AVCORP

annual report 2015

ABOUT AVCORP INDUSTRIES INC. The Avcorp Group designs and builds major airframe structures for some of the world's leading aircraft companies, including BAE Systems, Boeing, Bombardier, Fuji Heavy Industries and Lockheed Martin. The Avcorp Group has more than 50 years of experience, over 776 skilled employees and 636,000 square feet of facilities. Avcorp Structures & Integration located in Delta BC is dedicated to metallic and composite aerostructures assembly and integration; Avcorp Engineered Composites located in Burlington ON is dedicated to design and manufacture of small-sized composite aerostructures, and Avcorp Composite Fabrication located in Gardena CA has advanced composite aerostructures fabrication capabilities for medium and large composite aerostructures. The Avcorp Group offers integrated composite and metallic aircraft structures to aircraft manufacturers, a distinct advantage in the pursuit of contracts for new aircraft designs, which require lower-cost, light-weight, strong, reliable structures. Comtek Advanced Structures Ltd., at our Burlington location also offers aircraft structural component repair services for commercial aircraft.

Avcorp Composite Fabrication Inc. is wholly owned by Avcorp US Holdings Inc. Both companies are incorporated in The State of Delaware and are wholly owned subsidiaries of Avcorp Industries Inc.

Comtek Advanced Structures Ltd., incorporated in the Province of Ontario is a wholly owned subsidiary of Avcorp Industries Inc.

Avcorp Industries Inc. is a federally incorporated reporting company traded on the Toronto Stock Exchange (TSX:AVP).

management discussion & analysis

This Management Discussion and Analysis has been prepared as of April 8, 2016, and should be read in conjunction with the Company's consolidated financial statements and notes thereto for the year ended December 31, 2015.

Description of Business

Avcorp Industries Inc. (the "Company", "Avcorp" or the "Avcorp Group") supplies major airframe structures to aircraft manufacturers and to their suppliers. Our capabilities are product design, tool design, metal and composite parts fabrication, assembly and repair, all of which are governed by strong program management.

We currently operate from two locations in Canada and one location in the United States. Located in Delta, British Columbia, Avcorp Industries Inc., named as Avcorp Structures & Integration ("ASI"), is dedicated to metallic and composite aerostructures assembly and integration. Within Comtek Advanced Structures Ltd. ("Comtek"), located in Burlington, Ontario, exists two divisions dedicated to aircraft structural component repair services, and Avcorp Engineered Composites ("AEC") dedicated to design and manufacture of small sized composite aerostructures. Located in Gardena, California, Avcorp Composite Fabrication Inc. ("ACF") is dedicated to medium and large composite aerostructures fabrication.

Avcorp Composite Fabrication Inc. is wholly owned by Avcorp US Holdings Inc. Both companies are incorporated in The State of Delaware and are subsidiaries of Avcorp Industries Inc.

Comtek Advanced Structures Ltd., incorporated in the Province of Ontario is a wholly owned subsidiary of Avcorp Industries Inc.

Avcorp is in compliance with industry standard quality certifications.

Effective December 18, 2015, Avcorp completed the acquisition of the US-based composite Aerostructures division of Hitco Carbon Composites Inc. ("Hitco"), a subsidiary of Frankfurt-listed SGL Carbon SE ("SGL") (the "Acquisition"). The Acquisition was completed pursuant to the terms of an asset purchase agreement (the "Agreement") that was entered into on July 20, 2015, and subsequent amendments to December 18, 2015. Pursuant to the Agreement Avcorp's subsidiary, Avcorp Composite Fabrication Inc., purchased the assets of the division of Hitco which produced composite structural parts for commercial and military aerostructures (the "Business").

The acquisition of Hitco's Aerostructures composite division provided a unique opportunity to transform the Avcorp Group's existing metal fabrication and integrated assembly business by broadening the product range and strengthening its core capabilities. Advanced composite fabrication capabilities, provided by this acquisition, enhances Avcorp Group's ability to participate in large aerospace assembly programs which combine mixed material components. It is anticipated that significant operational efficiencies and better utilization of Avcorp's existing assets will be a resultant benefit of this acquisition.

Financial Overview

Three-Year Results

The following table provides selected financial information for the three years to December 31, 2015.

THREE-YEAR RESULTS

(unaudited, prepared in accordance with IFRS, expressed in thousands of Canadian dollars except per share amounts)

FOR THE YEAR ENDED DECEMBER 31	2015	2014	2013
OPERATIONS			
Revenue	**$ 79,925**	$ 67,104	$ 77,364
EBITDA[1]	**7,269**	(6,129)	3,241
Operating (loss) income before tax	**(12,114)**	(8,038)	(2,015)
Net (loss) income	**3,208**	(7,950)	(1,802)
Basic (loss) income per share	**0.01**	(0.03)	(0.01)
Diluted (loss) income per share	**0.01**	(0.03)	(0.01)
FINANCIAL POSITION			
Net capital expenditures	**959**	1,001	1,206
Total assets	**170,746**	35,482	42,193
Bank indebtedness and long-term debt	**1,886**	1,236	266
Shareholders' equity	**22,146**	17,377	23,551
Net book value per share	**0.07**	0.06	0.08
Ratio: debt/equity	**0.09**	0.07	0.01
Ratio: current assets/current liabilities	**2.02**	1.43	1.79
Shares outstanding at period end	**305,555,184**	302,633,184	280,391,152

1. EBITDA = earnings before interest, taxes, depreciation and amortization. This is not a recognized term under International Financial Reporting Standards ("IFRS").

Avcorp's recurring contracted revenue base remains strong as customers continue to place orders within existing long-term supply agreements. 2015 revenues have increased by $12,821,000 (19%) over 2014 with Avcorp's business acquisition contributing $1,856,000 to the 2015 revenues arising during the period post the December 18, 2015 acquisition date. Deliveries of business and commercial aircraft assembly structures and components rose in 2015 over 2014, with the sale of composite fabricated parts contributing $1,607,000 to the commercial aircraft revenues. Production by Avcorp in supply of defense assembly structures increased slightly in 2015 relative to 2014 levels.

Composite structures repairs and composite floor panel production and deliveries continued to grow posting a strong 28% revenue growth in 2015 over 2014.

During the course of 2015 the Company reset its direction and approach for securing business growth in the composite aircraft structures assembly market, via its acquisition of Hitco. As Avcorp changed its strategic direction and completed the Hitco acquisition, significant expenditures were incurred which reduced Earnings Before Interest, Taxes, Depreciation & Amortization ("EBITDA"); Acquisition expenditures incurred over the course of 2015 amounted to $5,865,000. The significant increase in EBITDA in 2015 relative to prior years presented is due to a $15,973,000 gain recorded on the December 18, 2015 acquisition of Hitco. Capital expenditures during the three year period presented have been limited to upgrading manufacturing equipment and capabilities, in particular for new program introduction, as well as information technology assets. $22,112,000 of equipment was acquired via the Hitco acquisition.

Quarterly Results

The following table provides selected unaudited quarterly consolidated financial information for the eight most recent fiscal quarters to December 31, 2015 prepared in accordance with IAS 34 – Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB").

QUARTERLY RESULTS

(unaudited, prepared in accordance with IFRS, expressed in thousands of Canadian dollars except per share amounts)

	2015				2014			
FOR THE THREE MONTHS ENDED	**Dec 31**	Sept 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Revenue	**$22,285**	$21,610	$20,369	$15,661	$13,744	$14,675	$21,134	$ 17,551
Operating income (loss)	**(6,287)**	(2,030)	(1,125)	(2,672)	(3,848)	(2,321)	(472)	(1,397)
EBITDA[1]	**10,796**	(556)	(623)	(2,348)	(3,442)	(1,794)	(153)	(740)
Net income (loss)	**9,157**	(2,053)	(1,135)	(2,761)	(3,890)	(2,229)	(589)	(1,242)
EBITDA per share[1]								
Basic	**0.04**	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)
Diluted	**0.04**	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)
Net income (loss) per share								
Basic	**0.03**	(0.01)	(0.00)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)
Diluted	**0.03**	(0.01)	(0.00)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)
Long-term debt	**1,646**	1,634	1,542	1,434	943	152	223	48

1. EBITDA = earnings before interest, taxes, depreciation and amortization. This is not a recognized term under International Financial Reporting Standards ("IFRS").

2015 and 2014 Results Overview

During the year ended December 31, 2015 Avcorp Group revenues totaled $79,925,000 as compared to $67,104,000 revenue for the previous year; a strong 19% annual revenue increase for 2015 as compared to 2014. Both commercial and defence programs, for all customers, have experienced increased demand during the current year. Furthermore, new program introductions and acquisition based revenues have added to current year revenues as the Group ramps up to full rates of production on existing programs in all facilities.

The Company operates within "general terms agreements" with its customers. These agreements are typically for five years or longer. The contracts provide for long lead-time orders; the civil aerospace business is also slightly seasonal as some aircraft manufacturers reduce or suspend production in December and for a period of time during the summer months.

The Delta facility revenues have increased by 17% during the current year relative the previous year: primarily as a result of the successful start-up of a rotary wing aircraft defence program whose full rate production occurred during the second half of 2015. Current year commercial jet and business jet aircraft structure and retro-fit program deliveries increased as well in 2015 over 2014, reflecting increased customer production rate demand and spare components sales.

The Burlington facility commenced production of composite floor panels in supply to Bombardier Aerospace's Global 5000/6000 and Global 7000/8000 programs during the current year, with increased rates of production expected for 2016. Full rate production for these programs will further establish the wholly owned subsidiary as a leading manufacturer of composite floor panels. Composite floor panel revenues arising from aftermarket or spare component sales have risen by 91% in 2015 over 2014; while composite floor panel revenues derived from sales to original equipment manufacturers ("OEM") have increased by 20%. Comtek has also developed long term relationships with aircraft operators ensuring that its growth in composite and metal aircraft structure repair revenues will continue to provide a strong operating cash flow from this market segment. In summary, Avcorp's Burlington operations increased revenue in 2015 relative to 2014 by $3,685,000 (28%).

Avcorp's Delta location continues to actively pursue production contracts on aerospace programs throughout North America, Asia, and Europe both in the commercial and defence aerospace sectors. These efforts have commenced producing value as noted in the recent contract awards for expanded scope of production on the Lockheed Martin F-35 Carrier Variant Outboard Wing, as well as production and supply of 767-2C Panoramic Camera Fairings, as part of The Boeing Company's KC-46 Tanker program. New program awards have increased order backlog by approximately $23 million.

Effective December 18, 2015, Avcorp completed the acquisition of the US-based composite Aerostructures division of Hitco, a subsidiary of Frankfurt-listed SGL. The Acquisition was completed pursuant to the terms of an asset purchase agreement that was entered into on July 20, 2015, and subsequent amendments to December 18, 2015. Pursuant to the Agreement Avcorp's subsidiary, Avcorp Composite Fabrication Inc., purchased the assets of the division of Hitco which produces composite structural parts for commercial and military aerostructures.

The Acquisition, which was first announced in July 2015, will approximately double Avcorp's revenue while strengthening its balance sheet and adding approximately $274 million to the Company's order backlog. This Acquisition will also significantly expand Avcorp's carbon composite manufacturing capabilities and result in the Company receiving cash, and payment commitments valued at approximately USD$51.5 million. Concurrently, Avcorp received accounts receivable, inventory, and equipment having an approximate fair value of USD$43.5 million as at the December 18, 2015 acquisition date.

Consideration provided by Avcorp for the Acquisition of the assets was principally the assumption of liabilities by Avcorp, including the current trade payables and ongoing contractual obligations of the Business. Trade payables and accrued liabilities assumed by Avcorp amounted to USD$12.5 million of which SGL repaid Avcorp USD$4.2 million on January 4, 2016 in payment of past-due balances. An existing customer contract funding advance, assumed by Avcorp on acquisition date, amounted to approximately USD$16.8 million. The Company assumed an unfavorable contract liability on certain long term revenue contracts for which unavoidable costs are expected to exceed the corresponding revenues earned. The unfavourable contract liability amounted to approximately USD$65.0 million.

The Acquisition of the assets and certain liabilities of Hitco's Aerostructures division represent one of Avcorp's most significant milestones to date and is strategic on a number of levels. Without incurring any debt or diluting shareholders through the issuance of new shares, the Company has significantly strengthened its ability to address the growing market for composite airframe structures in the aviation sector. More importantly, Avcorp has strengthened its position within the supply chains of our most important customers. Avcorp is now supplying composite airframe structures to the aerospace industry leaders which are taking advantage of the benefits that carbon composites provide, including reducing aviation fuel costs, reducing the number of component parts and increasing design flexibility.

Adding Hitco's Aerostructures division's manufacturing facilities to Avcorp's operations will be immediately accretive to its revenue base, essentially almost doubling Avcorp's pre-acquisition revenue. With expected operational efficiencies and improved utilization of Avcorp's existing facilities in Delta and Burlington, the transaction is directed at accelerating the expected return to profitability. It is important to note that Hitco has been operating at a loss and Avcorp will need to incur rectification expenditures, utilizing funds received as consideration from the Acquisition, in order to mitigate future operational losses.

The Aerostructures division of Hitco was a large carbon composites aerostructures manufacturer which produced and supplied composite aerostructures assemblies to aerospace markets. Its products comprise complex mold line structures such as beams, wing skins, tailcones, pressurized bulkheads and control surfaces. The products are sold within the commercial and defence aerospace industries.

The acquisition of Hitco's Aerostructures composite division offers a unique opportunity to transform the Avcorp Group's existing metal fabrication and integrated assembly business by broadening the product range and strengthening our composite capabilities. Advanced composite fabrication capabilities, provided by this acquisition, will enhance Avcorp Group's ability to participate in large aerospace assembly programs which combine mixed material components.

The strategy supporting the acquisition of the Aerostructures division of Hitco was based on the confirmation from Avcorp's primary customers of a willingness to partner in the turnaround of the performance of the Aerostructures division's operations and elevate the importance of Avcorp in future supply chain considerations for additional business (given the strategic nature of the existing contracts and the addition, created by the acquisition, of advanced composite manufacturing capabilities that is in limited supply throughout the aerospace industry). Based on industry benchmarking of other similar manufacturing businesses, management concluded that the financial performance of the existing contracts that would continue past 2017, could be greatly improved.

Other strategic considerations included:

- The majority of smaller loss making contracts will be completed and exited from the business by the fourth quarter of 2017.
- The planned improvement in manufacturing methods, in order to reduce production costs for ongoing loss making contracts, by achieving established industry best practices for the same or similar products, could be significantly completed by 2018.
- The Defense and Space business segment appears to have good prospects for future profitable growth with both existing and future customers.
- The size of the addressable market for commercial aerostructures was greatly expanded through the acquisition.
- Other options to develop advanced technology composites capabilities for primary aerostructures would be more costly and require a much longer time period to establish, risking missing this important cycle in the aerospace market.

During the year ended December 31, 2015, the Avcorp Group recorded a loss from operations of $12,114,000 on $79,925,000 revenue, as compared to a $8,038,000 operating loss on $67,104,000 revenue for the previous year; and net income for the current year of $3,208,000 as compared to net loss of $7,950,000 for the year ended December 31, 2014.

During the current year Avcorp incurred expenses totaling $5,865,000 in support of its current merger and acquisition initiatives. Specifically, the Company incurred costs in execution of the due diligence process related to constructing the legal framework, examining operations and conducting financial, as well as valuation assessments. Although one-time in nature, these costs may recur as acquisition transaction opportunities arise.

Although recent customer contract awards will commence to increase facility utilization, there remain within operations significant levels of unutilized plant capacity within the Company's Delta, British Columbia facility. The Company has expensed $4,906,000 of overhead costs during the current year (December 31, 2014: $5,047,000) in respect of unutilized plant capacity. The amount of overhead costs expensed, as a result of unutilized capacity, will fluctuate from quarter to quarter as production in support of deliveries varies. Revenue growth would benefit Company profitability via a contribution to the recovery of fixed overhead expenditures. Avcorp is engaged with aerospace original equipment manufacturers as well as industry tier 1 suppliers in North America, Asia and Europe in collaborative production initiatives which support the Company's recent transition to composite manufacturing capabilities, further leveraging existing production capacity and investments.

