**AVCORP INDUSTRIES INC.**
10025 River Way
Delta, British Columbia
V4G 1M7
Tel: 604-582-1137/Fax: 604-582-2620

# MANAGEMENT PROXY CIRCULAR

as at April 3, 2013 (or as otherwise indicated)

**This Management Proxy Circular is furnished in connection with the solicitation of proxies by the management of AVCORP INDUSTRIES INC. (the "Corporation" or "Avcorp") for use at the annual and special meeting (the "Meeting") of its shareholders to be held on Thursday, May 23, 2013 at the time and place and for the purposes set forth in the accompanying notice of the Meeting.**

In this Management Proxy Circular, references to "the Corporation", "we" and "our" refer to **AVCORP INDUSTRIES INC.** "Common Shares" means common shares without par value in the capital of the Corporation. "Beneficial Shareholders" means shareholders who do not hold Common Shares in their own name and "intermediaries" refers to brokers, investment firms, clearing houses and similar entities that own securities on behalf of Beneficial Shareholders.

## GENERAL PROXY INFORMATION

### Solicitation of Proxies

The solicitation of proxies will be primarily by mail, but proxies may be solicited personally or by telephone by directors, officers and regular employees of the Corporation. The Corporation will bear all costs of this solicitation. The Corporation has arranged for intermediaries to forward the meeting materials to beneficial owners of Common Shares held as of the record date by those intermediaries and we may reimburse the intermediaries for their reasonable fees and disbursements in that regard.

### Appointment of Proxyholders

The individuals named in the accompanying form of proxy (the "Proxy") are David Levi, Chairman of the Board and a Director of the Corporation, and Mark van Rooij, President and Chief Executive Officer and a Director of the Corporation. **If you are a shareholder entitled to vote at the Meeting, you have the right to appoint a person or company other than either of the persons designated in the Proxy, who need not be a shareholder, to attend and act for you on your behalf at the Meeting. You may do so either by inserting the name of that other person in the blank space provided in the Proxy or by completing and delivering another suitable form of proxy**

### Voting by Proxyholder

The persons named in the Proxy will vote or withhold from voting the Common Shares represented thereby in accordance with your instructions on any ballot that may be called for. If you specify a choice with respect to any matter to be acted upon, your Common Shares will be voted accordingly. The Proxy confers discretionary authority on persons named therein with respect to:

(a) each matter or group of matters identified therein for which a choice is not specified, other than the appointment of an auditor and the election of directors,

(b) any amendment to or variation of any matter identified therein, and

(c) any other matter that properly comes before the Meeting.

In respect of a matter for which a choice is not specified in the Proxy, the persons named in the Proxy will vote the Common Shares represented by the Proxy for the approval of such matter.

**Registered Shareholders**

If you are a registered shareholder, you may wish to vote by proxy whether or not you attend the Meeting in person. If you submit a Proxy, you must complete, date and sign the Proxy and return it by mail or delivery in the enclosed envelope to the Corporation c/o CIBC Mellon Trust Company, Attention: Proxy Department, P.O. Box 721, Agincourt, Ontario M1S 0A1 or if by hand, 320 Bay Street, B1 Level, Toronto, Ontario M5H 4A6 at least 48 hours (excluding Saturdays, Sundays and holidays) before the Meeting or the adjournment thereof at which the proxy is to be used. You may also fax your completed proxy to 1-866-781-3111 or 416-368-2502 not less than 48 hours (excluding Saturdays, Sundays and holidays) before the Meeting or the adjournment thereof at which the proxy is to be used.

**Beneficial Shareholders**

The following information is of significant importance to shareholders who do not hold Common Shares in their own name. Beneficial Shareholders should note that the only proxies that can be recognized and acted upon at the Meeting are those deposited by registered shareholders (those whose names appear on the records of the Corporation as the registered holders of Common Shares) or as set out in the following disclosure.

If Common Shares are listed in an account statement provided to a shareholder by a broker, then in almost all cases those Common Shares will not be registered in the shareholder's name on the records of the Corporation. Such Common Shares will more likely be registered under the names of the shareholder's broker or an agent of that broker (an "intermediary"). In the United States, the vast majority of such Common Shares are registered under the name of Cede & Co. as nominee for The Depository Trust Company (which acts as depositary for many U.S. brokerage firms and custodian banks), and in Canada, under the name of CDS & Co. (the registration name for The Canadian Depository for Securities Limited, which acts as nominee for many Canadian brokerage firms).

Intermediaries are required to seek voting instructions from Beneficial Shareholders in advance of meetings of shareholders. Every intermediary has its own mailing procedures and provides its own return instructions to clients.

There are two kinds of Beneficial owners - those who object to their name being made known to the issuers of securities which they own (called OBOs for Objecting Beneficial Owners) and those who do not object to the issuers of the securities they own knowing who they are (called NOBOs for Non-Objecting Beneficial Owners).

The Corporation is taking advantage of the provisions of National Instrument 54-101 "Communication with Beneficial Owners of Securities of a Reporting Issuer" that permit it to directly deliver proxy-related materials to its NOBOs. As a result NOBOs can expect to receive a scannable Voting Instruction Form ("VIF") from our transfer agent, CIBC Mellon Trust Company ("CIBC Mellon"). These VIFs are to be completed and returned to CIBC Mellon in the envelope provided or by facsimile. In addition, CIBC Mellon provides both telephone voting and internet voting as described on the VIF itself which contain complete instructions. CIBC Mellon will tabulate the results of the VIFs received from NOBOs and will provide appropriate instructions at the Meeting with respect to the shares represented by the VIFs they receive.

These securityholder materials are being sent to both registered and non-registered owners of the securities of the Corporation. If you are a non-registered owner, and the Corporation or its agent has sent these materials directly to you, your name and address and information about your holdings of securities, have been obtained in accordance with applicable securities regulatory requirements from the intermediary holding on your behalf.

By choosing to send these materials to you directly, the Corporation (and not the intermediary holding on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in your request for voting instructions.

Beneficial Shareholders who are OBOs should follow the instructions of their intermediary carefully to ensure that their Common Shares are voted at the Meeting.

The form of proxy supplied to you by your broker will be similar to the proxy provided to registered shareholders by the Corporation. However, its purpose is limited to instructing the intermediary on how to vote your Common Shares on your behalf. Most brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("Broadridge") in the United States and in Canada. Broadridge mails a VIF in lieu of a proxy provided by the Corporation. The VIF will name the same persons as the Corporation's Proxy to represent your Common Shares at the Meeting. You have the right to appoint a person (who need not be a Beneficial Shareholder of the Corporation), other than any of the persons designated in the VIF, to represent your Common Shares at the Meeting and that person may be you. To exercise this right, you should insert the name of the desired representative (which may be yourself) in the blank space provided in the VIF. The completed VIF must then be returned to Broadridge by mail or facsimile or given to Broadridge by

phone or over the internet, in accordance with Broadridge's instructions. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Common Shares to be represented at the Meeting and the appointment of any shareholder's representative. **If you receive a VIF from Broadridge, the VIF must be completed and returned to Broadridge, in accordance with its instructions, well in advance of the Meeting in order to have your Common Shares voted or to have an alternate representative duly appointed to attend and to vote your Common Shares at the Meeting.**

**Notice to Shareholders in the United States**

The solicitation of proxies involve securities of an issuer located in Canada and are being effected in accordance with the corporate laws of Canada and securities laws of the provinces of Canada. The proxy solicitation rules under the United States Securities Exchange Act of 1934, as amended, are not applicable to the Corporation or this solicitation, and this solicitation has been prepared in accordance with the disclosure requirements of the securities laws of the provinces of Canada. Shareholders should be aware that disclosure requirements under the securities laws of the provinces of Canada differ from the disclosure requirements under United States securities laws.

**Revocation of Proxies**

In addition to revocation in any other manner permitted by law, a registered shareholder who has given a proxy may revoke it by:

(a) executing a proxy bearing a later date or by executing a valid notice of revocation, either of the foregoing to be executed by the registered shareholder or the registered shareholder's authorized attorney in writing, or, if the registered shareholder is a corporation, under its corporate seal by an officer or attorney duly authorized, and by delivering the proxy bearing a later date to CIBC Mellon Trust Company or at the registered office address of the Corporation, 10025 River Way, Delta, British Columbia, V4G 1M7 Attention: Edward Merlo, Vice President, Finance and Corporate Secretary, at any time up to and including the last business day that precedes the day of the Meeting or, if the Meeting is adjourned, the last business day that precedes any reconvening thereof, or to the chairman of the Meeting on the day of the Meeting or any reconvening thereof, or in any other manner provided by law, or

(b) personally attending the Meeting and voting the registered shareholder's Common Shares.

A revocation of a proxy will not affect a matter on which a vote is taken before the revocation.

## INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

No director or executive officer of the Corporation, nor any person who has held such a position since the beginning of the last completed financial year end of the Corporation, nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of the foregoing persons, has any substantial or material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the Meeting other than the election of directors, the appointment of the auditor, and as otherwise set out herein.

## VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

The Board of Directors of the Corporation (the "Board") has fixed Wednesday, April 3, 2013 as the record date (the "Record Date") for determination of persons entitled to receive notice of the Meeting. Only shareholders of record at the close of business on the Record Date who either attend the Meeting personally or complete, sign and deliver a form of proxy in the manner and subject to the provisions described above will be entitled to vote or to have their Common Shares voted at the Meeting.

As of April 3, 2013, there were 254,898,072 Common Shares issued and outstanding, each carrying the right to one vote. No group of shareholders has the right to elect a specified number of directors and there are no cumulative or similar voting rights attached to the Common Shares.

The Corporation is also authorized to issue an unlimited number of first preferred non-voting shares, issuable in series, and an unlimited number of second preferred non-voting shares, issuable in series.

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 Corporation over the second preferred shares, the Common Shares, and any other shares ranking junior to the first preferred shares.

The rights attached to each series of preferred shares are determinable by the directors of the Corporation when the particular series is created.

On July 10, 2006, the Corporation issued a total of 1,200,000 Series A first preferred non-voting shares (the "Series A First Preferred Shares") convertible in accordance with the Special Rights and Restrictions on the Series A First Preferred Shares, the holders of the Series A First Preferred Shares do not have the right to receive notice of, attend and vote at a general meeting of the Corporation. There were no Series A First Preferred Shares converted during 2012. There remains a balance of 816,800 Series A First Preferred Shares at December 31, 2012.

