Annual Report
2019

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ABOUT AVCORP INDUSTRIES INC. The Avcorp Group designs and builds major airframe structures for some of the world's leading aircraft companies, including BAE Systems, Boeing, Bombardier, Lockheed Martin and Subaru Corporation. The Avcorp Group has more than 60 years of experience, over 700 skilled employees and 636,000 square feet of facilities. Avcorp Structures & Integration located in Delta British Columbia, Canada is dedicated to metallic and composite aerostructures assembly and integration; Avcorp Engineered Composites located in Burlington Ontario, Canada is dedicated to design and manufacture of composite aerostructures, and Avcorp Composite Fabrication located in Gardena California, USA has advanced composite aerostructures fabrication capabilities for composite aerostructures. The Avcorp Group offers integrated composite and metallic aircraft structures to aircraft manufacturers, a distinct advantage in the pursuit of contracts for new aircraft designs, which require lower-cost, light-weight, strong, reliable structures. Comtek Advanced Structures Ltd., at our Burlington, Ontario, Canada location also provides aircraft operators with aircraft structural component repair services for commercial aircraft.

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

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

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

management discussion & analysis

This Management Discussion and Analysis has been prepared as of March 30, 2020 and should be read in conjunction with the Company's consolidated financial statements and notes thereto for the year ended December 31, 2019.

Description of Business

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

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

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

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

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

Avcorp is in compliance with industry standard quality certifications.

2019 Highlights

Key financial results include:

- 2019 revenue was $164,770,000 compared to $170,710,000 in 2018. 2019 revenue decreased by $1,323,000, in comparison to 2018, after the benefit of amortization of the unfavourable contract liability is removed.
- 2019 operating loss was $1,124,000 compared to operating income of $26,917,000 in 2018. Operating loss improved by $2,101,000 in comparison to 2018, after the benefit of amortization of unfavourable contracts liability and onerous contract provisions, net contract modification, and the net claims impact have been removed. This was mainly due to improvement in operational performance and consolidation of costs. 2019 operating results were negatively impacted by the lower deliveries caused by 737 MAX grounding and labour disruptions at the Delta facility.
- 2019 cash flows from operating activities was $10,911,000 compared to utilization of $16,029,000 in 2018. 2019 cash flows from operating activities improved by $12,508,000, relative to 2018, after the net cash settlement of $14,431,000 (USD$10,810,000) from the agreement with Hitco Carbon Composites Inc., SGL Carbon, SGL, and SGL Carbon SE (the "SGL Parties") and a customer has been removed.
- On January 25, 2019, the Company entered into a net claim settlement agreement with HITCO Carbon Composites, Inc., SGL Carbon, LLC, and SGL Carbon SE (the "SGL parties") and a customer, which provided the Company a settlement in satisfaction of existing and potential claims, causes of action, disputes and other business matters related to the acquisition from the SGL parties. The net claim settlement resulted in a gain of $19,759,000.
- During the second quarter of 2019, the Company received all required customer approvals for the 737 MAX spoiler program; subsequently, on July 5, 2019 the Company successfully shipped the first shipset.
- On September 25, 2019 the Company reached a new labour agreement with the International Association of Machinists and Aerospace Workers (Lodge 250) (the "Union") at its Delta, British Columbia facility. The six year labour agreement was ratified by the Union and will expire on March 31, 2025 bringing the company long term stability.
- On November 15, 2019 the Company amended its loan agreement with a Canadian Chartered Bank to extend the maturity date of the existing operating credit facility to June 30, 2021, which is supported by a major and material customer of the Company by way of a guarantee.
- On November 15, 2019, the Company entered into a standby credit facility agreement ("2019 Panta Loan") with Panta Canada B.V which amended and restated the existing non-revolving term long agreement ("2018 Panta Loan"), as well as securing an additional $4,546,000 (USD$3,500,000).

Highlights Subsequent to Year-End

- On March 2, 2020, the Company entered into an amendment to the standby credit facility ("2019 Panta Loan") with Panta Canada B.V. ("Panta") securing an additional $2,598,000 (USD$2,000,000)

Financial Overview

Three-Year Results

The following table provides selected financial information for the three years to December 31, 2019.

THREE-YEAR RESULTS

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

FOR THE YEAR ENDED DECEMBER 31	**2019[3,4]**	2018[3]	2017
OPERATIONS			
Revenue	**$164,770**	$170,710	$149,444
EBITDA[1]	**10,813**	35,338	(48,342)
Operating (loss) income	**(1,124)**	26,917	(53,773)
Net (loss) income	**(9,316)**	20,373	(58,538)
Basic and diluted (loss) income per share	**(0.03)**	0.06	(0.18)
FINANCIAL POSITION			
Capital expenditures	**904**	1,809	3,054
Total assets	**128,140**	116,068	113,276
Bank indebtedness and term debt	**115,086**	94,150	64,453
Shareholders' (deficit)	**(43,475)**	(36,144)	(57,405)
Net book value per share[2]	**(0.12)**	(0.10)	(0.17)
Ratio: current assets/current liabilities	**0.47**	0.50	0.53
Shares outstanding at period end	**368,118,620**	368,118,620	337,404,502

1. EBITDA = earnings before interest, taxes, depreciation and amortization. This is not a recognized term under International Financial Reporting Standards ("IFRS"), refer to page 9.
2. Net book value per share is not a recognized term under IFRS, refer to page 14.
3. Includes revenues recognized as a result of a change in revenue recognition policy under IFRS 15. IFRS 15 was adopted on a modified retrospective basis, and therefore comparative figures have not been restated.
4. Excludes operating lease expense, recognizes right of use asset and lease liability as a result of change to lease accounting policy under IFRS 16. IFRS 16 was adopted on a modified retrospective basis, and therefore comparative figures have not been restated

Avcorp's recurring contracted revenue base remains strong as customers continue to place orders within existing long-term supply agreements. 2019 production revenues have decreased by $1,323,000 from 2018, exclusive of the $4,617,000 amortization of the unfavourable contract liability into revenue in 2018.

The primary factors underlying the year on year change in revenues was the wind-down of certain loss-making contracts acquired in the Hitco acquisition in 2017 and 2018; offset by revenues arising from contract awards, primarily in the Delta facility, and 2019 was impacted by the 737 MAX grounding and labour disruptions.

The Hitco acquisition, which required significant turn-around expenditures and was severely burdened with operational inefficiencies and extensive legacy product warranty obligations, reduced Earnings Before Interest, Taxes, Depreciation & Amortization ("EBITDA") for the Group which continued into 2017 & 2018. In 2019 the company agreed a net claim settlement of $19,759,000 resolving legacy product warranty issues arising out of the Hitco acquisition.

The 2017 $53,773,000 operating loss contains a $9,058,000 amortization of an unfavourable contracts liability into income; without which the operating loss was $62,831,000. Additional provisions for onerous contracts amounting to $13,603,000 during 2017 caused operating results to deteriorate in 2017; certain of those contracts were wound down in 2018. On a comparative basis the 2018 $26,917,000 operating income contains a $4,617,000 amortization of an unfavourable contracts liability, a $9,115,000 amortization of onerous contracts provision, a $41,470,000 net contract modification gain and a $5,421,000 net claim position; without which the operating loss was $22,864,000. The 2019 $1,124,000 Operating Loss contains $1,665,000 amortization of onerous contract and $17,974,000 net claim settlement gain; without which the operating loss was $20,763,000.

Capital expenditures during the three-year period presented have been limited to upgrading manufacturing equipment and capabilities, in particular for new program introductions, as well as information technology assets.

Bank indebtedness and term debt increased by $20,936,000 in 2019 over 2018 largely due to the transition to IFRS 16 and recognition of lease liabilities included in term debt. Cash flows from operating activities, before consideration of changes in non-cash working capital, generated $2,631,000 cash during the year ended December 31, 2019 as compared to a $11,632,000 decrease of cash during the year ended December 31, 2018. Cash flows from operating activities were most significantly impacted as a result of the SGL settlement providing USD$10,810,000 of cash and continued consolidation of costs and improvements in operational effectiveness.

Quarterly Results

The following table provides selected quarterly consolidated financial information for the eight most recent fiscal quarters to December 31, 2019 prepared in accordance with IAS 34 – Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB").

QUARTERLY RESULTS
(*prepared in accordance with IFRS, expressed in thousands of Canadian dollars except per share amount*)

	2019[2]				2018			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Revenue	**$38,309**	$37,437	$46,799	$42,225	$39,280	$44,862	$43,292	$43,276
Operating (loss) income	**(8,114)**	(5,164)	(2,903)	15,057	(9,833)	41,070	286	(4,606)
EBITDA[1]	**(4,455)**	(2,901)	172	17,997	(8,575)	43,682	2,139	(1,908)
Net (loss) income	**(10,846)**	(7,511)	(4,568)	13,609	(13,299)	40,234	(961)	(5,601)
EBITDA per share[1]								
Basic	**(0.01)**	(0.01)	0.00	0.05	(0.02)	0.13	0.00	(0.01)
Diluted	**(0.01)**	(0.01)	0.00	0.05	(0.02)	0.13	0.00	(0.01)
Net (loss) income per share								
Basic	**(0.03)**	(0.02)	(0.01)	0.04	(0.04)	0.12	(0.00)	(0.02)
Diluted	**(0.03)**	(0.02)	(0.01)	0.04	(0.04)	0.12	(0.00)	(0.02)
Long-term debt	**26,848**	22,018	22,496	22,229	2,800	7,651	2,180	2,187

1. EBITDA = earnings before interest, taxes, depreciation and amortization. This is not a recognized term under International Financial Reporting Standards ("IFRS"), refer to page 9.
2. Excludes operating lease expense, recognizes right of use asset and lease liability as a result of change to lease accounting policy under IFRS 16. IFRS 16 was adopted on a modified retrospective basis, and therefore comparative figures have not been restated.

For the quarter ended December 31, 2019, the Avcorp Group recorded losses from operations totalling $8,114,000 (December 31, 2018: $9,833,000 loss). Current quarter operating loss benefited from the amortization into income of the onerous contracts provision in the amount of $155,000, offset by the write-off of fair value of investment in AVS-SYS of $649,000 (December 31, 2018: $2,161,000 amortization of unfavourable liability and onerous contract liability). Fourth quarter 2019 operating loss improved by $4,374,000, in comparison to the same quarter in 2018, after the exclusion of the above mentioned items due to the consolidation of costs and improved operating effectiveness.

2019 and 2018 Results Overview

During the year ended December 31, 2019 Avcorp Group revenues totalled $164,770,000 compared with $170,710,000 for the previous year.

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

Manufacturing of composite parts occurs in Avcorp Group's **Gardena facility**. 2019 revenues arising from the assignment by customers of commercial aerospace contracts to Avcorp Industries Inc. have generated $31,256,000 in revenue (December 31, 2018: $35,947,000). These contracts, whose production occurs in the Gardena facility, support customer production of commercial aircraft. The planned wind-down of certain loss making production commercial contracts assigned from the Hitco acquisition have reduced revenues for the current year relative to 2018. The Gardena facility defence aerospace contracts generated $34,960,000 of revenue during the year ended December 31, 2019 for ACF (December 31, 2018: $26,643,000). Further manufacturing focus on meeting defence contract demand has increased this market segment revenue in the current year relative to 2018.

The **Burlington facility** increased delivery of composite panels in 2019 in supply to original equipment manufacturer (OEM) production demand, and spares and after market demand; a $479,000 revenue increase in 2019 over 2018. Composite aircraft repair revenues out of Comtek were $182,000 lower in the current year in comparison to 2018; it is anticipated that new market penetration and a backup of regional airline repairs will augment the 2020 revenue base. Non-panel OEM composite components generated revenue during the 2019 were $242,000 greater than the previous year. Higher administrative costs during 2019 though have decreased the Burlington facilities operating income in 2019 by $132,000.

Delta facility revenues, for all programs generated by production contracts, have decreased by $5,490,000 during the current year relative to the year ended December 31, 2018. On a market segment basis, Delta revenues from the production and delivery of business and commercial jet programs has decreased by approximately $8,206,000 in 2019 relative to 2018 primarily due to 737 MAX grounding, labour disruptions and customer scheduling delays; while defence programs' production has increased by $2,716,000 from both existing and new defence production programs.

Avcorp's Delta location continues to actively pursue production contracts on aerospace programs throughout North America, Asia, and Europe both in the commercial and defence aerospace sectors. These production contracts consist of complex metal bond and multi-material structural assemblies that complement Avcorp's capability as a strategic integrated supplier within the aerospace industry.

For the year ended December 31, 2019, the **Avcorp Group** recorded losses from operations totaling $1,124,000 from $164,770,000 revenue, as compared to $26,917,000 operating income from $170,710,000 revenue for the previous year. It should be noted that 2019 operating loss benefited by $1,665,000 income from amortization of onerous contracts provision (December 31, 2018: $13,732,000 amortization of unfavourable contract liability and onerous contract liability). In addition, 2019 benefitted from the net settlement gain of $17,974,000 in comparison to 2018 which benefitted from the net contract modification for an unfavourable contract in the amount of $41,470,000 and a net claim settlement loss of $5,421,000. Continued consolidation of operating costs have resulted in reduced current year operating losses of $2,101,000 in comparison to 2018 after these benefits have been removed.

An unfavourable contract liability accruing for certain customer contracts, for which unavoidable costs were expected to exceed the corresponding revenue earned, amounted to $100,582,000 upon the December 18, 2015 Hitco acquisition; of which $Nil remains unamortized due to a contract modification to production of a certain customer contract in 2018. The unfavourable contract liability was amortized into income on a units-of-production basis over the expected life of the contract and as costs were incurred. The amount of unfavourable contract liability amortized into income during the year ended December 31, 2019 on a units-of-production basis was $Nil (December 31, 2018: $4,617,000). The unamortized unfavourable contract liability was accrued in US dollars and therefore the unamortized balance varied as the estimated provision was adjusted for foreign currency fluctuations.

Operational loss at the Gardena facility amounted to $10,274,000 for the year ended December 31, 2019 as compared to $4,948,000 operating loss for the year ended December 31, 2018. Gardena 2019 operating loss benefited by $Nil income from amortization of an unfavourable contract liability into income (2018: $4,617,000). In addition, Gardena's 2019 loss included a net claim settlement loss of $1,785,000. Removing these items, this is an improvement of $1,076,000.

Over the course of 2016 and through 2018 certain of the smaller loss-making contracts at the Gardena facility were wound down eliminating the associated losses; as well, production for the most significant loss-making contract was wound down during the third quarter 2018. Contract revisions are in place which will help improve Avcorp's financial performance.

Although recent customer contract awards in Canadian operations will continue to increase facility utilization, there remains unutilized plant capacity within the Company's Delta, British Columbia facility, and also within the Gardena, California facility due to the transition out of certain loss-making production contracts. The Company has expensed $7,004,000 of overhead costs during the year as compared to $6,469,000 for December 31, 2018 in respect of unutilized plant capacity. The amount of overhead costs expensed, as a result of unutilized capacity, will fluctuate from quarter to quarter as production in support of deliveries varies. Revenue growth in these facilities would benefit Company profitability via a contribution to the recovery of fixed overhead expenditures. Avcorp is engaged with aerospace OEM's as well as industry tier 1 suppliers in North America, Asia and Europe in collaborative production initiatives that support the Company's composite manufacturing capabilities, further leveraging existing production capacity and investments.

During the year ended December 31, 2019, cash flows from operating activities, excluding the impact of changes in non-cash working capital, were $2,631,000 of cash as compared with utilization of $11,632,000 of cash during the year ended December 31, 2018. The company received a net cash settlement of USD$10,810,000 from the agreement with Hitco Carbon Composites Inc., SGL Carbon, SGL, and SGL Carbon SE (the "SGL Parties") and a customer.

Changes in non-cash working capital during the current year provided $8,280,000 as compared to the previous year during which non-cash working capital utilized $4,397,000.

On December 18, 2015, in conjunction with the acquisition of Hitco, the Company assumed a customer advance for pre-funded product deliveries. The customer advance is re-paid as the Company delivers to the customer. In the event that cancellation, termination, or assignment of the statement of work occurs earlier than December 31, 2019, the customer shall have the right to recover from the Company within 120 days of such an event the unamortized portion of the cash advance; such event occurred during the third quarter 2018. The customer advance is subject to an access and security agreement along with a general security agreement entered into with the Company's bank and a customer.

The customer advance was recorded at its fair value on December 18, 2015 and amortized into revenue. The Company amortized into revenue $Nil of the customer advance during the year ended December 31, 2019 (December 31, 2018: $2,660,000). The remaining unamortized customer advance has been recorded at its face value to reflect the amount due. The face value of the unamortized portion of the customer advance as at December 31, 2019 is USD$4,643,000 (December 31, 2018: USD$4,643,000).

As at December 31, 2019, the Company had $4,316,000 cash on hand (December 31, 2018: $2,051,000) and had utilized $84,661,000 of its operating line of credit (December 31, 2018: $85,840,000). The Company has a working capital deficit of $71,561,000 as at December 31, 2019 which has decreased from the December 31, 2018 $74,374,000 deficit. Working capital surplus/deficit is defined as the difference between current assets and current liabilities. However, the Company's accounts receivable, contract assets, and inventories net of accounts payable, amount to a $18,542,000 surplus as at December 31, 2019 (December 31, 2018: $22,000,000 surplus). The Company's accumulated deficit as at December 31, 2019 is $142,194,000 (December 31, 2018: $132,878,000).

Revenue

For the year ended December 31, 2019 revenues totalled $164,770,000, a $5,940,000 decrease in revenues relative to 2018 (December 31, 2018; $170,710,000).

The amount of unfavourable contract liability amortized into revenue during the year ended December 31, 2019 on a units-of-production basis was $Nil (December 31, 2018: $4,617,000).

Operating segment revenues are as follows:

REVENUE DISTRIBUTION

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

FOR THE YEAR ENDED DECEMBER 31	**2019**		2018	
	Revenue	% of Total	Revenue	% of Total
Avcorp Industries Inc. (ASI)	**$78,099**	**47.4**	$83,589	49.0
Comtek Advanced Structures Ltd. (AEC)	**20,455**	**12.4**	19,916	11.6
Avcorp Composite Fabrication Inc.[1] (ACF)	**66,216**	**40.2**	67,205	39.4
Total	**164,770**	**100.0**	170,710	100.0

1. ACF revenue includes amortization of a portion of the unfavourable contract liability of $**Nil** in 2019 (2018: $4,617,000).

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

Delta facility revenues 2019 totalled $78,099,000 (December 31, 2018: $83,589,000).

Delta facility commercial aircraft programs production revenues have decreased by $5,490,000 of which established commercial aircraft production contract revenues have contributed $8,206,000 of this revenue decrease in 2019 relative to 2018. This was partially offset with production for defence programs which increased by $2,716,000 in 2019 relative to 2018.

Avcorp’s Delta location continues to actively pursue production contracts on aerospace programs throughout North America, Asia, and Europe both in the commercial and defence aerospace sectors. These production contracts consist of complex metal bond and multi-material structural assemblies that complement Avcorp’s capability as a strategic integrated supplier within the aerospace industry. Production and deliveries for recent contract awards commenced during 2018 and have continued to grow in 2019 for the Delta facility.

Burlington facility revenues for 2019 totalled $20,455,000 (December 31, 2018: $19,916,000).