Acquisition incurred expenses as well as idle plant capacity costs account for $10,771,000 in expenses within the Company's $12,114,000 operating loss for 2015.

Cash flows from operating activities during the year ended December 31, 2015 utilized $20,004,000 of cash as compared to utilizing $3,139,000 of cash during the year ended December 31, 2014. Cash flows from operating activities were most significantly impacted as a result of the December 18, 2015 acquisition of Hitco's Aerostructures division, as well as working capital growth in support of increased production and revenues.

Current assets received from the acquisition amounted to a preliminary fair value of $38,562,000; while the preliminary fair value of accounts payable and accrued liabilities assumed totaled $17,431,000. The Company assumed an unfavorable contract liability on certain long term revenue contracts for which unavoidable costs are expected to exceed the corresponding revenues earned. The unfavorable contract liability is amortized into income on a units-of-production basis over the expected life of the contract.

As at December 31, 2015, the remaining unamortized unfavourable contract liability amounted to $89,971,000.

As at December 31, 2015, the Company had $14,484,000 cash on hand (December 31, 2014: $3,159,000) and utilized $Nil of its operating line of credit (December 31, 2014: $Nil). The Company has a working capital surplus of $55,045,000 as at December 31, 2015 which has increased as a result of the Hitco acquisition from the December 31, 2014 $7,205,000 surplus. The Company's accumulated deficit as at December 31, 2015 is $62,465,000 (December 31, 2014: $65,673,000).

Revenue

During the year ended December 31, 2015 Avcorp Group revenues totaled $79,925,000 as compared to $67,104,000 revenue for the previous year; a strong 19% annual revenue increase for 2015 as compared to 2014. Both commercial and defence programs, for all customers, have experienced increased demand during the current quarter. Furthermore, new program introductions and acquisition based revenues have added to current year revenues as the Group ramps up to full rates of production on existing programs for all facilities.

The Company operates within "general terms agreements" with its customers. These agreements are typically for five years or longer. The contracts provide for long lead-time orders; the civil aerospace business is also slightly seasonal as some aircraft manufacturers reduce or suspend production in December and for a period of time during the summer months.

The Delta facility revenues have increased by 17% during the current year relative the previous year: primarily as a result of the successful start-up of a rotary wing aircraft defence program whose full rate production occurred during the second half of 2015. Current year commercial jet and business jet aircraft structure and retro-fit program deliveries increased as well in 2015 over 2014, reflecting increased customer production rate demand and spare components sales.

The Burlington facility commenced production of composite floor panels in supply to Bombardier Aerospace's Global 5000/6000 and Global 7000/8000 programs during the current year, with increased rates of production expected for 2016. Full rate production for these programs will further establish the wholly owned subsidiary as a leading manufacturer of composite floor panels. Composite floor panel revenues arising from aftermarket or spare component sales have risen by 91% in 2015 over 2014; while composite floor panel revenues derived from sales to original equipment manufacturers ("OEM") have increased by 20%. Comtek has also developed long term relationships with aircraft operators ensuring that its growth in composite and metal aircraft structure repair revenues will continue to provide a strong operating cash flow from this market segment. In summary, Avcorp's Burlington operations increased revenue in 2015 relative to 2014 by $3,685,000 (28%).

Avcorp's Delta location continues to actively pursue production contracts on aerospace programs throughout North America, Asia, and Europe both in the commercial and defence aerospace sectors. These efforts have commenced producing value as noted in the recent contract awards for expanded scope of production on the Lockheed Martin F-35 Carrier Variant Outboard Wing, as well as production and supply of 767-2C Panoramic Camera Fairings, as part of The Boeing Company's KC-46 Tanker program. New program awards have increased order backlog by approximately $23 million.

Deliveries and quality performance as at December 31, 2015 for Canadian manufacturing operations were at customer required levels. The manufacturing operations have achieved, and continue to maintain, top quality and delivery ratings for the majority of their programs.

Avcorp in the course of its due diligence of the assets and liabilities prior to closing the acquisition of ACF, the carve out of Hitco, discovered a number of issues. The seller and its ultimate parent SGL Carbon SE have the contractual responsibility and liability for all completed products before the closing with the exception of a limited amount of finished goods and manufacturing work in process for which Avcorp elected to assume the responsibility and verify the quality of these products. Immediately after the ACF acquisition, a thorough quality and delivery review and audit was conducted of the ACF Gardena manufacturing operations by ACF, which has produced improvement plans together with its customers. ACF continues to work collaboratively with customers to ensure any quality and delivery issues are resolved at the earliest date.

Revenues from Avcorp Group customers are as follows.

REVENUE DISTRIBUTION

(unaudited, prepared in accordance with IFRS, expressed in thousands of Canadian dollars)

FOR THE YEAR ENDED DECEMBER 31	**2015**		2014	
	Revenue	**% of Total**	Revenue	% of Total
BAE Systems	**$ 14,115**	**17.7**	$ 16,324	24.3
Boeing	**31,059**	**38.9**	26,122	38.9
Bombardier	**16,578**	**20.7**	12,931	19.3
Other	**18,173**	**22.7**	11,727	17.5
Total	**79,925**	**100.0**	67,104	100.0

The Avcorp Delta BC facility is the single source supplier for the F-35 Carrier Variant Outboard Wing ("CV-OBW") assembly under contract with BAE Systems ("BAE"), and delivers directly to Lockheed Martin. The Outboard Wing is the foldable portion of the wing on the carrier version of the F-35 aircraft which allows for handling and storage of the aircraft on the aircraft-carrier's deck and hangers, while keeping its long-range and low-landing speed flight characteristics. The CV-OBW is regarded as one of the most complex assemblies that the Canadian aerospace industry contributes to the F-35 program. Production rates for the F-35 CV-OBW were reduced in 2015 relative to 2014. Production contracts have been secured through to May 2018, with discussions underway with the customer to secure constant production through 2019.

Shipments of large assemblies to Boeing Commercial Airplane Group ("Boeing CA"), primarily for the 737 commercial jet program, increased by 2% during 2015 relative to 2014; while the value of spare component sales fell during the current year, slightly in excess of production delivery gains. Concurrently, deliveries of fabricated parts to Boeing CA increased by 13%. The Company also delivered components to Boeing Defense, Space & Security ("Boeing DSS") for the Chinook CH47 helicopter. During 2015 the Company introduced into production a Chinook CH47 helicopter component in supply to Boeing DSS which replaces legacy Chinook CH47 helicopter component programs at the Delta facility. This new program introduction has offset prior year's decrease in revenues by approximately $3,705,000. The Avcorp Delta BC facility announced on October 26, 2015 that it has been awarded the production contract for the supply of Boeing 767-2C Panoramic Camera Fairings. Furthermore, the Delta facility was able to secure the production contract for the Boeing 767 Flap Track Fairings with deliveries targeted for the second half of 2016. The Company continues to work towards obtaining additional new contracts supporting Boeing commercial jet programs as well as other Boeing DSS defense programs.

Revenues from Bombardier Aerospace ("Bombardier") programs increased during the current year relative to the year ended December 31, 2014. Shipments of large assemblies for the CL605 business jet program increased by 18% during the current year, while Comtek experienced a 58% increase in its deliveries of composite floor panels to Bombardier. Avcorp Group's primary source of revenues from Bombardier in 2015 will continue to be from components for the CL605 and CL850 business jets, and composite floor panels for the CRJ and Q400 aircraft programs as well as ramp-up of production of composite floor panels in supply to Bombardier's Global 5000/6000 and Global 7000/8000 programs.

2015 experienced renewed customer demand for deliveries of Boeing 757 commercial jet 200 series wing adapter plugs, for retrofit to Aviation Partners Boeing; as well as additional Canadian aircraft retro-fit programs contributing to "Other" 2015 revenues exceeding 2014 amounts. Composite aircraft structure repair revenues out of Comtek continued with a strong performance, as 2015 revenues increased 18% over revenues in the previous year.

Gross Profit

Gross profit (revenue less cost of sales) for the year ended December 31, 2015 was 9.6% of revenue as compared to 7.3% of revenue for the year ended December 31, 2014, an increase of $2,741,000.

Gross profit as a percentage of revenues has increased during 2015 relative to the previous year; partially as a result of comparative revenues having risen by 19% ($12,821,000) due to changes in customer delivery schedule and demand. Prior years' scaling down of the plant production labour force which had caused temporary production inefficiencies as existing employees progress through the learning curve associated with differing program specific production processes has been rectified. Recovery plans were commenced during the fourth quarter 2014 and have steadily progressed resulting in a 2015 third quarter recovery of production efficiencies to planned levels. However, increased cost of US dollar denominated procured parts as well as internal quality assurance initiatives adversely impacted planned 2015 margins. Conversely, the strengthening of the US dollar relative to the Canadian dollar has improved gross margins for US denominated sales, for the current year relative to plan.

There remain within operations significant levels of unutilized plant capacity. The Company has expensed $4,906,000 of overhead costs during the current year (December 31, 2014: $5,047,000) in respect of unutilized plant capacity.

New program revenue growth will be the largest contributing factor to reducing the Company's cost structure and contributing towards offsetting idle capacity costs.

Administration and General Expenses

As a percentage of revenue, the administration and general expenses increased to 24.1% for the year ended December 31, 2015 from 18.4% for the year ended December 31, 2014. In absolute terms, administration and general costs increased by $6,905,000 during the current year relative to the prior year. During the current year Avcorp incurred expenses totaling $5,865,000 in support of its current merger and acquisition initiatives (December 31, 2014: $Nil). Specifically, the Company incurred costs in execution of the due diligence process related to constructing the legal framework, examining operations and conducting financial, as well as valuation assessments. Although, one-time in nature these costs may recur as acquisition transaction opportunities arise.

Foreign Exchange Gain or Loss

Avcorp Group recorded a $203,000 foreign exchange gain during 2015 (December 31, 2014: $159,000 gain) as a result of holding US dollar denominated cash, receivables, payables and debt. The Company's US operations are entirely denominated in US dollars, giving rise to foreign exchange gains and losses as the US dollar/Canadian dollar rate of exchange fluctuates.

Earnings Before Interest, Taxes, Depreciation & Amortization

Avcorp Group presents earnings before interest, taxes, depreciation and amortization ("EBITDA") to assist the Company's stakeholders with their assessment of its financial performance. EBITDA is a financial measure not recognized as a term under IFRS. However, the Company's management believes that the Company's stakeholders consider this metric to be useful information to assist them in evaluating profitability and liquidity.

EBITDA was positive $7,269,000 for the year ended December 31, 2015 compared to a negative EBITDA of $6,129,000 for the year ended December 31, 2014. Acquisition incurred expenses as well as idle plant capacity costs account for $10,771,000 in expenses within the company's $12,114,000 operating loss for 2015.These costs were in part offset by a 20% increase in revenues caused by changes in customer demand and new program contract awards.

The acquisition of Hitco's Aerostructures composite division and the concurrent preliminary fair valuation of the acquired assets and liabilities and obligations assumed has resulted in a $15,973,000 one-time gain for Avcorp in 2015.

EBITDA[1]

(unaudited, expressed in thousands of Canadian dollars)

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Income (loss) for the year	**$ 3,208**	$ (7,950)
Interest expense and financing charges	**860**	72
Income tax expense	**-**	-
Depreciation	**1,680**	1,601
Amortization of development costs	**1,521**	148
	7,269	(6,129)

1. This is not a recognized term under International Financial Reporting Standards.

Finance Costs

Total interest and financing charges on both short- and long-term debt for the year ended December 31, 2015 was $856,000, net of $4,000 interest income (December 31, 2014: $8,000), as compared to net $64,000 expense for the year ended December 31, 2014. The increase in interest and financing charges for 2015 is a result of the Company recording the non-cash financing cost accretion of warrants issued in the third quarter 2015, as well as the increase of term debt with the purchase of equipment and tooling required for new program introduction.

Income Taxes

Avcorp Group has not incurred a tax expense during the year (December 31, 2014: $Nil) nor recorded a tax benefit as it is not more likely than not that the benefit would be recognized. The Company's taxable position has been reduced by way of utilizing unused tax losses, accumulated in prior years, to offset against the $15,973,000 gain resulting from the Hitco acquisition.

Income or Loss

Income for the year ended December 31, 2015 was $3,208,000 as compared to a $7,950,000 loss for the year ended December 31, 2014. The income recorded for the current year relative to 2014, is due in part to increased revenues on a relatively large fixed cost base of operations; whereby program gross margins increased in 2015 relative to 2014 from a favourable program sales mix and improved production stability and efficiencies in the Delta and Burlington facilities. The benefit of improved gross margin has been in part offset as Avcorp incurred expenses totaling $5,865,000 in support of its current merger and acquisition initiatives. The acquisition of Hitco's Aerostructures composite division and the concurrent preliminary fair valuation of the acquired assets and liabilities and obligations assumed has resulted in a $15,973,000 one-time gain for Avcorp in 2015.

Liquidity and Capital Resources

Avcorp Group's operating line of credit provides for a total utilization of $12,000,000. Avcorp Group ended the current year with bank operating line utilization of $Nil offset by $14,484,000 cash compared to utilization of $Nil with $3,159,000 cash on hand as at December 31, 2014. Based on net collateral provided to its bank, Avcorp Group is able to draw $8,805,000 on its operating line of credit as at December 31, 2015 (December 31, 2014: $4,351,000).

On March 26, 2015, the Company's bank extended its banking agreement from September 27, 2015 to March 31, 2016. As a condition to this extension in term, the bank required that a capital injection amounting to $5,000,000 be made by September 27, 2015. As noted below, the capital injection was received by the Company during the third quarter 2015.

On July 14, 2015, the Company's bank extended its banking agreement from March 31, 2016 to June 30, 2016.

On July 31, 2015, Avcorp entered into a non-revolving term loan agreement ("loan") with Panta Canada B.V. ("Panta") to fund the Company to a maximum aggregate principal amount of $5,000,000. The Company received full funding from the loan in three advances, with the final amount received on September 23, 2015.

Panta Canada B.V. is Avcorp's majority shareholder owning approximately 65.5% of the issued and outstanding common shares on December 31, 2015. Panta Canada B.V. is wholly owned by Panta Holdings B.V. Both companies are incorporated in The Netherlands and Mr. Jaap Rosen Jacobson is the sole shareholder of Panta Holdings B.V.

The Company's acceptance of this loan was subject to a 3% commitment fee ($150,000) paid by the Company to Panta Canada B.V. from proceeds of the first advance.

As consideration for the loan, the Company issued to Panta, 30,263,318 common share purchase warrants ("warrants"), each warrant exercisable for a period of 24 months following the date of issuance with respect to one common share at an exercise price of $0.07 per common share.

The proceeds of $5,000,000 were allocated between the debt and warrants and the debt was accrued over its term.

On December 29, 2015, Avcorp repaid $5,000,000 principal amount of the term loan and all accrued and outstanding interest.

Equity Financing

Panta Canada B.V. has made the commitment to Avcorp to underwrite a $5,000,000 equity financing to occur within twelve months following date of execution of a March 31, 2015 commitment letter. The underwriting is subject to the following terms:

- 3% fee based on gross proceeds of the equity placement; and
- Maximum permissible common share price discount pursuant to TSX regulations.

This commitment had not been drawn upon by the Company as at the date of this report.

Management is actively working to secure additional production orders, has completed loan financing and renegotiated debt repayments, will continue to work with existing common shareholders, and will seek additional financing as necessary.