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 Corporation over the Common Shares and any other shares of the Corporation ranking junior to the second preferred shares. As at April 3, 2013 there were no second preferred shares issued or outstanding.

To the knowledge of the directors and executive officers of the Corporation, the below named shareholders beneficially owned, or controlled or directed, directly or indirectly, Common Shares carrying more than 10% of the voting rights attached to all outstanding Common Shares of the Corporation at April 3, 2013:

| Shareholder Name | Number of Shares Held | Percentage of Issued Shares |
|---|---|---|
| Panta Canada B.V.[1,2] | 136,786,728 | 53.7% |
| Michael C. Scholz[3,4] | 28,308,562 | 11.1% |

Notes:

(1) See also "Interest of Informed persons in Material Transactions – Structured Financings" and "Matters to be Acted Upon – Approval of Issuance of Common Shares on Conversion Note",

(2) Panta Canada B.V., a wholly owned subsidiary of Panta Holdings B.V., is a private investment vehicle, the principal of which is Mr. Jaap Rosen Jacobson, a director of the Corporation. Mr. Rosen Jacobson holds options to purchase 730,500 common shares at a price of $0.05 per common share exercisable up to and including November 15, 2015

(3) Includes 26,780,498 Common Shares owned by Michael C. Scholz and 1,528,064 Common Shares owned by his wife, Carolyn Scholz.

(4) Michael C. Scholz resigned from the Board on June 11, 2009.

The above information was either supplied by the respective insiders or as reported on www.sedi.ca.

The following documents filed with the securities commissions or similar regulatory authority in all Provinces and Territories of Canada are specifically incorporated by reference into this management proxy circular.

- Annual Report containing the Corporation's audited consolidated financial statements for the fiscal year ending December 31, 2012, the report of the auditor's thereon, and the related Management's Discussion & Analysis;
- the Corporation's Annual Information Form dated March 25, 2013 for the fiscal year ending December 31, 2012; and
- the Corporation's Audit Committee Charter forming part of the Corporation's Annual Information Form dated March 25, 2013 for financial year ended December 31, 2012.

Copies of documents incorporated herein by reference may be obtained by a shareholder upon request without charge from Edward Merlo, Vice President, Finance and Corporate Secretary of the Corporation at 10025 River Way, Delta, British Columbia V4G 1M7, telephone number 604-582-1137, or e-mail info@avcorp.com. These documents are also available on the Corporation's SEDAR website at www.sedar.com.

## FINANCIAL STATEMENTS

The audited consolidated financial statements of the Corporation for the fiscal year ending December 31, 2012, with related Management Discussion and Analysis and the report of the auditor over the period, with related Management Discussion and Analysis, will be tabled at the Meeting. The Annual Report containing the Corporation's December 31, 2012 audited financial statements, the report of the auditor, together with related Management Discussion and Analysis for the fiscal year ending December 31, 2012, were mailed to registered shareholders of the Corporation, and to those non-registered shareholders who returned last year's Request Card. Additional information relating to these documents may be obtained from Edward Merlo, Vice President, Finance and Corporate Secretary of the Corporation. These documents are also available on the Corporation's SEDAR website at www.sedar.com. They will also be available at the Meeting.

## VOTES NECESSARY TO PASS RESOLUTIONS

A simple majority of affirmative votes cast at the Meeting is required to pass the resolutions described herein.

If there are more nominees for election as directors or appointment of the Corporation's auditor than there are vacancies to fill, those nominees receiving the greatest number of votes will be elected or appointed, as the case may be, until all such vacancies have been filled. If the number of nominees for election or appointment is equal to the number of vacancies to be filled, all such nominees will be declared elected or appointed by acclamation.

## ELECTION OF DIRECTORS

The Articles of the Corporation provide that the number of directors of the Corporation will be a minimum of three (3) and a maximum of twenty (20). The term of office of each of the Corporation's seven (7) current directors will end at the conclusion of the Meeting. Unless the director's office is earlier vacated in accordance with the provisions of the *Canada Business Corporations Act* (the "CBCA"), each director elected will hold office until the conclusion of the next annual meeting of the Corporation, or if no director is then elected, until a successor is elected.

The following table sets out the names of management's seven (7) nominees for election as directors, all major offices and positions with the Corporation and any of its significant affiliates each now holds, each nominee's principal occupation, business or employment (for the five preceding years for new director nominees), the period of time during which each has been a director of the Corporation and the number of Common Shares of the Corporation beneficially owned by each, directly or indirectly, or over which each exercised control or direction, as at April 3, 2013.

| Nominee Position with the Corporation and Province/State and Country of Residence | Occupation, Business or Employment[1] | Period as a Director of the Corporation | Common Shares Beneficially Owned or Controlled[1] |
|---|---|---|---|
| David Levi[2,3,4]<br>Chairman of the Board and Director<br>British Columbia, Canada | President, Chief Executive Officer and Director of Matrix Asset Management Inc. (TSX listed company) since January 15, 2010; President, Chief Executive Officer and Director of Matrix Investment Management Inc. (TSX listed company) since June 30, 2009; President, Chief Executive Officer and Director of Working Opportunity Fund (EVCC) Ltd. since January 1, 1992; Director, Xantrex Technology Inc. (TSX listed company) since October 9, 1997; President, Chief Executive Officer and Director of GrowthWorks Canadian Fund Ltd. since November 29, 2002; Director, Growth Works Atlantic Venture Fund Ltd. since November 16, 2004; President, Chief Executive Officer and Director, GrowthWorks Commercialization Fund Ltd.; and President, Chief Executive Officer and Director, Ensis Growth Fund Inc. since November 19, 2007 | Director Since February 27, 1999 | 19,741,478[5] |
| Mark van Rooij[4]<br>President, CEO and Director<br>British Columbia, Canada | Chief Executive Officer, Avcorp Industries Inc. (effective April 1, 2007); Executive Vice President, Stork Fokker AESP BV (2002 to 2007); Interim President Stork SP Aerospace (2004); President Fokker Special Products BV (2001 to 2002); Business Development Stork Aerospace (2000 to 2001); Cluster Director Thermal Engineering (2000 to 2001) | Director Since May 17, 2007<br>CEO Since April 1, 2007<br>President Since February 18, 2011 | 408,523[6] |
| Eric Kohn TD[2,3]<br>Director<br>Geneva, Switzerland | Managing Partner of investment banking firms, Barons Financial Services SA, Geneva, Switzerland, and Barons Financial Services (UK) Ltd., London, UK, which is authorized and regulated by the Financial Services Authority; Director and Executive Chairman of the Board, Noventa Limited (LSE AIM NVTA) (TSX listed company NTA) from July 9, 2009 to September 30, 2011 | Since November 16, 2004 | 355,568[7] |

| Nominee Position with the Corporation and Province/State and Country of Residence | Occupation, Business or Employment[1] | Period as a Director of the Corporation | Common Shares Beneficially Owned or Controlled[1] |
|---|---|---|---|
| Kees de Koning[4]<br>Director<br>Nootdorp, The Netherlands | President and CEO Stork Aerospace Industries/Member of Executive Committee Stork NV (from 2001 to 2005); President Stork Fokker AESP BV (from 2002 to 2005); Member of the Advisory Board of the Netherlands Aerospace Laboratory (NLR); Chairman of the "Aerospace Innovation Agenda" taskforce of the Netherlands Agency for Aerospace programmes (NIVR); Member of the task force "Delcraft Works" (for advanced aircraft design) at Delft University, Netherlands. | Since November 2, 2005 | 600,000[8] |
| Elizabeth Otis[4]<br>Director<br>Washington, USA | 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) | Since May 18, 2006 | 42,000[9] |
| Jaap Rosen Jacobson[3]<br>Director<br>Mijdrecht, Netherlands | President of Panta Holdings B.V., a private investment corporation since November 1984. Formerly the principal of VLM Airlines; a regional airline based in Europe, and has extensive knowledge of the manufacturing business and aircraft industry | Since July 31, 2009 | 136,786,728[10] |
| Raymond Castelli[2]<br>Director<br>British Columbia, Canada | CEO, Board Member of Weatherhaven (a leading manufacturer of redeployable canopies and shelter systems in Vancouver, British Columbia) since January 2008; President and CEO of Naikun Wind Development Inc. (a company engaged in the development of a major offshore wind project off the coast of British Columbia) (2007); Co-founder and Senior Vice President of Quadrem Inc. (a global supply chain and e-procurement company) (2005); Director of Corporate Development for Alcan Aluminum Ltd. (a mining and refining operations company) (2000); Six years in the Federal Government, serving as Deputy Chief of Staff to the Prime Minister, Chief of Staff to the Minister of National Defence, as well as to the Ministers of Justice and Indian & Northern Affairs (Prior to 2000) | Since July 1, 2010 | 200,000[11] |

Notes:

(1) The information as to principal occupation, business or employment and Common Shares beneficially owned or controlled is not within the knowledge of the management of the Corporation and has been furnished by the respective nominees or is as reported on www.sedi.ca. Each nominee has held the same or a similar principal occupation with the organization indicated or a predecessor thereof for the last five years.

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

(3) Member of the Compensation and Nominating Committee.

(4) Member of the Executive Committee.

(5) Common Shares are registered to Working Opportunity Fund (EVCC) Ltd. David Levi is President and CEO of GrowthWorks Capital Ltd., the manager of Working Opportunity Fund (EVCC) Ltd. Working Opportunity Fund (EVCC) Ltd. Mr. Levi holds 730,500 stock options, with 243,500 options vesting November 16, 2011; 243,500 options vesting November 16, 2012; and 243,500 options vesting November 16, 2013. Each option is exercisable at $0.05 per common share, representing the weighted average stock price five days prior to November 16, 2010, expiring on November 15, 2015.

(6) Mr. van Rooij holds 5,000 Series A First Preferred Shares. Mr. van Rooij also holds 730,500 stock options, with 243,500 options vesting November 16, 2011; 243,500 options vesting November 16, 2012; and 243,500 options vesting November 16, 2013. Each option is exercisable at $0.05 per common share, representing the weighted average stock price five days prior to November 16, 2010, expiring on November 15, 2015.

