ANNUAL INFORMATION FORM

OF

AVCORP INDUSTRIES INC.

10025 River Way
Delta, British Columbia
V4G 1M7

for the
FISCAL PERIOD ENDED DECEMBER 31, 2006

Unless otherwise indicated, all information in this Annual Information Form is presented as at and for the year ended December 31, 2006.

March 28, 2007.

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DEFINITIONS AND INTERPRETATIONS

Currency

All currency is expressed in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

Some of the statements contained or incorporated by reference in this Annual Information Form, including those relating to the Company's strategies, goals, outlook or other non-historical matters; or projected revenues, income, returns or other financial measures and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include such words as "expects", "will", "anticipates", "projects", "intends", "plans", "believes", "continues", "estimates" or similar expressions, or the negative thereof, are forward-looking statements, within the meaning of securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of the Company set out in this Annual Information Form. These statements are not historical fact but instead represent only the Company's expectations, estimates and projections regarding future events.

The forward-looking statements contained or incorporated by reference in this Annual Information Form are stated as of the date hereof and are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. The Company's future results may differ materially from those expressed in the forward-looking statements contained or incorporated by reference in this Annual Information Form due to, among other factors, the matters set out hereunder under "Risk Factors" and the factors detailed in the Company's other filings with Canadian securities regulators, including the annual MD&A and annual and interim financial statements and the notes thereto, all of which are available for review at www.sedar.com. The Company does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Annual Information Form or to reflect the occurrence of unanticipated events, except as required by law.

This Annual Information Form may also include EBITDA (earnings before interest, taxes, depreciation and amortization) figures. EBITDA is derived from the consolidated statement of income, and is computed as net income exclusive of interest and financing charges, income tax expense and depreciation and amortization expenses. These definitions are not recognized measures under Canadian generally accepted accounting principles ("GAAP"), do not have standardized meanings prescribed by GAAP, and should not be construed to be alternatives to net income determined in accordance with GAAP or as an indicator of performance or liquidity or cash flows. The Company's method of calculating these measures may differ from methods used by other entities and accordingly our measures may not be comparable to similarly titled measures used by other entities. The Company uses this earnings measure because it believes it provides useful information to both management and investors with respect to the operating and financial performance of the Company. Unless otherwise stated, financial information is presented in accordance with GAAP.

CORPORATE STRUCTURE

Name, Address and Incorporation

Avcorp Industries Inc. (the "Company") was formed by the amalgamation under the Canada *Business Corporations Act* (the "CBCA") on February 28, 1986 of 94109 Canada Ltd. (a company incorporated on September 21, 1979) and its wholly owned-subsidiary Plastal Inc. (a company incorporated on September 29, 1952, all the shares of which 94109 Canada Ltd. had previously acquired on February 10, 1986).

On May 29, 1986 the Company changed its name to Avcorp Industries Inc. On January 1, 1991 the Company amalgamated under the CBCA with its wholly-owned subsidiary, Canadian Aircraft Products Ltd. On April 5, 1995 the Company consolidated its issued and outstanding common shares on a six for one basis.

The Company's head and registered offices are located at 10025 River Way, Delta, British Columbia, V4G 1M7.

The Company does not have any subsidiary companies.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

During the preceding three financial years, the development of the Company's business has been highlighted by the following events:

2004:

- On January 9, 2004, the Company secured a $10 million operating line of credit with a Canadian chartered bank, having interest at prime plus 0.25% on the first $5 million utilized and prime plus 1.00% on the second $5 million utilized. Proceeds from the line of credit were utilized for general working capital and to pay down debt. Subsequently, the Company's operating line was reduced to $5.5 million.

- In October 2004, the Company issued a series of secured 8.75% per annum subordinated debentures to raise gross proceeds of $7,000,000. On closing, $5,700,000 was paid on the Company's line of credit from the proceeds of the debenture.

- In October 2004, the Company entered into an agreement with Aviation Partners Boeing for the production of wing adapter plugs used to support the installation of Blended Winglets™ on Boeing 757-200 aircraft. Aviation Partners Boeing is a joint venture between Aviation Partners, Inc. and the Boeing Company ("Boeing"). The contract is for 125 shipsets, with an option for an additional 125 shipsets.

- In October 2004, the Company signed a collaborative research agreement with the Aerospace Manufacturing Technological Centre ("AMTC") at the National Research Council of Canada's Institute for Aerospace Research, for the development of a flexible robotized spar assembly system. Under the research agreement, AMTC supplies robotics and automation expertise and the Company supplies parts to be drilled or riveted, jigs and fixtures, and qualified technical

personnel. This agreement advances the Company's efforts to be a leader in aircraft structural assembly techniques for flight control structures.

- In October 2004, the Company entered into a contract with the Cessna Aircraft Company ("Cessna") to supply vertical and horizontal stabilizers, rudders and elevators for the Cessna Citation Sovereign business jet. The term of the contract is for the "life of the program" (10 to 15 years or approximately 400 aircraft).

2005:

- On April 5, 2005, the Company closed a private placement of 9,635,000 units at $0.25 per unit; 3,100,000 of which units were subscribed for by insiders of the Company. Units issued to insiders consisted of one share and one warrant, each two warrants entitled insiders the right to purchase one additional common share at $0.30 for a nine-month period, which expired January 4, 2006. All warrants issued to insiders were exercised subsequent to year-end and provided gross proceeds to the Company of $465,000. Non-insider placees received units consisting of one common share and one warrant. Warrants issued to non-insiders entitled the holder thereof to purchase one additional common share at $0.35 per share for a 12-month period expiring April 4, 2006. Gross proceeds from the private placement amounted to $2,409,000. The net proceeds of the financing were used for general working capital and to reduce debt. This private placement took place prior to the 3:1 share consolidation on May 18, 2005. Accordingly, the number and price of the warrants were subsequently adjusted to reflect the consolidation.

- On July 14, 2005, the Company secured a $10,000,000 credit facility with an operating line of credit with a Canadian chartered bank, with a rate of interest at prime plus 0.875% per annum. The facility is due on demand and is secured by *inter alia*, a General Security Agreement. See "Description of Capital Structure – Debt Financings."

- On October 27, 2005, the Company closed a private placement of 3,750,034 units at $0.90 per unit; 1,244,444 units were subscribed for by insiders of the Company. Each unit consists of one common share of the Company and one-half of one non-transferable share purchase warrant. Each share purchase warrant entitled the holder thereof to purchase one whole common share of the Company at $1.00 per share until October 27, 2006. Gross proceeds from the private placement amounted to $3,375,000. The net proceeds of the financing were used for general working capital purposes.

- In December, 2005, the Company signed a new four-year collective agreement with the International Association of Machinists and Aerospace Workers ("IAMAW"), which represents 500 aerospace technicians. Under the collective agreement, salaries will be increased per year, 0%, 0%, 3% and 4% respectively; the Company will make a one-time, lump-sum payment of 2.4% of each employee's base wage, of which 50% is payable in June 2006 and 50% in March 2007. Employees were able to elect to take the payment in shares or in cash.

- On January 11, 2006, Boeing Canada Technology signed a five-year contract extension with the Company. The contract value is approximately $60 million over five years, commencing in 2007.

2006:

- On March 23, 2006 the Company was awarded a five-year contract extension with Boeing Commercial Airplane Group to supply details, sub-assemblies and metal bonded components for Boeing 737, 747, 767 and 777 aircraft. The contract commenced January 1, 2007 and runs to December 31, 2011.

  On July 10, 2006, the Company closed a $12,000,000 brokered private placement pursuant to an Agency Agreement with Dundee Securities Corporation of 9.25% 5-year convertible Series A preferred shares, each of the Series A preferred shares convertible into common shares of the Company at any time, without the payment of additional consideration, at the option of the holder, on the following basis:

  Year 1: into 6.45 common shares, at a conversion price of $1.55 per common share;

  Year 2: into 5.71 common shares, at a conversion price of $1.75 per common share;

  Year 3: into 5.00 common shares, at a conversion price of $2.00 per common share;

  Year 4: into 4.26 common shares, at a conversion price of $2.35 per common share; and

  Thereafter: into 3.64 common shares, at a conversion price of $2.75 per common share.