Cash Flows from Operating Activities

Cash flows from operating activities, before consideration of changes in non-cash working capital, decreased by $7,895,000 during the year ended December 31, 2015 as compared to utilizing $5,829,000 of cash during the previous year. Cash flows from operating activities were most significantly impacted as a result of $5,865,000 in expenses incurred for the December 18, 2015 acquisition of Hitco's Aerostructures division. The acquisition of Hitco's Aerostructures composite division and the concurrent preliminary fair valuation of the acquired assets and liabilities and obligations assumed has resulted in a $15,973,000 one-time gain for Avcorp in 2015 which has been adjusted as an item not affecting cash.

Non-cash operating assets and liabilities decreased by $12,109,000 during the current year, compared to providing $2,690,000 of cash during 2014 as a result of working capital growth in support of increased production and revenues. Avcorp Group continues to closely monitor accounts receivable and work with its customers in order to ensure cash is collected on a timely basis.

Cash Flows from Investing Activities

During the year ended December 31, 2015, Avcorp Group purchased capital assets totalling $959,000 as compared to $1,001,000 during the year ended December 31, 2014. Equipment purchases have been made to provide for new program revenues whose production is ramping up in 2015. Avcorp Group continues to minimize its capital expenditures in order to conserve cash, with only operation critical expenditures being made.

The December 18, 2015 acquisition of Hitco's Aerostructures division provided $32,826,000 of cash, which Avcorp received as a part of the consideration arising from the acquisition.

Cash Flows from Financing Activities

Avcorp Group finances working capital through a combination of bank debt and equity financings.

Cash flows from financing activities provided $468,000 of cash during the current year as compared to providing $1,737,000 of cash in 2014.

During the current year, the Company received $5,000,000 (December 31, 2014: $Nil) in debt funding from Panta Canada B.V. via a term loan which fulfilled the capital injection requirements stipulated by Avcorp Group's bank. Under the SADI program from the Government of Canada, the Company was able to secure $432,000 in project financing (December 31, 2014: $760,000). Also during the year, Avcorp secured $450,000 of funding for equipment purchases (December 31, 2014: $Nil).

During the fourth quarter 2015 holders of the Company's stock options exercised 2,922,000 stock options at a price of $0.05 resulting in the issuance of 2,922,000 common shares with a value of $146,000.

During the current year, the Company repaid long-term debt consisting of $391,000 of equipment financing (December 31, 2014: $355,000), and the $5,000,000 term loan held by Panta Canada B.V.

On December 31, 2015, the ratio of the Company's current assets to current liabilities was 2.02:1 (December 31, 2014: 1.43:1), with the debt to equity ratio at 0.09:1 (December 31, 2014: 0.07:1).

Contractual Obligations

PAYMENTS DUE BY PERIOD

(unaudited, prepared in accordance with IFRS, expressed in thousands of Canadian dollars)

	Total	2016	2017 – 2019	2020 – 2021	Post 2021
Finance lease obligations	**$ 278**	$ 131	$ 140	$ 7	$ -
Term loan	**371**	109	262	-	-
Other long-term obligations[1]	**1,237**	-	-	108	1,129
Purchase obligations[2]	**26,582**	20,397	6,061	124	-
Total contractual obligations	**28,468**	20,637	6,463	239	1,129

1. This amount represents obligations the Company has with Industrial Technologies Office.
2. Purchase obligations include payments for the Company's operating and property leases, as well as committed contractual operational purchase order obligations outstanding.

The Company expects that payment of contractual obligations will come from funds generated by operations, utilization of the bank operating line of credit, cash on hand and proceeds from debt and equity financings.

The Company does not have any off-balance sheet liabilities or transactions that are not recorded or disclosed in the consolidated financial statements.

Capital Stock

As at December 31, 2015, there were 305,555,184 common shares, 30,263,318 common share purchase warrants, and 34,653,500 stock options issued and outstanding.

Common Shares

During the fourth quarter 2015 holders of the Company's stock options exercised 2,922,000 stock options at a price of $0.05 resulting in the issuance of 2,922,000 common shares with a value of $146,000.

Also, during the fourth quarter 2015, 30,263,318 common share purchase warrants were issued to Panta Canada B.V., who is 100% owned by Panta Holdings B.V., and is Avcorp's majority shareholder owning approximately 65.5% of the issued and outstanding common shares on December 31, 2015. Each warrant is exercisable on or before August 17, 2017 with respect to one common share at an exercise price of $0.07 per common share. Both companies are incorporated in The Netherlands and Mr. Jaap Rosen Jacobson is the sole shareholder of Panta Holdings B.V.

The Company is authorized to issue an unlimited number of common shares as well as an unlimited number of first preferred and second preferred shares, issuable in series, the terms of which will be determined by the Company's directors at the time of creation of each series. There were 305,555,184 common shares issued at December 31, 2015. The book value of common shares issued and outstanding as at December 31, 2015 was $80,158,000 (December 31, 2014: $79,921,000).

Accounting standards issued but not yet applied

The following is a brief summary of the new standards:

IFRS 15 – Revenue from Contracts with Customers

The International Accounting Standards Board ("IASB") and the US Financial Accounting Standards Board ("FASB") (collectively, "the Boards") have jointly issued a new revenue standard, IFRS 15 *Revenue from Contracts with Customers*, that will supersede virtually all revenue recognition requirements in IFRS and US GAAP.

IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

This standard is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 – Leases which replaces IAS 17 – Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company has not yet assessed the impact the final standard is expected to have on its consolidated financial statements.

Operations Overview

Delivery and Quality Performance

Deliveries and quality performance as at December 31, 2015 for Canadian manufacturing operations were at customer required levels. The manufacturing operations have achieved, and continue to maintain, top quality and delivery ratings for the majority of their programs.

Avcorp in the course of its due diligence of the assets and liabilities prior to closing the acquisition of ACF, the carve out of Hitco, discovered a number of issues. The seller and its ultimate parent SGL Carbon SE have the contractual responsibility and liability for all completed products before the closing with the exception of a limited amount of finished goods and manufacturing work in process for which Avcorp elected to assume the responsibility and verify the quality of these products. Immediately after the ACF acquisition, a thorough quality and delivery review and audit was conducted of the ACF Gardena manufacturing operations by ACF, which has produced improvement plans together with its customers. ACF continues to work collaboratively with customers to ensure any quality and delivery issues are resolved at the earliest date.

Order Backlog

Avcorp Group operates within "general terms agreements" with its customers. These agreements are typically for five years or longer. The Company's agreements with Boeing Commercial Airplane Group extend from January 2013 to December 2017; new production contracts entered into during 2015 and 2016 extend to 2028 and 2020 respectively. Agreements with Boeing Defense, Space and Security extend from 2013 into 2019 with established minimum base delivery quantity requirements. Agreements with BAE Systems (Operations) Limited extend to May 2018 and continue to generate additional sales order backlog. The Bombardier agreements extend for the life of the individual aircraft programs.

The Company defines order backlog as the value of purchase orders it expects to receive from these agreements based on manufacturers' projections and current degrees of exclusivity. Order backlog is a financial measure not recognized as a term under IFRS. However, the Company's management believes that the Company's stakeholders consider this metric to be useful information to assist them in evaluating profitability and liquidity. The order backlog, as at December 31, 2015, is $453 million, ($145 million of which pertains to 2016), compared to $185 million as at December 31, 2014. The changes in order backlog are as follows:

- $80 million decrease in order backlog resulting from revenues recorded during the year ended December 31, 2015;
- $336 million increase in order backlog due to increases in the production rates and contract renewals for various existing programs, inclusive of the recently awarded expanded scope of production on the Lockheed Martin F-35 Carrier Variant Outboard Wing, as well as production and supply of 767-2C Panoramic Camera Fairings, as part of The Boeing Company's KC-46 Tanker program. New program awards have increased order backlog by approximately $23 million. The Hitco acquisition provided an incremental $274 million to the Company's order backlog; and
- $12 million increase in order backlog resulting from change in the value of the Canadian dollar relative to the US dollar for the Company's US dollar denominated sales. Refer to comments on currency risk.

Supply Chain

Supplier quality and delivery performance continued to meet targeted levels during the year; the Company continues to monitor supplier performance in all aspects of quality, delivery and price. The Company works closely with its supply chain to ensure a stable, uninterrupted delivery of compliant products and is making changes in product sourcing processes where necessary.

During 2014 the company qualified certain suppliers in support of its in-house transition to increasingly value-added production processes. These suppliers will support the Company by providing manufacturing capabilities, to which Avcorp has transitioned in 2015; the process is a critical cost reduction process which will continue into 2016.

The capacity and delivery performance of a limited number of critical vendors continues to be closely monitored to mitigate risks to assembly start dates. Risk mitigation plans have been implemented. The securing of additional long-term contracts with key suppliers continues.

Working Capital Utilization

Total current assets less total current liabilities were in a surplus position of $55,045,000 at December 31, 2015 and $7,205,000 at December 31, 2014. Working capital was decreased during 2015 as cash was utilized in operating activities. However, the acquisition of the Hitco Aerospace division on December 18, 2015 contributed approximately $21,131,000 to the working capital increase in 2015.

Financial Resources

Avcorp Group has invested in its chosen strategies of organic growth, capabilities acquisition, lean manufacturing and strategic outsourcing. Management believes that significant investments necessary to better position Avcorp Group in the aerospace industry have and continue to be made, and that those investments along with the expected continued financial support of shareholders and lenders position the Company to be able to face and mitigate risks associated with the business.

Non-Financial Resources

The Company's non-financial resources relate to the Company's human resources, operating equipment, business systems, technologies, processes and qualifications. The Company does not have any extended enterprise relationships such as special purpose entities or joint ventures.

Human Resources

The Company has the appropriate human resources at all levels of the organization. The board of directors has considerable aerospace industry, investment, and financial expertise. The management team is experienced in the industry and in all aspects of operations.

The number of employees at December 31, 2015 was 776 (December 31, 2014: 369). Growth in the number of employees is primarily attributable to the December 18, 2015 acquisition of the US-based composite Aerostructures division of Hitco Carbon Composites Inc., a subsidiary of Frankfurt-listed SGL Carbon SE; as well as the commencement of new production contracts. Employees have appropriate qualifications and experience to perform their duties and the Company provides ongoing training and opportunities for employee growth.

Equipment, Systems, Technologies and Processes

Manufacturing equipment and information technology assets have been consistently upgraded and further deployed, increasing reliability and utility.

Risk Assessment

The principal risks that Avcorp Group faces are summarized as follows:

- additional financing is required to maintain and grow its business;
- no agreement on extension of customer contracts, or terminated customer programs are not replaced;
- increases in material costs, primarily aluminum plate, titanium, sandwich panels and assembly hardware, and subcontractor costs, without equivalent price protection in customer contracts;
- reduction in production rates of aircraft manufacturers and delays in program introduction;
- consolidation and globalization by competitors;
- potential failure to achieve cost-reduction objectives relative to changes in revenue levels;
- the trend to greater use of composite material in primary structures in each new generation of aircraft; and
- decrease in the value of the Canadian dollar, relative to the US dollar, has an adverse effect on the Canadian dollar equivalent value of those Company procured goods and services which are denominated in US dollars.

The Company's view is that with its strategic plan in place and the continued integration of composite design and manufacturing capabilities, the Company should be in a position to face and mitigate these risks. However, there can be no assurance that the Company will be successful with all initiatives.

Additional Financing

Avcorp Group's growth strategy requires continued access to capital. From time to time, the Company may require additional financing to enable it to:

- finance unanticipated working capital requirements;
- finance new program development and introduction;
- develop or enhance existing services and capabilities; or
- respond to competitive pressures.

The Company cannot provide assurance that, if it needs to raise additional funds, such funds will be available on favourable terms, or at all. If the Company cannot raise adequate funds on acceptable terms, its business could be materially harmed.

Customer Contracts

The Company is exposed to the risk that existing customer fixed-term contracts are not renewed at expiration date. The Company's agreements with Boeing CA have been renewed and extend from January 2013 to December 2017. Agreements with Boeing DSS have been renewed and established which extend from 2013 into 2017 with minimum base quantity requirements.

BAE customer contracts extend to May 2018. The Company is currently negotiating the extension of follow-on contracts.

The Company continues to face the financial risk that the wind-down in previous years of certain program contracts have not been replaced on a timely basis thereby causing the Company to continue to bear significant levels of expenses related to under-utilized operational capacity. The Company has restructured its business development strategy in order to best mitigate this risk and is now commencing to be awarded new customer production contracts.

Procured Materials and Parts

The Company is engaging suppliers and customers to properly align production requirements and pricing, ensuring uninterrupted delivery of compliant products with a cost structure closely matching product pricing. Changes in forecasts are closely monitored in order to promptly adjust procured materials and parts quantities with the objective of limiting unwanted inventory build-up.

Aircraft Production Rates

The following industry and program trends impact the Company.

- Company research indicates that the aerostructures markets for commercial aircraft and larger business jets would continue to grow beyond 2015. The lighter business jets' market is expected to show modest growth.
- Growth in air travel rates has and will further increase production rates on the Boeing 737 and Airbus A320 platforms in the coming years. The regional aircraft market remains soft around current rates.
- Bombardier Challenger CL605 aircraft production requirements reduced significantly in 2014 relative to 2013. The production build rate has increased moderately in 2015 and the forecast is to remain flat through 2019.
- The market for defence aircraft flattened in 2015, after growth in previous years, due to general global budget challenges. Defence spending in North America and Europe is expected to decrease in the near term.
- The F-35 remains, on a global scale, one of the largest Defence Airplane programs for the foreseeable future.
- However, under the current North American Federal Governments' initiatives of cost controls regarding defence spending, there exists a risk that the customer demand for defence aircraft components is reduced or delayed.

- Offset opportunities created by Canadian Government procurement within military aerospace programs exists to provide additional revenue from this aerospace sector.

Competitors

Despite the current economic conditions, the long-term trend continues towards more intense competition from larger entities having operations in Asia, Mexico and Europe; while original equipment manufacturers continue to increase the size and amount of outsourced components. It can be expected that consolidation on Tier 1 and Tier 2 levels will continue to take place. The Company continues to examine opportunities for mergers or acquisitions, on a global basis, that would improve competitiveness and acquire vertical strengths or additional strategic capabilities.

Cost Reductions

Approximately 53% of Avcorp Group’s cost of sales is related to labour and overhead and 47% related to procurement of raw materials and finished parts. The Company’s wage rates are generally lower than its western European and north western United States competitors and higher than those in the south eastern United States, Asia, Eastern Europe and Mexico. On July 30, 2013 the labour force, at the Delta facility, ratified a new six year collective agreement. The agreement was ratified by a two-thirds majority, with the new agreement expiring on March 31, 2019. Subsequent to the Hitco acquisition the Company and the labour force, in Gardena, agreed to a four month extension of the current collective agreement, which was to expire February 29, 2016 and now expires June 28, 2016. The Company and the Union have agreed to enter into ‘Interest-Based’ bargaining with the intent to ratify a new agreement before the expiration of the current one.

The Company continues to focus on cost reductions for direct labour, material and overhead costs. These cost reductions will be achieved through continuous improvements in the internal and external parts supply chain using lean manufacturing technology, through continued negotiation of long-term agreements with the majority of key suppliers, through increased efficiency of plant capacity augmented by technological improvements, and through continued focus on cost targets at all levels of the organization. All discretionary spending is reviewed and controlled by senior management, with expenditures focused on expediting new commercial program business growth and launching of long-term defence programs. However, fixed overhead costs continue to have an adverse impact on the Company’s cost structure during this period of reduced revenues. This will be mitigated by increased revenue and facility utilization.

Composite Materials

Through its subsidiary Comtek, the Company has ongoing operations expertise in the design and competitive manufacture and repair of advanced composite aerostructures which provides the opportunity for the Company to compete in a market which is trending, with each new generation of aircraft, to greater use of composite material in primary structures. As well, the Company’s Delta location is supplementing its current operations with composite manufacturing capabilities leveraging existing production capacity and investments.