(7) Includes 180,568 Common Shares registered to Barons Financial Services Ltd., of which Eric Kohn TD is Chairman and CEO, and whose beneficial owner is Delphi Advisors Ltd. Delphi Advisors Ltd. is a Bermuda corporation which is a bare trustee with respect to the ownership interest of Barons Financial Services Ltd. Mr. Kohn has control and direction over Delphi Advisors Ltd. with respect to Barons Financial Services Ltd. Mr.

Kohn holds 730,500 stock options, with 243,500 options vesting November 16, 2011; 243,500 options vesting November 16, 2012; and 243,500 options vesting November 16, 2013. Each option is exercisable at $0.05 per common share, representing the weighted average stock price five days prior to November 16, 2010, expiring on November 15, 2015.

(8) Mr. de Koning holds 730,500 stock options, with 243,500 options vesting November 16, 2011; 243,500 options vesting November 16, 2012; and 243,500 options vesting November 16, 2013. Each option is exercisable at $0.05 per common share, representing the weighted average stock price five days prior to November 16, 2010, expiring on November 15, 2015.

(9) Ms. Otis holds 1,150 Series A First Preferred Shares. Ms. Otis also holds 730,500 stock options, with 243,500 options vesting November 16, 2011; 243,500 options vesting November 16, 2012; and 243,500 options vesting November 16, 2013. Each option is exercisable at $0.05 per common share, representing the weighted average stock price five days prior to November 16, 2010, expiring on November 15, 2015.

(10) Common Shares are registered to Panta Canada B.V., a wholly owned subsidiary of Panta Holdings B.V., the principal of which is Mr. Jaap Rosen Jacobson, a director of the Corporation. Panta III B.V., a wholly owned subsidiary of Panta Holdings B.V., the principal of which is Mr. Jaap Rosen Jacobson, a director of the Corporation holds 512,040 Series A Preferred Shares. Mr. Rosen Jacobson also holds 730,500 stock options, with 243,500 options vesting November 16, 2011; 243,500 options vesting November 16, 2012; and 243,500 options vesting November 16, 2013. Each option is exercisable at $0.05 per common share, representing the weighted average stock price five days prior to November 16, 2010, expiring on November 15, 2015.

(11) Mr. Castelli holds 730,500 stock options, with 243,500 options vesting November 16, 2011; 243,500 options vesting November 16, 2012; and 243,500 options vesting November 16, 2013. Each option is exercisable at $0.05 per common share, representing the weighted average stock price five days prior to November 16, 2010, expiring on November 15, 2015.

**Cease Trade Orders and Bankruptcies**

Except as set out herein, none of the proposed directors of the Corporation:

(a) was, as at April 3, 2013, or has been, within 10 years before the date of this Management Proxy Circular, a director, chief executive officer or chief financial officer of any company (including the Corporation) that (i) was subject to an order that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer, or (ii) was subject to an order that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer, or

(b) was, as at April 3, 2013, or has been within 10 years before the date of this Management Proxy Circular, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or

(c) has, within the 10 years before the date of this Management Proxy Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

After having made due inquiry, the Corporation confirms that one director, as at the date of this Management Proxy Circular who holds a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been involved with entities that have been subject to bankruptcy proceedings:

(a) Mr. Rosen Jacobson, through Panta Holdings B.V. and its wholly-owned subsidiaries, has controlled OLT Express Germany Gmbh (“OLT”) since August 2012. In January 2013, OLT filed for insolvency in Germany.

(b) Mr. Rosen Jacobson, through Panta Holdings B.V. and its wholly-owned subsidiary Denim Air Holding B.V., has controlled Denim Air B.V. (“Denim Air”) since July 2005. Mr. Rosen Jacobson is a director of Denim air Holding B.V. since July 2007. In February 2010, Denim Air filed for and, was declared, bankrupt, following which its business was restructured and recommenced operations under a new legal entity, Denim Air ACMI B.V., of which Mr. Rosen Jacobson is a director. Denim Air ACMI B.V. is wholly owned by Panta Holdings B.V.

**Majority Voting Policy**

The Corporation does not have a majority voting policy with respect to the election of directors. The Board believes that its nomination process adequately addresses Board composition.

## APPOINTMENT OF AUDITOR

Ernst & Young LLP, Chartered Accountants, 700 West Georgia Street, Vancouver, British Columbia, V7Y 1C7, will be nominated at the Meeting for appointment as auditor of the Corporation at remuneration to be fixed by the directors in place of PricewaterhouseCoopers LLP, Chartered Accountants. The Board resolved on December 17, 2012 that PricewaterhouseCoopers LLP, Chartered Accountants, not be proposed for reappointment as the auditor of the Corporation.

There have been no reportable disagreements between the Corporation and PricewaterhouseCoopers LLP and no qualified opinions or denials of opinions by PricewaterhouseCoopers LLP for the purposes of National Instrument 51-102. A copy of the Corporation's Reporting Package with respect to the termination of PricewaterhouseCoopers LLP and proposed appointment of Ernst & Young LLP as auditor of the Corporation (including the Notice of Change of Auditor, a letter from PricewaterhouseCoopers LLP and a letter from Ernst & Young LLP) is attached as Schedule B to this Management Proxy Circular.

## AUDIT COMMITTEE AND RELATIONSHIP WITH AUDITOR

The Corporation's Audit and Corporate Governance Committee's members during fiscal year ending 2012 were: Eric Kohn TD (Committee Chair), David Levi and Raymond Castelli. National Instrument 52-110 of the Canadian Securities Administrators requires the Corporation to disclose annually certain information concerning the constitution of its Audit Committee and its relationship with its independent auditor. See sections in the Corporation's Annual Information Form for the fiscal year ending December 31, 2012, which contains information about the Corporation's Audit Committee and information containing the Corporation's relationship with its auditor, Ernst & Young LLP.

## OTHER COMMITTEES OF THE BOARD

Other than the Corporation's Audit and Corporate Governance Committee as referenced to above, the Corporation also has the a Compensation and Nominating Committee and an Executive Committee, described below:

### Compensation and Nominating Committee

The Corporation has a Compensation and Nominating Committee of which the current members are Eric Kohn TD (Committee Chair), Jaap Rosen Jacobson and David Levi. The Compensation and Nominating Committee is responsible for screening 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 Corporation. This Committee meets as required to review and make recommendations to the board of directors on all direct and indirect compensation, benefits and perquisites for senior management and directors of the Corporation.

### Executive Committee

The Corporation has an Executive Committee of which the current members are Elizabeth Otis (Committee Chair), Kees de Koning, David Levi and Mark van Rooij. Elizabeth Otis, David Levi and Kees de Koning are considered independent members. Mark van Rooij is not an independent member as he is the President and Chief Executive Officer of the Corporation. The Board has delegated responsibility to the Executive Committee for overseeing the management of the Corporation. This Committee meets monthly to review monthly financial and operational results and provide direction to management, and this Committee 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 is responsible for the appointment, monitoring and succession planning of the Corporation's senior management team. This duty is performed on a regular basis at meetings where management is not present.

## CORPORATE GOVERNANCE

The Board believes that good corporate governance improves corporate performance and benefits all shareholders. The Canadian Securities Administrators (the "CSA") have adopted National Policy 58-201 Corporate Governance Guidelines, which provides non-prescriptive guidelines on corporate governance practices for reporting issuers such as the Corporation. In addition, the CSA has implemented National Instrument 58-101F2 Disclosure of Corporate Governance Practices, which prescribes certain disclosure by the Corporation of its corporate governance practices. A complete description of corporate governance is set out in the Statement of Corporate Governance Practices attached as Schedule A to this Management Proxy Circular.

## COMPENSATION OF EXECUTIVE OFFICERS

During the Corporation's fiscal year ending December 31, 2012 the Corporation had five (5) Named Executive Officers or NEOs (as defined below). As of January 29, 2013, Mr. Whyte ceased to be an employee of the Corporation. During the Corporation's fiscal year ending December 31, 2012 the aggregate direct remuneration paid or payable to the Corporation's Named Executive Officers by the Corporation and its subsidiaries, all of whose financial statements are consolidated with those of the Corporation, was $1,249,819.

The Board has assessed the Corporation's compensation plans for its executive officers to ensure alignment with the Corporation's business plan and to evaluate the potential risks associated with those plans and programs. The Board has concluded that the compensation policies and practices do not create any risks that are reasonably likely to have a material adverse effect on the Corporation. The Board considers the risks associated with executive compensation and corporate incentive plans when designing and reviewing such plans and programs.

The Corporation has not adopted a policy restricting its executive officers or directors from purchasing financial instruments that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by its executive officers or directors. To the knowledge of the Corporation none of the executive officers or directors have purchased such financial instruments.

## GENERAL PROVISIONS

"Named Executive Officer" ("NEO") means each of the following individuals:

(a) a Chief Executive Officer ("CEO");

(b) a Chief Financial Officer ("CFO");

(c) each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year whose total compensation was, individually, more than $150,000 for that financial year; and

(d) each individual who would be a NEO under paragraph (c) but for the fact that the individual was neither an executive officer of the company, nor acting in a similar capacity, at December 31, 2012.

The following discussion includes disclosure relating to all compensation that the Board intended to pay, make payable, award, grant, give or otherwise provide to each NEO and director for the fiscal year ending December 31, 2012.

## COMPENSATION AND DISCUSSION ANALYSIS

### Compensation Objectives and Components

The Corporation's compensation policies and programs were designed to enable the Corporation to attract and retain senior management with the qualifications and experience necessary for the Corporation, given the stage of its development and the goals of its strategic plan. The objectives of the compensation program are also to motivate the executives and other members of management to achieve the strategic goals of the Corporation and their own specific objectives and goals as approved by the Compensation and Nominating Committee.

The general approach of the Compensation and Nominating Committee is that compensation of executive officers should be competitive with companies in the same industry but relies on the discussions of the Board, without any formal objectives, criteria and analysis, for determining executive compensation.

The compensation for executives includes four components: base salary, annual bonus, stock options and perquisites. As a package, the compensation components are intended to satisfy the objectives of the compensation program (that is, to attract, retain and motivate qualified executives). There are no predefined or standard termination payments, change of control arrangements or employment contracts; however three NEOs are party to employment agreements that contain termination provisions. See "Termination and Change of Control Benefits".