- On July 19, 2006, the Company signed a Letter of Intent with BAE Systems, a principal partner with Lockheed Martin, for the newly-named F-35 Lightning II aircraft. The Letter of Intent requires the Company to provide low-rate initial production of outboard wings for the aircraft carrier variant of the Joint Strike Fighter F-35 aircraft.

- During 2006, the Company completed new arrangements with Export Development Canada ("EDC") and Technology Partnerships Canada ("TPC"). The EDC debenture with the Company has been re-negotiated deferring principal and interest payments thereby providing the Company with increased cash flow during its period of growth. The agreement has been amended to extend the period under which the Company can receive funding for eligible expenditures providing the Company with sufficient time to complete the project.

- On October 27, 2006, the Company announced its entry into the very light jet new market segment, with a contract to supply wing skins for the new Cessna Citation Mustang aircraft. The total annual value of the contract is USD$ 1.6 million with potential to increase to USD$ 6.0 million based on the Company's capacity, for the life of the program.

2007:

- Effective April 1, 2007, the Company entered into an agreement to retain Mark van Rooij as its new Chief Executive Officer.

- March 7, 2007, the Company entered into an agreement to purchase all of the issued shares of a machining business, having significant military contracts.

DESCRIPTION OF THE BUSINESS

The Company is an important supplier of subcontract design, fabrication and assembly services to major aircraft manufacturers. The Company designs and builds major airframe structures for some of the world's most respected aircraft companies, including Boeing, Bombardier and Cessna. With 50 years of experience, more than 650 skilled employees and a 300,000 square foot facility near Vancouver, Canada, the Company's depth and breadth of capabilities are unique in the aerospace industry for a company of its size. The Company is a Canadian public company traded on the Toronto Stock Exchange ("TSX") under the symbol "AVP".

Industry Overview

The aerospace industry is generally divided into two overlapping spheres: military and civil aircraft component manufacturing. The Company is engaged exclusively in the civil aerospace business, as a designer and manufacturer of component aerostructures for manufacturers of private and commercial aircraft.

The civil aerospace business has historically a cycle of approximately 10 years and is currently emerging from a low that was triggered by 9/11 terrorist attacks. The civil aerospace business is also seasonal as many aircraft manufacturers reduce or suspend production in December and for a period of time in summer.

Competition for airframe assemblies and aircraft parts comes from companies in Europe, Asia and the United States. Aircraft manufacturers continue to develop their supply chains by increasing the amount of outsourcing and reducing the number of suppliers. The trend of the past three years of declining aircraft production rates has reversed, with increasing business jet sales, stable regional jet sales, and slightly increasing commercial jet sales. In 2005 passenger traffic increased, representing a recovery from the 2003/2004 levels that were affected by the SARS outbreak in Asia and 9/11.

In the United States, aircraft products must comply with Federal Aviation Administration ("FAA") regulations governing production, quality systems and airworthiness, among other things. In Canada, aircraft products must comply with similar Transport Canada regulations. In 2004, the Company obtained AS9100 registration, as well as Transport Canada parts manufacture approvals ("PMA"). We are accountable to our customers for their adherence to FAA and other regulatory approvals. Most of the Company's special processes are also approved by the National Aerospace Defence Contractors Accreditation Program ("NADCAP").

Operations

The Company 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. The Company operates from a head office and manufacturing facility in Delta, British Columbia, Canada, which consists of approximately 300,000 square feet of production and office space. Products include vertical and horizontal stabilizers, wing substructures, fuel tanks, fairings, fuselage panels and other bonded-metal structures. The Company also provides machined parts, sheet metal parts, and process-treated aluminum.

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 which are usually established at the order date. All of the Company's operations are based in Canada. As a result of this, the Company is

exposed to currency risk to the extent that fluctuations in exchange rates are experienced.

The Company sells products directly to its major customers under long-term agreements for each product. The customer can vary the requirements of the agreements to match their particular aircraft production rates. The Company's principal market is North America. Principal customers are Boeing (Manitoba and Washington State), Bombardier (Quebec and Northern Ireland) and Cessna (Kansas). Long-term contracts with three major customers comprise:

1. Bombardier - supply Bombardier with major structural components, including horizontal and vertical stabilizers and fuel tanks for the CRJ200 and CRJ700/900 Series regional jets and the CL604/605 business jet. The contracts extend to the life of the program.

2. Cessna - supply Cessna with major structural components, including center wing boxes, wing spar assemblies, wing skins, and vertical and horizontal stabilizers for the Cessna Citation Sovereign, CJ3 and Mustang business jets. The contracts extend to the life of the program.

3. Boeing - supply Boeing with 737NG wheel-well fairings and other smaller components for 737, 747, 767, 777 and 787 commercial jets. The Company's contracts with Boeing were scheduled to expire in December 2006, but new five-year contracts with Boeing Canada Technology and Boeing Commercial Airplane Group extend the contracts from 2007 to 2011.

We have "general terms agreements" with our customers, which are typically for five years or more.

The table below sets out the amount and percentage of revenues, broken down by customer, for the years ended December 31, 2006 and December 31, 2005.

Revenues by Customer

	Year ended December 31, 2006		Year ended December 31, 2005	
Customer	Revenue (000's)	% of Total	Revenue (000's)	% of Total
Boeing	$ 21,084	20.3%	$ 18,443	23.2%
Bombardier	22,698	21.9%	27,442	34.5%
Cessna	55,447	53.4%	32,231	40.6%
Others	4,621	4.4%	1,368	1.7%
	$103,850	100%	$79,484	100%

Boeing is increasing the rates on the 737 and 777 programs, while giving the 747 program renewed life with the introduction of the 747-8.

Bombardier CRJ200 regional jet aircraft production rates have declined, while CRJ700/900 rates remained flat in 2006. Bombardier has indicated that the production rates for the CRJ200 regional jet will increase, while the Challenger 605 business jet and the CRJ800/900 regional jet rates will decline slightly in 2007.

The Company's supply agreement with Cessna for the new Citation CJ3 business jet is a significant achievement for the Company. The CJ3's vertical stabilizer, which the Company designs and manufactures, is the first primary structure on a Cessna aircraft, designed for Cessna using third party suppliers.

Cessna Citation Sovereign and CJ3 business jet rates have increased significantly through 2006, with continued solid demand and increased order backlogs into 2007.

Deliveries to Boeing Commercial Airplane Group (Boeing) continue to increase and have increased from the preceding year. The primary source of revenue from Boeing is from the 737 aircraft. The Company continues to work towards obtaining additional new contracts supporting 737, 747, 767, 777 and 787 commercial jet programs.

Sales to Bombardier Aerospace (Bombardier) during the current year were lower than the year ended December 31, 2005. As anticipated, the Company saw a decrease in Bombardier sales from regional jet product lines. The most significant reduction in sales to Bombardier was attributed to reduced orders for the CRJ200 regional jet components. During the latter part of 2006, Bombardier restarted the production of the CRJ200 regional jet program and has placed orders with the Company for deliveries of the CRJ200 regional jet components in 2007. It is expected revenue from Bombardier will remain flat in 2007 due to a decline in orders placed with the Company for CRJ700/900 regional jet components offset by the increase in orders for CRJ200 regional jet components. The Company's primary source of revenues from Bombardier in 2007 will be from components on the Challenger CL605 business jet and the CRJ700/900 Series regional jet.

Sales from other customers grew in 2006, primarily as a result of increased deliveries of Boeing 757 commercial jet wing adapter plugs. Deliveries of these components are expected to continue to increase through 2007.

In 2007, it is anticipated that revenues from the Cessna Citation CJ3 and Sovereign business jet programs will increase to as much as 55% of total revenue, while revenue from Bombardier business and regional jet programs and Boeing commercial jet products will decrease to 19% and 16%, respectively. The Company is working towards other customers providing 10% of the Company's revenues for 2007.