Effective December 18, 2015, Avcorp completed the acquisition of the US-based composite Aerostructures division of Hitco Carbon Composites Inc., a subsidiary of Frankfurt-listed SGL Carbon SE. The Acquisition was completed pursuant to the terms of an asset purchase agreement that was entered into on July 20, 2015, and subsequent amendments to December 18, 2015. Pursuant to the Agreement Avcorp’s subsidiary, Avcorp Composite Fabrication Inc., purchased the assets of the division of Hitco which produces composite structural parts for commercial and military aerostructures.

The acquisition of Hitco’s Aerostructures composite division has provided a unique opportunity to transform the Avcorp Group’s existing metal fabrication and integrated assembly business by broadening the product range and strengthening our composite capabilities. Advanced composite fabrication capabilities, provided by this acquisition, enhances Avcorp Group’s ability to participate in large aerospace assembly programs which combine mixed material components.

US Dollar Revenues

Avcorp Group sells a significant proportion of its products in US dollars, partially from its Canadian operations and entirely within its United States operations, at prices which are often established well in advance of manufacture and shipment dates. As the value of the Canadian dollar decreases, the equivalent value of US dollar denominated revenues increases; conversely, the cost of US dollar denominated purchases will increase. The Company is continuing to structure new agreements with customers which mitigate the risk associated with currency fluctuations. It should be noted that a significant portion of the Company's purchases of raw materials, supplier fabricated parts, as well as equipment purchases, are denominated in US dollars. The Company's US operations are entirely denominated in US dollars giving rise to foreign exchange gains and losses as the US dollar/Canadian dollar rate of exchange fluctuates.

Outlook

Variability of the Canadian dollar relative to the US dollar continues to cause the value of the Company's current order backlog to fluctuate. The Company continues to work towards securing additional defence programs in order to augment and diversify its backlog. The Company began delivering products under its defence contracts in 2009 and continues to negotiate long-term supply agreements. Both defence and commercial production contracts are being renewed, with select new customer agreements extending into 2028. The Company expects to finance investment in the start-up of new production programs primarily by milestone payments from customers, though this cannot be assured. Avcorp Group may require financing for capital expenditures required for new programs.

Boeing is the Company's largest customer in 2015, followed by Bombardier and BAE. The Company forecasts its 2016 revenues to increase significantly above 2015 levels as the December 18, 2015 Hitco Aerostructures division acquisition takes effect for an entire year.

The Company forecasts its working capital financing requirements for 2016 to be met by the current availability of the operating line of credit and the current working capital surplus. However, further debt and equity financing may be required.

Transactions with Related Parties

During the current quarter a performance guarantee was provided on production contracts with a certain customer by Panta Holdings B.V. whose wholly owned subsidiary, Panta Canada B.V., is Avcorp's majority shareholder owning approximately 65.5% of the issued and outstanding common shares on December 31, 2015. Both companies are incorporated in The Netherlands. Mr. Jaap Rosen Jacobson, a director of Avcorp is the sole shareholder of Panta Holdings B.V. The performance guarantee is calculated as a percentage of revenues generated from production contracts with this certain customer. Accordingly, the fees will vary with fluctuations in sales to this certain customer. Fees paid, in that respect, to Panta Holdings B.V. during the year ended December 31, 2015 amounted to $1,334,000 (December 31, 2014: $1,168,000). Fees payable to Panta Holdings B.V. as at December 31, 2015 are $330,000 (December 31, 2014: $301,000). These fees are included in the Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income as cost of sales and amount to $1,363,000 for the year ended December 31, 2015 (December 31, 2014: $1,300,000). This performance guarantee was extinguished as at December 18, 2015.

During the year ended December 31, 2015, consulting services were provided by certain directors. Fees paid to certain directors, or companies with which they have beneficial ownership, during the year ended December 31, 2015 amounted to $395,000 (December 31, 2014: $63,000). Fees payable to certain directors or Companies with which they have beneficial ownership, as at December 31, 2015 are $12,000 (December 31, 2014: $20,000). These fees are included in the Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income as administrative and general expenses and amount to $387,000 for the year ended December 31, 2015 (December 31, 2014: $83,000).

Panta Canada B.V. has made the commitment to Avcorp to underwrite a $5,000,000 equity financing to occur within twelve months following date of execution of a March 31, 2015 commitment letter. The underwriting is subject to the following terms:

- 3% fee based on gross proceeds of the equity placement; and
- Maximum permissible common share price discount pursuant to TSX regulations.

This commitment had not been drawn upon by the Company as at the date of this report.

Key management includes Executive Officers for all operating facilities. The compensation paid or payable to key management for employee services is shown below.

KEY MANAGEMENT COMPENSATION

(unaudited, expressed in thousands of Canadian dollars)

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Salaries and other short-term employee benefits	**$ 3,252**	$ 952
Contributions to defined contribution plan	**40**	34
Option-based awards	**912**	245
	4,204	1,231

The balance of loans receivable from key management as at December 31, 2015 is $15,000 (December 31, 2014: $15,000). These transactions were conducted in the normal course of business and were accounted for at the exchange amount.

Business Acquisition

Effective December 18, 2015, Avcorp completed the acquisition of the US-based composite Aerostructures division of Hitco Carbon Composites Inc., a subsidiary of Frankfurt-listed SGL Carbon SE. The Acquisition was completed pursuant to the terms of an asset purchase agreement that was entered into on July 20, 2015, and subsequent amendments to December 18, 2015. Pursuant to the Agreement Avcorp's subsidiary, Avcorp Composite Fabrication Inc., purchased the assets of the division of Hitco which produces composite structural parts for commercial and military aerostructures.

Through the Acquisition, Avcorp acquired the composite Aerostructures division of Hitco but did not acquire any assets of Hitco's Materials division that is responsible for the production of specialty materials. The Acquisition included all of the assets, properties and rights held by Hitco related to the Business including:

- inventory, packaging materials, and consumables of the Business;
- fixed assets, equipment and tooling assets primarily used in the Business;
- accounts or notes receivable related to the Business;
- prepaid expenses and deposits primarily related to the Business;
- the intellectual property of the Business together with all of the goodwill associated with the intellectual property;
- the goodwill related to the Business, together with the exclusive right to hold Avcorp out as carrying on the Business in succession to Hitco;
- the right to use the name "Hitco Carbon Composites" or any variation thereof in connection with the Business; and
- several purchase contracts held by Hitco.

The Acquisition excluded any real property owned by Hitco and all assets of Hitco not related to the Business, including assets related to Hitco's business division that produces specialty materials.

Pursuant to the Agreement, Hitco and SGL are subject to a non-competition clause within the United States and a non-solicitation clause for a period of five years. As part of the Acquisition, Avcorp also leased certain real property owned by Hitco, which Avcorp will use to conduct the Business.

Also, pursuant to the Agreement, among other things, Hitco's direct and indirect parent companies' guarantee certain of Hitco's payment obligations to Avcorp under the Agreement, including payment obligations of Hitco to Avcorp stemming from product quality and warranty claims in connection with products produced by Hitco before the closing date of the transaction.

Transaction Highlights are indicated as estimated fair values as at December 18, 2015:

- Avcorp has received $32.8 million (USD$23.5 million) and will receive a further $39.0 million (USD$28.5 million) in cash and payment commitments from SGL, the parent company of Hitco;
- Avcorp will receive in kind supplies and/or payments totaling up to USD$5.0 million through December 31, 2016;
- Supplementing the cash and in kind payments received, Avcorp will assume approximately $38.6 million (USD$27.7 million) of inventory and accounts receivable, adding to the positive liquidity of the transaction;
- Equipment received as a component of the Acquisition transaction has an estimated fair market value of $22.1 million (USD$15.9 million);
- Avcorp assumed certain ongoing contractual obligations of the Business, as well as trade payables and accrued liabilities of $17.4 million (USD$12.5 million) of which SGL paid Avcorp USD$4.2 million on January 4, 2016 in payment of past-due balances. Additionally, a customer production program advance assumed by Avcorp on acquisition date amounted to approximately $23.4 million (USD$17.8 million);
- Avcorp assumed an unfavourable contract liability on certain long term revenue contracts for which unavoidable costs are expected to exceed the corresponding revenues earned. The preliminary estimated unfavourable contract liability as at the acquisition date amounted to USD$65.0 million;
- Hitco's production generated USD$55.5 million in revenue during the nine months ended September 30, 2015, and incurred an operating loss of USD$17.8 million loss during the same period;
- Avcorp is continuing to operate Hitco's Aerostructures division facilities from its current location in Gardena, California, transitioning to the new name of Avcorp Composite Fabrication ("ACF");
- Avcorp has strengthened its leadership talent through the addition of key members of management and retained the majority of Hitco's Aerostructures division's existing employees; and
- Hitco's Aerostructures division, which is an AS9100C certified manufacturer, includes Lockheed Martin, Fuji Heavy Industries, Northrop Grumman, Alenia Aeronautica, Spirit AeroSystems, Pratt & Whitney Canada and The Boeing Company among its largest customers.

Adding Hitco's Aerostructures division's manufacturing facilities to Avcorp's operations will be immediately accretive to its revenue base, essentially almost doubling Avcorp's pre-acquisition revenue. With expected operational efficiencies and improved utilization of Avcorp's existing facilities in Delta and Burlington, the transaction is directed at accelerating the expected return to profitability. It is important to note that Hitco has been operating at a loss and Avcorp will need to incur rectification expenditures, utilizing funds received as consideration from the Acquisition, in order to mitigate future operational losses.

Fourth Quarter

The following summarizes unaudited financial results for the fourth quarter 2015.

Operating loss for the fourth quarter of 2015 was $6,287,000 from $22,285,000 in revenues, as compared to operating loss of $3,848,000 from $13,744,000 in revenues for the quarter ended December 31, 2014. The Company expensed $1,225,000 of overhead costs during the fourth quarter 2015 (2014: $1,287,000) in respect of unutilized plant capacity. During the fourth quarter 2015, the Company also incurred $3,592,000 in expenditures related to the Hitco Aerospace division acquisition (Fourth Quarter 2014: $Nil).

In December 2015, Avcorp repaid its bank indebtedness to a Canadian chartered bank amounting to $5,016,000. During the month the Company also re-paid its term loan and related accrued interest, which was held by Panta Canada B.V.; this payment amounted to $5,126,000.

During the fourth quarter 2015 holders of the Company's stock options exercised 2,922,000 stock options at a price of $0.05 resulting in the issuance of 2,922,000 common shares with a value of $146,000.

Critical Accounting Estimates and Judgment

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and judgments that affect the amounts which are reported in the consolidated financial statements during the reporting period. Estimates and other judgments are evaluated at each reporting date and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances.

- Management assesses the Company's ability to continue as a going concern at each reporting date, using all quantitative and qualitative information available. This assessment, by its nature, relies on estimates of future cash flows and other future events, whose subsequent changes would materially impact the validity of such an assessment.
- Carrying value of long-lived assets: The Company holds property, plant and equipment, on the consolidated statements of financial position amounting to $29,880,000 (December 31, 2014: $8,204,000). The recoverability of these assets is dependent on the ability of the Company to generate sufficient cash flow from operations over the remaining useful life of the assets, which is contingent on, amongst other factors, the ability of the Company to replace known program losses with new programs as well as ramping up scheduled production for new production contracts. The recoverability of the carrying value of these assets is, in part, dependent on the estimates used in determining the expected period of future benefits over which to amortize. In addition, such recoverability is dependent on delivering to the scheduled production ramp-up for new programs, as well as dependent on market conditions including demand for such aircraft for which the Company provides its products.
- Recoverability of deferred tooling costs: The ability to defer tooling costs is dependent on the future recoverability of the amounts from cash flows generated by the related commercial operations as well as contractually required payments by customers. If operations perform below anticipated recoverable levels, the portion of deferred tooling costs that cannot be recovered is expensed immediately when known. At December 31, 2015, $3,187,000 (December 31, 2014: $3,303,000) in unamortized deferred tooling costs, which are expected to have a future economic benefit, are presented as Development costs in the consolidated statements of financial position. Development costs of $569,000 (December 31, 2014: $569,000) are internally generated and not supported by customer advances.
- On a periodic basis the Company provides for its anticipated losses under existing contractual commitments to its customers by comparing its anticipated future costs of production to its contracted future revenues. As at December 31, 2015 the provision for anticipated losses was $114,000 (December 31, 2014: $190,000). The decrease in this provision from December 31, 2014 was primarily as a result of operational improvements in transitionary production inefficiencies as well as an improvement in internal quality assurance initiatives.
- Estimating the fair value of the unfavorable contract liability assumed in conjunction with the acquisition of the US-based composite Aerostructures division of Hitco Carbon Composites Inc., a subsidiary of Frankfurt-listed SGL Carbon SE, is subject to significant judgment, including selecting margin assumptions that would be used by market participants and the selection of an appropriate discount rate that reflects the risk and uncertainty associated with the liability. The Company has a provision for unfavourable contracts in the amount to $89,971,000 as at December 31, 2015 (December 31, 2014: $Nil).
- On a periodic basis the Company reviews its plant capacity and estimates the portion of its under-utilized overhead expenditures. The Company has expensed $4,906,000 of overhead costs during the current year (December 31, 2014: $5,047,000) in respect of unutilized plant capacity.

Financial Instruments and Other Instruments

Interest rate risk

The Company is exposed to interest rate risk on the utilized portion of its operating line of credit at rates of bank prime plus 0.5%. The maximum operating line of credit availability is $12,000,000 of which $Nil is utilized as at December 31, 2015 (December 31, 2014: $Nil). The Company lowers interest rate costs by managing utilization of the operating lines of credit to the lowest amount practical. For the year ended December 31, 2015, with other variables unchanged, a 1% change in the bank prime interest rate would have a $Nil (December 31, 2014: $Nil) impact on net earnings and cash flow.

The Company primarily finances the purchase of long-lived assets at fixed interest rates.

Currency risk

The Company sells a significant proportion of its products in US dollars at prices which are often established well in advance of manufacture and shipment dates. In addition, the Company purchases a significant proportion of its raw materials and component parts in US dollars at prices that are usually established at the order date. All of the Company's operations are based in Canada and in the US. As a result of this, the Company is exposed to currency risk to the extent that fluctuations in exchange rates are experienced. The amount of foreign exchange gain recorded in 2015 was $203,000 as compared to a $159,000 gain for the year ended December 31, 2014.

The Company had the following US dollar denominated balances:

CURRENCY RISK
(unaudited, expressed in thousands of US dollars)

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Bank cash position	**US$ 7,916**	US$ 1,645
Accounts receivable	**18,487**	2,314
Consideration receivable	**28,458**	-
Accounts payable net of prepayments	**14,469**	1,901

With other variables unchanged, each $0.10 strengthening (weakening) of the US dollar against the Canadian dollar would result in an increase (decrease) of approximately $4,039,000 in net income for the year ended December 31, 2015 (December 31, 2014: $206,000 increase (decrease) in net income) as a result of holding a US dollar net asset position.

Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Company manages credit risk for trade and other receivables through a financial review of the credit worthiness of the prospective customer along with credit monitoring activities. The majority of the Company's trade receivables reside with Boeing Commercial Airplane Group ("Boeing"), Boeing Defense, Space & Security ("BDS"), Bombardier Aerospace ("Bombardier"), BAE Systems (Operations) Limited ("BAE"), Fuji Heavy Industries Ltd. ("FHI"), Lockheed Martin Corporation ("LM") and Northrop Grumman Corporation ("Northrop"). During 2015 and 2014, there were no trade receivables written off by the Company in respect of these customers. The maximum exposure to credit risk is represented by the amount of accounts receivable in the consolidated statements of financial position.

As at the consolidated statements of financial position date 69.5% (December 31, 2014: 74.6%) of the Company's trade accounts receivable are attributable to these customers.

Consideration receivable arising from a 2015 business acquisition is guaranteed by the Seller and a Canadian chartered bank.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company seeks to manage liquidity risk through the management of its capital structure and financial leverage as outlined in the Liquidity and Capital Resource discussions.

Capital Risk

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to provide an adequate return to shareholders, while satisfying other stakeholders.

