation and insurance), including an annual review of insurance coverage, and make appropriate recommendations to the Board with respect thereto.
11. The Audit Committee shall establish and oversee the maintenance of procedures for:
 - (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting controls, or auditing matters; and
 - (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
12. The Audit Committee shall review and approve the Corporation's hiring policies regarding employees and former employees of the present and former external auditors of the Corporation.
13. The Audit Committee shall periodically report the results of reviews undertaken and any associated recommendations to the Board.
14. The Audit Committee shall assess, on an annual basis, the adequacy of this Mandate and the performance of the Audit Committee.