Procured Materials and Parts

The Company is continuing its efforts to utilize the buying power of its customer base, where possible, in order to reduce or minimize the increase in cost of bought-in materials and parts. While raw materials are typically supplied on long-term agreements, delivery delays due to under-capacity and schedule slippage by the major mills have impacted distributors' ability to meet the Company's requirements. Purchases made at spot prices on the open market during the year, in order to meet internal schedules, resulted in an increased cost of procured materials and parts. This situation is likely to continue for the beginning of the 2007 although a number of efforts have been initiated to mitigate these cost increases going into mid 2007.

Aircraft Production Rates

The following industry trends impact the Company.

- Industry research indicates that the aerostructures market will continue to grow through 2010.
- Boeing is increasing the rates on the 737 and 777 programs, while giving the 747 program renewed life with the introduction of the 747-8.
- The production rate on the Boeing 757-200 wing adapter plug for winglet retrofits increased in 2006 and is forecasted to triple in 2007.
- Bombardier CRJ200 regional jet aircraft production rates have declined; while CRJ700/900 rates have remained constant in 2006. Bombardier has indicated that the production rates for the CRJ200 regional jet will increase; while the Challenger 605 business jet and the CRJ700/900 regional jet rates will decline slightly in 2007.
- Cessna Citation Sovereign and CJ3 business jet rates have increased significantly through 2006, with continued solid demand and increased order backlogs into 2007.

Competitors

The long-term trend is to more intense competition from larger entities in Asia and Europe, while original equipment manufacturers continue to increase the size and amount of outsourced components.

The Company continues to examine opportunities for mergers or acquisitions that would improve competitiveness and acquire vertical strengths or additional strategic capabilities. (See “Risk Factors”).

Cost Reductions

Approximately 35% of the Company’s cost of sales are related to labour and overhead and 65% related to procurement of raw materials and finished parts. The Company’s wage rates are generally lower than its Western European and US competitors and higher than those in Asia, Eastern Europe and Mexico. The Company has achieved labour cost certainty via a four-year collective agreement with its labour force expiring in 2009.

The Company continues to focus on cost reductions for direct labour, material and overhead. These reductions will be achieved through headcount and overtime limitations as negotiated in the collective labour agreement, continued negotiation of long-term agreements for 50% of the key suppliers, increased plant capacity augmented by technological improvements, and continued focus on cost targets at all levels of the organization.

Proposed Transactions

Acquisition of a Machining Operation

The Company continues to pursue merger and acquisition opportunities. As of the date of this report, the Company has entered into an agreement to acquire all of the shares of a British Columbia based machining business, which revenues are more than 50% military based, for an aggregate purchase price of $6 million paid by way of $2.4 million cash; $1.8 million by way of the issue of common shares; and $1.8 million by way of the issuance of a 7% three-year convertible debenture, convertible into common shares of the Company at a price of $2.65 in the first year of the term; $3.10 in the second year of the term and $3.60 in the third year of the term. The business operates out of a 30,000 square foot dedicated facility in

British Columbia. Existing management of the machining operation will be retained. The agreement is subject to completion of due diligence and a definitive agreement by April 30, 2007, with closing scheduled for May 31, 2007.

Risk Factors

Risk Assessments

The Company is subject to certain risks and uncertainties. The principal risks that the Company faces are summarized as follows:

- significant increases in material costs, primarily aluminum plate and titanium, and subcontractor costs without equivalent price protection in customer contracts;
- reduction in production rates of aircraft manufacturers;
- actions by competitors;
- potential failure to achieve cost-reduction objectives relative to revenue growth; and
- the trend to greater use of composite material in primary structures in each new generation of aircraft.

The Company's view is that, with its financial structure and strategic plan in place, the Company is in a position to face and mitigate these risks.

The Company believes it has effective mitigation strategies to address the risks and uncertainties described below that could materially affect its business, financial condition and results of its operations. The risk factors set out below are not necessarily the only ones facing the Company, and additional risks and uncertainties not presently known to the Company or that the Company believes to be immaterial, may also adversely affect its business.

A Significant Portion of the Company's Revenues Is Derived From a Few of Its Contracts

A small number of the Company's contracts account for a significant percentage of its revenues. Contracts with Boeing, Cessna and Bombardier comprised 95.6% of the Company's revenues in 2006, and 98% for each of 2005, 2004, and 2003. Termination or a disruption of any of these contracts or any single one of them, (including by way of option years not being exercised), or the inability of the Company to renew or replace any of these contracts when they expire, could materially harm the Company's business and impair the value of its Common Shares.

If the Company's Customers Experience Financial or Other Difficulties, the Company's Business Could Be Materially Harmed

A number of the Company's commercial customers have in the past and may in the future experience significant financial difficulties. Many of these customers face risks that are similar to those encountered by the Company, including risks associated with market conditions, competition, government regulations, and the ability to obtain sufficient capital. There can be no assurance that the Company's customers will be successful in managing these risks. If the Company's customers do not successfully manage these risks, it could impair the Company's ability to generate revenues, collect amounts due from these customers and materially harm the Company's business.

The Company Faces Risks from Downturns in the Domestic and Global Economies

The domestic and global economies have experienced downturns that have had significant effects on markets that the Company serves, particularly the airline industry. One recent downturn occurred following the terrorist attacks occurring on 9/11. The Company cannot predict the depth or duration of such downturns, and the Company's ability to increase or maintain its revenues and operating results may be impaired as a result of negative general economic conditions. It is difficult to estimate the growth in various parts of the economy, including the markets in which the Company participates, because of the uncertainty associated with domestic and global economic conditions. Because parts of the Company's budgeting and forecasting are reliant on estimates of growth in the markets it serves, the current economic uncertainty renders estimates of future revenues and expenditures even more difficult than usual to formulate. The future direction of the overall domestic and global economies could have a significant impact on the Company's overall financial performance and impair the value of its Common Shares.

The Company's Markets are Highly Competitive and Some of its Competitors Have Greater Resources than the Company

Some of the Company's competitors are larger and more established companies with significant competitive advantages, including greater financial resources and greater name recognition. The Company's primary competition includes: Aerospace Industrial Development Corporation (AIDC), Arnprior Aerospace, Magellan, Spirit Aerosystems, Vought, Fischer Advanced Composite Components (FACC), Gamesa, GKN Aerospace, Hampson, Latecoere, Shorts, Sonaca, Stork, Hawker de Havilland. If the Company is unable to compete effectively against any of these entities it could materially harm the Company's business and impair the value of its Common Shares.

The Company Could Incur Significant Costs and Expenses Related to Environmental Problems

Various federal, provincial and local laws and regulations require property owners or operators to pay for the costs of removal or remediation of hazardous or toxic substances located on a property. As operators of properties and as potential arrangers for hazardous substance disposal, the Company may be liable under the laws and regulations for removal or remediation costs, governmental penalties, property damage and related expenses. Payment of any of these costs and expenses could materially harm the Company's business and impair the value of its Common Shares

The Company May Not Be Able to Hire and Retain a Sufficient Number of Qualified Employees

The Company's success and growth will depend on its ability to continue to attract and retain skilled personnel. Competition for qualified personnel in the aircraft parts supply industry and in the manufacturing industry in general has been intense. Any failure to attract and retain qualified personnel could materially harm the Company's business and ability to attract and retain work.

The Company May Need Additional Financing to Maintain Its Business Which May or May Not Be Available

The Company'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 favorable terms, or at all. If the Company cannot raise adequate funds on acceptable terms, its business could be materially harmed.

The Company's Credit Agreement Restricts Its Financial and Operational Flexibility

The Company's Credit Agreement contains covenants that restrict, among other things, its ability to borrow money, make particular types of investments, sell assets, merge or consolidate, or make acquisitions. The Company's Credit Agreement also requires the Company to maintain specified financial ratios. The Company's ability to meet these financial ratios can be affected by events beyond the Company's control, and there can be no assurance that the Company will be able to meet these ratios. The Company obtained waivers for all past covenant violations that have occurred. Historically, however, any breach in covenants that are not waived by the debt holders may render the debt immediately due and payable. At December 31, 2006, the Company was not in compliance with all its debt covenants.

The Company has also pledged substantially all of its assets to secure the debt under its Credit Agreements. If the amounts outstanding under the Credit Agreements were accelerated, the lenders could proceed against those assets. Any event of default, therefore, could have a material adverse effect on the Company's business and impair the value of its Common Shares.