The Burlington facility had an increase in the delivery of composite floor panels and racks in supply to OEM production lines during the current year of 1% relative to 2018. Composite floor panel revenues arising from aftermarket or OEM spares composite floor panel sales decreased by $69,000 relative to 2018. Sales for other composite component deliveries to OEMs increased by $337,000 in 2019 relative to 2018. Composite aircraft repair revenues out of Comtek decreased by 4% in comparison to 2018.

Gardena facility revenues for 2019 totalled $66,216,000 (December 31, 2018: $67,205,000).

The Gardena facility provides a unique aerostructures composite composite capability to the Avcorp Group’s existing metal fabrication and integrated assembly business through broadening the product range and strengthening Avcorp’s composite capabilities. Advanced composite fabrication capabilities enhance Avcorp Group’s ability to participate in large aerospace assembly programs which combine mixed material components.

Year ended December 31, 2019 revenues arising from the assignment by customers of commercial aerospace contracts to Avcorp Industries Inc. have generated $31,256,000 in production revenue (December 31, 2018: $35,947,000). Wind-down of certain loss-making contracts totalling $9,053,000 was partially offset by an increase in deliveries for an ongoing customer program amounting to $5,336,000 from this facility in 2019 relative to 2018. These contracts support customer production of commercial aircraft with manufacturing of the composite parts occurring in Avcorp Group’s Gardena facility. The Gardena facility defence aerospace contracts generated $34,960,000 of production revenue during the year ended December 31, 2019 for ACF (December 31, 2018: $26,643,000) as facility resources are further operationalized to meet customer delivery requirements.

Deliveries and quality performance as at December 31, 2019 for Avcorp manufacturing operations were at customer required levels. The manufacturing operations have achieved, and continue to maintain, top quality and delivery ratings for the majority of their programs.

Revenues from Avcorp Group customers are as follows:

REVENUE DISTRIBUTION

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

FOR THE YEAR ENDED DECEMBER 31	2019		2018	
	Revenue	**% of Total**	Revenue	% of Total
BAE Systems	**$18,181**	**11.0**	$15,789	9.3
Boeing[1]	**50,351**	**30.6**	67,606	39.6
Bombardier	**18,535**	**11.2**	20,860	12.2
Lockheed Martin	**35,812**	**21.8**	24,527	14.4
Subaru Corporation	**28,306**	**17.2**	22,970	13.5
Other	**13,585**	**8.2**	14,341	8.3
Amortization of the unfavourable contract liability	**-**	**-**	4,617	2.7
Total	**164,770**	**100.0**	170,710	100.0

1. Includes Boeing program partner revenue consisting of industry tier-one suppliers to Boeing.

The Avcorp Delta BC facility is the single source supplier for the F-35 CV-OBW assembly under contract with **BAE Systems** and delivers directly to **Lockheed Martin**. The Outboard Wing is the foldable portion of the wing on the carrier version of the F-35 aircraft which allows for handling and storage of the aircraft on the aircraft-carrier's deck and hangers, while keeping its long-range and low-landing-speed flight characteristics. The CV-OBW is regarded as one of the more complex assemblies that the Canadian aerospace industry contributes to the F-35 program. Production demand for the F-35 CV-OBW increased by $2,392,000 in 2019 relative to 2018. Production contracts have been secured through to end of 2022, with discussions underway with the customer to secure constant production through to the first quarter of 2025. The Company announced that further to the contract award from Lockheed Martin announced on October 15, 2015 for the expanded scope on the F-35 CV-OBW, Avcorp has received a firm order for the production phase, referred to as Low Rate Initial Production ("LRIP") eleven; and are in discussions with the customer for production under LRIP twelve through fourteen. The delivery of the first shipset to Lockheed Martin's Final Assembly and Check Out facility in Fort Worth, Texas, USA was in August 2016, with subsequent confirmed orders extending out to 2022, and discussions underway with the customer to secure constant production through to the first quarter of 2025.

Avcorp's Gardena California facility provides content for all three models of the F-35 fighter aircraft. Fabricated components include: wing skins, upper and lower, nacelles, access panels, and a strap component that serves as a structural backbone to the aircraft. Avcorp fabricates these complex structures through a combination of both automated robotic fiber placement and hand laid graphic fabric methods. Avcorp is under a multi-year contract with **Lockheed Martin Corporation**, who release order quantity and schedule requirements that coincide with their fiscal year. The current period of performance extends through mid-2020. Follow on contract value is anticipated, assuming acceptable quality and delivery performance. Total revenues for this long-term defence program totalled $33,469,000 for the year ended December 31, 2019 (December 31, 2018: $22,466,000).

Shipments of large complex metal assemblies out of the Delta facility to **Boeing Commercial Airplane Group ("Boeing")**, primarily for the 737 commercial jet program, decreased by 17% in 2019 relative to 2018, primarily as a result of Boeing 737 MAX grounding and decreased customer demand. Concurrently, deliveries of fabricated parts and components to Boeing decreased by $168,000 as customer demand for discrete and lower complexity assembled structures has decreased slightly. These products were manufactured at Avcorp's Delta facility. During 2016, Avcorp delivered its first significant quantity of shipsets of composite fabricated aerostructures parts for Boeing programs from its acquired Gardena production facility. 2019 revenues for these composite parts totalled $Nil (December 31, 2018: $8,783,000), a reduction from 2018 as the planned wind-down of certain Hitco acquired customer contracts occurred. Total production deliveries generated for the Company from various Boeing Commercial aircraft programs amounted to $41,930,000 for the year ended December 31, 2019 (December 31, 2018: $57,066,000). The Company also delivers components to **Boeing Defence, Space & Security ("Boeing DSS")** for the Chinook CH47 helicopter and KC135 aircraft. During the year ended December 31, 2019 the Company generated $6,849,000 of revenues in supply to Boeing DSS, a slight increase in revenues recorded for the same period in 2018 (December 31, 2018: $6,804,000).

Production deliveries for **Bombardier Aerospace ("Bombardier")** programs decreased by 11% during the current year relative to the year ended December 31, 2018. Shipments of large assemblies for the CL605 business jet program decreased by $1,693,000 during the current year as demand for these products decreased relative to 2018; while the Company experienced a $182,000 decrease in its deliveries of composite panels and related products to Bombardier. Avcorp Group's primary source of revenues from Bombardier in 2020 will continue to be from components for the CL605 and CL850 business jets, composite floor panels for the CRJ and Q400 aircraft programs, as well as a sustained rate of production of composite floor panels for Bombardier's Global 5000/6000 and Global 7000/8000 programs.

Avcorp's deliveries to **Subaru Corporation ("Subaru")** of large complex composite structural components which are integrated into the center wing box in support of the Boeing 787 commercial jet program totalled $28,306,000 for the current year (December 31, 2018: $22,970,000). This is a significant commercial production contract being manufactured in the Gardena facility. This long-term agreement represents an important relationship with a long-standing industry tier one supplier.

Composite aircraft structure repair revenues out of Comtek decreased by 4% relative to revenues in the previous year; it is anticipated that new market penetration and a backup of regional airline repairs will augment the 2020 revenue base. The Group also supplies Canadian aircraft retro-fit programs out of its Delta facility, and large composite structures in support of various US defence programs out of its Gardena facility, whose revenues decreased relative to 2018. These **Other** revenues are of significant importance to the Group's operations as they generated $13,585,000 in revenue during the year ended December 31, 2019 (December 31, 2018: $14,341,000).

Defence program revenues for Avcorp 2019 totalled $62,333,000 (2018: $51,296,000); 37.8% of total production sales (December 31, 2018: 30.0%). Commercial program sales continue to provide the greater portion of the Company's sales (December 31,2019: 62.2%; December 31,2018: 70.0%) amounting to $102,437,000 for 2019 and $119,414,000 for 2018. The Group continues to move forward with its revenue diversification between commercial and defence aerospace programs. Included in total revenues for the Company is the amortization of the unfavourable contract liability of $Nil in 2019 (2018: $4,617,000).

Gross Profit

Gross profit (revenue less cost of sales) for the year ended December 31, 2019 was positive 2.3% of revenue compared to positive 8.8% of revenue for the year ended December 31, 2018.

Included in the calculation of gross profit is the amortization of the unfavourable contract liability of $Nil into revenue in 2019 (December 31, 2018: $4,617,000) as well as a $1,665,000 amortization into income of an onerous contracts provision (December 31, 2018: $9,115,000 provision). Excluding the amortization of the unfavourable contract liability and onerous contracts provision, the gross margin increased by $898,000 in 2019 relative to 2018. This was due to consolidation of costs, increased utilization of idle capacity in the Delta facility as new programs ramp up in production, as well as strong delivery performance of composite floor panels from the Burlington facility.

Key turn around initiatives implemented in 2019 improved gross margin on production contracts manufactured out of the Gardena facility. The Gardena facility gross margin for the current year was negative $1,650,000 (December 31, 2018: $3,156,000 positive gross margin). The gross margin was negative $1,836,000 exclusive of $186,000 amortization of onerous contract provision. The 2018 Gardena gross margin was negative $10,139,000 exclusive of $4,617,000 amortization of the unfavourable contract liability and $8,678,000 amortization of onerous contract provision. The Gardena facility gross margin improved by $8,303,000 in 2019 relative to 2018 exclusive of the positive impact of amortization of the unfavourable contract liability into revenue and amortization of the onerous contract provision.

Many corrective actions have been implemented. Turnaround activities focused on cost reduction initiatives as well as operational process flow improvements are contributing to the financial improvement in 2019 compared to 2018. Over the course of 2016 and through 2018 certain of the smaller loss-making contracts at the Gardena facility were wound down eliminating the associated losses; as well, production for the most significant loss-making contract was wound down during the third quarter 2018. Contract revisions are in place which will help improve Avcorp's financial performance.

The Delta facility gross margin for the current year was positive $1,893,000 (December 31, 2018: $8,302,000 positive gross margin). The 2019 Delta gross margin was $414,000 exclusive of $1,479,000 amortization of onerous contract provision. The 2018 Delta gross margin was $7,865,000 exclusive of $437,000 amortization of onerous contracts provision. 2019 Delta facility gross margin decreased by $7,451,000 from the 2018 gross margin exclusive of the positive impact of amortization of the onerous contracts provision into revenue in both years. The Delta facility continued to incur costs on the startup of new programs, delivery delays due to the 737 MAX grounding, and incurred costs due to labour disruption during the year. In addition, certain new program startups have been delayed due to continued customer engineering changes and delayed approval.

Burlington production contracts produced a positive gross margin for the year ended December 31, 2019 of $3,545,000 as compared to a positive gross margin of $3,499,000 for 2018.

Although recent customer contract awards in Canadian operations will continue to increase facility utilization, there remains unutilized plant capacity within the Company's Delta, British Columbia facility, and also within the Gardena, California facility due to the recent transition out of certain loss-making production contracts. The Company has expensed $7,004,000 of overhead costs during the year as compared to $6,469,000 for December 31, 2018 in respect of unutilized plant capacity.

Administration and General Expenses

As a percentage of revenue, administration and general expenses decreased to 13.0% for the year ended December 31, 2019 from 13.7% for the year ended December 31, 2018. In absolute terms, administration and general costs decreased by $1,999,000 during the current year relative to the previous year, mainly due to collection of amounts written off in previous years and savings in various expenses during the year.

Foreign Exchange Gain or Loss

Avcorp Group recorded a $843,000 foreign exchange gain during the year ended December 31, 2019 (December 31, 2018: $770,000 loss) as a result of holding US dollar-denominated cash, receivables, payables and debt.

Earnings Before Interest, Taxes, Depreciation & Amortization

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

EBITDA was positive $10,813,000 for the year ended December 31, 2019 compared to EBITDA of positive $35,338,000 for the year ended December 31, 2018. The company recorded a net settlement gain of $17,974,000 in 2019 (2018 $5,421,000 loss). In addition, the calculation of EBITDA includes the amortization of the unfavorable contract liability of $Nil in 2019 (December 31, 2018: $4,617,000) and amortization of an onerous contracts provision of $1,665,000 in 2019 (December 31, 2018: $9,115,000). On January 1, 2019, the Company adopted IFRS 16 using the modified retrospective method which has improved 2019 EBITDA by $3,995,000. Operating lease expense and payments, on transition, have been capitalised as right of use assets and recorded with a corresponding lease liability which incur depreciation and interest expense are removed in the calculation of EBITDA. Lastly, 2018 had a $41,470,000 contract modification gain. EBITDA was negative $12,821,000 for the year ended December 31, 2019, after adjusting for the above mentioned items (2018: $14,443,000 loss). Turnaround activities focused on cost reduction initiatives as well as operational process flow improvements contributed to the financial improvement.

The Delta facility continued to see delays in start-up of new product introductions due to engineering changes, labour disruptions upon negotiations of the union agreement, and customer driven delivery schedule changes due to the 737 MAX grounding.

At the Gardena facility, as legacy operational deficiencies were identified, operational improvements were made, thereby allowing the Gardena operations to achieve customer required output levels.

Over the course of 2017 and through 2018 certain of the smaller loss-making contracts at the Gardena facility were wound down eliminating the associated losses; as well, production for the most significant loss-making contract was wound down during the third quarter 2018. Contract revisions are in place which will help improve Avcorp's financial performance.

EBITDA[1]

(expressed in thousands of Canadian dollars)

FOR THE YEAR ENDED DECEMBER 31	2019	2018	2017
Income (loss) for the year	**$(9,316)**	$20,373	$(58,538)
Interest expense and financing charges	**8,941**	5,813	2,820
Income tax expense	**-**	-	-
Depreciation	**8,218**	4,482	4,153
Amortization of development costs and intangibles	**2,970**	4,670	3,223
	10,813	35,338	(48,342)

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

Finance Costs

Total interest and financing charges on both short- and long-term debt for the year ended December 31, 2019 were $8,924,000, which is net of $17,000 interest income as compared to $5,774,000 expense, net of $39,000 interest income for the year ended December 31, 2018. Interest expenditures have increased during the current year relative to the previous year due to interest on lease liabilities identified on transition to IFRS16.

Income Taxes

Avcorp Group has not incurred a tax expense during the year ended December 31, 2019 (December 31, 2018: $Nil) nor recorded a tax benefit as it is not more likely than not that the benefit would be recognized.

Income or Loss

Loss for the year ended December 31, 2019 was $9,316,000 compared to an income of $20,373,000 for the year ended December 31, 2018. The December 31, 2019 net loss contains a $1,665,000 amortization of the onerous contracts provision, as well as a $17,974,000 net claim settlement; without which the net loss for 2019 was $28,955,000.

On a comparative basis, the 2018 $20,373,000 net income contains a $13,732,000 amoritization of the unfavourable contracts liability and onerous contracts provision, as well as $41,470,000 contract modification and $5,421,000 net claim position; without which the net loss for 2018 was $29,408,000.

The reduction in net loss for 2019 relative to 2018 after excluding the impact of the amortization of the unfavourable contracts liability and onerous contract provisions, net contract modification, and net claim settlement and positions was due to the continued consolidation of costs, improvements in internal processes over inventory management, strong delivery performance to Lockheed Martin from the Gardena facility and composite floor panels from the Burlington facility. This was offset by the costs incurred on ramp up of new programs with continued delays in engineering changes and customer approvals at the Delta facility.

Administration and general costs decreased by $1,999,000 during the current year relative to the previous year. Turnaround activities focused on cost reduction initiatives as well as operational process flow improvements are contributing to the financial improvement in comparison to 2018.

Liquidity and Capital Resources

On November 15, 2019, the Company entered into a loan agreement to expand its operating credit facility with a Canadian Chartered Bank. This loan agreement amends, restates and replaces the loan agreements entered into on September 27, 2012 and subsequently on May 26, 2017. The loan agreement extends the maturity to June 30, 2021

Maximum availability under the Loan agreement cannot exceed USD $68,000,000 less USD $2,300,000 until June 30, 2021. Drawdowns under the USD$45,000,000 borrowing capacity are supported by a major and material customer of the Company (the "Guarantor") by way of a guarantee (the "Guarantee"). On November 15, 2019, Panta Holdings B.V., the holding company of Panta Canada B.V. which is Avcorp's majority shareholder, entered into a guarantee agreement with the Guarantor. Pursuant to the guarantee agreement, Panta Holdings B.V. provided guarantee to the Guarantor in the maximum payment of USD$10,000,000 if the bank draws on the Guarantee in whole or in part.

Interest rate for advances made up to the maximum of the allowable borrowing base of USD$23,000,000 revolving loan less USD$2,300,000:

- Royal Bank Prime ("RBP") plus 1.50% per annum
- Royal Bank US Base Rate ("RBUSBR") plus 1.50% per annum
- Banker's Acceptance ("BA") Equivalent Rate plus 3.00% per annum
- LIBOR Rate plus 3.00% per annum

Interest rate for advances made on the additional USD$45,000,000 borrowing capacity up to USD$68,000,000.

- RBP plus 0.00% per annum
- RBUSBR plus 0.00% per annum
- BA Equivalent Rate plus 0.875% per annum
- LIBOR Rate plus 0.875% per annum

Pursuant to the terms of the amending loan agreement, the Company is required to meet certain financial covenants beginning in Q1 2020. In the event that the Company fails to meet the covenants, Panta Holdings B.V. and Panta Canada B.V. shall be entitled to make cash injections for a fiscal quarter by way of loan or equity investment in Avcorp. Such injections will be considered a positive addition to the calculation of the financial metrics for the purposes of determining compliance with the covenants. In addition, the Company will have a cure period measured cumulatively for the failed quarter and the subsequent quarter. There is uncertainty as to the ability of the company to meet its financial covenants without the additional financial support from Panta Holdings B.V. and Panta Canada B.V.

On February 6, 2020, the Company entered into an amendment to its existing loan agreement with a Canadian Chartered Bank whereby the following amendments were made:

- The threshold of the financial covenants for the first and second fiscal quarters for the 2020 fiscal year were amended in favor of the Company.

On November 15, 2019, the Company entered into a standby credit facility agreement ("2019 Panta Loan") with Panta Canada B.V which amended and restated the 2018 Panta Loan, as well as securing an additional $4,546,000 (USD$3,500,000). As at December 31, 2019, the company had drawn $325,000 (USD $250,000) on this 2019 Panta Loan. The Company drew the remaining available amount in January 2020 of $4,238,000 (USD $3,250,000).

On March 2, 2020, the Company entered into an amendment to the standby credit facility ("2019 Panta Loan") securing an additional and drawing $2,598,000 (USD$2,000,000). As at the date of this report the company is able to draw up to an additional $Nil on the standby credit facility.

The Company ended the year with bank operating line utilization of $84,661,000 offset by $4,316,000 cash compared to utilization of $85,840,000 with $2,051,000 cash on hand as at December 31, 2018. Based on net collateral provided to its bank, the Company is able to draw up to an additional $335,000 (USD$258,000) on its operating line of credit as at December 31, 2019 (December 31, 2018: $1,059,000 (USD$776,000)). As at the date of this report the Company is able to draw up to an additional $21,000 (USD$16,000) on its operating line of credit.