The Company includes long-term debt, preferred shares and capital stock in its definition of capital, as shown in the Company's consolidated statements of financial position.

The Company's primary objective in its management of capital is to ensure that it has sufficient financial resources to fund ongoing operations and new program investment. In order to secure this capital the Company may attempt to raise funds via issuance of debt and equity, or by securing strategic partners.

Other Items

Disclosure Controls and Procedures, and Internal Controls over Financial Reporting

In accordance with the Canadian Securities Administrators Multilateral Instrument 52-109, the Company has filed certificates signed by the Chief Executive Officer and the Vice President, Finance that, among other things, report on the design of disclosure controls and procedures and the design of internal control over financial reporting. These certificates can be found on www.sedar.com.

The Chief Executive Officer and the Vice President, Finance, have evaluated the Company's disclosure controls and procedures, and internal controls over financial reporting, as of December 31, 2015 and concluded that the Company's current disclosure controls and procedures as well as the internal controls over financial reporting are effective. There were therefore no changes to the Company's disclosure controls and procedures, or in the design of internal controls over financial reporting, during the year ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Limitations on scope of design

The scope of design over disclosure controls and internal controls over financial reporting has been limited to exclude control, policies and procedures of ACF, which was acquired effective December 18, 2015.

The scope limitation is in accordance with section 3.3(1) (c) of National Instrument 52-109, which allows an issuer to limit the design of disclosure and control procedures and internal control over financial reporting to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days prior to December 31, 2015, the end of fiscal period.

Forward Looking Statements

This management discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements. Certain statements in this report and other oral and written statements made by the Company from time to time are forward-looking statements, including those that discuss strategies, goals, outlook or other non-historical matters; or projected revenues, income, returns or other financial measures. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements, including the following: (a) the ability of the Company to renegotiate its debt agreements under which it is in default; (b) the extent to which the Company is able to achieve savings from its restructuring plans; (c) uncertainty in estimating the amount and timing of restructuring charges and related costs; (d) changes in worldwide economic and political conditions that impact interest and foreign exchange rates; (e) the occurrence of work stoppages and strikes at key facilities of the Company or the Company's customers or suppliers; (f) government funding and program approvals affecting products being developed or sold under government programs; (g) cost and delivery performance under various program and development contracts; (h) the adequacy of cost estimates for various customer care programs including servicing warranties; (i) the ability to control costs and successful implementation of various cost reduction programs; (j) the timing of certifications of new aircraft products; (k) the occurrence of further downturns in customer markets to which the Company products are sold or supplied or where the Company offers financing; (l) changes in aircraft delivery schedules, cancellation of orders or changes in production scheduling; (m) the Company's ability to offset, through cost reductions, raw material price increases and pricing pressure brought by original equipment manufacturer customers; (n) the availability and cost of insurance; (o) the Company's ability to maintain portfolio credit quality; (p) the Company's access to debt financing at competitive rates; and (q) uncertainty in estimating contingent liabilities and establishing reserves tailored to address such contingencies.

report of **management**

The accompanying consolidated financial statements of Avcorp Industries Inc. and all other information contained in the Management Discussion and Analysis are the responsibility of management. The consolidated financial statements were prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Boards ("IASB") appropriate in the circumstances, in a manner consistent with the previous quarter, and include some amounts based on management's best judgments and estimates. The financial information contained elsewhere in this Management Report and Analysis is consistent with that in the consolidated financial statements.

Management is responsible for maintaining a system of internal accounting controls and procedures to provide reasonable assurance. As at the end of the period covered by this report, the system of internal control provides reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with IFRS. During the period covered by this report, there has been no change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

	EDWARD M. MERLO Vice President, Finance and Corporate Secretary		**PETER GEORGE** Executive Officer and Group Chief Executive Officer

report of **auditors**

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Avcorp Industries Inc.**

We have audited the accompanying consolidated financial statements of **Avcorp Industries Inc.**, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Avcorp Industries Inc.** as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Vancouver, Canada
April 11, 2016

Chartered Professional Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(prepared in accordance with IFRS, expressed in thousands of Canadian dollars)

AS AT DECEMBER 31	2015	2014
ASSETS		
Current assets		
Cash (note 15)	**$ 14,484**	$ 3,159
Accounts receivable (note 9)	**30,124**	5,642
Consideration receivable (note 10)	**26,624**	-
Inventories (note 11)	**36,383**	13,738
Prepayments and other assets	**1,424**	1,290
	109,039	23,829
Non-current assets		
Prepaid rent and security	**449**	146
Consideration receivable (note 10)	**12,096**	-
Development costs (note 12)	**3,187**	3,303
Property, plant and equipment (note 13)	**29,880**	8,204
Intangibles (note 14)	**16,095**	-
Total assets	**170,746**	35,482
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 17)	**27,087**	8,549
Current portion of long-term debt (note 21)	**240**	293
Customer advance (note 16)	**10,408**	-
Deferred program revenues (note 18)	**4,924**	7,782
Unfavourable contracts liability (note 19)	**11,335**	-
	53,994	16,624
Non-current liabilities		
Deferred gain (note 20)	**121**	168
Lease inducement (note 20)	**271**	370
Long-term debt (note 21)	**1,646**	943
Customer advance (note 16)	**12,697**	-
Unfavourable contracts liability (note 19)	**78,636**	-
Deferred tax liability (note 28)	**1,235**	-
	148,600	18,105
Equity		
Capital stock (note 23)	**80,158**	79,921
Contributed surplus (note 23)	**4,453**	3,129
Deficit	**(62,465)**	(65,673)
	22,146	17,377
Total liabilities and equity	**170,746**	35,482

Nature of operations (note 1)

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors on April 8, 2016

David Levi
Chairman

Eric Kohn TD
Committee Chair, Audit & Corporate Governance Committee

CONSOLIDATED STATEMENTS OF (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME

(prepared in accordance with IFRS, expressed in thousands of Canadian dollars, except number of shares and per share amounts)

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Revenues	**$ 79,925**	$ 67,104
Cost of sales	**72,279**	62,199
Gross profit	**7,646**	4,905
Administrative and general expenses	**19,278**	12,373
Office equipment depreciation	**482**	570
Operating (Loss)	**(12,114)**	(8,038)
Finance costs – net (note 26)	**856**	64
Foreign exchange (gain)	**(203)**	(159)
Write-down and (gain) on sale of equipment (note 13)	**(2)**	7
(Gain) on acquisition (note 32)	**(15,973)**	-
(Loss) Income before income tax	**3,208**	(7,950)
Income tax expense (note 28)	**-**	-
Income (Loss) and total comprehensive (loss) income for the period	**3,208**	(7,950)
(Loss) Earnings per share:		
Basic (loss) earnings per common share (note 30)	**0.01**	(0.03)
Diluted (loss) earnings per common share (note 30)	**0.01**	(0.03)
Basic weighted average number of shares outstanding (000's) (note 30)	**302,889**	284,052
Diluted weighted average number of shares outstanding (000's) (note 30)	**304,076**	284,052

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(prepared in accordance with IFRS, expressed in thousands of Canadian dollars)

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Cash flows from (used in) operating activities		
(Loss) Income before income tax	**$ 3,208**	$ (7,950)
Adjustment for items not affecting cash:		
Accrued interest and government royalties	**210**	38
Depreciation	**1,680**	1,601
Development cost amortization	**1,521**	148
Provision for loss-making contracts	**(77)**	139
Provision for obsolete inventory	**245**	60
Stock based compensation	**930**	240
Non-cash financing cost accretion	**485**	-
Gain on acquisition	**(15,973)**	-
Other items	**(124)**	(105)
	(7,895)	(5,829)
Changes in non-cash working capital		
Accounts receivable	**(7,602)**	3,820
Consideration receivable	**588**	-
Inventories	**(2,895)**	1,003
Prepayments and other assets	**(136)**	(7)
Prepaid security	**(301)**	-
Accounts payable and accrued liabilities	**1,347**	1,042
Customer advance	**(147)**	-
Deferred program revenues	**(2,963)**	(3,168)
Net cash from (used in) operating activities	**(20,004)**	(3,139)
Cash flows from (used in) investing activities		
Cash received upon acquisition	**32,826**	-
Proceeds from sale of equipment	**-**	589
Purchase of equipment	**(959)**	(1,001)
Payments relating to development costs and tooling	**(1,405)**	(2,211)
Intangible property lease	**245**	-
Net cash from (used in) investing activities	**30,707**	(2,623)
Cash flows from (used in) financing activities		
Payment of interest	**(169)**	(36)
Proceeds from current and long term debt	**5,882**	760
Proceeds from issuance of common shares	**146**	1,536
Redemption of preferred shares and accrued dividends	**-**	(36)
Repayment of current and long-term debt	**(5,391)**	(355)
Repayment of government royalties	**-**	(132)
Net cash from (used in) financing activities	**468**	1,737
Net increase (decrease) in cash	**11,171**	(4,025)
Net foreign exchange difference	**154**	172
Cash - Beginning of year	**3,159**	7,012
Cash - End of year	**14,484**	3,159

Supplementary Cash Flow Information (note 27)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(prepared in accordance with IFRS, expressed in thousands of Canadian dollars, except number of shares)

	Share capital				
	Shares	**Amount**	**Contributed surplus**	**Deficit**	**Total equity**
Balance December 31, 2013	280,391,152	77,681	3,593	(57,723)	23,551
Issue of common shares (notes 23b,c, and d)	22,242,032	1,536	-	-	1,536
Stock based compensation expense (note 24)	-	-	240	-	240
Transfer to share capital on exercise of stock options and warrants	-	704	(704)	-	-
Loss for the year	-	-	-	(7,950)	(7,950)
Balance December 31, 2014	302,633,184	79,921	3,129	(65,673)	17,377
Issue of common shares (note 23a)	2,922,000	146	-	-	146
Stock-based compensation expense (note 24)	-	-	930	-	930
Transfer of share capital on exercise of stock options and warrants	-	91	(91)	-	-
Fair value of warrants issued	-	-	485	-	485
Income for the year	-	-	-	3,208	3,208
Balance December 31, 2015	**305,555,184**	**80,158**	**4,453**	**(62,465)**	**22,146**

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Operations

Avcorp Industries Inc. (the "Company" or "Avcorp") is a Canadian-based manufacturer within the aerospace industry, and a single source supplier for engineering design, manufacture and assembly of subassemblies and complete major structures for aircraft manufacturers.

We currently operate from two locations in Canada and one location in the United States. Located in Delta, British Columbia, Avcorp Industries Inc., named as Avcorp Structures & Integration ("ASI"), is dedicated to metallic and composite aerostructures assembly and integration. Within Comtek Advanced Structures Ltd. ("Comtek") located in Burlington, Ontario, exists two divisions: Comtek, dedicated to aircraft structural component repair services, and Avcorp Engineered Composites ("AEC") dedicated to design and manufacture of small sized composite aerostructures. Located in Gardena, California, Avcorp Composite Fabrication Inc. ("ACF") is dedicated to medium and large composite aerostructures fabrication.

Avcorp Composite Fabrication Inc. is wholly owned by Avcorp US Holdings Inc. Both companies are incorporated in The State of Delaware and are subsidiaries of Avcorp Industries Inc.

Comtek Advanced Structures Ltd., incorporated in the Province of Ontario is a wholly owned subsidiary of Avcorp Industries Inc.

The Company's governing corporate statute is the Canada Business Corporations Act (the "CBCA").

The consolidated financial statements of the Company for the year ended December 31, 2015 were authorized for issue in accordance with a resolution of its Board of Directors on April 8, 2016.

2. Basis of Preparation and Measurement

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand (000), except where otherwise indicated.

3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of consolidation

The financial statements of the Company consolidate the accounts of Avcorp Industries Inc. and its subsidiaries Comtek Advanced Structures Ltd., Avcorp US Holdings Inc., and Avcorp Composite Fabrication Inc. (the "Group"). All significant intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at December 31, 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Foreign currency translation

- Functional and presentation currency: Foreign currency items included in the consolidated financial statements of each consolidated entity in the Avcorp Industries Inc. group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of the Company's subsidiary, Comtek, is also determined to be Canadian dollars. The functional currency of the Company's subsidiary, ACF, is determined to be US dollars.
- Transactions and balances: Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statement of income.

Fair value measurement

Certain financial instruments, such as derivatives are measured at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in notes 7f and 8.

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized at fair value in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- Financial assets and liabilities at fair value through profit or loss: The Company's financial assets and liabilities included in other assets are inflation derivative assets arising from the Company's sales contracts having price adjustment clauses within their terms. A financial asset or liability is also classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

  Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of income. Gains and losses arising from changes in fair value are presented in the consolidated statement of income, in the period in which they arise, within administrative and general expenses as amounts are not material.

- Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of trade receivables and cash consideration receivable, and are included in current assets due to their short-term nature. A portion of the consideration receivable is long-term and has been discounted to take this into effect. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

- Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables, bank debt and long-term debt. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Bank debt and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

  Financial liabilities at amortized cost are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out ("FIFO") method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) including applicable depreciation on property, plant and equipment and amortization of intangible assets. Net realizable value is the estimated selling price less applicable selling expenses.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statement of income during the period in which they are incurred.

An estimation is made of the useful life of equipment. Useful life is measured in terms of years or units-of-production, and depreciated on a straight line basis.

Computer hardware and software	2 - 10 years
Machinery and equipment	5 - 15 years
Leasehold improvements	end of lease, 2018

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as gains and losses on disposal of equipment in the consolidated statement of income.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

Research and development costs

Research costs are expensed as incurred. Development costs, which are currently all tooling and new program introduction costs incurred on long-term programs that meet the criteria for deferral, are capitalized and amortized straight-line over the number of shipsets management believes is a reasonable estimate of units to be sold for the program.

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") fair value less costs of disposal and its value in use. The Company's CGU are Avcorp Industries Inc., Comtek Advanced Structures Ltd., and Avcorp Composite Fabrication Inc. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Employee benefits

- Post-employment benefit obligations: Employees of companies included in these consolidated financial statements have entitlements under Company pension plans which are defined contribution pension plans.

  The cost of defined contribution pension plans is charged to expense as the contributions become payable.

- Stock based compensation: The Company grants stock options to certain employees. Stock options vest over three to ten years and all expire over five to ten years after grant date. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model.

  Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed at least quarterly, with any impact being recognized immediately.

- Termination benefits: The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing benefits as a result of an offer made to encourage voluntary termination. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value where the effect is material.

Provisions

Provisions for warranties, where applicable, are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Revenue

Revenue is recognized when it is probable that the economic benefits will flow to the Company and delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained.

The term 'bill and hold' sale is used to describe a transaction where delivery is delayed at the customer's request, but the customer takes title and accepts billing. Revenue is recognized when the customer takes title, provided it is probable that delivery will be made, the item is on hand, identified and ready for delivery to the customer at the time the sale is recognized, the customer specifically acknowledges the deferred delivery instructions, and the usual payment terms apply. The Company had approximately $2,632,000 (2014 - $Nil) or 3% (2014 Nil%) of revenue that were billed but not shipped under such bill and hold arrangements as of December 31, 2015.

Revenue is measured based on the price specified in the sales contract, net of discounts.

The Company's major revenue streams arise from the production and supply of major airframe structures and aircraft parts to aircraft manufacturers, the repair of aircraft components, aircraft product design and production tooling design and manufacture.

The nature of the Company's operating cycle for the manufacture and delivery of highly engineered aerospace parts and components is one in which significant order and production lead-times exist. There exists a high degree of variability within the length of operating cycles for the various manufactured components, aircraft programs, and customers. The Company's operating cycle commences with receipt, from its customers, of a purchase order for production of a component and culminates when the Company has received full payment from the customer for the product it has delivered. The individual product component operating cycles can range from twelve weeks to greater than sixty weeks. Costs incurred for proto-type design, as well as hard and soft tooling expenditures for new program introduction can occur over a two year period. Given this variability, since no single operating cycle is clearly identifiable, the Company has concluded that the operating cycle is 12 months.