The Company Faces Potential Product Liability Claims

The Company may be exposed to legal claims relating to the products it manufactures. The Company's agreements with its customers generally contain terms designed to limit its exposure to potential product liability claims. The Company also maintains a product liability insurance policy for its business. However, the Company's insurance may not cover all relevant claims or may not provide sufficient coverage. If the Company's insurance coverage does not cover all costs resulting from future product liability claims, these claims could materially harm the Company's business and impair the value of its Common Shares.

The Company's Business Is Subject to Extensive Government Regulation

The aircraft parts manufacturing industry is subject to extensive regulatory and legal compliance requirements that result in significant costs. The FAA and Transport Canada from time to time issue directives and other regulations relating to the maintenance and modification of aircraft parts that require significant expenditures. The regulatory changes could materially harm the Company's business by making its current services less attractive or obsolete, or increasing the opportunity for additional competition. Changes in, or the failure to comply with, applicable regulations could increase costs and materially harm the Company's business.

Insiders Have Substantial Control over the Company and Can Significantly Influence Matters Requiring Stockholder Approval

As of December 31, 2006, the Company's executive officers, directors and their affiliates, in the aggregate, beneficially owned approximately 34.3% of the Company's outstanding Common Shares. As a result, these stockholders are able to significantly influence matters requiring approval by the stockholders of the Company, including the election of directors and the approval of mergers or other

business combination transactions. This control may have the effect of deterring hostile takeovers, delaying or preventing changes in control or changes in management, or limiting the ability of our other stockholders to approve transactions that they may deem to be in the best interests of the Company.

Future Capital Needs

The Company may need to raise funds through public or private financing in order to achieve its objectives from time to time. There can be no assurance that additional financing will be available on terms favourable to the Company, or at all. If adequate funds are not available or are not available on acceptable terms, the Company may be unable to continue our proposed expansion to take advantage of market opportunities, to respond to competitive pressures or continue to be viable. Such inability could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Key Personnel

Our success will depend upon the continued services of the Company's senior management team and technical, marketing and operations personnel. Employees may voluntarily terminate their employment with the Company at any time. Competition for qualified employees in the industry is intense. The loss of the services of key personnel could have a materially adverse effect upon the Company's business, financial condition and results of operations. The Company currently does not maintain any key personnel insurance.

Interest Rate Risk and Future Cash Requirements

The Company's exposure to changes in interest rates results from investing and borrowing activities undertaken to manage our liquidity and capital requirements. The Company has incurred indebtedness that bears interest at fixed and floating rates. There can be no assurance that the Company will not be materially adversely affected by interest rate changes in the future.

The Company believes that its current capital plans and requirements can be funded from existing cash, cash generated from operations, credit and debt facilities, and the proceeds from the exercise of stock options. To the extent that these resources are inadequate, or the Company pursues other business opportunities, the Company may raise additional funds through the expansion of credit lines, public or private debt or equity financing. If additional funds are raised through the issuance of equity securities, or the exercise of stock options and warrants, the percentage ownership of current shareholders will be reduced. No assurance can be given that additional financing will be available, or that it can be obtained on terms favourable to the Company and its shareholders. If adequate funds are not available, the Company may be required to delay, limit, or eliminate some or all of its proposed expansions. The Company believes it will be able to meet all its debt covenants even if current capital plans and requirements are funded from debt.

DIVIDENDS

Although the Board of Directors is permitted to declare dividends on Common Shares from time to time out of available proceeds, it is the current policy of the Board of Directors to reinvest any profits in the development and advancement of the Company's business. No dividends have been declared on the Common Shares during the previous three financial years. Payment of dividends in the future is dependent upon the earnings and financial condition of the Company and other factors which the board may deem appropriate at the time.

The Company issued 1,200,000 Series A convertible Preferred Shares which require the Company to declare and pay a mandatory annual 9.25% dividend based upon the paid up value of the Series A Preferred Shares. The dividend is payable throughout the term of the Series A Preferred Shares or until the Series A Preferred Shares are fully converted into Common Shares pursuant to the conversion terms attached thereto. The Company paid $526,000 in dividends to holders of its Series A Preferred Shares in 2006. See "Description of Capital Structure" below.

DESCRIPTION OF CAPITAL STRUCTURE

General Description of Capital Structure

The Company is authorized to issue an unlimited number of common shares. Each common share carries the right for the holder to attend and vote at all general meetings of shareholders.

The Company is also authorized to issue first preferred shares and second preferred shares.

The first preferred shares carry a preference with respect to the payment of dividends and with respect to any liquidation, dissolution or winding-up of the Company over the second preferred shares, the common shares, and any other shares raking junior to the first preferred shares.

The second preferred shares carry a preference with respect to the payment of dividends and with respect to any liquidation, dissolution or winding-up of the Company over the common shares and any other shares of the Company ranking junior to the second preferred shares.

The rights attached to each series of preferred shares are determinable by the directors of the Company when the particular series is created. Currently no first preferred shares or second preferred shares are issued or outstanding.

On May 18, 2005, the Company consolidated shares at a ratio of three pre-consolidation shares to one post-consolidation share.

On June 29, 2006, the Company created a new class of securities, an unlimited number of series A preferred shares without par value ("Series A Preferred Shares"). The Series A Preferred Shares were created in conjunction with a private placement with Dundee Securities Corporation, the details of which are set out below:

Private Placement with Dundee Securities Corporation

On July 10, 2006, the Company entered into a private placement with Dundee Securities Corporation whereby Dundee Securities Corporation acted as Agent regarding the issuance of 1,200,000 Series A Preferred Shares at an issue price of $10.00 per Series A Preferred Share.

The Series A Preferred Shares provide for a 9.25% per annum dividend, payable quarterly in cash on the last day of September, December, March and June with the first dividend payable on September 30, 2006. Dividends paid during the year ended December 31, 2006 amounted to $526,000 (2005: $Nil).

Each Series A Preferred Share will be convertible at any time**,** without the payment of additional consideration, at the option of the holder, on the following basis:

- Year 1: into 6.45 common shares, at a conversion price of $1.55 per common share;

- Year 2: into 5.71 common shares, at a conversion price of $1.75 per common share;
- Year 3: into 5.00 common shares, at a conversion price of $2.00 per common share;
- Year 4: into 4.26 common shares, at a conversion price of $2.35 per common share; and
- Thereafter: into 3.64 common shares, at a conversion price of $2.75 per common share.

The conversion price will be subject to adjustment in certain circumstances pursuant to customary anti-dilution provisions.

From July 1, 2008, to June 30, 2011, the Series A Preferred Shares will be redeemable at the option of the Company at issue price plus accrued and unpaid dividends, provided that the volume weighted average trading price of the common shares on the Toronto Stock Exchange, for at least 20 trading days in any consecutive 30-day period ending on the fifth trading day prior to the date on which the notice of redemption is given, exceeds 125% of the conversion price. From July 1, 2011, the Series A Preferred Shares will be redeemable at issue price plus accrued and unpaid dividends.

Of the $12,000,000 gross proceeds from the issuance of the Series A Preferred Shares, $4,365,000 of the gross proceeds was used to retire debt; and the remaining $7,635,000 was used for general working capital purposes. The costs of the Series A Preferred Shares issued during the year amounted to $546,000 and were deducted from total proceeds.

At the date of this Annual Information Form, no preferred shares, other than a total of 1,200,000 Series A First Preferred Shares have been issued.

Debt Financings

New Arrangements with Export Development Canada and Technology Partnerships Canada

During 2006, the Company completed new arrangements with Export Development Canada ("EDC") and Technology Partnerships Canada ("TPC"). The EDC debenture with the Company has been re-negotiated deferring principal and interest payments thereby providing the Company with increased cash flow during its period of growth. The interest rate has also been reduced effective January 1, 2006, reflecting the increased security position for EDC and the Company's improved operating results. As a result of the arrangement, approximately $1.5 million of debt scheduled for repayment during the current year will be deferred, and interest expense reduced by approximately $100,000 per year.