Pursuant to the Hitco acquisition, the Company assumed a customer advance for pre-funding of product deliveries. The customer advance is re-paid as the Company delivers to its customer ordered products for a specific program. In the event that cancellation, termination, or assignment of the statement of work occurs earlier than December 31, 2018, the customer shall have the right to recover from the Company, within 120 days of such an event, the unamortized portion of the cash advance; such event occurred during the third quarter 2018. The customer advance is subject to an access and security agreement along with a general security agreement entered into with the Company's bank and the customer. The face value of the unamortized portion of the cash advance as at December 31, 2019 is $6,030,000 (USD$4,643,000) (December 31, 2018: $6,334,000 (USD$4,643,000)).

During the year ended December 31, 2019, the Company had a net loss of $9,316,000 (December 31, 2018: net income of $20,373,000), had operating cash flows of $10,911,000 (December 31, 2018: negative $16,029,000) and a shareholders' deficiency of $43,475,000 as of December 31, 2019 (December 31, 2018: $36,144,000 deficiency) and an accumulated deficit of $142,194,000 (December 31, 2018: $132,878,000). Management assesses the Company's ability to continue as a going concern at each reporting date, using quantitative and qualitative information available. Material uncertainties have been identified which may cast significant doubt upon the Company's ability to continue as a going concern. This assessment, by its nature, relies on estimates of future cash flows and other future events, whose subsequent changes would materially impact the validity of such an assessment.

The Company's ability to continue as a going concern is dependent upon its ability to achieve improvements in operating results in the future through additional revenue from defense related contracts, successfully negotiate extended terms with its creditors including the past due date of its customer advance and other debt related items, continue to raise adequate financing, and mitigate the adverse impact of the COVID-19 virus. In assessing whether the going concern assumption was appropriate, management considered all relevant information available about the future, which was at least, but not limited to, the 12-month period from the date of this report.

The Company, in conjunction with its Board of Directors continue to carry out various operational strategies which include:

- Contract renegotiations with existing customers, actively working to secure additional purchase orders and pursuing new customer contracts have provided an improved basis for operations in the future.
- The company reached a new labour agreement with the International Association of Machinists and Aerospace Workers (Lodge 250)(the "Union") at its Delta, British Columbia facility. The new six-year labour agreement was ratified by the Union and will expire on March 31, 2025 bringing the company long term stability.
- Close collaboration with customers has resulted in both financial and operational support for continued operations.
- The COVID-19 virus impact to the aviation industry and the Company continues to evolve. The Company has implemented strict precautions to mitigate the risk to its employees' health and safety through restrictions on in-person meetings, rotating shifts and social distancing guidelines. In addition, the company will continue to assess the risk to the supply chain and its customers and will implement steps to mitigate this risk.

The assessment of the Company's ability to execute its strategy of reducing operating costs, funding future working capital requirements, and ability to mitigate the risk of the COVID-19 virus involves significant judgement. Estimates and assumptions regarding future operating costs, revenue and profitability levels and general business and customer conditions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management is actively working to secure extension to its banking agreements, will continue to work with an existing common shareholder, and will seek additional financing as necessary. The Company cannot provide assurance that, if it needs to raise additional funds, such funds will be available on favourable terms, or at all. If the Company cannot raise adequate funds on acceptable terms, its business could be materially harmed.

Cash Flows from Operating Activities

Cash flows from operating activities, before consideration of changes in non-cash working capital, generated $2,631,000 during the year ended December 31, 2019 as compared to a utilization of $11,632,000 cash during the year ended December 31, 2018. The company received a net cash settlement of USD$10,810,000 from the agreement with Hitco Carbon Composites Inc., SGL Carbon, SGL, and SGL Carbon SE (the "SGL Parties") and a customer in 2019.

Non-cash operating assets and liabilities generated $8,280,000 of cash during the current year, compared to utilizing $4,397,000 of cash during the previous year; primarily due to customer providing shorter payment terms as well as the timing of collection of large customer invoices.

Avcorp Group continues to closely monitor accounts receivable and accounts payables, and to work with its customers and suppliers in order to ensure cash is collected on a timely basis and payment terms that can meet operational needs.

Cash Flows from Investing Activities

During the year ended December 31, 2019, the Avcorp Group purchased equipment totalling $904,000 compared with $1,429,000 during the year ended December 31, 2018. Avcorp Group continues to minimize its capital expenditures in order to conserve cash, with only operation critical expenditures being made.

During 2019 and 2018, the Company commenced the new program introduction process in support of the recently awarded production contracts. The start-up of new production contracts requires significant investments in hard and soft tooling. Such tooling investments amounted to $4,116,000 for the year ended December 31, 2019 (December 31, 2018: $6,410,000).

Cash Flows from Financing Activities

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

Cash flows from financing activities utilized $3,610,000 of cash during the current year compared with providing $21,406,000 of cash in 2018.

The Company's operating line was $84,661,000 drawn as at December 31, 2019 (December 31, 2018: $85,840,000). The Company drew $20,844,000 in cash during the year (December 31, 2018: $17,961,000 was drawn) and repaid $18,010,000 in cash during the year (December 31, 2018: $Nil was repaid).

Repayment of term debt during the current year amounted to $2,591,000 (December 31, 2018: $294,000); which was used to fund equipment and development costs and tooling. This includes the payments made to lease liabilities identified on transition to IFRS 16.

Proceeds from term debt during the current year amounted to $1,196,000 (December 31, 2018: $6,601,000).

Payment of interest during the year amounted to $5,049,000 (December 31, 2018: $2,862,000); with the increase in 2019 over 2018 primarily attributable to interest on lease liabilities identified on transition to IFRS16.

On December 31, 2019, the ratio of the Company's current assets to current liabilities was 0.47:1 (December 31, 2018: 0.48:1).

Contractual Obligations

	Total	2020	2021 – 2024	Post 2024
Lease obligations	**20,493**	2,415	12,598	5,480
Bank indebtedness	**85,470**	85,470	-	-
Term loan	**5,550**	-	5,550	-
Other long-term obligations[1]	**3,573**	352	1,409	1,812
Purchase obligations[2]	**70,622**	58,869	11,753	-
Total contractual obligations	**185,708**	147,106	31,310	7,292

1. This amount represents obligations the Company has with Industrial Technologies Office.
2. Purchase obligations include payments for the Company's committed contractual operational purchase order obligations outstanding.

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

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

Capital Stock

As at December 31, 2019, there were 368,118,620 common shares, no common share purchase warrants, and 11,443,000 stock options issued and outstanding.

Common Shares

Panta Canada B.V., is 100% owned by Panta Holdings B.V. and is Avcorp's majority shareholder owning approximately 71.2% of issued and outstanding common shares as of December 31, 2019.

The Company is authorized to issue an unlimited number of common shares as well as an unlimited number of first preferred and second preferred shares, issuable in series, the terms of which will be determined by the Company's directors at the time of creation of each series. There were 368,118,620 common shares issued at December 31, 2019. The book value of common shares issued and outstanding as at December 31, 2019 was $86,219,000 (December 31, 2018: $86,219,000), and a shareholders' deficiency of $43,475,000 (December 31, 2018: $36,144,000 deficiency).

Accounting standards

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

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the International Accounting Standards Board ("IASB") issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The standard is effective for annual periods beginning on or after January 1, 2020, with early application permitted. The amendments to the definition of material is not expected to have a significant impact on the Company's consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current (Amendments to IAS 1). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

The following is a brief summary of the new standard adopted:

Adoption of IFRS 16 - Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. As part of the initial application of IFRS 16, the Company applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application (“short-term leases”)
- Applied the recognition exemptions to lease contracts for which the underlying asset is of low value (“low-value assets”)
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease
- Excluded the initial costs from the measurement of the right-of-use asset at the date of initial application

The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases under IAS 17. The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Based on the foregoing, as at January 1, 2019:

- Right-of-use assets of $13,755,000 were recognized (included in Property, Plant and Equipment). This includes the lease assets recognized previously under finance leases of $666,000 that were classified in machinery and equipment and computer hardware and software.
- Additional lease liabilities of $12,765,000 (included in Term Debt) were recognized.
- Prepayments of $324,000 related to previous operating leases were derecognized and included in the right-of-use assets.
- Impact to the consolidated balance sheet as follows:

	As reported December 31, 2018	Adjustment	Revised opening balance January 1, 2019
Property, plant and equipment, net book amount	$28,416	$13,089	$41,505
Prepayments and other assets	6,222	(324)	5,898
Lease liability (current)	(263)	(986)	(1,249)
Lease liability (non-current)	(159)	(11,779)	(11,938)

- The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

Operating lease commitments as at December 31, 2018	$26,950
Less: Commitments relating to short-term leases	(1,800)
Less: Commitments relating to leases of low-value assets	(10)
Less: Commitments relating to property tax and operating cost	(6,576)
Add: Payments in optional extension periods not recognized as at December 31, 2018	265
Lease payments included in the initial measurement of lease liability	18,829
Weighted average incremental borrowing rate as at January 1, 2019	9.00%
Discounted operating lease commitments at January 1, 2019	12,765
Add: Commitments relating to leases previously classified as finance leases	422
Lease liability at January 1, 2019	13,187

Set out below are the new accounting policies of the Company upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.
In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the lease asset in a similar economic environment. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of assets that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Operations Overview

Delivery and Quality Performance

Deliveries and quality performance as at December 31, 2019 for Canadian and US manufacturing operations were at customer required levels. The manufacturing operations have achieved, and continue to maintain, top quality and delivery ratings for the majority of their programs.

Order Backlog

Avcorp Group operates within "general terms agreements" with its customers. These agreements are typically for five years or longer.

The Company's agreements with Boeing Commercial Airplane Group extend from January 2018 to December 2022; additional production contracts entered into during 2015 and 2016 extend to 2027.

Agreements with Boeing Defence, Space and Security extend from 2013 into 2022 with established minimum base delivery quantity requirements.

The Bombardier and Subaru agreements extend for the life of the individual aircraft programs.

Agreements with Lockheed Martin extend into 2022.

Agreements with BAE Systems (Operations) Limited extend into 2022 and continue to generate additional sales order backlog.

The Company defines order backlog as the value of purchase orders it expects to receive from these agreements based on manufacturers' projections and current degrees of exclusivity. Order backlog is a financial measure not recognized as a term under IFRS. However, the Avcorp's management believes that the Company's stakeholders consider this metric to be useful information to assist them in evaluating profitability. The order backlog, as at December 31, 2019, is $664 million in consideration of attaining full award values, compared to $839 million as at December 31, 2018. The changes in order backlog are as follows:

- $164 million decrease in order backlog resulting from revenues recorded during the year ended December 31, 2019;
- $24 million increase in order backlog due to increases in the production rates, contract renewals for various existing programs, and contract awards;
- $35 million decrease in order backlog resulting from change in the value of the Canadian dollar relative to the US dollar for the Company's US dollar denominated sales. Refer to comments on currency risk.

Supply Chain

Supplier quality and delivery performance continued to meet targeted levels during the year; the Company continues to monitor supplier performance in all aspects of quality, delivery and price. The Company works closely with its supply chain to ensure a stable, uninterrupted delivery of compliant products and is making changes in product sourcing processes where necessary. The capacity and delivery performance of a limited number of critical vendors continues to be closely monitored to mitigate risks to assembly start dates. Risk mitigation plans have been implemented.

The securing of additional long-term contracts with key suppliers continues. Critical supplier cost reduction initiatives are in process and continuing into the future.

Working Capital Utilization

Total current assets less total current liabilities were in a deficit position of $71,561,000 at December 31, 2019 and a $74,374,000 deficit position at December 31, 2018. However, the Company's accounts receivable, contract assets, and inventories net of accounts payable, amount to a $18,542,000 surplus as at December 31, 2019 (December 31, 2018: $22,000,000).

Financial Resources

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

Non-Financial Resources

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

Human Resources

The number of employees at December 31, 2019 was 740 (December 31, 2018: 674). The increase in the number of employees during 2019 occurred primarily as a result of ramp up of certain production programs in the Delta facility.

Equipment, Systems, Technologies and Processes

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

Risk Assessment

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

- additional financing is required to maintain and grow its business;
- impact of 737 MAX grounding on the aviation industry;
- adverse impact of the COVID-19 virus on the aviation industry, employees, supply chain and customers;
- no agreement on extension of customer contracts, or terminated customer programs are not replaced;
- increases in material costs, primarily aluminum plate, composite materials, titanium, sandwich panels and assembly hardware, and subcontractor costs, without equivalent price protection in customer contracts;
- reduction in production rates of aircraft manufacturers and delays in program introduction;
- consolidation and globalization by competitors;
- potential failure to achieve cost-reduction objectives relative to changes in revenue levels; and
- increase in the value of the Canadian dollar, relative to the US dollar, has an adverse effect on the US dollar equivalent value of those Company procured goods and services which are denominated in Canadian dollars.

The Company's view is that with its strategic plan in place and the continued integration of composite design and manufacturing capabilities, the Company should be in a position to face and mitigate these risks. The COVID-19 virus impact to the aviation industry and the Company continues to evolve. The Company has implemented strict precautions to mitigate the risk to its employees' health and safety through restrictions on in-person meetings, rotating shifts and social distancing guidelines. In addition, the company will continue to assess the risk to the supply chain and its customers and will implement steps to mitigate this risk. However, there can be no assurance that the Company will be successful with all initiatives.

Additional Financing

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

- finance unanticipated working capital requirements;
- finance transitional operating losses incurred upon integration of acquired entities;
- finance new program development and introduction;
- develop or enhance existing services and capabilities;
- respond to competitive pressures; or
- finance business acquisitions.

On November 15, 2019, the Company entered into a loan agreement to expand its operating credit facility with a Canadian Chartered Bank. This loan agreement amends, restates and replaces the loan agreements entered into on September 27, 2012 and subsequently on May 26, 2017. The loan agreement extends the maturity to June 30, 2021.

- Maximum availability under the Loan agreement cannot exceed USD $68,000,000 less USD $2,300,000 until June 30, 2021. Drawdowns under the USD$45,000,000 borrowing capacity are supported by a major and material customer of the Company (the "Guarantor") by way of a guarantee (the "Guarantee"). On November 15, 2019, Panta Holdings B.V., the holding company of Panta Canada B.V. which is Avcorp's majority shareholder, entered into a guarantee agreement with the Guarantor. Pursuant to the guarantee agreement, Panta Holdings B.V. provided guarantee to the Guarantor in the maximum payment of USD$10,000,000 if the bank draws on the Guarantee in whole or in part.
- Interest rate for advances made up to the maximum of the allowable borrowing base of USD$23,000,000 revolving loan less USD$2,300,000:
  - Royal Bank Prime ("RBP") plus 1.50% per annum
  - Royal Bank US Base Rate ("RBUSBR") plus 1.50% per annum
  - Banker's Acceptance ("BA") Equivalent Rate plus 3.00% per annum
  - LIBOR Rate plus 3.00% per annum
- Interest rate for advances made on the additional USD$45,000,000 borrowing capacity up to USD$68,000,000.
  - RBP plus 0.00% per annum
  - RBUSBR plus 0.00% per annum
  - BA Equivalent Rate plus 0.875% per annum
  - LIBOR Rate plus 0.875% per annum

- Pursuant to the terms of the amending loan agreement, the Company is required to meet certain financial covenants beginning in Q1 2020. In the event that the Company fails to meet the covenants, Panta Holdings B.V. and Panta Canada B.V. shall be entitled to make cash injections for a fiscal quarter by way of loan or equity investment in Avcorp. Such injections will be considered a positive addition to the calculation of the financial metrics for the purposes of determining compliance with the covenants. In addition, the Company will have a cure period measured cumulatively for the failed quarter and the subsequent quarter. There is uncertainty as to the ability of the company to meet its financial covenants without the additional financial support from Panta Holdings B.V. and Panta Canada B.V.

On February 6, 2020, the Company entered into an amendment to its existing loan agreement with a Canadian Chartered Bank whereby the following amendments were made:

- The threshold of the financial covenants for the first and second fiscal quarters for the 2020 fiscal year were amended in favor of the Company.

On November 15, 2019, the Company entered into a standby credit facility agreement ("2019 Panta Loan") with Panta Canada B.V which amended and restated the 2018 Panta Loan, as well as securing an additional $4,546,000 (USD$3,500,000). As at December 31, 2019, the company had drawn $325,000 (USD $250,000) on this 2019 Panta Loan. The Company drew the remaining available amount in January 2020 of $4,238,000 (USD $3,250,000).

On March 2, 2020, the Company entered into an amendment to the standby credit facility ("2019 Panta Loan") securing an additional and drawing $2,598,000 (USD$2,000,000). As at the date of this report the company is able to draw up to an additional $Nil on the standby credit facility.

The Company ended the year with bank operating line utilization of $84,661,000 offset by $4,316,000 cash compared to utilization of $85,840,000 with $2,051,000 cash on hand as at December 31, 2018. Based on net collateral provided to its bank, the Company is able to draw up to an additional $335,000 (USD$258,000) on its operating line of credit as at December 31, 2019 (December 31, 2018: $1,059,000 (USD$776,000)). As at the date of this report the Company is able to draw up to an additional $21,000 (USD$16,000) on its operating line of credit.

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

Customer Contracts

The Company is exposed to the risk that existing customer fixed-term contracts are not renewed at expiration date. Avcorp Group operates within "general terms agreements" with its customers. These agreements are typically for five years or longer. The Company's agreements with Boeing CA extend from current date, with various expiry timelines, through to the end of 2028. Agreements with Boeing DSS have been renewed and established which extend from 2013 into 2022 with minimum base quantity requirements. It is the Company's objective to successfully renew Boeing production contracts in advance of expiry dates.

The Bombardier and Subaru agreements extend for the life of the individual aircraft programs.

BAE and Lockheed Martin customer contracts extend into 2022. The Company is currently negotiating the extension of follow-on contracts.

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

Procured Materials and Parts

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

Aircraft Production Rates

The following industry and program trends impact the Company:

- Company research indicates that the aerostructures markets for commercial aircraft and larger business jets would continue to grow beyond 2020.
- Growth in air travel rates has and will further increase production rates on the Boeing 737 and Airbus A320 platforms in the coming years.
- Boeing 737 MAX grounding has resulted in reduced production rates for 2019 and 2020.
- Bombardier Challenger CL650 aircraft production requirements to remain substantially flat through 2020.
- The global market for defence aircraft has continued growth expected for 2020.
- The F-35 remains, on a global scale, one of the largest Defence Airplane programs for the foreseeable future.
- Offset opportunities created by Canadian Government procurement within military aerospace programs such as the Boeing F-18 and Airbus C295 FWSAR could lead to additional revenue opportunities from this aerospace sector.

- The COVID-19 virus will adversely impact the aviation industry.

Competitors

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

Cost Reductions

Approximately 57% of Avcorp Group's cost of sales is related to labour and overhead and 43% related to procurement of raw materials and finished parts. The Company's wage rates are generally lower than its western European and north western United States competitors and higher than those in the south eastern United States, Asia, Eastern Europe and Mexico. On September 25, 2019, the company reached a new labour agreement with the International Association of Machinists and Aerospace Workers (Lodge 250) (the "Union") at its Delta, British Columbia facility. The new six-year labour agreement was ratified by the Union and will expire on March 31, 2025. Subsequent to the Hitco acquisition the Company and the labour force, in Gardena, agreed to a four-month extension of the current collective agreement, which was to expire February 29, 2016. On June 29, 2016 the labour force at the Gardena facility ratified a six-year collective agreement, adding language that allows for High Performance Work Teams and incentive bonus payments for accomplishing annual targets regarding operational and quality performance.