### Base Salary

The base salary component is intended to remunerate the NEO for discharging his or her responsibilities and duties. The Compensation and Nominating Committee reviews competitive market data for each executive position and recommends a base salary for each position. Salaries are reviewed annually and adjusted to reflect factors such as performance of the executive in the previous year, overall corporate performance and economic factors such as inflation.

**Annual Bonus**

The bonus component is intended to reward performance by an executive that achieves or exceeds the executive's objectives and goals for the year. The bonus available for any particular executive is set by the Compensation and Nominating Committee within pre-established guidelines of the Board, and is arrived at through a review of comparable information in the industry and discussion at the Committee level. The decision each year whether to pay a bonus is made by the Board on recommendations of the Compensation and Nominating Committee and depends on the Corporation's cash position.

**Stock Options**

The stock option component is intended to encourage loyalty of executives and align the interests of the executives with shareholders, to provide long-term rewards that are linked directly to the market price of the Corporation's shares and to provide incentive to increase their proprietary interest in the Corporation and thereby encourage their continuing association with the Corporation. This component satisfies the objective of the compensation program in encouraging executives to focus on assisting the Corporation to meet its strategic and operational goals.

The stock option plan (the "2007 Share Option Plan") is administered by the Board. Options are granted to executives based on seniority and the responsibilities of the position in question. The process by which the Board grants option-based awards to executive officers is:

> The Board/Compensation and Nominating Committee approves base salaries, annual cash incentives and stock options at the same time to facilitate consideration of target direct compensation to executive officers. Options are granted at other times of the year to individuals commencing employment with the Corporation. The exercise price for the options means the amount payable per Common Share on the exercise of an Option, provided such price shall be no less than the Market Price. Market Price of the Common Shares at any relevant date means the volume weighted average Canadian dollar trading price of the Common Shares on the Toronto Stock Exchange ("TSX") for the five trading days prior to that relevant date, calculated by dividing the total value by the total volume of Common Shares traded.

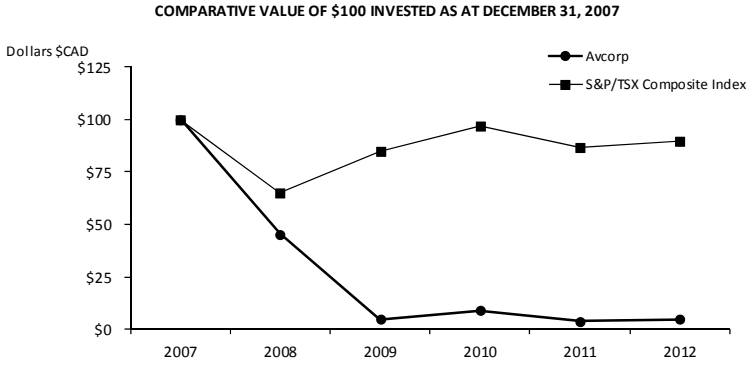
See Heading "RATIFICATION OF SHARE OPTION PLAN" for a discussion of the material provisions of the 2007 Share Option Plan of the Corporation.

**Perquisites**

The perquisites offered by the Corporation to NEOs are a car allowance, RRSP contributions, life insurance premiums and in special circumstances with Compensation and Nominating Committee approval, a housing allowance. The perquisite component of the compensation program is intended to enable the Corporation to offer a total compensation package that is competitive and fits within the overall compensation objective of the Corporation by providing a method for the Corporation to attract and retain qualified executives.

## PERFORMANCE GRAPH

The following graph compares the cumulative total return to a shareholder who invested $100 in Common Shares of the Corporation compared to an investment of the same amount in the S&P/TSX Composite Index for the five most recently completed financial years.




Return on $100 invested in AVP and TSX

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Avcorp | $100 | $45 | $5 | $9 | $4 | $5 |
| S&P/TSX Composite Index | $100 | $65 | $85 | $97 | $86 | $90 |

**Trend**

The above graph for the Corporation shows a decrease of 96% over the period from 2007 to 2011 and an increase of 20% during 2012 over 2011. The decrease in cumulative total return during 2009 can be attributed to volatile market conditions in 2009. During the same period from 2007 to 2011 the Corporation's cumulative total return decreased as compared to a S&P/TSX Index decrease of 14%.

## SUMMARY COMPENSATION TABLE

Mark van Rooij, President and Chief Executive Officer, Edward Merlo, Vice-President Finance and Corporate Secretary, Patrick Whyte, former President, Comtek Advanced Structures Ltd., Paul Wiggum, Vice-President, Business Development and Amandeep Kaler, Vice-President, Operations, are each an NEO of the Corporation for the purposes of the following disclosure. The compensation earned or paid to the NEOs during the Corporation's most recently completed financial year is detailed below and expressed in Canadian dollars unless otherwise noted:

| Name and principal position | Year | Salary[1] ($) | Share-based awards[2] ($) | Option-based awards[2] ($) | Non-equity incentive plan compensation[3] ($) | | Pension value[5] ($) | All other compensation[6] ($) | Total compensation[7] ($) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Annual incentive plans[3] | Long-term incentive plans[4] | | | |
| Mark van Rooij<br>President and Chief Executive Officer | 2012<br>2011<br>2010 | 280,000<br>236,774<br>210,060 | --<br>--<br>-- | --<br>--<br>22,738 | --<br>--<br>31,500 | --<br>--<br>-- | --<br>--<br>-- | 50,755<br>47,048<br>45,924 | 330,755<br>283,822<br>310,222 |
| Edward Merlo<br>Vice-President Finance and Corporate Secretary | 2012<br>2011<br>2010 | 175,350<br>175,350<br>167,048 | --<br>--<br>-- | --<br>--<br>22,738 | 26,303<br>--<br>25,000 | --<br>--<br>-- | --<br>--<br>-- | 23,200<br>23,200<br>22,563 | 224,852<br>198,550<br>237,349 |
| Patrick Whyte[8]<br>Former President, Comtek Advanced Structures Ltd. | 2012<br>2011<br>2010 | 180,000<br>180,000<br>175,801 | --<br>--<br>-- | --<br>--<br>-- | --<br>--<br>27,024 | --<br>--<br>-- | --<br>--<br>-- | 6,269<br>6,547<br>7,923 | 186,269<br>186,547<br>210,748 |
| Paul Wiggum[9]<br>Vice-President Business Development | 2012 | 180,115 | -- | 36,806 | -- | -- | -- | 60,767 | 277,688 |
| Amandeep Kaler[10]<br>Vice-President Operations | 2012<br>2011<br>2010 | 176,552<br>169,760<br>162,077 | --<br>--<br>-- | --<br>--<br>22,738 | 25,709<br>10,000<br>24,000 | --<br>--<br>-- | --<br>--<br>-- | 27,994<br>21,036<br>20,223 | 230,255<br>200,796<br>229,038 |

Notes:

(1) Includes the dollar value of cash and non-cash base salary earned during a financial year covered.

(2) This amount represents the dollar amount based on the grant date fair value of the award for the year.

(3) These amounts include annual non-equity incentive plan compensation, such as bonuses and discretionary amounts.

(4) These amounts include non-equity incentive plan compensation for a year long period of January 1 to December 31.

(5) These amounts include all compensation relating to defined benefit or contribution plans and include all service costs and other compensatory items.

(6) These amounts cover compensation other than amounts already set out in the table for the year and include car and housing allowances, RRSP contributions and life insurance premiums, and incentive signing payments, as well as termination payments.

(7) These amounts include all amounts set out in table form for each NEO and executive officer.

(8) As of January 29, 2013, Patrick Whyte was no longer an employee of the Corporation.

(9) Paul Wiggum was appointed Vice-President Business Development of the Corporation on January 1, 2012.

(10) Amandeep Kaler was appointed Vice-President Operations of the Corporation on September 1, 2008.

## INCENTIVE PLAN AWARDS

On November 15, 2010, the Corporation granted 8,766,000 options, the fair value was $273,000. These options are exercisable at $0.05 each, with 2,922,000 options vesting on November 16, 2011, 2,922,000 options vesting on November 16, 2012 and 2,922,000 options vesting on November 16, 2013. All 8,766,000 options expire on November 15, 2015.

On February 17, 2012, the Corporation granted 730,500 options, the fair value was $43,830. These options are exercisable at $0.06 each, with 487,000 options vesting on November 16, 2012 and 243,500 options vesting on November 16, 2013. All 730,500 options expire on November 15, 2015.

On October 9, 2012, the Corporation granted 1,250,000 options, the fair value was $62,500. These options are exercisable at $0.05 each, with 312,500 options vesting on October 9, 2012, 312,500 options vesting on April 23, 2013, 312,500 options vesting on April 23, 2014 and 312,500 options vesting on April 23, 2015. All 1,250,000 options expire on April 23, 2016.

On October 9, 2012, the Corporation granted 1,250,000 options, the fair value was $62,500. These options are exercisable at $0.05 each, with 312,500 options vesting on October 9, 2012, 312,500 options vesting on May 1, 2013, 312,500 options vesting on May 1, 2014 and 312,500 options vesting on May 1, 2015. All 1,250,000 options expire on May 1, 2016.

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

| | 2,500,000 Options | 730,500 Options |
|---|---|---|
| Risk-free rate (%) | 1.30 | 1.57 |
| Dividend yield (%) | 0 | 0 |
| Expected Lives (years) | 3.5 | 3.8 |
| Volatility (%) | 86.09 | 84.62 |

### Outstanding share-based awards and option-based awards

The share options granted in previous years to the Named Executive Officers and outstanding during the financial year ended December 31, 2012 were as follows:

| | Option-based Awards | | | | Share-based Awards | |
|---|---|---|---|---|---|---|
| Name | Number of securities underlying unexercised options (#) | Option exercise price ($)[(1)] | Option expiration date | Value of unexercised in-the-money options ($) | Number of shares or units of shares that have not vested (#) | Market or payout value of share-based awards that have not vested ($) |
| Mark van Rooij | 730,500 | $0.05 | November 15, 2015 | $0 | -- | -- |
| Edward Merlo | 730,500 | $0.05 | November 15, 2015 | $0 | -- | -- |
| Amandeep Kaler | 730,500 | $0.05 | November 15, 2015 | $0 | -- | -- |
| Paul Wiggum | 1,250,000 | $0.05 | May 1, 2016 | $0 | -- | -- |

Notes:

(1) Option exercise price is based upon the market value of the Common Shares of the Company, calculated as the five day volume weighted average trading price for the Common Shares on the Toronto Stock Exchange.