TPC and the Company have an agreement for the development of advance technologies and processes for aircraft control surfaces. Under this agreement, TPC funds a portion of eligible expenditures incurred by the Company. In return, the Company will pay TPC a royalty based on the revenue generated from the project. The agreement has been amended to extend the period under which the Company can receive funding for eligible expenditures providing the Company with sufficient time to complete the project.

As a result of the above arrangement, approximately $500,000 of royalty charges scheduled for payment in April 2007 have been deferred for one year.

MARKET FOR SECURITIES

The common shares of the Company are listed and posted for trading on the TSX under stock symbol "AVP".

Trading Price and Volume

The following table sets out certain trading information for the Company's common shares on the TSX for the financial year ending December 31, 2006.

Month	High	Low	Close	Volume
January	1.18	0.89	1.05	278,820
February	1.14	0.95	1.05	195,110
March	1.15	1.00	1.09	312,752
April	1.35	1.02	1.29	329,733
May	1.49	1.08	1.35	440,169
June	1.47	1.17	1.27	502,293
July	1.51	1.21	1.48	497,495
August	1.52	1.30	1.44	262,906
September	1.55	1.39	1.50	348,295
October	1.54	1.40	1.50	357,177
November	1.82	1.41	1.80	681,550
December	2.00	1.69	1.80	1,263,821

DIRECTORS AND OFFICERS

Directors are elected at the annual general meetings of shareholders for one-year terms, expiring at the next annual general meeting. Directors may be re-elected on expiry of term.

The names of the directors and officers of the Company as of December 31, 2006, their place of residence, and their respective principal occupations within the five preceding years are as follows.

Name and Residence	Position	Principal Occupation for Preceding Five Years	Date Appointed
Directors			
Michael C. Scholz[(1)(3)] British Columbia, Canada	Chairman of the Board, Director	Chairman of the Board June 2004 to date; President Great Canadian Gaming Corporation (a gaming company) June, 2001 to November, 2003; prior thereto, partner, Alexander Holburn Beaudin & Lang (a law firm)	March 8, 1995

Name and Residence	Position	Principal Occupation for Preceding Five Years	Date Appointed
Directors			
Earnest C. Beaudin[2] Alberta, Canada	Director	Director, Great Canadian Gaming Corporation (TSX) since May 28, 2002; President, General Counsel and Chief Executive Officer of Decker Management Ltd. and Decker Construction Ltd. (involved in the purchase, redevelopment, construction, ownership and operation of Seniors Care Facilities in BC and Commercial and Residential development and construction in BC and AB, Canada) since February 1, 1986	June 25, 2004
Eric Kohn TD[3] Geneva, Switzerland	Director	Managing Partner of investment banking firms, Barons Financial Services SA, Geneva, Switzerland, and Barons Financial Services (UK) Ltd., London, UK, which is authorised and regulated by the Financial Services Authority	November 16, 2004
Kees de Koning[1] Nootdorp, The Netherlands	Director	President and CEO Stork Aerospace Industries/Member of Executive Committee Stork NV (from 2001-2005); President Stork Fokker AESP BV (from 2002-2005); Member of the advisory board ICT to the Netherlands government (2005)	November 2, 2005
David Levi[2][3] British Columbia, Canada	Director	President and Chief Executive Officer of GrowthWorks Capital Ltd., the manager of Working Opportunity Fund (EVCC) Ltd. (an investment fund); Director, Xantrex Technology Inc. (TSX listed company) since March 12, 2004	February 27, 1999
Elizabeth Otis[1] Washington, USA	Director	Executive in Residence, Boeing Leadership Center (from 2003 to 2004); Vice President and General Manager, Fabrication Division, Boeing Commercial Airplanes Group (2001 to 2003); Chairman of the Board for the Performance Review Institute (PRI), affiliate of the Society of Aerospace Engineering (SAE)	May 18, 2006

Name and Residence	Position	Principal Occupation for Preceding Five Years	Date Appointed
Directors			
The Honorable John D. Reynolds, P.C.[(2)] British Columbia, Canada	Director	Senior Strategic Advisor, Lang Michener LLP (2006); Member of Queen's Privy Council for Canada (2006); Leader of the Official Opposition for the Government of Canada, Official Opposition House Leader and Member of Parliament for the riding of the West Vancouver – Sunshine Coast – Sea to Sky Country (1997 to 2006); Director, CY Oriental Holdings Ltd. (a TSX-V reporting issuer) since February 21, 2007; Director, Terrane Metals Corp. (a TSX-V reporting issuer) since July 24, 2006; Director, Rusoro Mining Ltd. (a TSX-V reporting issuer) since November 7, 2006; Director, Oriel Resources plc (a TSX reporting issuer) since March 1, 2005; Director, TLC Ventures Corp. (a TSX-V reporting issuer) since March 7, 2005	May 18, 2006

Name and Residence	Position	Principal Occupation for Preceding Five Years	Date Appointed
Officers			
Paul Kalil[(4)(5)] British Columbia, Canada	President	President since September 7, 2004; Chief Operating Officer from February 1, 2002 to September 7, 2004	May 19, 2005 to May 18, 2006 and between 2001 and 2004
Edward Merlo British Columbia, Canada	Vice President, Finance and Corporate Secretary	Vice President, Finance and Corporate Secretary since April 25, 2002; prior thereto Acting Chief Financial Officer and Acting Corporate Secretary from February 27, 2002 to April 25, 2002 prior thereto Director, Finance, Aerostructures Division	N/A
Paul Meringer British Columbia, Canada	Vice President, Procurement	Vice President, Procurement since January 1, 2006; prior thereto Special Projects from June 7, 2005 to December 31, 2005; prior thereto Vice President, Operations from November 2002 to June 6, 2005	N/A

Name and Residence	Position	Principal Occupation for Preceding Five Years	Date Appointed
Officers			
Renae Reiter British Columbia, Canada	Vice President, Fabrication	Vice-President, Fabrication since July 17, 2006; prior thereto Vice President, Fabrication and Boeing Production from September 1, 2005 to July 17, 2006 ; prior thereto Director, Production Planning and Fabrication from January to August 2005; prior thereto Director Boeing WWF and Flex Cells from July to December 2004; prior thereto Manager, Boeing Business Unit	N/A
Amandeep Kaler British Columbia, Canada	Vice President, Assembly	Vice-President, Assembly since July 17, 2006; prior thereto Director, Assembly from January 3, 2005; prior thereto Manager, Metal Bond Cell from November 19, 2001; prior thereto Supervisor, Production from April 2000	N/A

(1) Member of the Executive Committee

(2) Member of the Audit & Corporate Governance Committee.

(3) Member of the Compensation & Nominating Committee.

(4) Effective March 10, 2006, Kevin Russell, Vice President Marketing and Business Development, resigned his position with the Company after 17 years of service, and Paul Kalil, President, has assumed the responsibilities of Mr. Russell.

(5) Effective April 1, 2007, the Company entered into an agreement to retain Mark van Rooij as the Company's new Chief Executive Officer. Mr. van Rooij will be working closely as one team with the Company's President, Paul Kalil. Mr. van Rooij is currently Executive Vice President of Stork Fokker based in the Netherlands. Mr. van Rooij, a mechanical engineer and a member of the Leadership Team of Stork Aerospace, was responsible for the aerostructures and defence business of Stork Aerospace, an organization with revenue of CAD$ 900 million and 3,500 employees.

Both Elizabeth Otis and The Honorable John D. Reynolds, P.C. were first time appointees to the Board of Directors. Certain biographical information is as follows:

Elizabeth Otis has 25 years of experience with The Boeing Company, serving as Executive in Residence at Boeing's Leadership Center, as Vice President and General Manager of the Fabrication Division for Boeing Commercial Airplanes, as Vice President of Quality for Commercial Airplanes, and in a number of key positions in the 777 Program, including Director of Manufacturing, Director of Production and Tool Engineering, and Director of Boeing Support. Before her career at Boeing, Ms. Otis served eight years as a transportation officer in the U.S. Army, retiring as a Lieutenant Colonel in 1977. Ms. Otis received her Bachelor's degree in Social Sciences and Education from Russell Sage College in Troy, N.Y., a Master's of Science degree in Transportation from Old Dominion University in Norfolk, Virginia, and a Master's of Business Administration from the University of Washington. Ms. Otis is a leadership advocate within the aerospace industry as Chairman of the Board of Directors for the Performance Review Institute (PRI), a wholly owned subsidiary of the Society of Aerospace Executives (SAE); as a member of the AIMS Advisory Board; and as an executive sponsor for the Boeing Black Employees Association and MIT Leaders for Manufacturing program.