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

US Dollar Revenues

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

Outlook

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

Boeing is the Company's largest customer during 2019, followed by Lockheed Martin, Subaru, Bombardier, and BAE Systems. The Company forecasts its 2020 revenues to increase due to orders received for defence related program deliveries, and Delta production ramp-up for recently awarded contracts.

The Company forecasts its working capital financing requirements for 2020 to be met by the operating line of credit and working capital surplus (exclusive of bank indebtedness). Working capital financing has been supplemented, at times, by shareholder loans, however, further debt and equity financing may be required.

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Transactions with Related Parties

Periodically, consulting services are provided by certain directors. Fees paid to certain directors, or companies with which they have beneficial ownership, during the year ended December 31, 2019 amount to $3,000 (December 31, 2018: $Nil). Fees payable to certain directors or Companies with which they have beneficial ownership, as at December 31, 2019 are $Nil (December 31, 2018: $Nil). These fees are included in the Consolidated statements of Loss and Comprehensive Loss as administrative and general expenses and amount to $3,000 for the year ended December 31, 2019 (December 31, 2018: $Nil).

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

KEY MANAGEMENT COMPENSATION

(expressed in thousands of Canadian dollars)

	2019	2018
Salaries and other short-term employee benefits	**$2,002**	$2,150
Contributions to defined contribution plan	**82**	67
Option-based awards	**76**	164
	2,160	2,381

The balance of loans receivable from key management as at December 31, 2019 is $5,000 (December 31, 2018: $15,000). These loans are unsecured and payable on demand.

Other related party transactions are disclosed elsewhere in these consolidated financial statements.

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

Business Acquisition

As at the date of this report, no agreements to merge with or acquire another entity have been entered into.

Fourth Quarter

The following summarizes financial results for the fourth quarter 2019.

Operating loss for the fourth quarter of 2019 was $8,114,000 from $38,309,000 in revenues, as compared to operating loss of $9,833,000 from $39,280,000 in revenues for the quarter ended December 31, 2018. The Company expensed $2,072,000 of overhead costs during the fourth quarter 2019 (2018: $3,602,000) in respect of unutilized plant capacity. Provision amortization for onerous contracts accrued during the fourth quarter 2019 totalled $155,000 (December 31, 2018: $3,739,000 provision). The Company has provisioned for a claim asserted by a customer in the amount of $Nil in the fourth quarter of 2019 (2018: $7,640,000).

Critical Accounting Estimates and Judgment

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and judgments that affect the amounts which are reported in the consolidated financial statements during the reporting period. Estimates and other judgments are evaluated at each reporting date and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The critical estimates and judgements utilized in preparing the Company's consolidated financial statements affect the assessment of net recoverable amounts, net realizable values and fair values, and the determination of functional currency of the Canadian operations of the group. Any changes in estimates and assumptions could have a material impact on the assets and liabilities at the date of the statement of financial position. The Company reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgement in making these estimates and assumptions.

- Functional currency: The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which each operates. The Company has determined that the functional currency for the Company and all its subsidiaries except for Avcorp US Holdings Inc. and ACF is the Canadian dollar. The functional currency for Avcorp US Holdings Inc. and ACF is the US dollar. The determination of functional currency may require certain judgements to determine the primary economic environment. The Company reconsiders the functional currency used when there is a change in events and conditions which determined the primary economic environment.
- Impairments: The recoverable amount of intangible assets, development costs and property, plant and equipment is based on estimates and assumptions regarding the expected market outlook and cash flows from each of the Company's CGU. Assumptions, judgments and estimates about future values are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Company's business strategy or internal forecasts. Although the Company believes the assumptions, judgments and estimates made in the past have been reasonable and appropriate, different assumptions, judgments and estimates could materially affect the Company's reported financial results.
- Going concern and debt classification: Management assesses the Company's ability to continue as a going concern at each reporting date, using quantitative and qualitative information available. Management also determines the appropriate classification of its debt arrangements based on terms of the various agreements based on the company's financial condition. This assessment, by its nature, relies on estimates of future cash flows and other future events, whose subsequent changes would materially impact the validity of such an assessment.
- Capitalization of development costs: When capitalizing development costs the Company must assess the technical and commercial feasibility of the projects and estimate the useful lives of resulting products. Determining whether future economic benefits will flow from the assets and therefore the estimates and assumptions associated with these calculations are instrumental in (i) deciding whether project costs can be capitalized, and (ii) accurately calculating the useful life of the projects for the Company.
- Unfavourable contracts liability: At the acquisition date valued the unfavourable contracts liability at fair value using certain assumptions that would arise in a market participant view. The Company estimates the expected shipsets or production when assessing the liability, together with the discounts rate and period of performance under the varying contracts and service agreements. The cash flows are discounted over the period of performance using a discount rate commensurate with the risk associated with the liability.
- During 2018 production requirements associated with the unfavourable contract were redirected to another supplier, giving rise to the full amortization of the unfavourable contract liability and the onerous contract provision into income. In addition, the customer advance was adjusted to its face value through income. This has been recorded in the 2018 Annual Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) as a contract modification in the amount of $41,470,000. Uncertainties exist as to ultimate outcome of a formal contract termination. While the Company believes that it has fulfilled all of its obligations under the contract, it is possible claims may be levied against the Company. The Company has assessed such possible claims as not probable.
- Inventories are valued at the lower of cost and net realizable value. The costs of inventory involve estimates in determining the allocation of fixed and variable production overhead. These estimates involved include determination of normal production capacity and nature of expenses to be allocated. Additionally, inventory is reviewed monthly to ensure the carrying value does not exceed net realizable value. If so, a write-down is recognized. The write-down may be reversed if the circumstances which caused it no longer exists.

- On a periodic basis the Company reviews its plant capacity and estimates the portion of its under-utilized overhead expenditures. The Company has expensed $7,004,000 of overhead costs during the current year (December 31, 2018: $6,469,000) in respect of unutilized plant capacity. These amounts are included in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) as costs of sales.
- The Company has entered into production contracts in the ordinary course of its business. The unavoidable cost of meeting the obligations under certain of these contracts exceeds the associated expected future net benefits; consequently, an onerous contract provision has been recognized. The calculation of this provision involves the use of estimates including, but not limited to, program gross margin, and the effect of learning curves of production and the timing of achieving certain operational efficiencies. These actual results can vary significantly from these estimates with consequent variability in the amounts of the provision recorded. The onerous contract provision is calculated by taking the expected future costs that will be incurred under the contract and deducting any estimated revenues. The onerous contract provision is primarily due to a high cost structure and learning curves of production that cannot be recovered through current pricing of the associated contracts. The total onerous contract provision for the year ended December 31, 2019 is $251,000 (December 31, 2018: $1,930,000)
- While a formal claim has yet to be levied by the customer, the Company has provisioned for a claim asserted by a customer in the amount of $7,273,000 as at December 31, 2019 (December 31, 2018: $7,640,000).
- Right of use asset and lease liability: On January 1, 2019, the Company transitioned to IFRS 16 and recognized a right of use asset and lease liability. These values use judgement in determining lease terms such as extension option and discount rate used. In the case where incremental borrowing rate is used, the Company estimates the incremental borrowing rate based on the lease term, collateral assumptions, and the economic environment in which the lease is denominated.
- The company has provisioned USD $1,350,000 for a legal action due to certain employment practices at the Gardena facility. These practices were in place prior to acquisition. The company has corrected these practices going forward.

Financial Instruments and Other Instruments

Market Risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Company may utilize derivative instruments in the management of its foreign currency and interest rate exposures.

Currency Risk

Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rate ("transaction exposures") and because the non-Canadian dollar denominated financial statements of the Company's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars ("translation exposures").

The Company sells a significant proportion of its products in US dollars at prices which are often established well in advance of manufacture and shipment dates. In addition, the Company purchases a significant proportion of its raw materials and components in US dollars at prices that are usually established at the order date. The Company's operations are based in Canada and in the US. As a result of this, the Company is exposed to currency risk to the extent that fluctuations in exchange rates are experienced. The amount of foreign exchange gain recorded for the quarter ended December 31, 2019 is $1,067,000 (December 31, 2018: $770,000 loss).

The Company had the following US dollar denominated balances:

CURRENCY RISK

(expressed in thousands of dollars)

FOR THE QUARTER ENDED DECEMBER 31	**2019** (expressed in USD)	2018 (expressed in USD)
Bank cash position	**$2,639**	$1,050
Accounts receivable	**9,824**	12,996
Accounts payable	**6,948**	8,838
Customer advance	**4,643**	4,643
Bank indebtedness	**65,184**	62,924
Term debt	**4,273**	3,633

With other variables unchanged, each $0.10 strengthening (weakening) of the CAD against the USD would result in an increase (decrease) of approximately $6,859,000 in net income for the year ended December 31, 2019 as a result of holding a net liability position in USD as at December 31, 2019.

As at December 31, 2018, a $0.10 strengthening (weakening) of the CAD against the USD would result in an increase (decrease) of approximately $6,599,000 in net income for the year ended December 31, 2018 as a result of holding a net liability position in USD as at December 31, 2018.

Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Company manages credit risk for trade and other receivables through a financial review of the credit worthiness of the prospective customer along with credit monitoring activities. The majority of the Company's trade receivables reside with Boeing Commercial Airplane Group ("Boeing"), Boeing Defence, Space & Security ("BDS"), Bombardier Aerospace ("Bombardier"), BAE Systems (Operations) Limited ("BAE"), Lockheed Martin ("LM"), and Subaru Corporation ("Subaru"). The maximum exposure to credit risk is represented by the amount of accounts receivable in the consolidated statements of financial position.

As at the consolidated statements of financial position date 85.6% (December 31, 2018: 90.8%) of the Company's trade accounts receivable are attributable to these customers.

The Company is exposed to credit risk if counterparties to its trade receivables are unable to meet their obligations. The concentration of credit risk from its customers is minimized because the Company has an original equipment manufacturer and tier one aerospace customer base as at December 31, 2019. The customers are predominately large, well-capitalized, and long established entities with a low risk of non-payment. The Company regularly monitors its credit risk and credit exposure.

Liquidity Risk

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

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

During the year ended December 31, 2019, the Company had a net loss of $9,316,000 (December 31, 2018: net income of $20,373,000), had operating cash flows of $10,911,000 (December 31, 2018: negative $16,029,000) and a shareholders' deficiency of $43,475,000 as of December 31, 2019 (December 31, 2018: $36,144,000 deficiency) and an accumulated deficit of $142,194,000 (December 31, 2018: $132,878,000). Management assesses the Company's ability to continue as a going concern at each reporting date, using quantitative and qualitative information available. Material uncertainties have been identified which may cast significant doubt upon the Company's ability to continue as a going concern. This assessment, by its nature, relies on estimates of future cash flows and other future events, whose subsequent changes would materially impact the validity of such an assessment.

The Company's ability to continue as a going concern is dependent upon its ability to achieve improvements in operating results in the future through additional revenue from defense related contracts, successfully negotiate extended terms with its creditors including the past due date of its customer advance and other debt related items, continue to raise adequate financing, and mitigate the adverse impact of the COVID-19 virus. In assessing whether the going concern assumption was appropriate, management considered all relevant information available about the future, which was at least, but not limited to, the 12-month period from the date of this report.

The Company, in conjunction with its Board of Directors, is currently implementing various financing strategies which include:

- On November 15, 2019, the Company entered into a loan agreement to expand its operating credit facility with a Canadian Chartered Bank. This loan agreement amends, restates and replaces the loan agreements entered into on September 27, 2012 and subsequently on May 26, 2017. The loan agreement extends the maturity to June 30, 2021.
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  - The threshold of the financial covenants for the first and second fiscal quarters for the 2020 fiscal year were amended in favor of the Company.

- On November 15, 2019, the Company entered into a standby credit facility agreement ("2019 Panta Loan") with Panta Canada B.V which amended and restated the 2018 Panta Loan, as well as securing an additional $4,546,000 (USD$3,500,000). As at December 31, 2019, the company had drawn $325,000 (USD $250,000) on this 2019 Panta Loan. The Company drew the remaining available amount in January 2020 of $4,238,000 (USD $3,250,000).

- On March 2, 2020, the Company entered into an amendment to the standby credit facility ("2019 Panta Loan") securing an additional and drawing $2,598,000 (USD$2,000,000). As at the date of this report the company is able to draw up to an additional $Nil on the standby credit facility.

- The Company ended the year with bank operating line utilization of $84,661,000 offset by $4,316,000 cash compared to utilization of $85,840,000 with $2,051,000 cash on hand as at December 31, 2018. Based on net collateral provided to its bank, the Company is able to draw up to an additional $335,000 (USD$258,000) on its operating line of credit as at December 31, 2019 (December 31, 2018: $1,059,000 (USD$776,000)). As at the date of this report the Company is able to draw up to an additional $21,000 (USD$16,000) on its operating line of credit.

- Pursuant to the Hitco acquisition, the Company assumed a customer advance for pre-funding of product deliveries. The customer advance is re-paid as the Company delivers to its customer ordered products for a specific program. In the event that cancellation, termination, or assignment of the statement of work occurs earlier than December 31, 2018, the customer shall have the right to recover from the Company, within 120 days of such an event, the unamortized portion of the cash advance; such event occurred during the third quarter 2018. The customer advance is subject to an access and security agreement along with a general security agreement entered into with the Company's bank and the customer. The face value of the unamortized portion of the cash advance as at December 31, 2019 is $6,030,000 (USD$4,643,000) (December 31, 2018: $6,334,000 (USD$4,643,000)).

The Company, in conjunction with its Board of Directors continue to carry out various operational strategies which include:

- Contract renegotiations with existing customers, actively working to secure additional purchase orders and pursuing new customer contracts have provided an improved basis for operations in the future.
- The company reached a new labour agreement with the International Association of Machinists and Aerospace Workers (Lodge 250) (the "Union") at its Delta, British Columbia facility. The new six-year labour agreement was ratified by the Union and will expire on March 31, 2025 bringing the company long term stability.
- Close collaboration with customers has resulted in both financial and operational support for continued operations.

The COVID-19 virus impact to the aviation industry and the Company continues to evolve. The Company has implemented strict precautions to mitigate the risk to its employees' health and safety through restrictions on in-person meetings, rotating shifts and social distancing guidelines. In addition, the company will continue to assess the risk to the supply chain and its customers and will implement steps to mitigate this risk.

The assessment of the Company's ability to execute its strategy of reducing operating costs, funding future working capital requirements, and ability to mitigate the risk of the COVID-19 virus involves significant judgement. Estimates and assumptions regarding future operating costs, revenue and profitability levels and general business and customer conditions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management is actively working to secure extension to its banking agreements, will continue to work with an existing common shareholder, and will seek additional financing as necessary. The Company cannot provide assurance that, if it needs to raise additional funds, such funds will be available on favourable terms, or at all. If the Company cannot raise adequate funds on acceptable terms, its business could be materially harmed.

Interest Rate Risk

The Company is exposed to interest rate risk on the utilized portion of its operating line of credit.

Interest rate for advances made up to the maximum of the allowable borrowing base of USD$23,000,000 revolving loan less USD$2,300,000:

- Royal Bank Prime ("RBP") plus 1.50% per annum
- Royal Bank US Base Rate ("RBUSBR") plus 1.50% per annum
- Banker's Acceptance ("BA") Equivalent Rate plus 3.00% per annum

- LIBOR Rate plus 3.00% per annum

Interest rate for advances made on the additional USD$45,000,000 borrowing capacity up to USD$68,000,000.

- RBP plus 0.00% per annum
- RBUSBR plus 0.00% per annum
- BA Equivalent Rate plus 0.875% per annum
- LIBOR Rate plus 0.875% per annum

There is uncertainty as to the continued use of LIBOR in the future. LIBOR is the subject of recent national, international and other regulatory guidance and proposals for reform. These reforms and other pressures may cause LIBOR to be eliminated or to perform differently than in the past. The consequences of these developments cannot be entirely predicted but could include an increase in the cost of our variable rate indebtedness and obligations.

Drawdown under the USD$45,000,000 additional borrowing capacity is supported by a Guarantee provided by a Guarantor. Panta Holdings B.V. provided guarantee to the Guarantor in the maximum payment of USD$10,000,000 if the bank draws on the Guarantee in whole or in part

The Company will provide the Guarantor, as consideration for the Guarantee, a fee equal to 5.375% of the weighted average outstanding balance of the guaranteed portion over each full twelve (12) month period commencing on the funding date plus, for the partial year thereafter, 5.375% of the weighted average outstanding balance of the guaranteed portion multiplied by the number of days in the partial year divided by three hundred sixty (360). The fee will be payable on the maturity date.

The maximum operating line of credit availability is $85,331,000 (USD $65,700,000) of which $84,661,000 is utilized as at December 31, 2019 (December 31, 2018: $85,840,000). The Company lowers interest rate costs by managing utilization of the operating lines of credit to the lowest amount practical. For the year ended December 31, 2019, with other variables unchanged, a 1% change in the base borrowing rate would have an $847,000 (December 31, 2018: $858,000) impact on net earnings and cash flow. Based on net collateral provided to its bank, the Company is able to draw up to an additional USD $258,000 on its operating line of credit as at December 31, 2019 (December 31, 2018: $776,000). As at the date of this report the Company is able to draw up to an additional USD$16,000 on its operating line of credit.

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

Capital Risk

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

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

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

The Company's loan agreement with a Canadian Chartered Bank restricts the declaration or payment of any dividend.

Other Items

Disclosure Controls and Procedures, and Internal Controls over Financial Reporting

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

The Company has continued to undertake to engage additional, qualified financial reporting expertise to assist with complex accounting matters, as well as develop the expertise of in-house staff ensuring that the Company's tax accounting resources, processes and controls are designed and operating effectively. Furthermore, the Company is aligning its business systems within its two largest facilities in order to simplify and increase consistency of internal controls over financial reporting.

Internal Controls over Financial Reporting

The CEO and the FD have designed internal controls over financial reporting or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

An evaluation was carried out, under the supervision of the CEO and the FD, of the design and effectiveness of our internal controls over financial reporting. Based on this evaluation, the CEO and the FD concluded that the internal controls over financial reporting are effective, using the criteria set forth by the Committee of Sponsoring. Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework (2013 Framework).

Disclosure Controls and Procedures ("DCP")

The CEO and the FD have designed disclosure controls and procedures, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- material information relating to the Corporation has been made known to them; and
- information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

An evaluation was carried out, under the supervision of the CEO and the FD, of the design and effectiveness of our disclosure controls and procedures. Based on this evaluation, the CEO and the FD concluded that the disclosure controls and procedures are effective.

Forward Looking Statements

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

report of management

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

Management is responsible for maintaining a system of internal accounting controls and procedures to provide reasonable assurance. As at the end of the period covered by this report, management identified material weaknesses as described in the Management Discussion and Analysis under the heading "Other Items". During the period covered by this report, there has been no change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

"Amandeep Kaler"	**AMANDEEP KALER** Executive Officer and Group Chief Executive Officer	*"Amish Patel"*	**AMISH PATEL** Director, Finance

Independent auditor's report

To the Shareholders of
Avcorp Industries Inc.