Certain program inventories have been funded by a customer, whereby the associated deferred program revenues will be recorded as revenue upon delivery of units of production.

Additionally, customers have funded non-recurring costs incurred during the introduction of new production programs. These costs are deferred as development costs and will be amortized to income straight-line on a units-of-production basis over the expected life of the programs, in conjunction with the associated deferred revenue upon commencement of production.

Deferred program revenues are classified as current or non-current based on the estimated timing of when the related revenues are realized. This period of deferred revenue realization can extend, dependent on the amortization of the related costs, over one or more fiscal years.

Cost of sales

Cost of sales includes the cost of production, including materials, direct labour, overhead expenses as well as applicable depreciation and amortization.

Income tax

a) Current income tax

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

b) Deferred tax

Deferred tax is provided using the liability method on deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Earnings per share

Basic earnings per share (“EPS”) is calculated by dividing the net (loss) income for the year by the weighted average number of common shares outstanding during the year.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Company’s potentially dilutive common shares comprise stock options granted to employees and warrants.

Leases

Leases are classified as finance or operating leases. A lease that transfers substantially all the benefits and risks incident to the ownership of property is classified as a finance lease. All other leases are accounted for as operating leases whereby lease payments are expensed on a straight-line basis over the term of the lease. Gains and losses arising on sale and leaseback transactions, when the leaseback is classified as a finance lease, are deferred and amortized in proportion to the amortization of the leased asset when material. Lease inducements received are recorded as a deferred credit and amortized as a reduction of lease expense over the term of the lease.

Accounting standards issued but not yet effective

The following is a brief summary of the new standards issued but not yet effective:

IFRS 15 – Revenue from Contracts with Customers

The International Accounting Standards Board ("IASB") and the US Financial Accounting Standards Board ("FASB") (collectively, "the Boards") have jointly issued a new revenue standard, IFRS 15 *Revenue from Contracts with Customers*, that will supersede virtually all revenue recognition requirements in IFRS and US GAAP.

IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

This standard is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 – Leases which replaces IAS 17 – Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company has not yet assessed the impact the final standard is expected to have on its consolidated financial statements.

4. Critical Accounting Estimates and Judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and judgments that affect the amounts which are reported in the consolidated financial statements during the reporting period. Estimates and other judgments are evaluated at each reporting date and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances.

- Management assesses the Company's ability to continue as a going concern at each reporting date, using all quantitative and qualitative information available. This assessment, by its nature, relies on estimates of future cash flows and other future events, whose subsequent changes would materially impact the validity of such an assessment.
- Carrying value of long-lived assets: The Company holds property, plant and equipment, (note 13) on the consolidated statements of financial position amounting to $29,880,000 (December 31, 2014: $8,204,000). The recoverability of these assets is dependent on the ability of the Company to generate sufficient cash flow from operations over the remaining useful life of the assets, which is contingent on, amongst other factors, the ability of the Company to replace known program losses with new programs as well as ramping up scheduled production for new production contracts. The recoverability of the carrying value of these assets is, in part, dependent on the estimates used in determining the expected period of future benefits over which to amortize. In addition, such recoverability is dependent on delivering to the scheduled production ramp-up for new programs, as well as dependent on market conditions including demand for such aircraft for which the Company provides its products.
- Recoverability of deferred tooling costs: The ability to defer tooling costs is dependent on the future recoverability of the amounts from cash flows generated by the related commercial operations as well as contractually required payments by customers. If operations perform below anticipated recoverable levels, the portion of deferred tooling costs that cannot be recovered is expensed immediately when known. At December 31, 2015, $3,187,000 (December 31, 2014: $3,303,000) in unamortized deferred tooling costs (note 12), which are expected to have a future economic benefit, are presented as Development costs in the consolidated statements of financial position. Development costs of $569,000 (December 31, 2014: $569,000) are internally generated and not supported by customer advances.
- On a periodic basis the Company provides for its anticipated losses under existing contractual commitments to its customers by comparing its anticipated future costs of production to its contracted future revenues. The December 31, 2015 provision for anticipated losses was $114,000 (December 31, 2014: $190,000). The decrease in this provision from December 31, 2014 was primarily as a result of operational improvements in transitionary production inefficiencies as well as an improvement in internal quality assurance initiatives.
- Estimating the fair value of the unfavorable contract liability assumed in conjunction with the acquisition of the US-based composite Aerostructures division of Hitco Carbon Composites Inc., a subsidiary of Frankfurt-listed SGL Carbon SE, is subject to significant judgment, including selecting margin assumptions that would be used by market participants and the selection of an appropriate discount rate that reflects the risk and uncertainty associated with the liability. The Company has a liability for unfavourable contracts in the amount to $89,971,000 as at December 31, 2015 (December 31, 2014: $Nil).
- On a periodic basis the Company reviews its plant capacity and estimates the portion of its under-utilized overhead expenditures. The Company has expensed $4,906,000 of overhead costs during the current year (December 31, 2014: $5,047,000) in respect of unutilized plant capacity. These amounts are included in the Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income as cost of sales.
- Deferred program revenues are recognized as revenue on a units-of-production basis over the expected life of the program, where expected life is an estimate based on customer and industry data; or as non-recurring activities are completed.

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

5. Expenses by Nature

The Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income presents expenses by function. Accordingly, amortization and depreciation is not presented as a separate line on the statement, but is included within cost of sales to the extent that it relates to manufacturing machinery and equipment, as well as leasehold improvements.

Expenses by nature:

FOR THE YEAR ENDED DECEMER 31	2015	2014
Salary, wages and benefits	**$ 36,754**	$ 31,849
Raw materials, purchased parts and consumables	**33,908**	29,104
Contracted services and consulting	**3,806**	2,186
Other expenses and conversion of costs into inventory	**2,987**	1,667
Rent	**2,585**	2,548
Legal and audit fees	**2,248**	459
Depreciation	**1,680**	1,601
Amortization of development costs	**1,521**	148
Performance Guarantee fees	**1,362**	1,300
Utilities	**1,127**	1,100
Travel costs	**1,123**	677
Transportation	**991**	808
Office equipment rental/maintenance	**709**	678
Plant equipment rental and maintenance	**561**	390
Insurance	**359**	401
Royalties	**318**	226
	92,039	75,142

6. Capital Risk Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to provide an adequate return to shareholders, while satisfying other stakeholders.

The Company includes long-term debt, preferred shares and capital stock in its definition of capital, as shown in the Company's consolidated statements of financial position.

The Company's primary objective in its management of capital is to ensure that it has sufficient financial resources to fund ongoing operations and new program investment. In order to secure this capital the Company may attempt to raise funds via issuance of debt and equity, or by securing strategic partners.

7. Financial Risk Management

The Company is exposed to certain financial risks including currency risk, credit risk, liquidity risk, interest rate risk and price risk.

a) Currency Risk

The Company sells a significant proportion of its products in US dollars at prices which are often established well in advance of manufacture and shipment dates. In addition, the Company purchases a significant proportion of its raw materials in US dollars at prices that are usually established at the order date. The Company's operations are based in Canada and in the US. As a result of this, the Company is exposed to currency risk to the extent that fluctuations in exchange rates are experienced. The amount of foreign exchange gain recorded in 2015 was \$203,000 as compared to a \$159,000 gain for the year ended December 31, 2014.

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

The Company had the following US dollar denominated balances:

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Bank cash position	**US$ 7,916**	US$ 1,645
Accounts receivable	**18,487**	2,314
Consideration receivable	**28,458**	-
Accounts payable net of prepayments	**14,469**	1,901

With other variables unchanged, each $0.10 strengthening (weakening) of the US dollar against the Canadian dollar would result in an increase (decrease) of approximately $4,039,000 in net income for the year ended December 31, 2015 (December 31, 2014: $206,000 increase (decrease) in net income) as a result of holding a US dollar net asset position.

b) Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Company manages credit risk for trade and other receivables through a financial review of the credit worthiness of the prospective customer along with credit monitoring activities. The majority of the Company's trade receivables reside with Boeing Commercial Airplane Group ("Boeing"), Boeing Defense, Space & Security ("BDS"), Bombardier Aerospace ("Bombardier"), BAE Systems (Operations) Limited ("BAE"), Fuji Heavy Industries Ltd. ("FHI"), Lockheed Martin Corporation ("LM") and Northrop Grumman Corporation ("Northrop"). During 2015 and 2014, there were no trade receivables written off by the Company in respect of these customers. The maximum exposure to credit risk is represented by the amount of accounts receivable in the consolidated statements of financial position.

As at the consolidated statements of financial position date 69.5% (December 31, 2014: 74.6%) of the Company's trade accounts receivable are attributable to these customers.

Consideration receivable arising from a 2015 business acquisition (note 10) is guaranteed by the seller and a Canadian chartered bank.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company seeks to manage liquidity risk through the management of its capital structure and financial leverage.

Accounts payable and accrued liabilities are all due within the next twelve months.

The Company's operating line of credit is due on demand (note 15). Long-term debt repayments are as outlined in note 21.

The table below categorizes the Company's non-derivative financial liabilities into relevant maturity periods based on the remaining period from the consolidated statements of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

				December 31, 2015
	Less than 3 months	**3 months to 1 year**	**2 – 5 years**	**Over 5 years**
Bank indebtedness (note 15)	$ -	$ -	$ -	$ -
Long-term debt (note 21)	105	135	408	1,238
Trade payables (note 17)	19,765	1,315	-	-

				December 31, 2014
	Less than 3 months	**3 months to 1 year**	**2 – 5 years**	**Over 5 years**
Bank indebtedness (note 15)	$ -	$ -	$ -	$ -
Long-term debt (note 21)	78	215	183	760
Trade payables (note 17)	3,922	-	-	-

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

d) Interest Rate Risk

The Company is exposed to interest rate risk on the utilized portion of its operating line of credit at rates of bank prime plus 0.5%. The maximum operating line of credit availability is $12,000,000 (note 15) of which $Nil is utilized as at December 31, 2015 (December 31, 2014: $Nil). The Company lowers interest rate costs by managing utilization of the operating lines of credit to the lowest amount practical. For the year ended December 31, 2015, with other variables unchanged, a 1% change in the bank prime interest rate would have a $Nil (December 31, 2014: $Nil) impact on net earnings and cash flow.

The Company primarily finances the purchase of long-lived assets at fixed interest rates.

e) Price Risk

Certain of the Company's contracts contain derivative financial instruments to reduce exposure to price risk associated with its revenues and costs of certain procured items.

Sales Contracts

A number of the Company's sales contracts have a price adjustment clause where the final sales price is determined by certain indices in a period prior to the date of sale. As a result, the final sales price will change as these underlying indices change. This price adjustment clause is an embedded derivative that is recorded at fair value, with changes in fair value recorded within administrative and general expenses, as amounts are not material, until the date of sale. As at December 31, 2015, the Company has $7,527,000 (December 31, 2014: $5,554,000) of firmly committed orders that include price adjustment clauses of this nature. $1,000 has been recorded as a derivative loss for the year ended December 31, 2015 as compared to a $20,000 loss for the year ended December 31, 2014 as a result of the change in the fair value of the underlying embedded derivatives.

Included in prepayments and other assets is $1,000 of inflation derivatives assets arising from the Company's sales contracts having price adjustment clauses within their terms (December 31, 2014: $3,000).

Purchase Contracts

The Company's purchase contracts do not have a price adjustment clause where the final purchase price is determined by certain indices in a period prior to the date of purchase.

f) Financial Assets and Liabilities by Category

As at December 31, 2015 and 2014, the Company's financial assets and liabilities are categorized as follows:

				December 31, 2015
	Loans and receivables	**Held at fair value**	**Financial assets and liabilities at amortized cost**	**Total**
Financial Assets				
Accounts receivable	$ 30,124	$ -	$ -	$ 30,124
Consideration receivable	38,720	-	-	38,720
Inflation derivative	-	1	-	1
Financial Liabilities				
Accounts payable and accrued liabilities	-	-	27,087	27,087
Long term debt	-	-	1,886	1,886

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

				December 31, 2014
	Loans and receivables	**Held at fair value**	**Financial assets and liabilities at amortized cost**	**Total**
Financial Assets				
Accounts receivable	$ 5,642	$ -	$ -	$ 5,642
Inflation derivative	-	3	-	3
Financial Liabilities				
Accounts payable and accrued liabilities	-	-	8,549	8,549
Long-term debt	-	-	1,236	1,236

8. Fair Value Measurement

The fair values of the Company's accounts receivable, accounts payable and accrued liabilities are estimated to approximate their carrying values due to their immediate or short-term maturity. A portion of the consideration receivable is long-term and has been discounted to take this into effect. A portion of the Company's long-term debt is held with Industrial Technologies Office, which is a governmental body; the remaining long-term debt is in the form of finance leases which will be re-paid within five years, and fair value is not materially different from the value recorded.

The following table provides the fair value measurement hierarchy of the Company's financial assets and liabilities.

				December 31, 2015
	Total	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets not measured at fair value:				
Consideration receivable	$ 38,720	$ -	$ -	$ 38,720
Liabilities not measured at fair value:				
Long-term debt	1,886	-	1,886	-

				December 31, 2014
	Total	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Liabilities not measured at fair value:				
Long-Term debt	$ 1,236	$ -	$ 1,236	$ -

9. Accounts Receivable

FOR THE YEAR ENDED DECEMBER 31	**2015**	2014
Trade receivables	**$ 29,815**	$ 5,207
Input tax credits	**230**	332
Accrued receivables	**79**	103
	30,124	5,642

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

The carrying amounts of the Company's trade and accrued receivables are denominated in the following currencies:

FOR THE YEAR ENDED DECEMBER 31	**2015**	2014
US dollar	**US$ 18,487**	US$2,314
Canadian dollar	**4,538**	2,958

10. Consideration Receivable

On December 18, 2015, in conjunction with the acquisition of the US-based composite Aerostructures division of Hitco Carbon Composites Inc., a subsidiary of Frankfurt-listed SGL Carbon SE, Avcorp received $32,826,000 (USD$23,540,000) in cash consideration with $38,720,000 (USD$28,457,000 undiscounted) consideration receivable as at December 31, 2015 (note 32). The consideration receivable takes the form of:

- Avcorp will receive $5,865,000 (USD$4,237,000) in cash from SGL, the parent company of Hitco on January 4, 2016 in payment of past due trade payables assumed by Avcorp on acquisition close date. This amount was received subsequent to year end;
- Avcorp will receive $13,840,000 (USD$10,000,000) in cash from SGL, the parent company of Hitco on January 31, 2016. This amount is guaranteed by SGL as well as a Canadian chartered bank. This amount was received subsequent to year end;
- Avcorp will receive in kind supplies and/or payments totaling up to $6,920,000 (USD$5,000,000) through December 31, 2016 with any unused portion collectible in cash; and
- Avcorp will receive $12,095,000 net in cash from SGL, parent company of Hitco on or before March 31, 2017. The USD$9,220,000 undiscounted long-term gross consideration receivable has been discounted to arrive at the acquisition date fair market value. This amount is guaranteed by SGL as well as a Canadian chartered bank.

11. Inventories

FOR THE YEAR ENDED DECEMBER 31	**2015**	2014
Raw materials	**$ 16,914**	$ 5,287
Work-in-progress	**14,243**	6,448
Finished products	**5,226**	2,003
	36,383	13,738

The amount of inventory expensed in cost of sales during the year ended December 31, 2015 amounted to $65,852,000 (December 31, 2014: $57,004,000). The carrying value of inventory pledged as security under the Company's operating line of credit (note 15) as at December 31, 2015 is $14,460,000 (December 31, 2014: $13,738,000).

On a periodic basis the Company provides for its anticipated losses under existing contractual commitments to its customers by comparing its anticipated future costs of production to its contracted future revenues. The December 31, 2015 provision for anticipated losses was $114,000 (December 31, 2014: $190,000). Work in progress inventory noted in the above table has been presented net of these provisions for anticipated losses.