The Honorable John D. Reynolds, P.C. has nearly 40 years of experience at the highest levels of national and provincial governments, and in a diverse range of cross-border business enterprises, serving as Vice Chair of the Commonwealth Parliamentary Association- Executive Committee, Vice Chair of the Canada/UK Parliamentary Association's Executive Committee, as Official Opposition Whip and House

Leader, as Leader of Her Majesty's Official Opposition, as Chair of Prime Minister Stephen Harper's Leadership Campaign, and Co-Chair of Prime Minister Harper's 2006 Election Campaign. As Senior Strategic Advisor for Lang Michener's Vancouver office, Mr. Reynolds advises corporate and business clients on public policy advocacy, natural resource development, and growth opportunities in markets throughout North America, Asia/Pacific and Africa. Mr. Reynolds, as a director of two natural resources producers, is familiar with exploration and mine development issues involving gold, nickel and chromium, in Kazakhstan, Australia, Ghana and South Africa. Mr. Reynolds has also served as Minister of Environment for British Columbia and as well, was Speaker of the British Columbia Legislature.

The following sets out the principal occupation of the directors and executive officers of the Company who act as officers of a company other than Avcorp Industries Inc., with the principal business of the person or company as also set forth below:

Name	Company	Official Title	Principal Business of Company
Earnest C. Beaudin	Decker Management Ltd.	President and Chief Executive Officer	Decker Management Ltd. is the owner and operator of extended care facilities and Decker Construction Ltd. is in the business of commercial and residential real estate development
David Levi	GrowthWorks Capital Ltd., the manager of Working Opportunity Fund (EVCC) Ltd.	President and Chief Executive Officer	Working Opportunity Fund (EVCC) Ltd. is an investment fund company. GrowthWorks Capital Ltd. provides investment advice to GrowthWorks Managed Funds
The Honorable John D. Reynolds, P.C.	Gainey Consultants Inc.	President	Gainey Consultants Inc. is a consulting firm
Michael C. Scholz	Acero-Martin Exploration Inc.	Chairman of the Board	Acero-Martin Exploration Inc. is a TSX Venture Exchange listed mining exploration company
	CMC Metals Ltd.	President and Chief Executive Officer	CMC Metals Inc. is a TSX Venture Exchange listed mining exploration and development company

Shareholdings of Management

To the knowledge of the Company, based on information obtained from SEDI (the System for Electronic Disclosure by Insiders database), at year ended December 31, 2006, the directors and executive officers of the Company as a group own, or exercise control or direction over a total of 9,547,967 common shares of the Company, representing 34.3% of the outstanding common shares of the Company on December 31, 2006.

Committees

Audit & Corporate Governance Committee

In fiscal 2006, the Audit & Corporate Governance Committee was composed of the following members: The Honorable John D. Reynolds P.C. (Committee Chair), Earnest C. Beaudin and David Levi. The Board believes that the composition of the Audit & Corporate Governance Committee reflects a high level of financial literacy and expertise. Each member has been determined by the Board to be "independent" and "financially literate" as such terms are defined under Canadian securities law and under corporate governance listing standards. The responsibilities and duties of the Audit & Corporate Governance Committee are set out in its charter, the text of which is set forth in Appendix 1 to this Annual Information Form. The Audit & Corporate Governance Committee met four times during fiscal 2006. The following table describes the education and experience of each member, relevant to his responsibilities as an Audit & Corporate Governance Committee member.

Name of Audit Committee Member	Relevant Experience and Qualifications
The Honorable John D. Reynolds P.C. (Committee Chair)	• Mr. Reynolds served as both an MLA in British Columbia and as a Member of Parliament in Ottawa. Prior to his recent retirement from Federal politics he was the Official Opposition House Leader for the Conservative Caucus. Previously he had been Leader of the Opposition in the House of Commons for the Canadian Alliance Caucus • Mr. Reynolds is currently a Member of the Queen's Privy Council for Canada and a Senior Strategic Advisor for the law firm Lang Michener LLP
Earnest C. Beaudin	• Barrister and Solicitor (British Columbia) • Founding Partner of the law firm Alexander, Holburn, Beaudin & Lang • President and Chief Executive Officer of Decker Management Ltd. (owner and operator of extended care facilities) and Decker Construction Ltd. (commercial and residential real estate development and construction) • Audit committee member of senior TSX reporting issuer
David Levi	• Studied economics and business at Simon Fraser University, the University of Hawaii and the Hebrew University in Israel. Mr. Levi's studies included courses in accounting • Completed the Canadian Securities Course in 1980 and the Canadian Options Course in 1982 • Vice-President of Broker Services for investment dealer, C.M. Oliver & Co. from 1981 to 1990 • Chair, Vancouver City Savings Credit Union (VanCity) from 1985 to 1987

Audit Fees

Audit fees were paid for professional service rendered by the auditors for the audit of the Company's financial statements or services provided in connection with statutory and regulatory filings or engagements and the review of the Company's interim financial statements. PricewaterhouseCoopers LLP's fees for the Company's 2006 fiscal year were $130,000 for audit services provided to the Company. For the Company's 2005 fiscal year, audit fees were $120,000.

Audit-Related Fees

Audit-related fees were paid for assurance and related services that are reasonably related to the performance of the audit or review of the annual financial statements and are not reported under the audit fee item above. These services consisted of accounting consultations, services regarding the issuance of privately placed debentures and special attest services as required by government entities. PricewaterhouseCoopers LLP billed an aggregate of $13,128 in the Company's 2006 fiscal year and $13,724 in the Company's 2005 fiscal year services provided to the Company not reported under "Audit Fees" above.

Tax-related Fees

Tax-related fees were paid for professional services relating to tax compliance, tax advice and tax planning. These services consisted of tax compliance including the review of original and amended tax returns, the preparation of tax returns, tax planning and advisory services relating to common forms of taxation including income tax, capital tax, goods and service tax and property tax. Fees for professional services rendered for tax compliance and tax advice provided to the Company were $15,600 for the Company's 2006 fiscal year and were $18,000 for the Company's 2005 fiscal year.

All Other Fees

There were no other fees paid other than the audit fees, audit-related fees and tax fees described above.

Compensation and Nominating Committee

In fiscal 2006, the Compensation and Nominating Committee was composed of the following members: Eric Kohn TD (Committee Chair), David Levi and Michael C. Scholz. In fiscal 2005, the Compensation and Nominating Committee was composed of the following members: Michael C. Scholz (Committee Chair), Gordon Flatt and David Levi. The Compensation and Nominating Committee is responsible for proposing to the full board new nominees to the board. The Compensation and Nominating Committee annually assesses the skills and qualifications of directors and nominees to ensure the members of the board of directors have the skills and qualifications appropriate to the current needs of the Company. This Committee meets as required to review and make recommendations to the board of directors to all direct and indirect compensation, benefits and prerequisites for senior management and directors of the Company. The Compensation and Nominating Committee met two times during fiscal 2006.

Executive Committee

In fiscal 2006, the Company's Executive Committee was composed of the following members: Elizabeth Otis (Committee Chair), Kees de Koning and.Michael C. Scholz. This Committee meets monthly to review monthly results and provide direction to management, and may exercise any and all powers of the board of directors, subject to the annual strategic business plan and budget as approved by the board of directors and subject to applicable law. The Executive Committee met 11 times during fiscal

2006.