Opinion

We have audited the consolidated financial statements of **Avcorp Industries Inc.** and its subsidiaries [the "Group"], which comprise the consolidated statement of financial position as at December 31, 2019 and 2018, and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 in the consolidated financial statements, which indicates the Group had a net loss of $9,316,000, operating cash flows of $10,911,000, shareholders' deficiency of $43,475,000, and an accumulated deficit of $142,194,000. As stated in note 1, these events or conditions, along with other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditors' report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Nicole Poirier.

Ernst & Young LLP

Chartered Professional Accountants

Vancouver, Canada
March 30, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in thousands of Canadian dollars)

AS AT DECEMBER 31	**2019**	2018
ASSETS		
Current assets		
Cash (note 16)	**$4,316**	$2,051
Accounts receivable (note 9)	**17,625**	23,442
Contract assets (note 10)	**26,162**	24,762
Inventories (note 11)	**12,933**	15,601
Prepayments and other assets (note 12)	**2,136**	3,205
	63,172	69,061
Non-current assets		
Prepayments and other assets (note12)	**2,738**	3,017
Development costs (note 13)	**14,075**	11,755
Property, plant and equipment (notes 3 and 14)	**46,328**	28,416
Intangibles (note 15)	**1,827**	3,137
Investment in AVS-SYS (note 34)	**-**	682
Total assets	**128,140**	116,068
LIABILITIES AND EQUITY		
Current liabilities		
Bank indebtedness (note 16)	**85,470**	85,840
Accounts payable and accrued liabilities (note 18)	**38,178**	41,805
Current portion of term debt (note 21)	**2,768**	5,510
Customer advance (note 17)	**6,030**	6,334
Contract liability (note 19)	**2,036**	2,137
Onerous contract provision (note 22)	**251**	1,809
	134,733	143,435
Non-current liabilities		
Guarantee fee (note 16)	**5,277**	2,994
Term debt (notes 3 and 21)	**26,848**	2,800
Contract liability (note 19)	**4,757**	2,862
Onerous contract provision (note 22)	**-**	121
	171,615	152,212
(Deficiency) Equity		
Capital stock (note 24)	**86,219**	86,219
Contributed surplus	**5,446**	5,370
Accumulated other comprehensive income	**7,054**	5,145
Accumulated deficit	**(142,194)**	(132,878)
	(43,475)	(36,144)
Total liabilities and deficiency	**128,140**	116,068

Nature of operations and going concern (note 1)
Subsequent events (note 35)

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

Approved by the Board of Directors on March 30, 2020

"David Levi" *"Ken Robertson"*

David Levi
Chairman

Ken Robertson
Committee Chair, Audit & Corporate Governance Committee

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

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

AS AT DECEMBER 31	2019	2018
Revenues (notes 3, 17, 20 and 33)	**$164,770**	$170,710
Cost of sales (notes 3, 22, and 33)	**160,982**	155,753
Gross profit	**3,788**	14,957
Administrative and general expenses	**21,467**	23,466
Office equipment depreciation	**770**	623
Net contract modification (notes 17, 20 and 22)	**-**	(41,470)
Net (gain) loss on claims (note 27)	**(17,974)**	5,421
Other losses (note 34)	**649**	-
Operating (loss) income	**(1,124)**	26,917
Finance costs – net (note 28)	**8,924**	5,774
Foreign exchange (gain) loss	**(843)**	770
Net loss on sale of equipment	**111**	-
(Loss) income before income tax	**(9,316)**	20,373
Income tax expense	**-**	-
(Loss) income for the year	**(9,316)**	20,373
Other comprehensive income gain (loss)	**1,909**	(4,751)
Total comprehensive (loss) income for the year	**(7,407)**	15,622
(Loss) income per share:		
Basic (loss) income per common share (note 25)	**(0.03)**	0.06
Diluted (loss) income per common share (note 25)	**(0.03)**	0.06
Basic weighted average number of shares outstanding (000's) (note 32)	**368,118**	345,651
Diluted weighted average number of shares outstanding (000's) (note 32)	**368,118**	345,993

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in thousands of Canadian dollars)

AS AT DECEMBER 31	**2019**	**2018**
Cash flows from (used in) operating activities		
Net (loss) income for the year	**$(9,316)**	$20,373
Adjustment for items not affecting cash:		
Interest expense	**8,008**	5,765
Depreciation	**8,218**	4,482
Development cost amortization	**1,786**	3,291
Intangible assets amortization	**1,184**	1,379
Non-cash financing cost accretion	**11**	9
Provision for unfavourable contracts	**-**	(4,617)
Provision for onerous contracts	**(1,665)**	(9,115)
Provision for doubtful accounts	**(1,425)**	543
Provision for obsolete inventory	**(1,177)**	(928)
Stock based compensation	**76**	(445)
Net termination of Contract	**-**	(41,470)
Net claim settlement	**(3,539)**	7,640
Loss on disposal of equipment	**111**	-
Unrealized foreign exchange	**(1,196)**	1,558
Loss on Investment in AVS-SYS	**649**	-
Loss on loan modification	**906**	-
Other items	**-**	(97)
Cash flows from (used in) operating activities before changes in non-cash working capital	**2,631**	(11,632)
Changes in non-cash working capital		
Accounts receivable	**6,747**	(2,922)
Contract assets	**(1,673)**	(6,108)
Inventories	**3,502**	2,509
Prepayments and other assets	**1,846**	(805)
Accounts payable and accrued liabilities	**(3,324)**	9,820
Customer advance payable	**-**	(2,660)
Contract liability	**1,182**	(4,231)
Net cash from (used in) operating activities	**10,911**	(16,029)
Cash flows used in investing activities		
Proceeds from sale of equipment	**99**	-
Purchase of equipment	**(904)**	(1,429)
Addition of developed software	**-**	(371)
Payments relating to development costs and tooling	**(4,116)**	(6,410)
Investment in AVS - SYS	**-**	(551)
Initial lease payments and other direct costs incurred	**(102)**	
Net cash used in investing activities	**(5,023)**	(8,761)
Cash flows (used in) from financing activities		
Proceeds from bank indebtedness	**20,844**	17,961
Repayment of bank indebtedness	**(18,010)**	-
Payment of interest	**(5,049)**	(2,862)
Proceeds from term debt	**1,196**	6,601
Repayment of term debt	**(2,591)**	(294)
Net cash (used in) from financing activities	**(3,610)**	21,406
Net increase (decrease) in cash	**2,278**	(3,384)
Net foreign exchange difference	**(13)**	223
Cash - Beginning of the year	**2,051**	5,212
Cash - End of the year	**4,316**	2,051

Supplementary Cash Flow Information (note 29). The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(expressed in thousands of Canadian dollars, except number of shares)

	Capital Stock					
	Number of Shares	**Amount**	**Contributed Surplus**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income**	**Total Deficiency**
Balance at January 1, 2018	337,404,502	82,905	6,979	(153,251)	9,896	(53,471)
Issue of common shares	30,714,118	2,150	-	-	-	2,150
Transfer to share capital on exercise of stock options	-	1,164	(1,164)	-	-	-
Stock-based compensation expense	-	-	195	-	-	195
Cancellation of issued stock options	-	-	(640)	-	-	(640)
Unrealized currency loss on translation for the year	-	-	-	-	(4,751)	(4,751)
Net income for the year	-	-	-	20,373	-	20,373
Balance at December 31, 2018	368,118,620	86,219	5,370	(132,878)	5,145	(36,144)
Balance at December 31, 2018	368,118,620	86,219	5,370	(132,878)	5,145	(36,144)
Stock-based compensation expense	-	-	76	-	-	76
Unrealized currency gain on translation for the year	-	-	-	-	1,909	1,909
Net loss for the year	-	-	-	(9,316)	-	(9,316)
Balance at December 31, 2019	**368,118,620**	**86,219**	**5,446**	**(142,194)**	**7,054**	**(43,475)**

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

1. Nature of Operations and Going Concern

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

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

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

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

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

The consolidated financial statements of the Company for the year ended December 31, 2019 were authorized for issue in accordance with a resolution of its Board of Directors on March 30, 2020.

During the year ended December 31, 2019, the Company had a net loss of $9,316,000 (December 31, 2018: net income of $20,373,000), had operating cash flows of $10,911,000 (December 31, 2018: negative $16,029,000) and a shareholders' deficiency of $43,475,000 as of December 31, 2019 (December 31, 2018: $36,144,000 deficiency) and an accumulated deficit of $142,194,000 (December 31, 2018: $132,878,000). Management assesses the Company's ability to continue as a going concern at each reporting date, using quantitative and qualitative information available. Material uncertainties have been identified which may cast significant doubt upon the Company's ability to continue as a going concern. This assessment, by its nature, relies on estimates of future cash flows and other future events, whose subsequent changes would materially impact the validity of such an assessment.

The Company's ability to continue as a going concern is dependent upon its ability to achieve improvements in operating results in the future through additional revenue from defense related contracts, successfully negotiate extended terms with its creditors including the past due date of its customer advance (note 17) and other debt related items, continue to raise adequate financing, and mitigate the adverse impact of the COVID-19 virus. In assessing whether the going concern assumption was appropriate, management considered all relevant information available about the future, which was at least, but not limited to, the 12-month period from the date of this report.

The Company, in conjunction with its Board of Directors, is currently implementing various financing strategies which include:

- On November 15, 2019, the Company entered into a loan agreement to expand its operating credit facility with a Canadian Chartered Bank. This loan agreement amends, restates and replaces the loan agreements entered into on September 27, 2012 and subsequently on May 26, 2017. The loan agreement extends the maturity to June 30, 2021.
  - Maximum availability under the Loan agreement cannot exceed USD $68,000,000 less USD $2,300,000 until June 30, 2021. Drawdowns under the USD$45,000,000 borrowing capacity are supported by a major and material customer of the Company (the "Guarantor") by way of a guarantee (the "Guarantee"). On November 15, 2019, Panta Holdings B.V., the holding company of Panta Canada B.V. which is Avcorp's majority shareholder, entered into a guarantee agreement with the Guarantor. Pursuant to the guarantee agreement, Panta Holdings B.V. provided guarantee to the Guarantor in the maximum payment of USD$10,000,000 if the bank draws on the Guarantee in whole or in part.
  - Interest rate for advances made up to the maximum of the allowable borrowing base of USD$23,000,000 revolving loan less USD$2,300,000:
    - Royal Bank Prime ("RBP") plus 1.50% per annum
    - Royal Bank US Base Rate ("RBUSBR") plus 1.50% per annum
    - Banker's Acceptance ("BA") Equivalent Rate plus 3.00% per annum
    - LIBOR Rate plus 3.00% per annum
  - Interest rate for advances made on the additional USD$45,000,000 borrowing capacity up to USD$68,000,000.
    - RBP plus 0.00% per annum
    - RBUSBR plus 0.00% per annum
    - BA Equivalent Rate plus 0.875% per annum

  - LIBOR Rate plus 0.875% per annum

- Pursuant to the terms of the amending loan agreement, the Company is required to meet certain financial covenants beginning in Q1 2020. In the event that the Company fails to meet the covenants, Panta Holdings B.V. and Panta Canada B.V. shall be entitled to make cash injections for a fiscal quarter by way of loan or equity investment in Avcorp. Such injections will be considered a positive addition to the calculation of the financial metrics for the purposes of determining compliance with the covenants. In addition, the Company will have a cure period measured cumulatively for the failed quarter and the subsequent quarter. There is uncertainty as to the ability of the company to meet its financial covenants without the additional financial support from Panta Holdings B.V. and Panta Canada B.V.

- On February 6, 2020, the Company entered into an amendment to its existing loan agreement with a Canadian Chartered Bank whereby the following amendments were made:
  - The threshold of the financial covenants for the first and second fiscal quarters for the 2020 fiscal year were amended in favor of the Company.
- On November 15, 2019, the Company entered into a standby credit facility agreement ("2019 Panta Loan") with Panta Canada B.V which amended and restated the 2018 Panta Loan, as well as securing an additional $4,546,000 (USD$3,500,000) (note 21). As at December 31, 2019, the company had drawn $325,000 (USD $250,000) on this 2019 Panta Loan. The Company drew the remaining available amount in January 2020 of $4,238,000 (USD $3,250,000).
- On March 2, 2020, the Company entered into an amendment to the standby credit facility ("2019 Panta Loan") securing an additional and drawing $2,598,000 (USD$2,000,000) (note 35). As at the date of this report the company is able to draw up to an additional $Nil on the standby credit facility.
- The Company ended the year with bank operating line utilization of $84,661,000 offset by $4,316,000 cash compared to utilization of $85,840,000 with $2,051,000 cash on hand as at December 31, 2018. Based on net collateral provided to its bank, the Company is able to draw up to an additional $335,000 (USD$258,000) on its operating line of credit as at December 31, 2019 (December 31, 2018: $1,059,000 (USD$776,000)). As at the date of this report the Company is able to draw up to an additional $21,000 (USD$16,000) on its operating line of credit.
- Pursuant to the Hitco acquisition, the Company assumed a customer advance for pre-funding of product deliveries. The customer advance is re-paid as the Company delivers to its customer ordered products for a specific program. In the event that cancellation, termination, or assignment of the statement of work occurs earlier than December 31, 2018, the customer shall have the right to recover from the Company, within 120 days of such an event, the unamortized portion of the cash advance; such event occurred during the third quarter 2018. The customer advance is subject to an access and security agreement along with a general security agreement entered into with the Company's bank and the customer. The face value of the unamortized portion of the cash advance as at December 31, 2019 is $6,030,000 (USD$4,643,000) (December 31, 2018: $6,334,000 (USD$4,643,000)) (note 17).

The Company, in conjunction with its Board of Directors continue to carry out various operational strategies which include:

- Contract renegotiations with existing customers, actively working to secure additional purchase orders and pursuing new customer contracts have provided an improved basis for operations in the future.
- The company reached a new labour agreement with the International Association of Machinists and Aerospace Workers (Lodge 250) (the "Union") at its Delta, British Columbia facility. The new six-year labour agreement was ratified by the Union and will expire on March 31, 2025 bringing the company long term stability.
- Close collaboration with customers has resulted in both financial and operational support for continued operations.
- The COVID-19 virus impact to the aviation industry and the Company continues to evolve. The Company has implemented strict precautions to mitigate the risk to its employees' health and safety through restrictions on in-person meetings, rotating shifts and social distancing guidelines. In addition, the company will continue to assess the risk to the supply chain and its customers and will implement steps to mitigate this risk.

The assessment of the Company's ability to execute its strategy of reducing operating costs, funding future working capital requirements, and ability to mitigate the risk of the COVID-19 virus involves significant judgement. Estimates and assumptions regarding future operating costs, revenue and profitability levels and general business and customer conditions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management is actively working to secure extension to its banking agreements, will continue to work with an existing common shareholder, and will seek additional financing as necessary. The Company cannot provide assurance that, if it needs to raise additional funds, such funds will be available on favourable terms, or at all. If the Company cannot raise adequate funds on acceptable terms, its business could be materially harmed.

2. Basis of Preparation and Measurement

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

Certain prior year amounts have been reclassified to correct prior year classifications. On the consolidated balance sheets $2,871,000 deposit has been reclassified from "Prepayments and other assets" current to "Prepayments and other assets" non-current.

Accounting standards issued but not yet effective

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

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the International Accounting Standards Board ("IASB") issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The standard is effective for annual periods beginning on or after January 1, 2020, with early application permitted. The amendments to the definition of material is not expected to have a significant impact on the Company's consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current (Amendments to IAS 1). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

3. Significant Accounting Policies

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

Basis of consolidation

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

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at December 31, 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

Business combinations

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

Foreign currency translation

- Functional and presentation currency: Foreign currency items included in the consolidated financial statements of each consolidated entity in the Avcorp Industries Inc. group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of the Company's subsidiary, Comtek, is also determined to be Canadian dollars. The functional currency of the Company's subsidiary, Avcorp US Holdings Inc., and ACF is determined to be US dollars.
- On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statements of income are translated at average exchange rates prevailing during the period. The exchange differences arising on translation for consolidation are recognized in other comprehensive income ("OCI"). On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to consolidated income.
- Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.
- Transactions and balances: Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statements of income.

Fair value measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. When determining fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and also considers assumptions that market participants would use when pricing an asset or liability. The fair value hierarchy has three levels of inputs that may be used to measure fair value: Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities; Level 2—Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability; and Level 3—Unobservable inputs for the asset or liability.

Financial instruments

a) Financial assets

Financial assets include, in particular, cash, accounts receivables and equity investments.

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics. With the exception of accounts receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Accounts receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies for Revenue from contracts with customers.

The Company measures financial assets at amortized cost if the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost includes accounts receivables.

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. For accounts receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The provision for ECL rates is based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating). The assessment of the correlation between historical credit loss pattern, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Equity investments in non-listed companies are classified and measured as equity instruments at fair value through profit or loss. Impairment losses were recognized in profit or loss for these investments in the current year (Note 34).

b) Financial liabilities

Financial liabilities often entitle the holder to return the instrument to the issuer in return for cash or another financial asset. These include, in particular, bank indebtedness, accounts payables, finance lease liabilities, customer advance guarantee fee, and term debt.

Financial liabilities are measured at their fair value at the time of acquisition, which is normally equivalent to the net loan proceeds. Transaction costs directly attributable to the acquisition are deducted from the amount of all financial liabilities that are not measured at fair value through profit or loss subsequent to initial recognition. If a financial liability is interest free or bears interest at below the market rate, it is recognized at an amount below the settlement price or nominal value. The financial liability initially recognized at fair value is amortized subsequent to initial recognition using the effective interest method.

Inventories

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

Property, plant and equipment

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

An estimation is made of the useful life of property, plant and equipment. The useful life is measured in terms of years of production, and depreciated on a straight line basis.

Computer hardware and software	2 - 10 years
Machinery and equipment	5 - 15 years
Leasehold improvements	end of leases up to 2028

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. The useful lives of the assets are reviewed annually and adjusted if appropriate. The amortization expense in property, plant and equipment is recognized in the consolidated statement of loss in the expense category that is consistent with the function of the property, plant and equipment.

Intangible Assets

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

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

Research and development costs

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

Segment Reporting

Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing performance by the Company's chief operating decision maker; the Chief Executive Officer (CEO). The Company evaluates the financial performance of its operating segments primarily based on operating income or loss.

Impairment of non-financial assets

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

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

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

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

Employee benefits

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

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

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

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

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

Unfavourable contracts liability

In connection with the acquisition of the US-based composite Aerostructures division of Hitco Carbon Composites Inc. ("Hitco"), a subsidiary of Frankfurt-listed SGL Carbon SE ("SGL") the Company assumed existing long-term and short-term customer contracts. Based on review of these contracts, the Company concluded that the terms of the contracts to be unfavourable, compared to what could be realized in market transactions, as of the date of the acquisition.

As a result, the Company recognized contract liabilities, assumed, based on the present value of the difference between the contractual cash flows of the unfavourable contracts and the estimated cash flows to fulfil the obligation under the terms of the existing contracts from the acquisition date. The liabilities principally relate to long-term life of program contracts that were initially executed in the years prior to the acquisition.

The Company measured these liabilities under the measurement provisions of IFRS 13, Fair Value Measurements, which is based on the price to transfer the obligation to a market participant at the measurement date, assuming that the liabilities will remain outstanding in the marketplace.

Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each long-term contracts can materially impact our results of operations.