Certain program inventories have been funded by a customer, whereby the associated deferred program revenues will be recorded as revenue upon delivery of units of production.

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

12. Development Costs

Development costs represent hard and soft tooling, and prototype design costs incurred for various customer programs.

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Opening balance	**$ 3,303**	$ 1,240
Additions	**1,405**	2,211
Amortization	**(1,521)**	(148)
	3,187	3,303

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Cost	**$ 8,564**	$ 6,420
Accumulated amortization	**(5,377)**	(3,117)
Net book amount	**3,187**	3,303

Customers have funded non-recurring costs incurred during the introduction of new production programs. These costs are deferred as development costs and will be amortized to income in conjunction with the associated revenue upon commencement of production, on a units-of-production basis over the expected life of the programs.

13. Property, Plant and Equipment

	Machinery and equipment	Computer hardware and software	Leasehold improvements	Total
Year ended December 31, 2014				
Opening net book amount	$ 6,627	$ 1,639	$ 438	$ 8,704
Additions	1,350	104	242	1,696
Disposals – cost	(1,111)	(72)	(26)	(1,209)
Disposals – accumulated depreciation	515	73	26	614
Depreciation charge	(856)	(540)	(205)	(1,601)
Closing net book amount	6,525	1,204	475	8,204
At December 31, 2014				
Cost	29,558	7,431	1,160	38,149
Accumulated depreciation	(23,033)	(6,227)	(685)	(29,945)
Net book amount	6,525	1,204	475	8,204
Year ended December 31, 2015				
Opening net book amount	6,525	1,204	475	8,204
Additions	22,972	192	192	23,356
Disposals – cost	(133)	(28)	-	(161)
Disposals – accumulated depreciation	133	28	-	161
Depreciation charge	(1,079)	(460)	(141)	(1,680)
Closing net book amount	28,418	936	526	29,880
At December 31, 2015				
Cost	52,396	7,595	1,352	61,343
Accumulated depreciation	(23,978)	(6,659)	(826)	(31,463)
Net book amount	28,418	936	526	29,880

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

The Company has $221,000 in commitments at December 31, 2015 (December 31, 2014: $471,000) to purchase property, plant and equipment in 2015.

Included in computer hardware and software are assets held under finance leases at a cost of $104,000 (December 31, 2014: $244,000) having accumulated depreciation of $85,000 (December 31, 2014: $164,000).

Included in machinery and equipment are assets held under finance leases at a cost of $930,000 (December 31, 2014: $812,000) having accumulated depreciation of $54,000 (December 31, 2014: $1,000).

14. Intangibles

	Lease	Customer contract – re-compete	Customer contract – order backlog	Total
Year ended December 31, 2014				
Opening net book amount	$ -	$ -	$ -	$ -
Additions	3,085	9,965	3,045	16,095
Disposals – cost	-	-	-	-
Disposals – accumulated amortization	-	-	-	-
Amortization charge	-	-	-	-
Closing net book amount	3,085	9,965	3,045	16,095
At December 31, 2015				
Cost	3,085	9,965	3,045	16,095
Accumulated amortization	-	-	-	-
Net book amount	3,085	9,965	3,045	16,095

15. Bank Indebtedness

On September 27, 2012 the Company entered into a loan agreement with a Canadian chartered bank for a $12 million principal amount secured debt facility. The debt facility bears interest at a rate equal to the bank's prime rate plus 0.5%.

The debt facility is secured by a charge and specific registration over all of the assets of the Company.

As a condition of obtaining this operating line of credit, the following term is in effect:

- A permanent block of $2,500,000 against available credit.

On March 26, 2015, the Company's bank extended its banking agreement from September 27, 2015 to March 31, 2016. As a condition to this extension in term, the bank required that a capital injection amounting to $5,000,000 be made by September 27, 2015 (note 21b).

On July 14, 2015 the Company's bank further extended its banking agreement from March 31, 2016 to June 30, 2016.

The Company ended the current quarter with bank operating line utilization of $Nil offset by $14,484,000 cash compared to utilization of $Nil with $3,159,000 cash on hand as at December 31, 2014. Based on net collateral provided to its bank, the Company is able to draw $8,805,000 on its operating line of credit as at December 31, 2015 (December 31, 2014: $4,351,000).

16. Customer advance

On December 18, 2015, in conjunction with the acquisition of the US-based composite Aerostructures division of Hitco Carbon Composites Inc., a subsidiary of Frankfurt-listed SGL Carbon SE, the Company assumed a customer advance for pre-funding of product deliveries. The customer advance is re-paid as the Company delivers to its customer, ordered products for a specific program. The customer advance is subject to an access and security agreement along with a general security agreement entered into with the Company's bank.

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

As at December 31, 2015, the remaining unamortized customer advance amounted to $23,105,000, which has been discounted to arrive at the acquisition date fair value, of which it is estimated $10,408,000 will be amortized in 2016.

17. Accounts Payable and Accrued Liabilities

FOR THE YEAR ENDED DECEMBER 31	**2015**	2014
Trade payables	**$ 21,080**	$ 3,922
Payroll-related liabilities	**5,022**	2,834
Performance guarantee fees	**330**	301
Restructuring provision	**207**	1,055
Other	**448**	437
	27,087	8,549

18. Deferred Program Revenues

FOR THE YEAR ENDED DECEMBER 31	**2015**	2014
Opening balance	**$ 7,782**	$ 10,010
Additions	**12,699**	14,196
Realized	**(15,557)**	(16,424)
	4,924	7,782

Certain program inventories have been funded by a customer, whereby the associated deferred program revenues will be recognized as revenue upon delivery of units of production.

Additionally, customers have funded non-recurring costs incurred during the introduction of new production programs. These costs are deferred as development costs and will be amortized to income, on a units-of-production basis over the expected life of the programs, in conjunction with the associated deferred revenue upon commencement of production.

19. Unfavourable Contracts Liability

On December 18, 2015, in conjunction with the acquisition of the US-based composite Aerostructures division of Hitco Carbon Composites Inc., a subsidiary of Frankfurt-listed SGL Carbon SE, the Company assumed an unfavorable contract liability on certain long term revenue contracts for which unavoidable costs are expected to exceed the corresponding revenues earned. The unfavorable contract liability is amortized into income on a units-of-production basis over the expected life of the contract.

As at December 31, 2015, the remaining unamortized unfavourable contract liability amounted to $89,971,000 (December 31, 2014: $Nil).

20. Deferred Gain, Lease Inducement and Prepaid Rent

On July 17, 2003, the Company sold its land and building for gross proceeds of $16,000,000, representing $14,500,000 received in cash for the property and $1,500,000 as a lease inducement credit. Concurrently, the Company entered into a 15-year leaseback agreement with the purchaser of the property. A $712,000 gain arising on disposal of property in 2003 was recorded as a deferred gain and is being amortized to income over the life of the lease. The unamortized balance of the gain is $121,000 as at December 31, 2015 (December 31, 2014: $168,000). The amount of prepaid rent the Company has as at December 31, 2015 is $146,000 (December 31, 2014: $146,000).

Concurrent with the sale and leaseback transaction recorded in 2003, the Company recorded a lease inducement credit of $1,500,000. The lease inducement credit is being amortized against rental expense over the term of the lease. It has an unamortized balance of $271,000 as at December 31, 2015 (December 31, 2014: $370,000).

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

21. Long-Term Debt

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Finance leases (a)	**$ 278**	$ 473
Term loans (b) (c)	**371**	-
SADI (d)	**1,237**	763
	1,886	1,236
Less: Current portion	**(240)**	(293)
	1,646	943

a) Finance Leases

There are various equipment leases that have a weighted average interest rate of 7.77% per annum. The leases are secured by way of a charge against specific assets. The leases are repayable in equal installments over periods up to 60 months.

b) Term Loan

On July 31, 2015, Avcorp entered into a non-revolving term loan agreement ("loan") with Panta Canada B.V. ("Panta") to fund the Company to a maximum aggregate principal amount of $5,000,000. The Company received full funding from the loan in three advances, with the final amount received on September 23, 2015.

Panta Canada B.V. is Avcorp's majority shareholder owning approximately 65.5% of the issued and outstanding common shares on December 31, 2015. Panta Canada B.V. is wholly owned by Panta Holdings B.V. Both companies are incorporated in The Netherlands and Mr. Jaap Rosen Jacobson, a director of the Company, is the sole shareholder of Panta Holdings B.V.

The Company's acceptance of this loan was subject to a 3% commitment fee ($150,000) paid by the Company to Panta Canada B.V. from proceeds of the first advance.

As consideration for the loan, the Company issued to Panta 30,263,318 common share purchase warrants ("warrants"), each warrant is exercisable for a period of 24 months following the date of issuance with respect to one common share at an exercise price of $0.07 per common share.

The proceeds of $5,000,000 were allocated between the debt and warrants and the debt was accrued over its term.

The loan bore interest at 8% per year, was subordinated to existing security agreements and could be prepaid without interest and penalties.

On December 29, 2015, Avcorp repaid $5,000,000 principal amount of the term loan and all accrued and outstanding interest. The difference between the face value and book value of the loan at the repayment date was charged to finance costs.

c) On March 13, 2015, the Company completed a secured term loan with a principal amount of $450,000. The Company received full funding from the loan on March 26, 2015. The purpose of the loan was to finance machinery and equipment required for new production programs at its Burlington ON facility.

The term loan has been provided by a Canadian chartered bank. The loan has a four year term; it is secured by a general security agreement constituting a first ranking security interest in all personal property of the Company and a first ranking and specific interest in the equipment financed. Export Development Canada ("EDC") has guaranteed 50% of the aggregate borrowings outstanding under the loan. The fee associated to the guarantee provided by EDC is equal to 3% of 50% of the outstanding loan amount. Interest will be calculated and paid monthly at a rate of bank prime plus 1%. The loan will be repaid over 48 months by way of blended principal and interest payments. The balance outstanding for this term loan as at December 31, 2015 is $371,000.

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

d) SADI

On April 23, 2014, the Company secured funding for certain non-recurring expenditures and manufacturing equipment. The Government of Canada under the Strategic Aerospace and Defence Initiative ("SADI") program has committed up to $4.4 million for funding of program eligible costs. The contribution amount represents 40% funding for eligible costs.

The contribution agreement has the following terms:

- The maximum amount to be repaid by the Company is 1.5 times the amount contributed by the Government of Canada;
- Repayments are to occur over a 15 year term, commencing two years following the fiscal year end, in which the contributions are completed; and
- Amounts repayable are unsecured.

$1,237,000 was drawn on this facility as at December 31, 2015 (December 31, 2014: $763,000).

22. Obligations and Commitments Under Finance and Operating Leases

The Company has committed to payments under certain capital and operating leases relating to manufacturing machinery and equipment, and building lease costs. Future minimum lease payments required in each of the next five fiscal years and thereafter are:

FOR THE YEAR ENDED DECEMBER 31		**2015**		2014
	Operating	**Finance**	Operating	Finance
2015	**$ -**	**$ -**	$ 2,681	$ 319
2016	**2,905**	**145**	2,682	117
2017	**2,842**	**56**	2,671	26
2018	**3,254**	**56**	1,484	26
2019	**437**	**46**	296	28
2020	**258**	**8**	124	-
Thereafter	**134**	**-**	-	-
Total future minimum lease payments	**9,830**	**311**	9,938	516
Less: Imputed interest	**n/a**	**(33)**	n/a	(43)
Balance of obligation under finance leases included in long-term debt (note 21a)	**n/a**	**278**	n/a	473

For the year ended December 31, 2015, an amount of $2,695,000 representing payments under operating leases was expensed (December 31, 2014: $2,639,000).

As at December 31, 2015 the Company had $17,685,000 of committed contractual operational purchase order obligations outstanding (December 31, 2014: $12,651,000).

23. Capital Stock

The Company is authorized to issue an unlimited number of common shares as well as an unlimited number of first preferred and second preferred shares, issuable in series, the terms of which will be determined by the Company's directors at the time of creation of each series. There were 305,555,184 common shares issued at December 31, 2015. The book value of common shares issued and outstanding as at December 31, 2015 was $80,158,000 (December 31, 2014: $79,921,000).

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

Common shares issued or reserved:

	Number of shares	Amount
December 31, 2013	280,391,152	77,681
Share issue		
Cash (b, c and d)	22,242,032	1,536
Transfer to share capital on exercise of stock options and warrants (d)	-	704
December 31, 2014	302,633,184	79,921
Share issue		
Cash (a)	2,922,000	146
Transfer to share capital on exercise of stock options (a)	-	91
December 31, 2015	305,555,184	80,158

a) During the fourth quarter 2015 holders of the Company's stock options exercised 2,922,000 stock options at a price of $0.05 resulting in the issuance of 2,922,000 common shares with a value of $146,000.

b) During the first quarter 2014 holders of the Company's stock options exercised 1,961,000 stock options at a price of $0.05 resulting in the issuance of 1,961,000 common shares with a value of $98,000.

c) During the second quarter 2014 holders of the Company's stock options exercised 730,500 stock options at a price of $0.06 resulting in the issuance of 730,500 common shares with a value of $44,000.

d) During 2011 19,550,532 warrants were issued having a fair value of $617,000 to Panta III B.V., who is 100% owned by Panta Holdings B.V. whose wholly owned subsidiary, Panta Canada B.V., is Avcorp's majority shareholder owning approximately 66.1% of the issued and outstanding common shares on December 31, 2014. Each warrant was exercisable on or before January 1, 2015 with respect to one common share at an exercise price of $0.0713 per common share. All three companies are incorporated in The Netherlands and Mr. Jaap Rosen Jacobson is the sole shareholder of Panta Holdings B.V.

   On May 13, 2014 the 19,550,532 warrants were transferred from Panta III B.V. to Panta Canada B.V.

   On December 8, 2014 Panta Canada B.V. exercised 19,550,532 warrants at a price of $0.0713 per common share resulting in the issuance of 19,550,532 common shares with a value of $1,394,000.

e) The Company's incentive stock option plan is administered by the Board of Directors. It is a rolling share option plan wherein 10% of the issued and outstanding common shares at the time an option is granted are reserved for issuance.

   A summary of the Company's stock options issued as of December 31, 2015 and December 31, 2014, and changes during the periods ending on those dates, are presented below.

FOR THE YEAR ENDED DECEMBER 31	**2015**		2014	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding – Beginning of year	**31,474,500**	**$ 0.09**	10,535,500	$ 0.05
Granted	**8,523,000**	**0.085**	24,255,000	0.10
Expired	**(2,422,000)**	**0.05**	(624,500)	0.05
Exercised	**(2,922,000)**	**0.05**	(2,691,500)	0.05
Outstanding – End of year	**34,653,500**	**0.09**	31,474,500	0.09

Options granted during the current year vest over a period of two years.

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

The following table summarizes stock options which are exercisable as at December 31, 2015:

	Number	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**
$0.05 - $0.10	9,960,500	7.05	0.09

f) The Company's contributed surplus is comprised as follows:

FOR THE YEAR ENDED DECEMBER 31	**2015**	2014
Beginning of year	**$ 3,129**	$ 3,593
Stock-based compensation expense	**930**	240
Fair value of warrants issued	**485**	-
Transfer of share capital on exercise of stock options and warrants	**(91)**	(704)
End of year	**4,453**	3,129

The stock-based compensation expense is included in the Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income as administrative and general expenses and amounts to $930,000 (December 31, 2014: $240,000).

24. Stock Based Compensation

The Company records compensation expense for the fair value of the stock options granted under its incentive stock option plan using the Black-Scholes option-pricing model. This model determines the fair value of stock options granted and amortizes it to earnings over the vesting period.

The fair value of 8,523,000 options granted during the year ended December 31, 2015 was $350,000 (December 31, 2014: $1,738,000).