Code of Conduct

The Company has adopted a Code of Business Conduct and Ethics that applies to employees, officers (including without limitation, the Chief Executive Officer, Chief Financial Officer and other high ranking financial officers) and directors of the Company and its subsidiaries. A copy of this Code is available on SEDAR at www.sedar.com

Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Corporate Cease Trade Orders or Bankruptcies

(1) To the best of the Company's knowledge, after having made due inquiry, the Company confirms that as at the date hereof, no director or executive officer or a shareholder holding a sufficient number of securities of the Company to materially affect the control of the Company:

(a) is, at the date of this Annual Information Form or has been within the last 10 years, a director or executive officer of any company, that while that person was acting in that capacity,

(i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;

(ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or

(iii) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, or within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets of the director or executive officer.

Penalties or Sanctions

(2) To the best of the Company's knowledge, after due inquiry, none of the directors or executive officers or a shareholder holding a sufficient number of securities of the Company to materially affect the control of the Company have been subject to:

(a) any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or have entered into a settlement agreement with a Canadian securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

Other than as disclosed in this Annual Information Form, to the knowledge of the directors and senior officers of the Company, there are no existing or potential material conflicts of interest between the Company and a director or senior officer of the Company.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

The Company is subject to claims and litigation arising in the ordinary course of business. The Company believes the amount of ultimate liability with respect to these actions will not materially affect its financial position, results of operations or cash flow.

During 2003, the Company was served with a certificate of readiness in respect of legal action, which was commenced against the Company in 1998, for an amount of $1,000,000 in respect of alleged future remediation costs relating to a certain property located in the province of Quebec and previously owned by the Company. A statement of defence has been filed. On November 19, 2003, the Company was granted a motion to set aside the certificate of readiness and permission for the Company to prepare its defence and further assess its position. By judgement of January 29, 2007, the Quebec Superior Court dismissed with costs the plaintiff's action against the Company. The plaintiff did not appeal this decision within the applicable period of thirty days and accordingly, this judgement is now a final judgement.

Regulatory Actions

No regulatory actions have been filed against the Company. The Company is in good standing with its regulatory authorities.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

During the year ended December 31, 2005, the Company entered into an agreement with a certain shareholder in consideration of mutual agreements with a Canadian chartered bank under which the shareholder guarantees the indebtedness of the Company to the Bank limited to $2,000,000. In connection with providing the limited guarantee on the operating line of credit, the Company will pay a 5% fee on the $2,000,000 limited guarantee calculated on a daily basis. Fees paid to a certain shareholder during the year ended December 31, 2006 amounted to $75,000 (2005: $28,000). Fees payable to a certain shareholder as at December 31, 2006 are $33,000 (December 31, 2005: $28,000). These fees are included in the Statements of Operations as interest expense and financing charges and amount to $100,000 for the year ended December 31, 2006 (2005: $56,000).

On February 3, 2006, 1,000,000 warrants were issued to certain shareholders as consideration for a performance guarantee provided on production contracts with a certain customer. Each warrant is exercisable for one common share of the Company at $0.90 for a period of two years.

The Company measures the fair value of warrants at $266,000, using the Black-Scholes pricing model and the following weighted-average assumptions.

	2006	2005
Risk-free interest rate (%)	4.25	-
Dividend yield (%)	0	-
Expected lives (years)	1.0	-
Volatility (%)	67.64	-

The total warrant value is being amortized to earnings over one year, being the minimum estimated guarantee period. The expense amortized to the Statement of Operations as cost of sales during the year ended December 31, 2006 was $266,000 (2005: $Nil).

Additionally, fees ranging to $20,000 per month are also provided as consideration for the performance guarantee. Fees paid to certain shareholders during the year ended December 31, 2006 amounted to $179,000 (2005: $Nil). Fees payable to certain shareholders as at December 31, 2006 are $80,000 (December 31, 2005: $Nil). These fees are included in the Statements of Operations as cost of sales and amount to $259,000 for the year ended December 31, 2006 (2005: $Nil).

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

TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent for the Company's common shares is CIBC Mellon Trust Company with transfer facilities in Vancouver.

MATERIAL CONTRACTS

The following are the only material contracts, other than contracts entered into in the ordinary course of business, which have been entered into by the Company or any of its subsidiaries or their predecessors within the most recently completed financial year, or were entered into before the most recently completed financial year and are still in effect, or which are proposed to be entered into:

- an Agency Agreement dated July 10, 2006 between the Company and Dundee Securities Corporation for the sale of up to 1,200,000 Preferred Shares at a purchase price of $10.00 per Preferred Share;

- a confidential agreement dated March 7, 2007 regarding the acquisition of all of the outstanding shares of a British Columbia based machining company.

The Company's Consolidated Financial Statements and accompanying notes for the year ended December 31, 2006, together with the Company's Management Discussion and Analysis for the year ended December 31, 2006, have been filed with applicable securities regulators in Canada and may be accessed at www.sedar.com.

INTERESTS OF EXPERTS

PricewaterhouseCoopers LLP is the independent auditor of the Company.

Shareholders' Auditor Pre-Approval Policies and Procedures and Fees

Information regarding fees paid to the Shareholders' Auditor, PricewaterhouseCoopers LLP, Chartered Accountants, 250 Howe Street, Vancouver, BC V6C 3S7 and filed under National Instrument 51-102, relies on the report of PricewaterhouseCoopers LLP, independent chartered accountants, which was given on their authority as experts in auditing and accounting. Information for the years ended December 31, 2006 and December 31, 2005, and the related pre-approval policies and procedures, appear on the Company's annual filings, which may be found on the Company's website at www.avcorp.com and which are also available on SEDAR at www.sedar.com

The auditors of the Company are PricewaterhouseCoopers LLP, Chartered Accountants, of Vancouver, British Columbia. PricewaterhouseCoopers LLP, Chartered Accountants, report that they are independent of the Company in accordance with the Rules of Professional Conduct in British Columbia.

ADDITIONAL INFORMATION

Disclosure Controls and Procedures, and Internal Controls over Financial Reporting

The President and Vice President, Finance, are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal control over financial reporting to provide reasonable assurance a) that material information about the Company and its subsidiaries would have been made known to them and b) regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

The Board of Directors has established an Audit Committee to support the Board in fulfilling its oversight responsibilities regarding establishing and maintaining the Company's disclosure controls and procedures and internal controls over financial reporting.

The Company has implemented numerous disclosure controls and procedures, which include, but are not limited to, establishing disclosure policies and forming a management committee comprised of senior executives that assist the President and Vice President, Finance, in ensuring the Company's disclosure controls and procedures objectives are met. Using a cascading quarterly sub-certification process, senior executives attest that the Company's objectives of disclosure controls and procedures are being met.

The President and Vice President, Finance, have evaluated and conclude that the Company's disclosure controls and procedures are adequately designed and effective for providing reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would have been made known to them as of the end of the fiscal year ended December 31, 2006.

As well, as of the end of the fiscal year ended December 31, 2006, the President and Vice President, Finance, have evaluated and conclude that the Company's internal controls over financial reporting have been adequately designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. However, control systems, no matter how well designed and operated, have inherent limitations, therefore, those systems, although determined adequately designed, can provide only reasonable assurance that the objectives of the system are met.

During 2006 there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Additional information relating to Avcorp Industries Inc. may be found on the Company's website at www.avcorp.com and which is available on SEDAR at www.sedar.com

Other Additional Information

Other Additional information, including directors' and executive officers' remuneration and indebtedness, principal holders of securities and securities authorized under equity compensation plans is contained in the Company's Management Proxy Circular for its most recent annual general meeting of shareholders.

Additional financial information is provided in the Company's consolidated financial statements and Management's Discussion and Analysis in the Company's 2006 Annual Report for its year ended December 31, 2006, and the Management Discussion and Analysis of the Company for its year ended December 31, 2006 and any interim unaudited financial statements of the Company subsequent to such date, are available on the Company's website at www.avcorp.com or on SEDAR at www.sedar.com.

Copies of the information referred to in this section may be obtained by writing to the Corporate Secretary of the Company at:

Avcorp Industries Inc.
10025 River Way
Delta, British Columbia
Canada V4G 1M7

Telephone: (604) 582-1137
Facsimile: (604) 582-2620

or on the Company's website at www.avcorp.com

APPENDIX 1

AUDIT COMMITTEE CHARTER

AVCORP INDUSTRIES INC.
(the "Company")

1. Mandate

The audit committee will assist the board of directors (the "Board") in fulfilling its financial oversight responsibilities. The audit committee will review and consider in consultation with the auditors the financial reporting process, the system of internal control and the audit process. In performing its duties, the committee will maintain effective working relationships with the Board, management, and the external auditors. To effectively perform his or her role, each committee member must obtain an understanding of the principal responsibilities of committee membership as well and the company's business, operations and risks.