Included in income for the year ended December 31, 2018 is the non-cash amortization of acquired liabilities recognized as fair value adjustments through purchase accounting from the acquisition of ACF. For the year ended December 31, 2019, the Company recognized net amortization of unfavourable contract liabilities of $Nil (December 31, 2018: $4,617,000). The balance of the liability as of December 31, 2019 is $Nil (December 31, 2018: $Nil) and, is based on a units of production basis over the expected life of the contracts. The unfavourable contract liability was amortized on a units-of-production basis over the expected lives of the contracts.

During 2018, production requirements associated with the unfavourable contract were redirected to another supplier, giving rise to the full amortization of the unfavourable contract liability into income. This has been recorded in Consolidation Statements of Income and Comprehensive Income as a contract modification in the amount of $39,982,000 (note 20).

Revenue

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

Revenue is recognized either at a point in time or over time, as the Company satisfies performance obligations by transferring the promised goods or services to its customers. An asset is transferred as the customer obtains control of the asset. If a performance obligation is not satisfied over time, the Company satisfies the performance obligation at a point in time.

The Company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
- the Company's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

The Company transfers control of the goods over time as evidenced either by contractual termination clauses or by our rights to payment for work performed to date plus a reasonable profit to deliver products that do not have an alternative use to the Company. The Company uses the input method to measure the satisfaction of performance obligations over time. The inputs are labour hours expended and cost of materials consumed relative to the total expected inputs to the satisfaction of that performance obligation.

Determining whether a contract transfers control of the goods over time requires management to consider the terms of the contract, as well as any laws that apply to the contract, and make judgements as to (1) whether the asset created by the Company's performance does not have an alternative use to the Company if the Company is either restricted contractually from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use and (2) evaluating whether it has an enforceable right to payment for performance completed to date.

The Company transfers control of the goods at a point in time evidenced when the delivery has occurred.

Revenue is measured based on the price specified in the sales contract.

Contract Assets include unbilled amounts typically resulting from sales under long-term contracts when over time method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer, and right to payment is not just subject to passage of time. Amounts may not exceed their net realizable value. Contract assets are current in nature.

Contract liabilities consist of advance payments and billings in excess of revenue recognized. Advance payments and billings in excess of revenue recognized are classified as current or non-current based on the timing of when revenue is expected to be recognized. This period of contract liabilities realization can extend, dependent on the amortization of the related costs, over one or more fiscal years. Certain program inventories have been funded by a customer, whereby the associated contract liability will be recorded as revenue upon delivery of units of production.

Cost of sales

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

Income tax

a) Current income tax

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

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

b) Deferred income tax

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

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

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

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

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

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

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

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

Capital Stock

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

Earnings per share

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

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

Leases

Prior to the adoption of IFRS 16 – Leases in 2019, leases are classified as finance or operating leases. A lease that transfers substantially all the benefits and risks incidental to the ownership of property is classified as a finance lease. All other leases are accounted for as operating leases whereby lease payments are expensed on a straight-line basis over the term of the lease.

Gains and losses arising on sale and leaseback transactions, when the leaseback is classified as a finance lease, are deferred and amortized in proportion to the amortization of the leased asset when material. Lease inducements received are recorded as a deferred credit and amortized as a reduction of lease expense over the term of the lease.

Adoption of IFRS 16 - Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. As part of the initial application of IFRS 16, the Company applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application ("short-term leases")
- Applied the recognition exemptions to lease contracts for which the underlying asset is of low value ("low-value assets")
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application

The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases under IAS 17. The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Based on the foregoing, as at January 1, 2019:

- Right-of-use assets of $13,755,000 (included in Property, Plant and Equipment) were recognized. This includes the lease assets recognized previously under finance leases of $666,000 that were classified in machinery and equipment and computer hardware and software.

- Additional lease liabilities of $12,765,000 (included in Term Debt) were recognized.
- Prepayments of $324,000 related to previous operating leases were derecognized and included in the right-of-use assets.
- Impact to the consolidated balance sheet as follows:

	As reported December 31, 2018	Adjustment	Revised opening balance January 1, 2019
Property, plant and equipment, net book amount	$28,416	$13,089	$41,505
Prepayments and other assets	6,222	(324)	5,898
Lease liability (current)	(263)	(986)	(1,249)
Lease liability (non-current)	(159)	(11,779)	(11,938)

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

Operating lease commitments as at December 31, 2018	$26,950
Less: Commitments relating to short-term leases	(1,800)
Less: Commitments relating to leases of low-value assets	(10)
Less: Commitments relating to property tax and operating cost	(6,576)
Add: Payments in optional extension periods not recognized as at December 31, 2018	265
Lease payments included in the initial measurement of lease liability	18,829
Weighted average incremental borrowing rate as at January 1, 2019	9.00%
Discounted operating lease commitments at January 1, 2019	12,765
Add: Commitments relating to leases previously classified as finance leases	422
Lease liability at January 1, 2019	13,187

Set out below are the new accounting policies of the Company upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the lease asset in a similar economic environment. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of assets that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

4. Critical Accounting Estimates and Judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and judgments that affect the amounts which are reported in the consolidated financial statements during the reporting period. Estimates and other judgments are evaluated at each reporting date and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The critical estimates and judgements utilized in preparing the Company's consolidated financial statements affect the assessment of net recoverable amounts, net realizable values and fair values, and the determination of functional currency of the Canadian operations of the group. Any changes in estimates and assumptions could have a material impact on the assets and liabilities at the date of the statement of financial position. The Company reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgement in making these estimates and assumptions.

- Functional currency: The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which each operates. The Company has determined that the functional currency for the Company and all its subsidiaries except for Avcorp US Holdings Inc. and ACF is the Canadian dollar. The functional currency for Avcorp US Holdings Inc. and ACF is the US dollar. The determination of functional currency may require certain judgements to determine the primary economic environment. The Company reconsiders the functional currency used when there is a change in events and conditions which determined the primary economic environment.
- Impairments: The recoverable amount of intangible assets, development costs and property, plant and equipment is based on estimates and assumptions regarding the expected market outlook and cash flows from each of the Company's CGU. Assumptions, judgments and estimates about future values are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Company's business strategy or internal forecasts. Although the Company believes the assumptions, judgments and estimates made in the past have been reasonable and appropriate, different assumptions, judgments and estimates could materially affect the Company's reported financial results.
- Going concern and debt classification: Management assesses the Company's ability to continue as a going concern at each reporting date, using quantitative and qualitative information available. Management also determines the appropriate classification of its debt arrangements based on terms of the various agreements based on the company's financial condition. This assessment, by its nature, relies on estimates of future cash flows and other future events, whose subsequent changes would materially impact the validity of such an assessment.
- Capitalization of development costs: When capitalizing development costs the Company must assess the technical and commercial feasibility of the projects and estimate the useful lives of resulting products. Determining whether future economic benefits will flow from the assets and therefore the estimates and assumptions associated with these calculations are instrumental in (i) deciding whether project costs can be capitalized, and (ii) accurately calculating the useful life of the projects for the Company.
- Unfavourable contracts liability: At the acquisition date valued the unfavourable contracts liability at fair value using certain assumptions that would arise in a market participant view. The Company estimates the expected shipsets or production when assessing the liability, together with the discounts rate and period of performance under the varying contracts and service agreements. The cash flows are discounted over the period of performance using a discount rate commensurate with the risk associated with the liability.
- During 2018 production requirements associated with the unfavourable contract were redirected to another supplier, giving rise to the full amortization of the unfavourable contract liability and the onerous contract provision into income. In addition, the customer advance was adjusted to its face value through income. This has been recorded in the 2018 Annual Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) as a contract modification in the amount of $41,470,000. Uncertainties exist as to ultimate outcome of a formal contract termination. While the Company believes that it has fulfilled all of its obligations under the contract, it is possible claims may be levied against the Company. The Company has assessed such possible claims as not probable.

- Inventories are valued at the lower of cost and net realizable value. The costs of inventory involve estimates in determining the allocation of fixed and variable production overhead. These estimates involved include determination of normal production capacity and nature of expenses to be allocated. Additionally inventory is reviewed monthly to ensure the carrying value does not exceed net realizable value. If so, a write-down is recognized. The write-down may be reversed if the circumstances which caused it no longer exist.
- On a periodic basis the Company reviews its plant capacity and estimates the portion of its under-utilized overhead expenditures. The Company has expensed $7,004,000 of overhead costs during the current year (December 31, 2018: $6,469,000) in respect of unutilized plant capacity. These amounts are included in the Consolidated Statements of Loss and Comprehensive Loss as costs of sales.
- The Company has entered into production contracts in the ordinary course of its business. The unavoidable cost of meeting the obligations under certain of these contracts exceeds the associated expected future net benefits; consequently, an onerous contract provision has been recognized. The calculation of this provision involves the use of estimates including, but not limited to, program gross margin, and the effect of learning curves of production and the timing of achieving certain operational efficiencies. These actual results can vary significantly from these estimates with consequent variability in the amounts of the provision recorded. The onerous contract provision is calculated by taking the expected future costs that will be incurred under the contract and deducting any estimated revenues. The onerous contract provision is primarily due to a high cost structure and learning curves of production that cannot be recovered through current pricing of the associated contracts. The total onerous contract provision for the year ended December 31, 2019 is $251,000 (December 31, 2018: $1,930,000).
- While a formal claim has yet to be levied by the customer, the Company has provisioned for a claim asserted by a customer in the amount of $7,273,000 as at December 31, 2019 (December 31, 2018: $7,640,000).
- Right of use asset and lease liability: On January 1, 2019, the Company transitioned to IFRS 16 and recognized a right of use asset and lease liability. These values use judgement in determining lease terms such as extension option and discount rate used. In the case where incremental borrowing rate is used, the Company estimates the incremental borrowing rate based on the lease term, collateral assumptions, and the economic environment in which the lease is denominated.
- The company has provisioned USD$1,350,000 for a legal action due to certain employment practices at the Gardena facility.

5. Expenses by Nature

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

Expenses by nature:

	2019	2018
Raw materials, purchased parts and consumables	**$84,377**	$83,142
Salary, wages and benefits	**68,816**	74,707
Depreciation	**8,218**	4,482
Contracted services and consulting	**4,605**	4,862
Utilities	**3,592**	3,713
Legal and Audit Fees	**2,382**	2,774
Transportation	**2,273**	2,501
Rent	**1,893**	4,499
Office equipment rental/maintenance	**1,837**	2,346
Amortization of development costs	**1,786**	3,291
Other expenses and conversion of costs into inventory	**1,481**	(3,126)
Amortization of intangible assets	**1,184**	1,379
Plant equipment rental and maintenance	**892**	1,652
Travel costs	**733**	1,178
Insurance	**606**	795
Royalties	**193**	179
Office supplies	**188**	291
Bad debt expense	**(172)**	292
Change in onerous contracts provision	**(1,665)**	(9,115)
	183,219	179,842

6. Capital Risk Management

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

The Company includes capital stock in its definition of capital, as shown in the Company's consolidated statements of financial position.

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

The Company's loan agreement with a Canadian Chartered Bank restricts the declaration or payment of any dividend.

7. Financial Risk Management

The Company is exposed to certain financial risks including market risk, currency risk, credit risk, liquidity risk, interest rate risk and price risk. The note presents information about the Company's risk to each of these risks; its objectives, policies and processes for measuring and managing risk.

a) Market Risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Company may utilize derivative instruments in the management of its foreign currency and interest rate exposures.

b) Currency Risk

Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rate ("transaction exposures") and because the non-Canadian dollar denominated financial statements of the Company's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars ("translation exposures").

The Company sells a significant proportion of its products in US dollars at prices which are often established well in advance of manufacture and shipment dates. In addition, the Company purchases a significant proportion of its raw materials and components in US dollars at prices that are usually established at the order date. The Company's operations are based in Canada and in the US. As a result of this, the Company is exposed to currency risk to the extent that fluctuations in exchange rates are experienced. The amount of foreign exchange gain recorded for the year ended December 31, 2019 is $843,000 (December 31, 2018: $770,000 loss).

The Company had the following US dollar denominated balances:

AS AT DECEMBER 31	**2019**	2018
Bank cash position	**USD$2,639**	USD$1,050
Accounts receivable	**9,824**	12,996
Accounts payable	**6,948**	8,838
Customer advance	**4,643**	4,643
Bank indebtedness	**65,184**	62,924
Term loan	**4,273**	3,633

With other variables unchanged, each $0.10 strengthening (weakening) of the CAD against the USD would result in an increase (decrease) of approximately $6,859,000 in net income for the year ended December 31, 2019 as a result of holding a net liability position in USD as at December 31, 2019.

As at December 31, 2018, a $0.10 strengthening (weakening) of the CAD against the USD would result in an increase (decrease) of approximately $6,599,000 in net income for the year ended December 31, 2018 as a result of holding a net liability position in USD as at December 31, 2018.

c) Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Company manages credit risk for trade and other receivables through a financial review of the credit worthiness of the prospective customer along with credit monitoring activities. The majority of the Company's trade receivables reside with Boeing Commercial Airplane Group ("Boeing"), Boeing Defence, Space & Security ("BDS"), Bombardier Aerospace ("Bombardier"), BAE Systems (Operations) Limited ("BAE"), Lockheed Martin ("LM"), and Subaru Corporation ("Subaru"). The maximum exposure to credit risk is represented by the amount of accounts receivable in the consolidated statements of financial position.

As at the consolidated statements of financial position date 85.6% (December 31, 2018: 90.8%) of the Company's trade accounts receivable are attributable to these customers.

The Company is exposed to credit risk if counterparties to its trade receivables are unable to meet their obligations. The concentration of credit risk from its customers is minimized because the Company has an original equipment manufacturer and tier one aerospace customer base as at December 31, 2019. The customers are predominately large, well-capitalized, and long established entities with a low risk of non-payment. The Company regularly monitors its credit risk and credit exposure.

The following table provides the change in allowance for doubtful accounts for trade receivables:

FOR THE YEAR ENDED DECEMBER 31	**2019**	2018
Balance as at January 1	**$1,780**	$1,237
Additions	**336**	630
Use	**(16)**	(87)
Collection	**(1,745)**	-
Balance as at December 31	**355**	1,780

The following table provides aged trade receivables:

AS AT DECEMBER 31	**2019**	2018
Current	**$10,221**	$10,193
31 – 60 days	**3,507**	6,540
61 – 90 days	**2,055**	3,743
Over 90 days	**1,137**	1,232
Total	**16,920**	21,708

d) Liquidity Risk

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

Accounts payable and accrued liabilities are all due within the next twelve months. Term debt repayments are as outlined in note 21.

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

				December 31, 2019
	Less than 3 months	**3 months to 1 year**	**1 – 5 years**	**Over 5 years**
Bank indebtedness (note 16)	$85,470	$-	$-	$-
Term debt (note 21)	593	2,175	19,556	7,292
Trade payables (note 18)	23,201	-	-	-
Payroll related liabilities (note 18)	4,952	-	-	-
Boeing advance (note 17)	6,030	-	-	-
Guarantee fee (note 16)	-	-	5,277	-
Accrued interest (note 18)	356	-	-	-
Other accruals (note 18)	176	-	-	-

				December 31, 2018
	Less than 3 months	**3 months to 1 year**	**1 – 5 years**	**Over 5 years**
Bank indebtedness (note 16)	$85,840	$-	$-	$-
Term debt (note 21)	69	385	5,779	2,077
Trade payables (note 18)	28,225	-	-	-
Payroll related liabilities (note 18)	4,707	-	-	-
Boeing advance (note 17)	6,334	-	-	-
Guarantee fee (note 16)	-	-	2,994	-
Accrued interest (note 18)	423	-	-	-
Other accruals (note 18)	354	-	-	-

e) Interest Rate Risk

The Company is exposed to interest rate risk on the utilized portion of its operating line of credit.

Interest rate for advances made up to the maximum of the allowable borrowing base of USD$23,000,000 revolving loan less USD$2,300,000:

- Royal Bank Prime ("RBP") plus 1.50% per annum
- Royal Bank US Base Rate ("RBUSBR") plus 1.50% per annum
- Banker's Acceptance ("BA") Equivalent Rate plus 3.00% per annum

- LIBOR Rate plus 3.00% per annum

Interest rate for advances made on the additional USD$45,000,000 borrowing capacity up to USD$68,000,000.

- RBP plus 0.00% per annum
- RBUSBR plus 0.00% per annum
- BA Equivalent Rate plus 0.875% per annum
- LIBOR Rate plus 0.875% per annum

There is uncertainty as to the continued use of LIBOR in the future. LIBOR is the subject of recent national, international and other regulatory guidance and proposals for reform. These reforms and other pressures may cause LIBOR to be eliminated or to perform differently than in the past. The consequences of these developments cannot be entirely predicted but could include an increase in the cost of our variable rate indebtedness and obligations.

Drawdown under the USD$45,000,000 additional borrowing capacity is supported by a Guarantee provided by a Guarantor. Panta Holdings B.V. provided guarantee to the Guarantor in the maximum payment of USD$10,000,000 if the bank draws on the Guarantee in whole or in part.

The Company will provide the Guarantor, as consideration for the Guarantee, a fee equal to 5.375% of the weighted average outstanding balance of the guaranteed portion over each full twelve (12) month period commencing on the funding date plus, for the partial year thereafter, 5.375% of the weighted average outstanding balance of the guaranteed portion multiplied by the number of days in the partial year divided by three hundred sixty (360). The fee will be payable on the maturity date.

The maximum operating line of credit availability is $85,331,000 (USD $65,700,000) of which $84,661,000 is utilized as at December 31, 2019 (December 31, 2018: $85,840,000). The Company lowers interest rate costs by managing utilization of the operating lines of credit to the lowest amount practical. For the year ended December 31, 2019, with other variables unchanged, a 1% change in the base borrowing rate would have an $847,000 (December 31, 2018: $858,000) impact on net earnings and cash flow. Based on net collateral provided to its bank, the Company is able to draw up to an additional $335,000 (USD $258,000) on its operating line of credit as at December 31, 2019 (December 31, 2018: $1,059,000 (USD$776,000)). As at the date of this report the Company is able to draw up to an additional $21,000 (USD $16,000) (note 16) on its operating line of credit.

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

f) Price Risk

Certain of the Company's sales contracts contain derivative financial instruments to reduce exposure to price risk associated with its revenues. The price adjustment clause within these sales contracts was not recorded as it does not produce a significant amount to be recorded.

g) Financial Assets and Liabilities by Category

Categories of financial instruments

Under IFRS, financial instruments are classified into one of the following categories: financial assets at fair value through other comprehensive income and fair value through profit and loss, financial liabilities at fair value through profit or loss, and other financial liabilities and financial assets at amortized cost.

As at December 31, 2019 and December 31, 2018, the Company's financial assets and liabilities are categorized as follows:

AS AT DECEMBER 31	2019			2018		
	Amortized cost	Fair value through profit or loss	Total	Amortized cost	Fair value through profit or loss	Total
Financial Assets						
Cash	$4,316	$-	$4,316	$2,051	$-	$2,051
Accounts receivable	17,625	-	17,625	23,442	-	23,442
Investment in AVS-SYS	-	-	-	-	682	682
Financial Liabilities	-	-	-	-	-	-
Bank indebtedness	85,470	-	85,470	85,840	-	85,840
Accounts payable	38,178	-	38,178	41,805	-	41,805
Term debt	29,616	-	29,616	8,310	-	8,310
Customer advance	6,030	-	6,030	6,334	-	6,334
Guarantee fee	5,277	-	5,277	2,994	-	2,994

8. Fair Value Measurement

As at December 31, 2019 and December 31, 2018, the fair values of cash, accounts receivable, accounts payable, and bank indebtedness approximated their carrying values because of the short-term nature of these instruments.