The assumptions used in the valuation of stock options were as follows:

	2015	2014
	8,523,000 Options	24,255,000 Options
Risk-free rate (%)	0.75	1.10
Dividend yield (%)	-	-
Expected Lives (years)	5	10
Volatility (%)	56.60	80.29

The amount of stock-based compensation expense, for options granted in current and prior periods, amortized to earnings during the year ended December 31, 2015 was $930,000 (2014: $240,000). Stock-based compensation expense has been included in the Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income as administrative and general expenses.

The Black-Scholes option-pricing model used by the Company to calculate option values was developed to estimate the fair value of freely tradeable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable, single measure of the fair value of options granted by the Company.

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

25. Defined Contribution Plan

The total cost recognized and paid for the Company's defined contribution plan is as follows.

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Defined contribution plan	**$ 1,338**	$ 1,305

The Company's contribution to the plan is calculated on a percentage of employee wages. The range of percentages is 1.5% to 9.5%. The plan is available to all employees. Defined contribution plan expenses have been included in the Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income as administrative and general expenses and cost of sales.

26. Finance Costs

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Interest on finance leases	**$ 28**	$ 27
Interest on other long-term debt	**54**	11
Interest on short-term debt	**152**	34
Interest on related party debt	**126**	-
Non-cash financing cost accretion	**500**	-
Interest expense	**860**	72
Interest income	**(4)**	(8)
Net interest expense	**856**	64

27. Supplementary Cash Flow Information

Non-cash financing and investing activities:

FOR THE PERIOD ENDED DECEMBER 31	2015	2014
Equipment acquired under capital lease	$ 119	$ 695
Uncollected deferred tooling revenue	105	940

Refer to note 32, Business Acquisition

28. Income Tax

The provision for income tax (recovery) expense is based on the combined federal and provincial annual income tax rate expected for the full financial year of 26%.

Deferred tax assets are recognized for deductible temporary differences, unused tax losses, and unused tax credits to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets of $16,163,000 (2014: $16,925,000) in respect of losses amounting to $43,875,000 (2014: $27,390,000) which expire beginning in 2025 through 2035, unclaimed research and development costs of $10,830,000 (2014: $10,830,000) with no expiry, investment tax credits of $1,597,000 (2014: $1,597,000) which expire beginning in 2016 through 2032, and deductible temporary differences of $2,578,000 (2014: $21,894,000).

The company has recognized $1,235,000 (2014: $0) in deferred tax liabilities in relation to the fair value of the intangible lease.

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Statutory tax rate	**26.00%**	26.00%
Recovery at statutory rate	**$ 834**	$ (2,067)
Adjustments of provision to tax return	**313**	(201)
Change in unrecognized deferred tax assets	**(947)**	2,194
Benefit of losses not previously recognized	**-**	-
Tax rate differences	**26**	-
Other permanent differences	**(226)**	74
Tax expense	**-**	-

29. Related Party Transactions

a) During the current year a performance guarantee was provided on production contracts with a certain customer by Panta Holdings B.V. whose wholly owned subsidiary, Panta Canada B.V., is Avcorp's majority shareholder owning approximately 65.5% of the issued and outstanding common shares on December 31, 2015. Both companies are incorporated in The Netherlands. Mr. Jaap Rosen Jacobson, a director of Avcorp is the sole shareholder of Panta Holding B.V. The performance guarantee is calculated as a percentage of revenues generated from production contracts with this certain customer. Accordingly, the fees will vary with fluctuations in sales to this certain customer. Fees paid, in that respect, to Panta Holdings B.V. during the year ended December 31, 2015 amounted to $1,334,000 (December 31, 2014: $1,168,000). Fees payable to Panta Holdings B.V. as at December 31, 2015 are $330,000 (December 31, 2014: $301,000). These fees are included in the Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income as cost of sales and amount to $1,363,000 for the year ended December 31, 2015 (December 31, 2014: $1,300,000). This performance guarantee was extinguished as at December 18, 2015.

b) During the year ended December 31, 2015, consulting services were provided by certain directors. Fees paid to certain directors, or companies with which they have beneficial ownership, during the year ended December 31, 2015 amounted to $395,000 (December 31, 2014: $63,000). Fees payable to certain directors or Companies with which they have beneficial ownership, as at December 31, 2015 are $12,000 (December 31, 2014: $20,000). These fees are included in the Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income as administrative and general expenses and amount to $387,000 for the year ended December 31, 2015 (December 31, 2014: $83,000).

c) Panta Canada B.V. has made the commitment to Avcorp to underwrite a $5,000,000 equity financing to occur within twelve months following date of execution of a March 31, 2015 commitment letter. The underwriting is subject to the following terms:

- 3% fee based on gross proceeds of the equity placement; and
- Maximum permissible common share price discount pursuant to TSX regulations.

d) Key management compensation

Key management includes Executive Officers for all operating facilities. The compensation paid or payable to key management for employee services is shown below.

FOR THE YEAR ENDED DECEMBER 31	2015	2014
Salaries and other short-term employee benefits	**$ 3,252**	$ 952
Contributions to defined contribution plan	**40**	34
Option-based awards	**912**	245
	4,204	1,231

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

e) Loans to related parties

The balance of loans receivable from key management as at December 31, 2015 is $15,000 (December 31, 2014: $15,000).

Other related party transactions are disclosed elsewhere in these consolidated financial statements (note 21b and 23d).

These transactions were conducted in the normal course of business and were accounted for at the exchange amount.

30. Earnings per share

Basic earnings per share amounts are calculated by dividing the net income for the year attributable to common equity holders of the parent by the weighted average number of common shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to common equity holders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares.

The following reflects the share data used in the basic and diluted earnings per share computations:

FOR THE YEAR ENDED DECEMBER 31	**2015**	2014
Weighted average number of common shares for basic earnings per share	**302,889**	284,052
Effect of dilution:		
Warrants	**623**	-
Share options	**564**	-
Weighted average number of ordinary shares adjusted for the effect of dilution	**304,076**	284,052

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of authorization of these consolidated financial statements.

31. Economic Dependence and Segmented Information

For management purposes, the Company is organised into business units based on its products and services and has three reportable segments, as follows:

- The Avcorp Structures & Integration ("ASI") segment, which is dedicated to metallic and composite aerostructures assembly and integration
- Comtek Advanced Structures Ltd. ("Comtek") segment, which within exists two divisions dedicated to aircraft structural component repair services, and Avcorp Engineered Composites ("AEC") dedicated to design and manufacture of small sized composite aerostructures
- The Avcorp Composite Fabrication Inc. ("ACF") segment is dedicated to medium and large composite aerostructures fabrication segment.

No operating segments have been aggregated to form the above reportable operating segments.

The Executive Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

a) Sales to three major customers for the year ended December 31, 2015, which comprise several programs and contracts, accounted for approximately 77.3% (December 31, 2014: 82.5%) of sales.

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

FOR THE YEAR ENDED DECEMBER 31	2015		2014	
	Revenue	**% of Total**	Revenue	% of Total
BAE Systems	**$ 14,115**	**17.7**	$ 16,324	24.3
Boeing	**31,059**	**38.9**	26,122	38.9
Bombardier	**16,578**	**20.7**	12,931	19.3
Other	**18,173**	**22.7**	11,727	17.5
Total	**79,925**	**100.0**	67,104	100.0

b) The Company's sales are distributed amongst the following geographical locations:

FOR THE YEAR ENDED DECEMBER 31	2015		2014	
	Revenue	**% of Total**	Revenue	% of Total
Canada	**$ 24,928**	**31.3**	$ 17,181	25.6
USA	**37,017**	**46.3**	30,365	45.3
Europe	**15,686**	**19.6**	17,905	26.7
Asia	**1,550**	**1.9**	1,360	2.0
Australia	**581**	**0.7**	254	0.4
Other	**163**	**0.2**	39	-
Total	**79,925**	**100.0**	67,104	100.0

c) The Company operates in one industry that involves the manufacture and sale of aerospace products. All of the Company's operations and assets are in Canada and in the United States.

The Company operates from two locations in Canada and one in the United States. Located in Delta, British Columbia, Avcorp Industries Inc., named as Avcorp Structures & Integration ("ASI"), is dedicated to metallic and composite aerostructures assembly and integration. Within Comtek Advanced Structures Ltd. ("Comtek"), located in Burlington, Ontario, exists two divisions dedicated to aircraft structural component repair services, and Avcorp Engineered Composites ("AEC") dedicated to design and manufacture of small sized composite aerostructures. Located in Gardena, California, Avcorp Composite Fabrication Inc. ("ACF") is dedicated to medium and large composite aerostructures fabrication.

Revenues, income (loss) and total assets are distributed by operating segment as noted in the tables below. Intercompany revenues and cost of sales are eliminated from the operating results presented.

FOR THE YEAR ENDED DECEMBER 31	2015		2014	
	Revenue	**% of Total**	Revenue	% of Total
Avcorp Industries Inc.	**$ 62,780**	**78.6**	$ 53,751	80.1
Comtek Advanced Structures Ltd.	**17,038**	**21.3**	13,353	19.9
Avcorp Composite Fabrication Inc. (ACF)	**4,152**	**5.2**	-	-
Adjustments and eliminations	**(4,045)**	**(5.1)**	-	-
Total	**79,925**	**100.0**	67,104	100.0

FOR THE YEAR ENDED DECEMBER 31	2015		2014	
	Income (loss)	**% of Total**	Income (loss)	% of Total
Avcorp Industries Inc.	**$ (2,038)**	**(63.5)**	$ (8,038)	100.0
Comtek Advanced Structures Ltd.	**1,967**	**61.3**	88	-
Avcorp Composite Fabrication Inc. (ACF)	**3,279**	**102.2**	-	-
Total	**3,208**	**100.0**	(7,950)	100.0

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

FOR THE YEAR ENDED DECEMBER 31	**2015**		2014	
	Total Assets	**% of Total**	Total Assets	% of Total
Avcorp Industries Inc.	**$ 95,971**	**56.2**	$ 30,629	86.3
Comtek Advanced Structures Ltd.	**9,231**	**5.4**	4,853	13.7
Avcorp Composite Fabrication Inc. (ACF)	**65,544**	**38.4**	-	-
Total	**170,746**	**100.0**	35,482	100.0

32. Business Acquisition

Effective December 18, 2015, Avcorp completed the acquisition of the US-based composite Aerostructures division of Hitco Carbon Composites Inc. (“Hitco”), a subsidiary of Frankfurt-listed SGL Carbon SE (“SGL”) (the “Acquisition”). The Acquisition was completed pursuant to the terms of an asset purchase agreement (the “Agreement”) that was entered into on July 20, 2015, and subsequent amendments to December 18, 2015. Pursuant to the Agreement Avcorp’s subsidiary, Avcorp Composite Fabrication Inc., purchased the assets of the division of Hitco which produces composite structural parts for commercial and military aerostructures (the “Business”).

Through the Acquisition, Avcorp acquired the composite Aerostructures division of Hitco but did not acquire any assets of Hitco’s materials division that is responsible for the production of specialty materials. The Acquisition included all of the assets, properties and rights held by Hitco related to the Business including:

- inventory, packaging materials, and consumables of the Business;
- fixed assets, equipment and tooling assets primarily used in the Business;
- accounts or notes receivable related to the Business;
- prepaid expenses and deposits primarily related to the Business;
- the intellectual property of the Business together with all of the goodwill associated with the intellectual property;
- the goodwill related to the Business, together with the exclusive right to hold Avcorp out as carrying on the Business in succession to Hitco;
- the right to use the name “Hitco Carbon Composites” or any variation thereof in connection with the Business; and
- several purchase contracts held by Hitco.

The Acquisition excluded any real property owned by Hitco and all assets of Hitco not related to the Business, including assets related to Hitco’s business division that produces specialty materials.

Pursuant to the Agreement, Hitco and SGL are subject to a non-competition clause within the United States and a non-solicitation clause for a period of five years. As part of the Acquisition, Avcorp also leased certain real property owned by Hitco, which Avcorp will use to conduct the Business.

As a result of potential product and warranty claims, in addition to the liabilities assumed in the transaction, the Company may be involved in, or subject to, other disputes, claims and proceedings that arise in connection with the business acquired, including some that Avcorp asserts against others. The ultimate resolution of, and liability and costs related to these matters, at this time is undeterminable.

Pursuant to Agreements, among other things, Hitco’s direct and indirect parent companies’ guarantee certain of Hitco’s obligations to Avcorp under the Agreement, including indemnity obligations of Hitco to Avcorp stemming from product quality and warranty claims in connection with all completed products before the closing with the exception of a limited amount of finished goods and manufacturing work in process for which Avcorp elected to assume the responsibility and verify the quality of these products.

(prepared in accordance with IFRS, all figures in tables are expressed in thousands of Canadian dollars, except per share amounts)

Consideration provided by Avcorp for the Acquisition of the assets was principally the assumption of liabilities by Avcorp, including the current trade payables and ongoing contractual obligations of the Business.

The acquisition has been accounted for as a business combination, using the acquisition method. The purchase consideration provided was allocated to the fair values of the assets acquired and liabilities assumed as follows:

	December 18, 2015
Cash	$ 32,826
Consideration receivable (note 10)	39,013
Consideration	**71,839**
Assets purchased	
Accounts receivable	18,799
Inventories	19,763
Current Assets	**38,562**
Equipment	22,112
Intangible – lease	3,109
Intangible – customer contract recompete	10,040
Intangible – customer order backlog	3,068
Total assets purchased	**76,891**
Liabilities assumed	
Accounts payable and accrued liabilities	17,431
Customer advance	23,428
Unfavourable contracts liability	90,654
Deferred tax liability	1,244
Total liabilities assumed	**132,757**
Net assets	**(55,866)**
Gain on acquisition	**15,973**

These fair value assessments require management to make significant estimates and assumptions as well as applying judgement in selecting the appropriate valuation techniques.

The determination of the fair value of identifiable assets and liabilities acquired is expected to be completed within the one-year permitted timeframe following the acquisition.

notes

AVCORP INDUSTRIES INC.

BOARD OF DIRECTORS AND OFFICERS

David Levi (1)(2)(3)
CHAIRMAN OF THE BOARD
Executive Chairman
GrowthWorks Capital Ltd.
Vancouver, British Columbia

Jaap Rosen Jacobson (2)
DIRECTOR
President
Panta Holdings B.V.
Mijdrecht, The Netherlands

Eric Kohn TD (1*)(2*)
DIRECTOR
Managing Partner
Barons Financial Services SA
Geneva, Switzerland

Ray Castelli (1)
DIRECTOR
Chief Executive Officer
Weatherhaven
West Vancouver, British Columbia

Kees de Koning (3)
DIRECTOR
Nootdorp, The Netherlands

Peter George
DIRECTOR
Avcorp Group Chief Executive Officer
Lake Tapps, Washington

Elizabeth Otis (3)
DIRECTOR
Palm Springs, California

Mark van Rooij (3)
DIRECTOR
Chief Executive Officer and President,
Avcorp Delta
White Rock, British Columbia

(1) Member of the Audit and Corporate Governance Committee
(2) Member of the Compensation and Nominating Committee
(3) Member of the Executive Committee

* Designates the Committee Chair

MANAGEMENT

Edward M. Merlo
CORPORATE SECRETARY
Vice President, Finance
Richmond, British Columbia

Amandeep Kaler
Senior Vice President, Supply Chain
Management & Operations
Surrey, British Columbia

Ken McQueen
Vice President, Organization Development
New Westminster, British Columbia

Steven Archer
Vice President, Asia & Government Relations
Richmond, British Columbia

Brent Collver
President
Comtek Advanced Structures Ltd.
Burlington, Ontario

Marty Jones
General Manager – Defense
Avcorp Composite Fabrication Inc.
Gardena, California

Jim Renaud
General Manager – Commercial
Avcorp Composite Fabrication Inc.
Gardena, California

DIRECTORY

Legal Counsel

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Barristers & Solicitors
Vancouver, British Columbia

Auditors

Ernst & Young LLP
Chartered Accountants
Vancouver, British Columbia

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Toronto Stock Exchange
Symbol AVP

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