### Repricing of Stock Options by the Named Executive Officers

No share options were repriced on behalf of the Named Executive Officers during the financial year ended December 31, 2012.

## PENSION PLAN BENEFITS

The Corporation has no pension plans for its directors, officers or employees.

## TERMINATION AND CHANGE OF CONTROL BENEFITS

The Corporation has three employment agreements in place which prescribe termination and change in control benefits.

The first being the agreement effective April 1, 2007 with Mark van Rooij providing for Mr. van Rooij's employment with the Corporation as Chief Executive Officer. Mr. van Rooij is entitled to terminate his employment with the Corporation on 90 days written notice. If the Corporation terminates Mr. van Rooij's employment without just cause, it will be required to pay, as severance, the gross amount of $305,000 less statutory deductions in equal instalments over a 12 month period (the "Severance"). In the event of a material reduction in his duties, as set out in the employment agreement, Mr. van Rooij would be entitled to resign and seek compensation equal to the Severance.

The employment agreement also provides for life insurance, health, relocation assistance, other benefits and consideration for grants of options under the Corporation's incentive stock option plan.

The employment agreement provides that in the event of a change of ownership of the Corporation, Mr. van Rooij will be entitled to resign his employment at any time within one year of the date of change of ownership if there is a reduction of his aggregate compensation, an assignment or reduction of duties inconsistent with his position or a change in work location outside of British Columbia. Upon such resignation, or if his employment is terminated by the Corporation with or without cause within one year of a change of control of the Corporation, Mr. van Rooij would be entitled to receive the Severance.

The second agreement in place is effective May 1, 2012 for Paul Wiggum, Vice President, Business Development. Mr. Wiggum was appointed Vice-President, Business Development of the Corporation on January 1, 2012.

Mr. Wiggum may terminate his employment with the Corporation by giving not less than 60 days written notice. If Mr. Wiggum gives notice of termination to the Corporation as provided in the previous sentence, the Corporation may, at its sole discretion, immediately terminate this agreement and Mr. Wiggum's employment without notice or compensation in lieu of notice and upon payment of a lump sum of $7,500 Avcorp will have no further obligations to Mr. Wiggum with respect to the termination of his employment or this agreement, including without limitation any further compensation, severance pay or damages.

If for any reason, other than cause, the employment is terminated by the Corporation, it will pay regular salary and benefits; in the form of salary continuation for the period of six months from the date which notification of termination of employment is made.

The other agreement in place is for Brent Collver, President of Comtek Advanced Structures, (the "Comtek Agreement"). Mr. Collver was appointed President of Comtek Advanced Structures on September 1, 2012. The agreement is effective September 1, 2012, and Mr. Collver is entitled to terminate his employment with the Corporation on six months written notice.

With respect to Mr. Collver's Agreement, the employment of the executive may be terminated at any time within three full fiscal years after the commencement of this agreement, without cause and without any advance notice by paying the executive, as agreed severance, an amount equal to eighteen months of the executive's salary. The employment of the executive may be terminated at any time after three full fiscal years after the commencement of this agreement by the Corporation, without cause and without any advance notice by paying the executive, as agreed severance, an amount equal to twelve months of the executive's salary. Such amounts shall be payable notwithstanding any other employment income or compensation received by the executive after termination.

The Corporation will permit the executive to participate in any benefit plan(s) (including but not limited to those relating to stock options, extended health and life and accidental death) which may be offered by the Corporation from time to time to its senior staff generally in the manner and to the extent authorized by the Board of the Corporation in its discretion. During the term of the executive's employment pursuant to this agreement, the Corporation shall pay the premiums for a life insurance policy or policies on the life of the executive.

## DIRECTOR COMPENSATION

### Director Compensation Table

The compensation provided to the directors, excluding a director who is included in the disclosure for NEOs for the Corporation's most recently completed fiscal year ending December 31, 2012 is as set out below:

| Name[1] | Fees earned[2] ($) | Share-based Awards ($) | Non-equity incentive plan compensation ($) | Pension value ($) | All other compensation[3] ($) | Total ($) |
|---|---|---|---|---|---|---|
| Eric Kohn TD | 23,360 | -- | -- | -- | -- | 23,360 |
| Kees de Koning | 26,250 | -- | -- | -- | 62,000 | 88,250 |
| David Levi | -- | -- | -- | -- | -- | -- |
| Elizabeth Otis | 26,250 | -- | -- | -- | -- | 26,250 |
| Jaap Rosen Jacobson | -- | -- | -- | -- | -- | -- |
| Raymond Castelli | 16,500 | -- | -- | -- | -- | 16,500 |

Notes:

(1) Does not include disclosure for a director who is also an NEO unless compensation has not previously been fully disclosed herein.

(2) Includes all fees awarded, earned, paid or payable in cash for services as a director, including annual retainer fees, committee, chair and meeting fees.

(3) Includes all compensation paid, awarded, granted, given or otherwise provided, directly or indirectly.

The directors of the Corporation, other than those employed by the Corporation, GrowthWorks Capital Ltd. or Panta Holdings B.V., receive fees in their capacity as directors. Eligible directors are each paid, or accrued to be paid, $9,000 per annum as a director's fee plus $750 for each meeting attended. All directors are reimbursed for actual expenses reasonably incurred in connection with the performance of their duties as directors.

During the year ended December 31, 2012, 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, 2012 amounted to $62,000.

## RATIFICATION OF SHARE OPTION PLAN

### General

The Corporation has in place a "rolling" share option plan. At the Corporation's May 18, 2010 Annual General Meeting, shareholders approved an amendment to the plan, to convert from a "fixed" plan to a "rolling" plan (the "2007 Share Option Plan"). A "rolling" plan is a stock option plan which does not have a fixed number of securities issuable. The 2007 Share Option Plan was established to provide incentives to increase individual performance and shareholder value, and to assist with the retention of employees.

### Shareholder Approval Required

Under the policies of the TSX, listed companies are required to have unallocated options to a "rolling" stock option re-approved by shareholders every three years. At the Meeting, shareholders will be asked to pass substantially the following resolution:

**"Resolved that:**

(a) all currently available and unallocated options issuable pursuant to the 2007 Share Option Plan are hereby approved and authorized for grant until May 23, 2016; and

(b) the Corporation has the ability to continue granting options under the 2007 Share Option Plan on a 10% of the issued Common Shares rolling basis."

To pass, the resolution must be approved by a majority vote of those shareholders who vote on the resolution at the Meeting. As the 2007 Share Option Plan contains prescribed limits on participation in the plan by insiders of the Company, any shareholder who is an insider and who received options under the plan may also vote on this resolution.

All previously allocated options will continue unaffected regardless of the outcome of the vote. However, should the resolution not be approved by the shareholders, the Corporation will no longer be able to make option grants under the 2007 Share Option Plan, and all allocated options will no longer be available for reallocation if they are cancelled, or expire unexercised. Any future option grants then would require shareholder approval.

As at April 3, 2013 Record Date for this Meeting, there were options outstanding to purchase 11,266,000 Common Shares in the capital of the Corporation (representing 4.42% of the current issued and outstanding Common Shares in the capital of the Corporation). There are unallocated options remaining in the Option Plan to purchase an aggregate of 14,223,807 Common Shares (approximately 5.58 % of the current issued and outstanding Common Shares in the capital of the Corporation).

**Board Recommendation**

The Board is of the view that the 2007 Share Option Plan provides the Corporation with the flexibility necessary to attract and retain the services of senior executives and other employees. Accordingly, the Board recommends that shareholders vote in favour of the resolution ratifying the 2007 Share Option Plan.

**Summary of Material Terms of the 2007 Share Option Plan**

The following is a summary of the material terms of the Plan:

(a) **Participants**. Options may be granted to "Participants", which is defined in the Plan as a Person entitled to become an Optionee under the Plan, namely a Director, Officer, Employee or Service Provider of the Corporation, or any personal holding corporation controlled by an eligible person of the corporation or any registered retirement savings plans established by an eligible person of the Corporation, and any person engaged to provide ongoing management or consulting services for the Corporation, whether or not they have a written employment contract with the Corporation, determined by the Board as being eligible for participation in the Plan;

(b) **Corporation**. "Corporation" is defined in the Plan as Avcorp Industries Inc. and includes, unless the context otherwise requires, all of its Subsidiaries and Affiliates and successors according to law;

(c) **Plan Administrator**. The Option Plan is administered by a designated director or officer of the Corporation to whom responsibility for the administration of the Plan has been delegated by the Board;

(d) **Service Providers**. A "Service Provider" is defined in the Plan as a person engaged by the Corporation to provide services for an initial renewable or extendable period of twelve months or more. "Person" has the meaning set out in the TSX Manual;

(e) **Maximum Plan Shares**. The maximum number of Common Shares that may be reserved for issuance under the Plan at any point in time is 10% of the outstanding Common Shares at the time Plan Shares are reserved for issuance as a result of the grant of an Option, less any Common Shares reserved for issuance under share options granted under share compensation arrangements other than the Plan. The aggregate number of Common Shares reserved for issuance to any one Optionee, under the Plan or any other share compensation arrangement, shall not exceed the number of Common Shares permitted to be so reserved for such Optionee by law and by regulations, rules or policies of any securities authority or stock exchange with which the Corporation my comply;

(f) **Restrictions**. The aggregate number of Common Shares reserved for issuance pursuant to all share compensation arrangements in favour of any one Optionee shall not exceed 5% of the outstanding Common Shares at the time of such grant. In addition, the aggregate number of Common Shares reserved for issuance to Insiders under all share compensation arrangements shall not exceed 10% of the number of outstanding Common Shares, and the number of Common Shares issued to Insiders, within any one year period, under all share compensation arrangements shall not exceed 10% of the outstanding Common Shares;

(g) **Method of Determining Exercise Price**. The exercise price for the Options is the "market price" which means the volume weighted average Canadian dollar trading price of the Common Shares of the Corporation on the TSX for the five trading days prior to the date of grant, calculated by dividing the total value by the total volume of Common Shares traded (or, if such Common Shares are not then listed and posted for trading on the TSX, on such stock exchange on which such Common Shares are listed and posted for trading as may be selected for such purpose by the Board). In the event that such Common Shares are not listed and posted for trading on any stock exchange, the market price shall be the fair market value of such Common Shares as determined by the Board in their sole discretion;

(h) **Vesting of Options**. The vesting of Options under the Plan is at the discretion of the Plan Administrator, and will generally be subject to:

i. the Participant to whom an Option is granted remaining employed by or continuing to provide services to the Corporation, as well as, at the discretion of the Plan Administrator, achieving certain milestones which may

be defined by the Board from time to time, or receiving a satisfactory performance review by the Corporation during the vesting period; or

ii. remaining as a Director or Officer of the Corporation during the vesting period.