AS AT DECEMBER 31	2019		2018	
	Carrying value	**Fair value**	Carrying value	Fair value
Financial asset				
Investment in AVS-SYS (level 3)	**$-**	**$-**	$682	$682
Financial liabilities				
Term debt (level 2)	**29,615**	**29,615**	8,310	8,310
Customer advance (level 2)	**6,030**	**6,030**	6,334	6,334
Guarantee fee (level 2)	**5,277**	**5,277**	2,994	2,994

Fair value hierarchy

The Company's financial assets recorded at fair value on the consolidated statements of financial position have been categorized into three categories based on a fair value hierarchy. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

9. Accounts Receivable

AS AT DECEMBER 31	2019	2018
Trade receivables	**$16,920**	$21,708
Input tax credits	**623**	1,659
Accrued receivables	**82**	75
	17,625	23,442

The average trade receivables days outstanding is 37 days as at December 31, 2019 (December 31, 2018: 46 days).

The accounts receivables are pledged as security under the Company's operating line of credit (note 16).

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

AS AT DECEMBER 31	2019	2018
US dollar	**USD$10,935**	USD$14,592
Canadian dollar	**3,423**	3,536

10. Contract Assets

Contract assets include unbilled amounts typically resulting from sales under long-term contracts when over time method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer, and right to payment is not just subject to the passage of time. Amounts may not exceed their net realizable value. Contract Assets are released when the customer is invoiced and is recorded to accounts receivable. Contract assets are current in nature.

The contract assets are pledged as security under the Company's operating line of credit (note 16).

AS AT DECEMBER 31	2019	2018
Contract asset	**$26,162**	$24,762

11. Inventories

AS AT DECEMBER 31	2019	2018
Raw materials	**$9,222**	$11,164
Work-in-progress	**7,203**	9,231
Finished products	**571**	890
Inventory obsolescence	**(4,063)**	(5,684)
	12,933	15,601

The amount of inventory expensed in cost of sales during the year ended December 31, 2019 amounted to $152,192,000 (December 31, 2018: $147,038,000).

During the year ended December 31, 2019, $431,000 (December 31, 2018, $466,000) was recognized as an expense for inventories carried at net realizable value. This is recognized in cost of sales.

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

The inventories are pledged as security under the Company's operating line of credit (note 16).

12. Prepayments and Other Assets

AS AT DECEMBER 31	2019	2018
Deposits on material purchases	**$543**	$934
Prepaid insurance	**3,229**	3,351
Prepaid IT security maintenance and licenses	**190**	641
Prepaid property tax	**537**	645
Prepaid other	**375**	651
	4,874	6,222
Less: Current portion	**2,136**	3,205
Non-current portion	**2,738**	3,017

13. Development Costs

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

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Opening balance	**$11,755**	$8,623
Additions	**4,116**	6,410
Amortization	**(1,786)**	(3,291)
Foreign exchange	**(10)**	13
	14,075	11,755

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Cost	**$ 27,057**	$22,951
Accumulated amortization	**(12,982)**	(11,196)
Net book amount	**14,075**	11,755

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

14. Property, Plant and Equipment

	Building	Machinery and equipment	Computer hardware and software	Leasehold improvements	Total
Year ended December 31, 2018					
Opening net book amount	-	$25,965	$2,028	$1,325	$29,318
Additions	-	1,443	227	139	1,809
Depreciation charge	-	(3,667)	(473)	(342)	(4,482)
Currency translation adjustment	-	1,550	113	108	1,771
Net book amount at December 31, 2018	-	25,291	1,895	1,230	28,416
IFRS 16 transition (note 3)	12,205	594	290	-	13,089
Net book amount at January 1, 2019	12,205	25,885	2,185	1,230	41,505
At January 1, 2019					
Cost at December 31, 2018	-	59,907	9,676	2,962	72,545
IFRS 16 transition at January 1, 2019 (note 3)	12,205	594	290	-	13,089
Cost	12,205	60,501	9,966	2,962	85,634
Accumulated depreciation	-	(34,616)	(7,781)	(1,732)	(44,129)
Net book amount at January 1, 2019	12,205	25,885	2,185	1,230	41,505
Year ended December 31, 2019					
Opening net book amount	12,205	25,885	2,185	1,230	41,505
Additions	12,759	740	867	73	14,439
Disposals – cost	-	(587)	-	-	(587)
Disposals – accumulated depreciation	-	377	-	-	377
Depreciation charge	(3,414)	(3,967)	(615)	(222)	(8,218)
Currency translation adjustment	(225)	(832)	(101)	(30)	(1,188)
Closing net book amount	21,325	21,616	2,336	1,051	46,328
At December 31, 2019					
Cost	24,694	59,409	10,709	2,992	97,804
Accumulated depreciation	(3,369)	(37,793)	(8,373)	(1,941)	(51,476)
Net book amount	21,325	21,616	2,336	1,051	46,328

The Company has $318,000 in commitments at December 31, 2019 (December 31, 2018: $580,000) to purchase property, plant and equipment in 2020.

The Company leases various assets including buildings, equipment, and computer hardware and software. The following table summarizes the changes in right-of-use assets within Property, plant and equipment:

	Building	Machinery and equipment	Computer hardware and software	Total
Leased assets as at December 31, 2018 reclassified as right-of-use assets				
at January 1, 2019	$-	$507	$159	$666
IFRS 16 transition	12,205	594	290	13,089
January 1, 2019	12,205	1,101	449	13,755
Additions	12,759	-	776	13,535
Depreciation charge	(3,471)	(238)	(209)	(3,918)
Currency translation adjustment	(225)	(25)	(2)	(252)
At December 31, 2019	**21,268**	**838**	**1,014**	**23,120**

On January 25, 2019, the Company and its subsidiary Avcorp Composite Fabrication Inc. (the "Avcorp Parties") entered into an agreement with HITCO Carbon Composites, Inc., SGL Carbon, LLC, and SGL Carbon SE (the "SGL parties") and a customer to settle all claims related to alleged deficiencies in HITCO's non-destructive inspection processes, a mutual release amount the Avcorp Parties, SGL Parties and a customer and other business matters including a lease renewal (note 27). The Gardena Facility's lease was renewed resulting in the addition of $12,759,000 to the right-of-use assets.

15. Intangibles

	Lease	Customer contract – re-compete	Developed Software	Total
Year ended December 31, 2018				
Opening net book amount	$225	$3,086	$553	$3,864
Additions	-	-	371	371
Amortization charge	(233)	(1,062)	(84)	(1,379)
Currency translation adjustment	8	214	59	281
Closing net book amount	-	2,238	899	3,137
At December 31, 2018				
Cost	737	5,593	988	7,318
Accumulated depreciation	(737)	(3,355)	(89)	(4,181)
Net book amount	-	2,238	899	3,137
Year ended December 31, 2019				
Opening net book amount	-	2,238	899	3,137
Additions (note 27)	-	-	-	-
Amortization charge	-	(1,088)	(96)	(1,184)
Currency translation adjustment	-	(85)	(41)	(126)
Closing net book amount	-	1,065	762	1,827
At December 31, 2019				
Cost	702	5,325	941	6,968
Accumulated depreciation	(702)	(4,260)	(179)	(5,141)
Net book amount	-	1,065	762	1,827

16. Bank Indebtedness

On November 15, 2019, the Company entered into a loan agreement to expand its operating credit facility with a Canadian Chartered Bank. This loan agreement amends, restates and replaces the loan agreements entered into on September 27, 2012 and subsequently on May 26, 2017. The loan agreement extends the maturity to June 30, 2021.

- Maximum availability under the Loan agreement cannot exceed USD $68,000,000 less USD $2,300,000 until June 30, 2021. Drawdowns under the USD$45,000,000 borrowing capacity are supported by a major and material customer of the Company (the "Guarantor") by way of a guarantee (the "Guarantee"). On November 15, 2019, Panta Holdings B.V., the holding company of Panta Canada B.V. which is Avcorp's majority shareholder, entered into a guarantee agreement with the Guarantor. Pursuant to the guarantee agreement, Panta Holdings B.V. provided guarantee to the Guarantor in the maximum payment of USD$10,000,000 if the bank draws on the Guarantee in whole or in part.
- Interest rate for advances made up to the maximum of the allowable borrowing base of USD$23,000,000 revolving loan less USD$2,300,000:
    - Royal Bank Prime ("RBP") plus 1.50% per annum
    - Royal Bank US Base Rate ("RBUSBR") plus 1.50% per annum
    - Banker's Acceptance ("BA") Equivalent Rate plus 3.00% per annum
    - LIBOR Rate plus 3.00% per annum
- Interest rate for advances made on the additional USD$45,000,000 borrowing capacity up to USD$68,000,000.
    - RBP plus 0.00% per annum
    - RBUSBR plus 0.00% per annum
    - BA Equivalent Rate plus 0.875% per annum
    - LIBOR Rate plus 0.875% per annum
    - Pursuant to the terms of the amending loan agreement, the Company is required to meet certain financial covenants beginning in Q1 2020. In the event that the Company fails to meet the covenants, Panta Holdings B.V. and Panta Canada B.V. shall be entitled to make cash injections for a fiscal quarter by way of loan or equity investment in Avcorp. Such injections will be considered a positive addition to the calculation of the financial metrics for the purposes of determining compliance with the covenants. In addition, the Company will have a cure period measured cumulatively for the failed quarter and the subsequent quarter. There is uncertainty as to the ability of the company to meet its financial covenants without the additional financial support from Panta Holdings B.V. and Panta Canada B.V.
- On February 6, 2020, the Company entered into an amendment to its existing loan agreement with a Canadian Chartered Bank whereby the following amendments were made:
    - The threshold of the financial covenants for the first and second fiscal quarters for the 2020 fiscal year were amended in favor of the Company.

The loan agreement is subject to the existing security agreements with a Canadian Chartered Bank and with its Guarantor. This debt facility is secured by a charge and specific registration over all of the assets of the Company.

The Company will provide the Guarantor, as consideration for the Guarantee, a fee equal to 5.375% of the weighted average outstanding balance of the guaranteed portion over each full twelve (12) month period commencing on the funding date plus, for the partial year thereafter, 5.375% of the weighted average outstanding balance of the guaranteed portion multiplied by the number of days in the partial year divided by three hundred sixty (360). The fee will be payable on the maturity date.

The Company ended the year with bank operating line utilization of $84,661,000 offset by $4,316,000 cash compared to utilization of $85,840,000 with $2,051,000 cash on hand as at December 31, 2018. Based on net collateral provided to its bank, the Company is able to draw up to an additional $335,000 (USD$258,000) on its operating line of credit as at December 31, 2019 (December 31, 2018: $1,059,000 (USD$776,000)). As at the date of this report the Company is able to draw up to an additional $21,000 (USD$16,000) on its operating line of credit.

The Company recorded a net loss on modification of bank indebtedness of $906,000 (2018: $Nil) as a result of executing the amending agreement on November 15, 2019.

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Opening balance	**$85,840**	$61,283
Add: Drawdowns on bank indebtedness	**20,844**	17,961
Add: Net Modification loss	**906**	-
Less: Repayment of loans	**(18,010)**	-
Less: Foreign exchange (gain) loss	**(4,110)**	6,596
Ending balance	**85,470**	85,840

The carrying amount of accounts receivable pledged as security under the Company's operating line of credit as at December 31, 2019 is $13,121,000 (December 31, 2018: $13,480,000). The inventory and contract asset pledged as security under the Company's operating line of credit as at December 31, 2019 is $22,185,000 (December 31, 2018: $22,017,000).

17. Customer advance

On December 18, 2015, in conjunction with the acquisition of Hitco, the Company assumed a customer advance for pre-funded product deliveries. The customer advance is re-paid as the Company delivers to the customer. In the event that cancellation, termination, or assignment of the statement of work occurs earlier than December 31, 2019, the customer shall have the right to recover from the Company within 120 days of such an event the unamortized portion of the cash advance; such event occurred during the third quarter 2018. The customer advance is subject to an access and security agreement along with a general security agreement entered into with the Company's bank and a customer.

During the third quarter 2018, production requirements associated with the unfavourable contract were redirected to another supplier, giving rise to the full amortization of the unfavourable contract liability of $39,982,000 (note 20), full amortization of the associated onerous contract provision of $2,728,000 (note 22) and revaluation of the customer advance to its unamortized face value of $1,240,000. This has been recorded in 2018 as a net contract modification in the amount of $41,470,000.

Uncertainties exist as to the ultimate outcome of a formal contract termination. While the Company believes that it has fulfilled all of its obligations under the contract, it is possible claims may be levied against the Company. The Company has assessed such possible claims as not probable.

The customer advance was recorded at its fair value on December 18, 2015 in the amount of $18,953,000. The Company amortized into revenue $nil of the customer advance during the year ended December 31, 2019. The remaining unamortized customer advance has been recorded at its face value to reflect the amount due and is non-interest bearing. The face value of the unamortized portion of the customer advance as at December 31, 2019 is USD$4,643,000 (December 31, 2018 is USD$4,643,000).

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Opening balance	**$6,334**	$7,227
Amortization	**-**	(2,660)
Contract modification	**-**	1,240
Foreign exchange	**(304)**	527
	6,030	6,334

18. Accounts Payable and Accrued Liabilities

AS AT DECEMBER 31	2019	2018
Trade payables	**$23,201**	$28,225
Claims provision (note 27)	**9,027**	7,640
Payroll-related liabilities	**4,952**	4,707
Restoration provision	**466**	456
Accrued interest	**356**	423
Other	**176**	354
	38,178	41,805

19. Contract Liability

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Opening balance	**$4,999**	$17,241
IFRS 15 opening adjustment	**-**	(9,341)
Additions	**16,399**	13,125
Realized	**(14,605)**	(16,026)
	6,793	4,999
Less: Current portion	**2,036**	2,137
Non-current portion	**4,757**	2,862

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

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

20. Unfavourable Contracts Liability

On December 18, 2015, in conjunction with the acquisition of Hitco, the Company assumed an unfavourable contract liability on certain long-term revenue contracts for which unavoidable costs are expected to exceed the corresponding revenues earned. The unfavourable contract liability is amortized into income on a units-of-production basis over the expected life of the contracts which are contracted up to December 31, 2019 and as costs are incurred.

During 2018 production requirements associated with the unfavourable contract were redirected to another supplier, giving rise to the full amortization of the unfavourable contract liability into income. This has been recorded in Consolidated Statements of Income and Comprehensive Income as a contract modification in the amount of $39,982,000.

Uncertainties exist as to the ultimate outcome of a formal contract termination. While the Company believes that it has fulfilled all of its obligations under the contract, it is possible claims may be levied against the Company. The Company has assessed such possible claims as not probable.

As at December 31, 2019, the remaining unamortized unfavourable contract liability amounted to $Nil (December 31, 2018: $Nil).

FOR THE YEAR ENDED DECEMBER 31	2018
Opening net book amount	$44,460
IFRS 15 opening adjustment	(1,578)
Amortization	(4,617)
Contract modification	(39,982)
Foreign exchange	1,717
Closing net book amount	-
Less: Current portion	-
Non-current portion	-

21. Term Debt

AS AT DECEMBER 31	2019	2018
Lease liabilities(a)	**$20,493**	$422
Term loans (b) (c)	**5,550**	4,986
SADI (d)	**3,573**	2,902
	29,616	8,310
Less: Current portion	**2,768**	5,510
Non-current portion	**26,848**	2,800

a) Lease Liabilities

There are various lease liabilities that have a weighted average interest rate of 9.0% per annum (2018: 8.98%). The leases are secured by way of a charge against specific assets. The leases are repayable in installments over periods up to 10 years.

The Company adopted IFRS 16 using the modified retrospective method of adoption on January 1, 2019. The additional lease liability recognized on application was $12,765,000 (note 3).

The table below categorizes the lease liability into relevant maturity periods based on the remaining periods from the consolidated statement of financial position date to the maturity date.

	December 31, 2019		
	Within 1 Year	Between 1 – 5 Years	Over 5 Years
Lease liability	**$2,415**	**$12,598**	**$5,480**

b) Term Loan

On August 24, 2018, Avcorp entered into a non-revolving term loan agreement ("2018 Panta loan") with Panta Canada B.V. ("Panta") in the principal amount of USD$3,500,000.

On November 15, 2019, the Company entered into a standby credit facility agreement ("2019 Panta Loan") with Panta Canada B.V which amended and restated the 2018 Panta Loan, as well as securing an additional $4,546,000 (USD$3,500,000). As at December 31, 2019, the company had drawn $325,000 (USD $250,000) on this 2019 Panta Loan.

Panta Canada B.V. is Avcorp's majority shareholder owning approximately 71.2% of the issued and outstanding common shares. Panta Canada B.V. is wholly owned by Panta Holdings B.V. Both companies are incorporated in The Netherlands and Mr. Jaap Rosen Jacobson, a director of Avcorp, is the sole shareholder of Panta Holdings B.V.

- The loan is subordinated to existing security agreements, except that in the event that Avcorp sells its wholly-owned subsidiary, Comtek Advanced Structures Ltd., Avcorp shall pay to Panta an amount up to the indebtedness then outstanding under the loan, subject to any priority payment required by the bank indebtedness and provided there does not then exist an event of default under the Senior Loan Agreement.
- The loan bears interest at the aggregate rate of interest, expressed as an annual rate, of the U.S. Base Rate of Royal Bank of Canada ("RBUSBR") plus a margin of 5.375% per annum which shall accrue and not be compounded until the maturity date. If either an event of default occurs and is continuing or the indebtedness is not repaid in full on the maturity date, the interest rate in such period shall increase to the rate of 15% per annum and all outstanding indebtedness, including unpaid interest, shall continue to accrue interest at such increased rate of interest from and after the maturity date until paid in full.
- The maturity date is the earlier of: (i) the date upon which, for any reason, the outstanding principal balance of the operating credit facility established under the Senior Loan Agreement becomes due and owing; (ii) June 30, 2023; and (iii) the date on which there is an acceleration of the loan as a result of a written demand by Panta following the occurrence and during the continuance of an uncured event of default.
- Upon the happening of any event of default, Panta may at its option: (i) declare that the indebtedness has become immediately due and payable; and (ii) declare that the indebtedness has become immediately due and payable and elect to convert all or part of the indebtedness into common shares of Avcorp at an exercise price equivalent to the then market price at the time of conversion which shall not exceed $0.15 per common share.
- As at December 31, 2019, the Company had drawn $328,000 (USD$250,000) on the 2019 Panta Loan.

- The Company drew the remaining available amount on the 2019 Panta Loan in January 2020 of $4,238,000 (USD$3,250,000) (note 35).
- On March 2, 2020, the Company entered into an amendment to the standby credit facility ("2019 Panta Loan") securing an additional and drawing $2,598,000 (USD$2,000,000) (note 35). As at the date of this report the company is able to draw up to an additional $Nil on the standby credit facility.