2. Composition

The Board will appoint from among their membership an audit committee after each annual general meeting of the shareholders of the Company. The audit committee will consist of a minimum of three directors.

2.1 Independence

A majority of the members of the audit committee must not be officers, employees or control persons of the Company.

2.2 Expertise of Committee Members

Each member of the audit committee must be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the committee. At least one member of the committee must have accounting or related financial management expertise. The Board shall interpret the qualifications of financial literacy and financial management expertise in its business judgment and shall conclude whether a director meets these qualifications.

3. Meetings

The audit committee shall meet in accordance with a schedule established each year by the Board, and at other times that the audit committee may determine. The audit committee shall meet at least annually with the Company's Chief Financial Officer and external auditors in separate executive sessions.

4. Roles and Responsibilities

The audit committee shall fulfill the following roles and discharge the following responsibilities:

4.1 External Audit

The audit committee shall be directly responsible for overseeing the work of the external auditors in preparing or issuing the auditor's report, including the resolution of disagreements between management

and the external auditors regarding financial reporting and audit scope or procedures. In carrying out this duty, the audit committee shall:

(a) recommend to the Board the external auditor to be nominated by the shareholders for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company;

(b) review (by discussion and enquiry) the external auditors' proposed audit scope and approach;

(c) review the performance of the external auditors and recommend to the Board the appointment or discharge of the external auditors;

(d) review and recommend to the Board the compensation to be paid to the external auditors; and

(e) review and confirm the independence of the external auditors by reviewing the non-audit services provided and the external auditors' assertion of their independence in accordance with professional standards.

4.2 Internal Control

The audit committee shall consider whether adequate controls are in place over annual and interim financial reporting as well as controls over assets, transactions and the creation of obligations, commitments and liabilities of the Company. In carrying out this duty, the audit committee shall:

(a) evaluate the adequacy and effectiveness of management's system of internal controls over the accounting and financial reporting system within the Company; and

(b) ensure that the external auditors discuss with the audit committee any event or matter which suggests the possibility of fraud, illegal acts or deficiencies in internal controls.

4.3 Financial Reporting

The audit committee shall review the financial statements and financial information prior to its release to the public. In carrying out this duty, the audit committee shall:

General

(a) review significant accounting and financial reporting issues, especially complex, unusual and related party transactions; and

(b) review and ensure that the accounting principles selected by management in preparing financial statements are appropriate.

Annual Financial Statements

(c) review the draft annual financial statements and provide a recommendation to the Board with respect to the approval of the financial statements;

(d) meet with management and the external auditors to review the financial statements and the results of the audit, including any difficulties encountered; and

(e) review management's discussion & analysis respecting the annual reporting period prior to its release to the public.

Interim Financial Statements

(f) review and approve the interim financial statements prior to their release to the public; and

(g) review management's discussion & analysis respecting the interim reporting period prior to its release to the public.

Release of Financial Information

(h) where reasonably possible, review and approve all public disclosure, including news releases, containing financial information, prior to its release to the public.

4.4 Non-Audit Services

All non-audit services (being services other than services rendered for the audit and review of the financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements) which are proposed to be provided by the external auditors to the Company or any subsidiary of the Company shall be subject to the prior approval of the audit committee.

Delegation of Authority

(a) The audit committee may delegate to one or more independent members of the audit committee the authority to approve non-audit services, provided any non-audit services approved in this manner must be presented to the audit committee at its next scheduled meeting.

De-Minimis Non-Audit Services

(b) The audit committee may satisfy the requirement for the pre-approval of non-audit services if:

(i) the aggregate amount of all non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the Company and its subsidiaries to the external auditor during the fiscal year in which the services are provided; or

(ii) the services are brought to the attention of the audit committee and approved, prior to the completion of the audit, by the audit committee or by one or more of its members to whom authority to grant such approvals has been delegated.

Pre-Approval Policies and Procedures

(c) The audit committee may also satisfy the requirement for the pre-approval of non-audit services by adopting specific policies and procedures for the engagement of non-audit services, if:

(i) the pre-approval policies and procedures are detailed as to the particular service;

(ii) the audit committee is informed of each non-audit service; and

(iii) the procedures do not include delegation of the audit committee's responsibilities to management.

4.5 Other Responsibilities

The audit committee shall:

(a) establish procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters;

(b) establish procedures for the confidential, anonymous submission by employees of the company of concerns regarding questionable accounting or auditing matters;

(c) ensure that significant findings and recommendations made by management and external auditor are received and discussed on a timely basis;

(d) review the policies and procedures in effect for considering officers' expenses and perquisites;

(e) perform other oversight functions as requested by the Board; and

(f) review and update this Charter and receive approval of changes to this Charter from the Board.

4.6 Reporting Responsibilities

The audit committee shall regularly update the Board about committee activities and make appropriate recommendations.

5. Resources and Authority of Audit Committee

The audit committee shall have the resources and the authority appropriate to discharge its responsibilities, including the authority to

(a) engage independent counsel and other advisors as it determines necessary to carry out its duties;

(b) set and pay the compensation for any advisors employed by the audit committee; and

(c) communicate directly with the internal and external auditors.

6. Guidance – Roles & Responsibilities

The following guidance is intended to provide the Audit Committee members with additional guidance on fulfilment of their roles and responsibilities on the committee:

6.1 Internal Control

(a) evaluate whether management is setting the goal of high standards by communicating the importance of internal control and ensuring that all individuals possess an understanding of their roles and responsibilities;

(b) focus on the extent to which external auditors review computer systems and applications, the security of such systems and applications, and the contingency plan for processing financial information in the event of an IT systems breakdown; and

(c) gain an understanding of whether internal control recommendations made by external auditors have been implemented by management.

6.2 Financial Reporting

General

(a) review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements; and

(b) ask management and the external auditors about significant risks and exposures and the plans to minimize such risks; and

(c) understand industry best practices and the Company's adoption of them.

Annual Financial Statements

(d) review the annual financial statements and determine whether they are complete and consistent with the information known to committee members, and assess whether the financial statements reflect appropriate accounting principles in light of the jurisdictions in which the Company reports or trades its shares;

(e) pay attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures;

(f) focus on judgmental areas such as those involving valuation of assets and liabilities, including, for example, the accounting for and disclosure of loan losses; warranty, professional liability; litigation reserves; and other commitments and contingencies;

(g) consider management's handling of proposed audit adjustments identified by the external auditors; and

(h) ensure that the external auditors communicate all required matters to the committee.

Interim Financial Statements

(i) be briefed on how management develops and summarizes interim financial information, the extent to which the external auditors review interim financial information;

(j) meet with management and the auditors, either telephonically or in person, to review the interim financial statements; and

(k) to gain insight into the fairness of the interim statements and disclosures, obtain explanations from management on whether:

(i) actual financial results for the quarter or interim period varied significantly from budgeted or projected results;

(ii) changes in financial ratios and relationships of various balance sheet and operating statement figures in the interim financials statements are consistent with changes in the company's operations and financing practices;

(iii) generally accepted accounting principles have been consistently applied;

(iv) there are any actual or proposed changes in accounting or financial reporting practices;

(v) there are any significant or unusual events or transactions;

(vi) the Company's financial and operating controls are functioning effectively;

(vii) the Company has complied with the terms of loan agreements, security indentures or other financial position or results dependent agreement; and

(viii) the interim financial statements contain adequate and appropriate disclosures.

6.3 Compliance with Laws and Regulations

(a) periodically obtain updates from management regarding compliance with this policy and industry "best practices";

(b) be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements; and

(c) review the findings of any examinations by securities regulatory authorities and stock exchanges.

6.4 Other Responsibilities

(a) review, with the company's counsel, any legal matters that could have a significant impact on the company's financial statements.