At the time an Option is granted which carries vesting provisions, the Plan Administrator may vary such vesting provisions, subject to any regulatory approval and ratification by the Board;

(a) **Term of Options**. Options can be exercisable for a term of up to a maximum of ten (10) years from the date the Option is granted, subject to the Black-Out provisions stated in the Plan;

(b) **Termination of Options**. No Option may be exercised after the eligible person has left the employ/office or has been advised his services are no longer required or his service contract has expired, except as follows:

i. in the case of the death of an Optionee, any vested Option held by him at the date of death will become exercisable by the Optionee's lawful personal representatives, heirs or executors until the earlier of up to one year after the date of death of such Optionee and the date of expiration of the term otherwise applicable to such Option;

ii. any vested Options granted to any Optionee shall expire 90 days after the date the Optionee ceases to be employed by, provide services to the Corporation, or be a Director or Officer, and all unvested Options shall immediately terminate without right to exercise same. In the case of an Optionee being dismissed from employment or service for cause, such Optionee's Options, whether or not vested at the date of dismissal, will immediately terminate without right to exercise same;

iii. in the event of a Change of Control occurring, Options granted to Directors and Officers which are subject to vesting provisions shall be deemed to have immediately vested upon the occurrence of the Change of Control;

iv. in the event of a Director not being nominated for re-election as a Director of the Corporation, although consenting to act and being under no legal incapacity which would prevent the Director from being a member of the Board, Options granted to such Director which are subject to a vesting provision shall be deemed to have vested on the date of Meeting upon which the Director is not re-elected. Upon an Optionee's employment being terminated for cause or upon an Optionee being removed from office as a Director or becoming disqualified from being a Director by law, any Option or the unexercised portion thereof granted to him shall terminate forthwith;

(c) **Assignability of Options**. All Options are exercisable only by the Optionee to whom they are granted and are not assignable or transferable, except by will or by the laws of succession of the domicile of the deceased Optionee. No Option granted shall be pledged, hypothecated, charged, transferred, assigned or otherwise encumbered or disposed of, and if any attempt is made to do so, it will automatically become null and void;

(d) **Financial Assistance**. Subject to applicable law, the Corporation may, in its sole discretion, arrange for the Corporation to make loans or provide guarantees for loans by financial institutions to assist Participants to purchase Common Shares upon the exercise of an Option granted and to assist in paying any income tax payable upon exercise of an Option. Any loans so granted by the Corporation will be full recourse to the Participant and be secured by the Common Shares purchased with the proceeds of the loan, and will be at such rates of interest, if any, and on such other terms as may be determined by the Corporation;

(e) **Black-Out Period**. The Plan also contains a "black-out" provision. Should the expiry date for an Option fall within a black out period or within 9 business days following expiration of the black-out period, such expiry date shall be the 10th business day after the end of the black-out period, such 10th business day to be considered the expiration date for such Option for all purposes under the Plan. The 10th business day period referenced in the Plan may not be changed by the Board under any circumstances.

**Plan Amendments**

The approval of the Board and the requisite approval from the TSX and the Corporation's shareholders shall be required for any of the following amendments to be made to this Plan:

(a) any amendment to the number of Common Shares issuable under this Plan;

(b) any reduction in the exercise price of an Option (other than for standard anti-dilution purposes) held by or benefiting an Insider;

(c) an increase in the maximum number of Options that may be issued to Insiders within any one year period or that are issuable to Insiders at any time;

(d) an extension of the term of an Option held by or benefiting an Insider;

(e) any change to the definition of "Participant" which would have the potential of broadening or increasing Insider participation;

(f) any amendment to the financial assistance provisions described herein which is more favourable to Participants;

(g) the addition of a cashless exercise feature, payable in cash or securities which does not provide for a full deduction of the number of Common Shares reserved for issuance hereunder;

(h) the addition of a deferred or restricted share unit or any other provision which results in Participants receiving securities while no cash consideration is received by the Corporation; and

(i) any other amendment that may lead to significant or unreasonable dilution in the Corporation's outstanding securities or may provide additional benefits to Participants, especially Insiders, at the expense of the Corporation and its Shareholders.

The Board may, in its sole discretion, without the approval of the Corporation's shareholders, but subject to receipt of the requisite approval from the TSX, make all other amendments to the Plan that are not of the type contemplated in the Plan including, without limitation:

(a) amendments of a clerical or typographical nature;

(b) a change to the vesting provisions of an Option or the Plan;

(c) a change to the termination provisions of an Option or the Plan which does not entail an extension beyond the original Expiry Date, except as contemplated in Plan;

(d) the addition of a cashless exercise feature, payable in cash or securities, which provides for a full deduction of the number of underlying securities from the Plan reserve;

(e) an amendment to the Exercise Price of an Option other than as contemplated in the Plan;

(f) an amendment to the Expiry Date of an Option, unless the amendment extends the Expiry Date of an Option held by an Insider;

(g) an addition to, deletion from or alteration of the Plan or an Option that is necessary to comply with applicable law or the requirements of any regulatory authority or stock exchange;

(h) an amendment to correct or rectify any ambiguity, defective provision, error or omission in the Plan or an Option; and

(i) any other amendment to Options held by non-Insiders not otherwise specifically provided for herein.

On March 30, 2011, the Board approved certain "housekeeping" amendments to its 2007 Share Option Plan in order to comply with new withholding tax requirements promulgated by The Income Tax Act (Canada) that took effect January 1, 2011, requiring the Corporation to withhold and remit to the Canada Revenue Agency, the estimated withholding tax on the deemed benefit arising from an employee's exercise of options.

These amendments to the 2007 Share Option Plan were of an administrative nature only and do not negatively affect the holders of Common Shares of the Corporation.

A copy of the Corporation's 2007 Share Option Plan will be available for review by any shareholder at the Meeting.

During 2012, there was no share purchase options exercised. The following table sets out equity compensation plan information as at the financial year ended December 31, 2012.

**Equity Compensation Plan Information**

| | Number of securities to be issued upon exercise of outstanding options | Weighted-average exercise price of outstanding options |
|---|---|---|
| Plan Category | (a) | (b) |
| Equity compensation plans approved by securityholders - (the 2007 Share Option Plan) | 11,266,000 | $0.05 |
| Equity compensation plans not approved by securityholders | Nil | Nil |
| Total | 11,266,000 | $0.05 |

## INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

Other than as set out below, no other directors, proposed nominees for election as directors, executive officers or their respective associates or affiliates, or other management of the Corporation were indebted to the Corporation as of the end of the most recently completed financial year or as at the date hereof.

| Name | Balance Owing as at April 3, 2013[(1)] |
|---|---|
| Edward Merlo | $14,670 |
| Amandeep Kaler | $ 4,896 |

Notes:

(1) The Corporation provided interest free loans to these two officers. The loans are repayable on demand by the Corporation.

## INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

This Management Proxy Circular, including the disclosure below, briefly describes (and, where practicable, states the approximate amount) of any material interest, direct or indirect, of any informed person of the Corporation, any proposed director of the Corporation, or any associate or affiliate of any informed person or proposed director, in any transaction since the commencement of the Corporation's most recently completed financial year or in any proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries

**Operating Line of Credit**

The Company's operating line of credit provides for a total utilization of $12,000,000. The Company's new banking agreement with a Canadian Chartered bank expires on September 27, 2015 and the facilities are due on demand.

**Convertible Loan**

On September 27, 2012 the Corporation converted into common shares the principal portion of the convertible loan, which had the following terms and conditions:

On April 16, 2010, the Corporation completed a secured subordinated convertible loan with a principal amount of $1,771,000 which was convertible into common shares.

The secured subordinated convertible loan was provided by Panta Canada B.V., a related party. The loan, which was evidenced by a promissory note, had a five year term with an interest rate of 6% per year; it was secured by a security interest in all of the Corporation's present and after-acquired personal property and a floating charge on land which ranked subordinate to all liens, charges and security interests disclosed. The $1,771,000 principal amount was converted into common shares at a conversion price of $0.07 per common share. The $259,000 accumulated interest, which was not convertible, was paid concurrently with the principal conversion.

**Term Loan**

On September 27, 2012 the Corporation repaid in full the term loan and accrued interest having the following terms and conditions:

On May 24, 2011, the Corporation completed a secured subordinated term loan with a principal amount of $6,000,000. The Corporation received full funding from the loan on July 8, 2011.

The secured subordinated term loan was provided by Panta III B.V., a related party. The loan, which was evidenced by a promissory note, had a five year term; it was secured by a security interest in all of the Corporation's present and after-acquired personal property and a floating charge on land which ranked subordinate to all liens, charges and security interests disclosed. Interest was calculated, compounded, and paid monthly. Prepayments in whole or in part of the loan were permitted at any time without penalty. As per the requirements of the TSX, exercise of the conversion right of the loan into 85,714,286 common shares at a conversion price of $0.07 per common share was subject to disinterested shareholder approval, which approval was sought at the 2011 annual meeting of shareholders on June 16, 2011. As the conversion feature of the loan was not approved by the Corporation's shareholders at its annual meeting, the interest rate under the loan was 15% per annum.

As partial consideration for the loan, the Corporation issued to Panta III B.V., 19,550,532 common share purchase warrants, each warrant exercisable on or before January 1, 2015 with respect to one common share at an exercise price of $0.0713 per common share.

## MANAGEMENT CONTRACTS

Except as set out herein, there are no management functions of the Corporation which are to any substantial degree performed by a person or company other than the directors or executive officers of the Corporation.