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Opening balance	**$4,956**	$4,572
Add: Draw down	**328**	-
Add: Accrued interest	**518**	175
Less: Foreign exchange (gain) loss	**(252)**	209
	5,550	4,956

c) Term Loan

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

The term loan has been provided by a Canadian Chartered Bank. The loan has a four-year term; it is secured by a general security agreement constituting a first ranking security interest in all personal property of the Company and a first ranking and specific interest in the equipment financed. Export Development Canada ("EDC") has guaranteed 50% of the aggregate borrowings outstanding under the loan. The fee associated to the guarantee provided by EDC is equal to 3% of 50% of the outstanding loan amount. Interest is calculated and paid monthly at a rate of bank prime plus 1%. The loan will be repaid over 48 months by way of blended principal and interest payments. The balance outstanding for this term loan as at December 31, 2019 is $nil (December 31, 2018: $30,000).

d) SADI

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

The contribution agreement has the following terms:

- The maximum amount to be repaid by the Company is 1.5 times the amount contributed by the Government of Canada;
- Annual repayments are to occur over a 15-year term, commencing four months following the 2018 fiscal year end with subsequent annual repayments to be paid within four months following the Company's then fiscal year ends; and
- Amounts repayable are unsecured.

$3,573,000 was drawn on this facility as at December 31, 2019 (December 31, 2018: $2,902,000). The amounts owing, when due, are repayable to the Industrial Technologies Office.

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Opening balance	**$2,902**	$1,715
Add: Accrued interest	**155**	95
Add: Contributions	**868**	1,092
Less: Repayments	**(352)**	-
Ending Balance	**3,573**	2,902

22. Onerous Contract Provision

The Company entered into production contracts in the ordinary course of business. The unavoidable costs of meeting the obligations under certain of these contracts exceed the associated expected future net benefits; consequently, an onerous contract provision has been recognized. The calculation of this provision involves the use of estimates. The onerous contract provision is calculated by taking the expected future costs that will be incurred under the contracts and deducting any estimated revenues. The onerous contract provision for the year ended December 31, 2019 is $251,000 (December 31, 2018: $1,930,000).

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Opening balance	**$1,930**	$13,366
Additions	**178**	-
Amortization	**(1,843)**	(9,115)
Contract modification (note 17)	**-**	(2,728)
Foreign exchange	**(14)**	407
Balance	**251**	1,930
Less: Current portion	**251**	1,809
Non-current portion	**-**	121

23. Obligations, Commitments and Contingent Liabilities

The Company has $318,000 in commitments at December 31, 2019 (December 31, 2018: $580,000) to purchase property, plant and equipment in 2020.

As at December 31, 2019, including the above, the Company had a total of $70,622,000 of committed contractual operational purchase order obligations outstanding (December 31, 2018: $51,613,000).

24. Capital Stock

The Company is authorized to issue an unlimited number of common shares as well as an unlimited number of first preferred and second preferred shares, issuable in series, the terms of which will be determined by the Company's directors at the time of creation of each series. There were 368,118,620 common shares issued at December 31, 2019.

Common shares issued or reserved:

	Number of shares	Amount
December 31, 2017	337,404,502	82,905
Share issue		
Exercise of stock warrants (a)	30,714,118	2,150
Transfer from contributed surplus on exercise of stock warrants (a)	-	1,164
December 31, 2018	368,118,620	86,219
Share issue		
Exercise of stock warrants	-	-
Transfer from contributed surplus on exercise of stock warrants	-	-
December 31, 2019	368,118,620	86,219

a) During the third quarter 2018 holders of the Company's warrants exercised 30,714,118 warrants at a price of $0.07 resulting in the issuance of 30,714,118 common shares with a value of $2,150,000.

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

A summary of the Company's stock options issued as of December 31, 2019 and December 31, 2018, and changes during the periods ending on those dates, are presented below:

FOR THE YEAR ENDED DECEMBER 31		**2019**		2018
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding – Beginning of year	**11,443,000**	**$0.067**	49,532,500	$0.092
Granted	**-**	**-**	4,710,500	0.042
Expired	**-**	**-**	(29,390,000)	0.094
Exercised	**-**	**-**	-	-
Forfeited	**-**	**-**	(13,410,000)	0.090
Outstanding – End of year	**11,443,000**	**0.067**	11,443,000	0.067

The following table summarizes stock options which are exercisable as at December 31, 2019:

	Number	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**
$0.083	7,212,750	1.08	$0.083

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

FOR THE YEAR ENDED DECEMBER 31	**2019**	2018
Beginning of year	**$5,370**	$6,979
Stock-based compensation expense	**76**	195
Forfeiture of issued stock options	**-**	(640)
Transfer to share capital on exercise of warrants	**-**	(1,164)
End of year	**5,446**	5,370

The stock-based compensation expense is included in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) as administrative and general expenses and amounts to $76,000 (December 31, 2018: $195,000).

The forfeiture of issued stock options was included in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) as administrative and general expense of $640,000 as a recovery of expense for the year ended December 31, 2018, no forfeiture of issued stock options occurred in the year ended December 31, 2019.

d) A summary of the Company's warrants issued as of December 31, 2019 and December 31, 2018, and changes during the periods ending on those dates, are presented below.

FOR THE YEAR ENDED DECEMBER 31	**2019**	2018
Outstanding – Beginning of year	**-**	30,714,118
Granted	**-**	-
Expired	**-**	-
Exercised (i)	**-**	(30,714,118)
Outstanding – End of year	**-**	-

i. September 19, 2018: Exercise of 30,714,118 Warrants expiring September 19, 2018 at $0.07 to Panta.

25. Stock Based Compensation

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

No stock option was granted in the year ended December 31, 2019. Fair value of 4,710,500 options granted during the year ended December 31, 2018 was $204,000.

The assumptions used in the valuation of stock options for the year ended December 31, 2018 were as follows:

	2018
Number of options	4,710,500 options
Risk free rate (%)	2.35
Dividend yield (%)	-
Expected Lives (years)	7.65
Volatility (%)	103.11

The amount of stock-based compensation expense, for options granted in prior periods, amortized to earnings during the year ended December 31, 2019 was $76,000 (2018: $195,000). Stock-based compensation expense has been included in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) as administrative and general expenses.

During the year ended, no stock options was forfeited. (December 31, 2018: 13,410,000 stock options were forfeited).

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

26. Defined Contribution Plan

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

FOR THE YEAR ENDED DECEMBER 31	**2019**	2018
Defined contribution plan	**$1,423**	$1,376

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

27. Net Claims

On January 25, 2019, the Company and its subsidiary Avcorp Composite Fabrication Inc. (the "Avcorp Parties") entered into an agreement with HITCO Carbon Composites, Inc., SGL Carbon, LLC, and SGL Carbon SE (the "SGL parties") and a customer to settle all claims related to alleged deficiencies in HITCO's non-destructive inspection processes and other business matters including a lease renewal and collection of a previously provisioned account receivable in exchange for gross consideration of USD$12,000,000 from the SGL parties to Avcorp and mutual releases among the Avcorp Parties, SGL Parties and a customer related to the acquisition. The net cash payment received totaled USD$10,810,000. The net claim settlement resulted in a gain of $19,759,000, including a lease renewal and collection of previously provisioned accounts receivable.

The Company has provisioned USD $1,350,000 for a legal action in the second quarter of 2019 due to certain employment practices at its Gardena facility.

On August 20, 2018, the Company entered into a settlement agreement with a customer, in the amount of $2,219,000, which provided the Company a net claim settlement in satisfaction of existing and potential claims, causes of action, and disputes between the Company and its customer.

The Company has provisioned for a claim asserted by a customer in the amount of $7,273,000.

28. Finance Costs

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Interest on lease liabilities	**$1,961**	$35
Interest on other term debt	**156**	112
Interest on bank indebtedness	**5,355**	5,405
Modification loss on bank indebtedness	**906**	-
Interest on related party debt	**518**	252
Non-cash financing cost accretion	**11**	9
Interest on contract liabilities	**34**	-
Interest expense	**8,941**	5,813
Interest income	**(17)**	(39)
Net interest expense	**8,924**	5,774

29. Supplementary Cash Flow Information

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Equipment acquired under lease liability	**$674**	$380
Panta loan settled with exercise of warrants	**-**	1,212
Restoration provision revaluation	**-**	-
Transfer to share capital on exercise of warrants	**-**	1,164

30. Income Tax

The provision for income tax (recovery) expense is based on the combined Canadian federal and provincial annual income tax rate expected for the full financial year of 27%.

IAS 12, Income Taxes, states that the tax effects of changes in tax laws must be recognized in the period in which the law is enacted or substantively enacted. IAS 12 further requires deferred income tax assets and liabilities to be measured at the enacted or substantively enacted tax rate expected to apply when temporary differences are to be realized or settled. Thus, at the date of enactment, the Company's deferred income taxes were re-measured based upon the new tax rate. The change in deferred income taxes is generally recorded as a non-cash re-measurement adjustment to earnings.

Deferred income tax assets are recognized for deductible temporary differences, unused tax losses, and unused tax credits to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets of $30,830,000 (2018: $28,897,000) in respect of losses amounting to $69,781,000 (2018: $59,362,000) which include foreign losses of $37,429,000 (2018: $30,830,000) that will expire beginning in 2035 through 2037 (except U.S. Net Operating Losses from fiscal 2018 onwards of $19,170,000 that carryforward indefinitely), unclaimed research and development costs of $11,173,000 (2018: $11,173,000) and capital losses of $830,000 (2018: $830,000) with no expiry, investment tax credits of $1,109,000 (2018: $1,814,000) which expire beginning in 2022 through 2037, and deductible temporary differences of $29,428,000 (2018: $30,829,000).

The company has recognized $Nil (2018: $Nil) in deferred income tax liabilities in relation to the fair value of the intangible lease.

Income tax expense reported differs from the amount computed by applying the combined Canadian federal and provincial income tax rates, applicable to Avcorp Industries Inc., to the income (loss) before taxes due to the following:

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Canadian federal and provincial income tax rates	**27.00%**	27.00%
Income tax expense (recovery) at statutory rate	**$(2,515)**	$5,501
Change in unrecognized temporary differences	**2,412**	(4,778)
Tax rate differences	**(82)**	(45)
Permanent differences	**185**	(678)
Tax expense (recovery)	**-**	-

31. Related Party Transactions

a) Periodically, consulting services are provided by certain directors. Fees paid to certain directors, or companies with which they have beneficial ownership, during the year ended December 31, 2019 amount to $3,000 (December 31, 2018: $Nil). Fees payable to certain directors or Companies with which they have beneficial ownership, as at December 31, 2019 are $Nil (December 31, 2018: $Nil). These fees are included in the Consolidated statements of Loss and Comprehensive Loss as administrative and general expenses and amount to $3,000 for the year ended December 31, 2019 (December 31, 2018: $Nil).

b) Key management compensation

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

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Salaries and other short-term employee benefits	**$2,002**	$2,150
Contributions to defined contribution plan	**82**	67
Option-based awards	**76**	164
	2,160	2,381

c) Loans to related parties

The balance of loans receivable from key management as at December 31, 2019 is $5,000 (December 31, 2018: $15,000). These loans are unsecured and payable on demand.

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

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

32. Earnings per share

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

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Weighted average number of common shares for basic earnings per share (000's)	**368,118**	345,651
Effect of dilution:	**-**	-
Warrants (000's)	**-**	342
Weighted average number of ordinary shares adjusted for the effect of dilution (000's)	**368,118**	345,993

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

33. Economic Dependence and Segmented Information

The Company reports financial performance based on three reportable segments as detailed below. The Company's Chief Operating Decision Maker ("CODM") utilizes Operating Income Loss as a primary measure of profitability to evaluate performance of its segments and allocate resources:

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

No operating segments have been aggregated to form the above reportable operating segments. Corporate includes general corporate administrative costs and any other costs not identifiable with one of the Company's segments.

The Company's Board of Directors monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the Consolidated Statements of Income and Comprehensive Income.

Sales to five major customers for the year ended December 31, 2019, which comprise several programs and contracts, accounted for approximately 91.7% (December 31, 2018: 89.0%) of sales.

FOR THE YEAR ENDED DECEMBER 31	2019		2018	
	Revenue	% of Total	Revenue	% of Total
BAE Systems	**$18,181**	**11.0**	$15,789	9.3
Boeing[1]	**50,351**	**30.6**	67,606	39.6
Bombardier	**18,535**	**11.2**	20,860	12.2
Lockheed Martin	**35,812**	**21.8**	24,527	14.4
Subaru Corporation	**28,306**	**17.2**	22,970	13.5
Other	**13,585**	**8.2**	14,341	8.3
Amortization of the unfavourable contract liability	**-**	**-**	4,617	2.7
Total	**164,770**	**100.0**	170,710	100.0

1. Includes Boeing program partner revenue consisting of industry tier-one suppliers to Boeing

a) The Company's sales are distributed amongst the following geographical locations based on location of customers:

FOR THE YEAR ENDED DECEMBER 31	2019		2018	
	Revenue	% of Total	Revenue	% of Total
Canada	**$26,081**	**15.8**	$27,165	15.9
USA	**87,624**	**53.2**	91,302	53.6
Europe	**20,032**	**12.2**	21,961	12.8
Asia	**30,706**	**18.6**	25,400	14.9
Australia	**257**	**0.2**	238	0.1
Other	**70**	**0.0**	27	0.0
Amortization of the unfavourable contract liability	**-**	**-**	4,617	2.7
Total	**164,770**	**100.0**	170,710	100.0

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

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Canada	**$82,233**	$62,378
USA	**45,907**	53,690
Total	**128,140**	116,068

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

c) The Company's sales are distributed amongst commercial and defence markets:

FOR THE YEAR ENDED DECEMBER 31	2019		2018	
	Revenue	**% of Total**	Revenue	% of Total
Commercial	**$102,437**	**62.2**	$114,797	67.3
Defence	**62,333**	**37.8**	51,296	30.0
Amortization of the unfavourable contracts liability	**-**	**-**	4,617	2.7
Total	**164,770**	**100.0**	170,710	100.0

d) The Company's revenue is recognized either at a point in time or over time. For the year ended December 31, 2019, revenue earned at a point in time is $42,671,000 (December 31, 2018: $42,979,000). Revenue earned over time is $122,099,000 for the year ended December 31, 2019 (December 31, 2018: $127,731,000).

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

FOR THE YEAR ENDED DECEMBER 31, 2019	Total	ASI	Comtek	ACF	Corporate
Revenue	**$164,770**	$78,099	$20,455	$66,216	$-
Cost of sales	**160,982**	76,206	16,910	67,866	-
Gross profit	**3,788**	1,893	3,545	(1,650)	-
Administrative and general expenses	**21,467**	5,130	2,632	6,460	7,245
Depreciation and amortization	**770**	328	63	379	-
Net (gain) loss on claims	**(17,974)**	-	-	1,785	(19,759)
Other loss	**649**	-	-	-	649
Operating gain (loss)	**(1,124)**	(3,565)	850	(10,274)	11,865

FOR THE YEAR ENDED DECEMBER 31, 2018	Total	ASI	Comtek	ACF[1]	Corporate
Revenue	$170,710	$83,589	$19,916	$67,205	$-
Cost of sales	155,753	75,287	16,417	64,049	-
Gross profit	14,957	8,302	3,499	3,156	-
Administrative and general expenses	23,466	5,360	2,453	7,762	7,891
Depreciation and amortization	623	217	64	342	-
Net contract modifications	(41,470)	-	-	-	(41,470)
Net (gain) loss on claims	5,421	-	-	-	5,421
Operating (loss) gain	26,917	2,725	982	(4,948)	28,158

1. ACF revenue includes $4,617,000 amortization of the unfavourable contract liability.

FOR THE YEAR ENDED DECEMBER 31	2019		2018	
	Total Assets	**% of Total**	Total Assets	% of Total
Avcorp Industries Inc.	**$69,638**	**54.4**	$50,748	43.7
Comtek Advanced Structures Ltd.	**12,460**	**9.7**	10,695	9.2
Avcorp Composite Fabrication Inc.	**45,907**	**35.8**	53,690	46.3
Corporate	**135**	**0.1**	935	0.8
Total	**128,140**	**100.0**	116,068	100.0

FOR THE YEAR ENDED DECEMBER 31	2019			2018		
	Development Cost Additions	**Property, Plant and Equipment**	**Intangible Asset Additions**	Development Cost Additions	Property, Plant and Equipment	Intangible Asset Additions
Avcorp Industries Inc.	**$3,934**	**$1,067**	**$-**	$5,962	$1,422	$-
Comtek Advanced Structures Ltd.	**100**	**239**	**-**	201	387	-
Avcorp Composite Fabrication Inc.	**82**	**13,133**	**-**	247	-	371
Total	**4,116**	**14,439**	**-**	6,410	1,809	371

FOR THE YEAR ENDED DECEMBER 31	2019		2018	
	Total Liabilities	**% of Total**	Total Liabilities	% of Total
Avcorp Industries Inc.	**$37,783**	**22.0**	$27,339	18.0
Comtek Advanced Structures Ltd.	**3,909**	**2.3**	2,673	1.8
Avcorp Composite Fabrication Inc.	**24,156**	**14.1**	18,193	12.0
Corporate	**105,767**	**61.6**	104,007	68.2
Total	**171,615**	**100.0**	152,212	100.0

34. Investment in AVS-SYS

On November 29, 2018, the Company entered into an investment agreement with AVS-SYS Ltd., a private company which specialized in providing aircraft operators with aircraft structural component repair services for commercial aircrafts.

During the year, the following movements were recognized in Consolidated Statements of Income (Loss):

FOR THE YEAR ENDED DECEMBER 31	2019	2018
Opening balance	**$682**	$-
Add: Acquisition	**-**	682
Less: Fair value losses recognised in other losses	**(649)**	-
Less: Foreign exchange loss	**(33)**	-
Ending Balance	**-**	682

35. Subsequent Events

The Company drew on the 2019 Panta Loan in January 2020 the amount of $4,238,000 (USD$3,250,000).

On March 2, 2020, the Company entered into an amendment to the standby credit facility (“2019 Panta Loan”) securing an additional $2,598,000 (USD$2,000,000).

notes

AVCORP INDUSTRIES INC.

BOARD OF DIRECTORS AND OFFICERS

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

Elizabeth Otis (1)(2)
DIRECTOR
Palm Springs, California

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

Ken Robertson (1*)
DIRECTOR
Vancouver, British Columbia

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

*Designates the Committee Chair

MANAGEMENT

Amandeep Kaler
Group Chief Executive Officer
Surrey, British Columbia

Jessica Gill
Group Vice President, Human Resources
Surrey, British Columbia

Amish Patel
Director of Finance
North Vancouver, British Columbia

Robin Lovell
President
Comtek Advanced Structures Ltd.
Oakville, Ontario

Tony Kelsey
General Manager
Avcorp Composite Fabrication Inc.
Jurupa Valley, California

Mike Elvidge
General Manager
Avcorp Industries Inc.
Surrey, British Columbia

DIRECTORY

Legal Counsel

McMillan LLP
Barristers & Solicitors
Vancouver, British Columbia

Auditors

Ernst & Young LLP
Chartered Professional Accountants
Vancouver, British Columbia

Shares Listed

Toronto Stock Exchange
Symbol AVP

Registrar and Transfer Agent

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Vancouver, British Columbia

Bank

Royal Bank of Canada
Richmond, British Columbia

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