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Corporation provides insurance for the benefit of the directors and officers of the Corporation, more particularly described as follows:

(a) the premium for the primary D&O insurance is, in aggregate for directors and officers, $39,000. Following the completion of a private placement and the September 27, 2012 loan conversion into common shares, Panta Canada B.V. owned approximately 53.7% of the outstanding common shares of the Corporation. The policy period was then also placed into run-off coverage for the period September 28, 2012 to September 28, 2015. The premium for the primary D&O run-off insurance is $57,000;

(b) the limit of the primary and run-off D&O insurance is $10,000,000 (penal defence coverage and professional services are limited to $10,000,000 each);

(c) there is a $50,000 deductible with respect to Corporate indemnification for penal defence cost reimbursement and professional services which the Corporation would pay in the event of a claim in these areas;

(d) the premium for the excess D&O insurance is, in aggregate for directors and officers, $25,000. The premium for the excess D&O run-off insurance is $39,000;

(e) the limit of the excess and excess run-off D&O insurance is $10,000,000;

(f) there is no deductible for a claim made directly against a director or officer for which the corporation is not permitted to indemnify them; and

(g) the policy is non-rescindable by the insured with respect to coverage for the directors and officers.

## INDEMNIFICATION

No indemnification under section 124 of the CBCA has been paid or is to be paid for the last completed financial year.

## ADDITIONAL INFORMATION

Additional information relating to the Corporation is available on SEDAR at www.sedar.com. Financial information is provided in the Corporation's comparative financial statements and Management Discussion and Analysis. The Corporation will provide to any person or Corporation, upon request to Edward Merlo, Vice President, Finance and Corporate Secretary of the Corporation at 10025 River Way, Delta, British Columbia V4G 1M7, telephone number 604-582-1137, or e-mail info@avcorp.com, one copy of any of the following documents:

(a) the comparative financial statements of the Corporation filed with the applicable securities regulatory authorities for the Corporation's most recently completed financial year in respect to for which such financial statements have

been filed, together with the report of the auditor, related management's discussion and analysis and any interim financial statements of the Corporation filed with the applicable securities regulatory authorities subsequent to the filing of the annual financial statements; and

(b) the management proxy circular of the Corporation filed with the applicable securities regulatory authorities in respect of the most recent annual meeting of shareholders of the Corporation which involved the election of directors.

Copies of the above documents will be provided, upon request, free of charge to security holders of the Corporation. The Corporation may require the payment of a reasonable charge from any person or company who is not a security holder of the Corporation, who requests a copy of any such document. The foregoing documents are also available on the Corporation's SEDAR website at www.sedar.com.

## OTHER MATTERS

The Board is not aware of any other matters which it anticipates will come before the Meeting as of the date of mailing of this Management Proxy Circular.

## SHAREHOLDER PROPOSALS

Pursuant to Canadian law, shareholder proposals to be considered for inclusion in the management proxy circular for the 2013 annual meeting of the Corporation (tentatively scheduled for May 22, 2014) must be received by the Secretary of the Corporation on or before the close of business on February 21, 2014.

## DIRECTORS' APPROVAL

The contents of this Management Proxy Circular and its distribution to shareholders have been approved by the Board of the Corporation.

**DATED** at Delta, British Columbia, April 19, 2013.

*"Mark van Rooij"*

**Mark Van Rooij**
**President and Chief Executive Officer**

## Schedule A attached to Avcorp Industries Inc. Management Proxy Circular dated April 19, 2013
## Disclosure of Corporate Governance

The Corporation is committed to maintaining high standards of corporate governance. The Corporation has adopted an Audit Committee Charter (as attached to the Corporation's Annual Information Form dated March 25, 2012 for fiscal year ending December 31, 2012 which is available on the Corporation's SEDAR website at www.sedar.com), and a Business Code of Conduct which is also available on the Corporation's SEDAR website at www.sedar.com and is in the process of establishing a comprehensive corporate governance policy to continually assess its governance practices as corporate governance policies, practices and requirements evolve.

On June 30, 2005, National Instrument 58-101 *Disclosure of Corporate Governance Practices* ("NI 58-101") and National Policy 58-201 *Corporate Governance Guidelines* ("NI 58-201") came into effect (the "Guidelines"). These rules require issuers to disclose the corporate governance practices that they have adopted and provide guidance on corporate governance practices.

The following disclosure has been approved by the Board and is as current as at fiscal year ending December 31, 2012.

| NI 58-101 | Corporate Governance Practices |
|---|---|
| **1. Board of Directors** | |
| (a) Disclose the identity of directors who are independent. | NI 58-101 states that a director is independent if a reasonable person with knowledge of all the relevant circumstances would conclude that the director is independent of management of the Corporation and of any significant security holder of the Corporation.<br><br>During 2012, the Corporation had seven directors listed below, the majority of whom meet the independence standards as set out by NI 58-101. |
| (b) Disclose the identity of directors who are not independent, and describe the basis for that determination. | Explanations for the determination of these directors' non-independence is as follows: |
| (c) Disclose whether or not a majority of directors are independent. If a majority of directors are not independent, describe what the board of directors (the board) does to facilitate its exercise of independent judgment in carrying out its responsibilities. | The Board has determined that the majority of directors are independent within the meaning of NI 58-101.<br><br>The Corporation currently has a board comprised of seven directors, four of whom are independent. The independent directors are able to, and at ad hoc, as necessary intervals, meet without the presence of management to ensure that the board may function independent of management. During the fiscal year ending December 31, 2012, there have been five (5) meetings of the board. |

| Name | Independent | Non-Independent |
|---|---|---|
| David Levi | X | |
| Eric Kohn TD | X | |
| Kees de Koning | | X |
| Elizabeth Otis | | X |
| Mark van Rooij | | X |
| Jaap Rosen Jacobson | X | |
| Raymond Castelli | X | |

| Non-Independent Directors | Explanatory Note for Non-Independence Determination |
|---|---|
| Kees de Koning | Mr. de Koning is a non-independent director as he is a paid expert consultant to the Corporation |
| Elizabeth Otis | Ms. Otis is a non-independent director as she is a paid expert consultant to the Corporation |
| Mark van Rooij | Mr. van Rooij is a non-independent director as he is an employee and officer of the Corporation |

| NI 58-101 | Corporate Governance Practices |
|---|---|

(d) If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or foreign jurisdiction, identify both the director and the other issuer.

| Name of Director | Directorships with Other Reporting Issuers | |
|---|---|---|
| Eric Kohn TD | Executive Chairman and Director | Noventa Limited (UK) |
| David Levi | President, Chief Executive Officer and Director | Matrix Asset Management Inc. |
| | President, Chief Executive Officer and Director | Matrix Investment Management Inc. |
| | Director, President and CEO | Ensis Growth Fund Inc. |
| | Director, President and CEO | GrowthWorks Commercialization Fund Ltd. |
| | Director | GrowthWorks Atlantic Venture Fund Ltd. |
| | Director, President and CEO | GrowthWorks Canadian Fund Ltd. |
| | Director | Xantrex Technology Ltd. |
| | Director, President and CEO | Working Opportunity Fund Ltd. |

(e) Disclose whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held since the beginning of the issuer's most recently completed financial year. If the independent directors do not hold such meetings, describe what the board does to facilitate open and candid discussion among its independent directors.

Independent directors are invited to hold *in camera* sessions at any time, including after Board and committee meetings. During these sessions of the independent directors, members of management and non-independent directors are not present. The Corporation believes that these *in camera* sessions contribute to the Board's independent oversight.

In 2012, the following meetings were held:

| Board/Committee | Total No. of Meetings | No. of Meetings Without Non-Independent Directors |
|---|---|---|
| Board Meetings | 5 | 0[(1)] |
| Audit and Corporate Governance Committee | 6 | 6 |
| Compensation and Nominating Committee | 2 | 2 |
| Executive Committee | 18 | 0 |

(1) Meetings of the independent members of the board of directors are routinely held within the context of scheduled regular board meetings, or as cases may arise pertaining to related party transactions.

| NI 58-101 | Corporate Governance Practices |
|---|---|
| (f) Disclose whether or not the chair of the board is an independent director. If the board has a chair or lead director who is an independent director, disclose the identity of the independent chair or lead director, and describe his or her role and responsibilities. If the board has neither a chair that is independent nor a lead director that is independent, describe what the board does to provide leadership for its independent directors. | David Levi was appointment Chairman of the Board on June 11, 2009. Mr. Levi is considered an independent director. |
| (g) Disclose the attendance record of each director for all board meetings held since the beginning of the issuer's most recently completed financial year. | The following chart sets out meeting attendance record of our directors during 2012: |

**Committees**

| Director | Board Meetings | Audit & Corporate Governance Committee | Compensation & Nominating Committee | Executive Committee |
|---|---|---|---|---|
| Eric Kohn TD | 5 | 6 | 2 | |
| Kees de Koning | 5 | | | 18 |
| David Levi[(1)] | 5 | 6 | 2 | 9 |
| Elizabeth Otis | 5 | | | 18 |
| Mark van Rooij | 5 | | | 18 |
| Jaap Rosen Jacobson | 5 | | 2 | |
| Raymond Castelli | 5 | 4 | | |

(1) David Levi was appointed as Chairman of the Board on June 11, 2009.

**2. Board Mandate**

Disclose the text of the board's written mandate. If the board does not have a written mandate, describe how the board delineates its role and responsibilities.

The Board's mandate includes the following:

(a) The board of directors assumes responsibility for assessing the operation of the business and overseeing management. The board acts in accordance with the Canada Business Corporations Act, the Corporation's articles of incorporation and by-laws and other applicable laws and company policies.

(b) The board of directors considers and approves strategic initiatives formulated by management. The board of directors has adopted a mandate whereby at least one board meeting per year will be devoted to reviewing and approving the strategic plan.

(c) The board has delegated responsibility to the Executive Committee for overseeing the management of the Corporation and meets monthly to review financial, production and strategic results. Management identifies the main risks that affect the business and mitigating actions, and the Executive Committee approves these actions. The Executive Committee is responsible for the appointment, monitoring and succession planning of the senior management team. This duty is performed on a regular basis at meetings where management is not present.

| NI 58-101 | Corporate Governance Practices |
|---|---|
| | (d) The board has adopted a communications policy whereby all communications with shareholders and the public in general is by way of public filings or press releases. Filings and press releases are approved by the board or by a delegated board member who is unrelated under the Guidelines. |
| | (e) The board delegates responsibility for ensuring appropriate internal controls and management information systems to the Audit and Corporate Governance Committee. The Audit and Corporate Governance Committee receives reports from management and from external auditors and reports its finding concerning internal controls and management information systems to the board on a quarterly basis. |
| **3. Position Descriptions** | |
| (a) Disclose whether or not the board has developed written position descriptions for the chair and the chair of each board committee. If the board has not developed written position descriptions for the chair and/or the chair of each board committee, briefly describe how the board delineates the role and responsibilities of each such position. | The Board has not yet developed written position descriptions for the following:<br>Chairman of the Board<br>Committee Chairs<br>The roles of Chairman and Committee Chairs are generally described in the Corporation's by-laws (as filed on www.sedar.com). The Corporation's Audit Committee Charter (attached to the Corporation's Annual Information Form dated March 25, 2013 for fiscal year ending December 31, 2012) further specifies the role of the Audit and Corporate Governance Committee. |
| (b) Disclose whether or not the board and CEO have developed a written position description for the CEO. If the board and CEO have not developed such a position description, briefly describe how the board delineates the role and responsibilities of the CEO. | The Corporation has a CEO. Effective April 2, 2007, the Corporation entered into an agreement to retain Mark van Rooij as the Corporation's Chief Executive Officer. The Corporation has not developed a written position description for this position. |
| **4. Orientation and Continuing Education** | |
| (a) Briefly describe what measures the board takes to orient new directors regarding<br>(i) the role of the board, its committees and its directors, and<br>(ii) the nature and operation of the issuer's business. | The Corporation provides to all new directors, a "Directors Binder" containing company by-laws, corporate governance statement, committees and terms of references, director compensation, insider trading policy, meeting schedule, contact lists for directors and senior management, copies of the most recent annual report, proxy circular, annual information form, press releases, investment analyst reports, meeting minutes, quarterly financial statements and budgets. |
| (b) Briefly describe what measures, if any, the board takes to provide continuing education for its directors. If the board does not provide continuing education, describe how the board ensures that its directors maintain the skill and knowledge necessary to meet their obligations as directors. | The Corporation does not maintain a continuing education program for its directors. The board is comprised of seasoned, experienced business professionals who, in most cases, possess previous experience as directors of a corporation. The Audit and Corporate Governance Committee is responsible for updating the directors on changes in corporate governance. |
| **5. Ethical Business Conduct** | |
| (a) Disclose whether or not the board has adopted a written code for the directors, officers and employees. If the board has adopted a written code: | The Corporation has adopted a formal Code of Business Conduct and Ethics for directors, officers and employees as contemplated by NI 58-101. |
| (i) disclose how a person or company may obtain a copy of the code; | The Corporation's Code of Business Conduct is available on the SEDAR website at www.sedar.com |

| NI 58-101 | Corporate Governance Practices |
|---|---|
| (ii) describe how the board monitors compliance with its code, or if the board does not monitor compliance, explain whether and how the board satisfies itself regarding compliance with its code; and | The Board monitors compliance in various ways. The Audit and Corporate Governance Committee meets regularly with management and with its auditors to, *inter alia*, review compliance issues, including compliance with the Corporation's policies and procedures. The Audit and Corporate Governance Committee's mandate includes ensuring compliance by the Corporation's directors, officers, employees, agents and representatives with internal policies and procedures. |
| (iii) provide a cross-reference to any material change report filed since the beginning of the issuer's most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the code. | The Corporation has not filed any material change report that pertains to any conduct of a director or executive officer that constitutes a departure from the code. |
| (b) Describe any steps the board takes to ensure directors exercise independent judgement in considering transactions and agreements in respect of which a director or executive officer has a material interest. | In the ordinary course of business, the Corporation enters into transactions with which the director may have a relationship. If any such transactions are brought before the Board for discussion or approval, the director declares a conflict of interest and withdraws from any discussion or vote on the transaction.<br>The Corporation's Audit and Corporate Governance Committee also monitors compliance with the internal policies and procedures of the Corporation. |
| (c) Describe any other steps the board takes to encourage and promote a culture of ethical business conduct. | The Corporation regularly prepares training modules for employees, officers and directors in respect of compliance with the Corporation's policies and procedures. The Corporation also has an anonymous employee complaint system in place to detect, forestall the continuation of, and prevent any violations of the Corporation's internal policies and procedures. |
| **6. Nomination of Directors** | |
| (a) Describe the process by which the board identifies new candidates for board nomination. | The Compensation and Nominating Committee consists entirely of independent directors under the Guidelines and is responsible for proposing to the full board new nominees to the board. See "Other Committees of the Board".<br>Directors are elected by the shareholders at each annual meeting to serve for a term expiring on the date of the following annual meeting. |
| (b) Disclose whether or not the board has a nominating committee composed entirely of independent directors. If the board does not have a nominating committee composed entirely of independent directors, describe what steps the board takes to encourage an objective nomination process. | The Board has a Compensation and Nominating Committee composed entirely of independent directors. The Committee Chair is an independent director.<br>The Board encourages an objective nominating process for new directors by open discussion at meetings. |
| (c) If the board has a nominating committee, describe the responsibilities, powers and operation of the nominating committee. | The Compensation and Nominating Committee consists entirely of independent directors and is responsible for proposing to the full board new nominees to the board. See "Other Committees of the Board". |
| **7. Compensation** | |
| (a) Describe the process by which the board determines the compensation for the issuer's directors and officers. | The board reviews directors' compensation annually and considers the current compensation to be appropriate for the responsibilities and risks assumed by the directors. On October 1, 2006, the board approved a change in compensation for directors by an increase in directors' fees and a grant of options or warrants. On November 16, 2010 the board approved a grant of options. |

| NI 58-101 | Corporate Governance Practices |
|---|---|
| (b) Disclose whether or not the board has a compensation committee composed entirely of independent directors. If the board does not have a compensation committee composed entirely of independent directors, describe what steps the board takes to ensure an objective process for determining such compensation. | The Board has a Compensation and Nominating Committee that is composed entirely of independent directors. |
| (c) If the board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee. | See "Other Committees of the Board." |
| **8. Other Board Committees** | |
| If the board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function. | In addition to the Audit and Corporate Governance Committee and the Compensation and Nominating Committee, the Corporation also has an Executive Committee.<br><br>The function of the Executive Committee is to meet monthly to review monthly financial and operational 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. See "Other Committees of the Board." |
| **9. Assessments** | |
| Disclose whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If assessments are not regularly conducted, describe how the board satisfies itself that the board, its committees, and its individual directors are performing effectively | The board has delegated on-going assessment of the board, its committees and individual directors to the Executive Committee, which reports its findings to the board of directors. No formal annual assessment is presently conducted. |

**Schedule B attached to Avcorp Industries Inc. Management Proxy Circular dated April 19, 2013**
**Change of Auditor Reporting Package**

**AVCORP INDUSTRIES INC.**
**10025 River Way**
**Delta, British Columbia Canada V4G 1M7**
**(the "Corporation")**

**NOTICE OF CHANGE OF AUDITOR**
**(the "Notice")**

**To:** **PricewaterhouseCoopers LLP, Chartered Accountants**
**And To:** **Ernst & Young, Chartered Accountants**

1. The directors of the Corporation do not propose to re-appoint PricewaterhouseCoopers LLP, Chartered Accountants, as auditors for the Corporation; and

2. The directors of the Corporation propose to appoint Ernst & Young, Chartered Accountants, as auditors of the Corporation, effective December 17, 2012, to hold office until the next annual meeting of the Corporation.

In accordance with National Instrument 51-102 *Continuous Disclosure Obligations* ("NI 51-102"), the Corporation confirms that:

1. PricewaterhouseCoopers LLP was asked to resign as auditor of the Corporation, effective December 13, 2012, to facilitate the appointment of Ernst & Young, Pacific Centre, 700 West Georgia Street, Vancouver, British Columbia Canada V7Y 1C7;

2. PricewaterhouseCoopers LLP has not expressed any reservation in its reports for the two most recently completed fiscal years of the Corporation, nor for the period from the most recently completed period for which PricewaterhouseCoopers LLP issued an audit report in respect of the Corporation and the date of this Notice;

3. In the opinion of the Board of Directors of the Corporation, no "reportable event" as defined in NI 51-102 has occurred in connection with the audits of the two most recently completed fiscal years of the Corporation nor any period from the most recently completed for which PricewaterhouseCoopers issued an audit report in respect of the Corporation and the date of this Notice; and

4. The Notice and Auditor's Letters have been reviewed by the Audit Committee and the Board of Directors.

Dated as of the 17 day of December , 2012

**AVCORP INDUSTRIES INC.**

Edward M. Merlo
Vice President, Finance

January 18, 2013

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorite des marches financiers
New Brunswick Securities Commission
Nova Scotia Securities Commission
Prince Edward Island Securities Office
NewFoundland and Labrador Securities Commission
Office of the Yukon Superintendent of Securities
Northwest Territories Superintendent of Securities
Government of Nunavut – Office of the Superintendent of Securities

Dear Sirs:

As required by National Instruments 51-102, we have reviewed the information contained n the Notice dated December 17, 2012, given by the Company to ourselves and Ernst & Young, Chartered Accountants.

Based on our knowledge of such information at this date, we agree with the statements set out in the Notice.

Yours very truly,

Pricewaterhouse Coopers LLP

**Chartered Accountants**

*PricewaterhouseCoopers LLP*
*PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7*
*T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership

Ernst & Young LLP
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V7Y 1C7
Canada

Tel: +1-604-891-8200
Fax: +1-604-643-5422
www.ey.com

January 16, 2013

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Nova Scotia Securities Commission
Prince Edward Island Securities Office
Newfoundland and Labrador Securities Commission
Office of the Yukon Superintendent of Securities
Northwest Territories Superintendent of Securities
Government of Nunavut – Office of the Superintendent of Securities

Dear Sirs/Mesdames:

**Re: Avcorp Industries**
**Change of Auditor Notice dated December 17, 2012**

Pursuant to National Instrument 51-102 (Part 4.11), we have read the above-noted Change of Auditor Notice and confirm our agreement with the information contained in the Notice pertaining to our firm.

Based on our information at this date, we agree with the statements set out in the Notice that relate to us and we do not agree or disagree with the statements contained in the Notice that relate to PricewaterhouseCoopers LLP.

Yours sincerely,

Ernst & Young LLP

cc: The Board of Directors, Avcorp Industries