



AVAC Ltd.

Partners for Innovation and Agrivalue™

BRINGING AGRIVALUE™ IDEAS TO LIFE

NEW AND ENHANCED FOOD PRODUCTS

WELLNESS PRODUCTS

INDUSTRIAL AND NON-FOOD APPLICATIONS

ENABLING TECHNOLOGIES

2002 ANNUAL REPORT

**AVAC INVESTS IN INNOVATIVE IDEAS THAT ADD VALUE TO AGRICULTURAL COMMODITIES.
WE INVEST THROUGH COACHING, KNOWLEDGE, CONTACTS AND FINANCIAL RESOURCES.**

WHAT IS AGRIVALUE™?

AGRIVALUE DESCRIBES THOSE ACTIVITIES, INDUSTRY INITIATIVES AND COMMERCIAL SUCCESSES, WHICH ENHANCE THE VALUE PROVIDED BY AND RECEIVED FOR AGRICULTURAL COMMODITIES...THE ULTIMATE JUDGE OF VALUE IS THE CONSUMER.

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This annual report is printed on 100% forest-free, acid-free paper and printed with canola-based inks.

*A special thanks to our media partners for allowing AVAC to reprint the articles seen on the front cover of this annual report:
- The Edmonton Journal, The Western Producer, The Valley Times.*

MESSAGE TO MEMBERS AND STAKEHOLDERS



When our clients and stakeholders describe AVAC as helpful and knowledgeable, we are encouraged and appreciative. We are very pleased to present this year's AVAC annual report.

This past year AVAC has had a record number of applications and disbursements. We launched our Idea Builder program in June to assist smaller, early-stage projects that will hopefully become clients for commercialization. By year-end, we had assisted 10 Idea Builder projects, two of which have returned to AVAC for follow-on investment.

We are especially pleased and supportive of the initiative to pull together the research funders under Alberta Agricultural Research Institute's (AARI) leadership to provide better service and results to Alberta researchers.

A special highlight was to see our AVAC team partner with over 20 organizations for a new Agrivalue™ Seminar series. In February and March, representatives of those organizations travelled to six Alberta rural communities to explain the multitude of services available to agri-entrepreneurs. This has resulted in increased activity for our whole team including the addition of three new venture development officers on secondment.

We started a process of interacting regularly with our Members over dinner the evening before each quarterly Board Meeting. We will continue this in the upcoming year, giving us opportunity to seek on-going advice from our Members and provide updates on AVAC's progress. Thanks to our Members for your involvement.

Our funding partners, Alberta Agriculture, Food and Rural Development (AAFRD) and Agriculture and Agri-Food Canada, are vital to our success. Thank you for your support.

On behalf of the Board, I would like to thank Keith and his team for the dedication, enthusiasm and hard work this past year. A special thanks to our Strategic Advisory Council for their valuable advice and participation this year.

Lastly on a personal note, I would like to thank all of you who are involved and interested in AVAC for your support and indulgence during my first year as Chair. Thank you Ian Strang, our founding Board Chair, for your years of leadership and inspiration. Many thanks to Tom Poole for your wisdom and insight – we wish you both all the best in your future endeavours.

We serve a great industry and by partnering innovatively, \$20 billion in the value-added agriculture by 2010 is achievable.

Aaron Falkenberg
Board Chair

PRESIDENT AND CEO'S MESSAGE



The conclusion of our most recent financial year ending March 31, 2002, sees AVAC Ltd. better poised than ever to contribute to the rapid growth of agrivalue in Alberta. We have completed the rebuilding of the AVAC team, established a solid foundation for both our investment and knowledge businesses, and are beginning to see the fruits of the AVAC team's diligent efforts with some remarkable success stories.

Historic achievements from the past year include:

- > *Aggregate investment approvals reaching the \$15 million mark, with over \$6 million in new approvals*
- > *Reviewing over 100 investment proposals, and approving 35 new investments*
- > *The creation and successful launch of the new "Idea Builder" program*
- > *Creation of the "Strategic Funders Roundtable" enabling over \$8 million in new agrifood R&D project investments by five different funding partners*
- > *Delivering six Agrivalue Seminars across rural Alberta with over 20 partners and over 150 participants*
- > *AVAC web site launched, with over 2,600 "Access to Capital" downloads and 75,000 visits in four months*

This Annual Report provides details on these achievements and many more; I hope you enjoy reviewing the progress which has been made to date.

I would like to congratulate and thank the AVAC Members, Board and Strategic Advisory Council for their strategic insight, perseverance and dedication to building AVAC Ltd. into an effective catalyst for agrivalue growth. In particular, I would like to acknowledge the visionary leadership and commitment of Ian Strang, AVAC's inaugural Board Chair, who retired from the AVAC Board this year; we look forward to Ian's continuing contributions as a valued AVAC Member. Thanks to the leadership of our new Board Chair Aaron Falkenberg, our working relationships with our funding partners Alberta Agriculture, Food and Rural Development and Agriculture and Agri-food Canada have never been stronger.

Finally, I want to express my gratitude towards the AVAC staff team for their high energy and commitment to helping the province grow agrivalue; I am privileged with the opportunity to work with an extremely talented and dedicated team. I would particularly like to recognize the important contribution of Joyce Lencucha and Tim Keating in their secondment roles as New Venture Development Officers with AVAC over the past year, and wish them all the best in their future endeavors. Special thanks to Brian Rhiness and Marilyn Boehm of AAFRD for making this innovative partnership a reality.

Based on an average agrivalue growth rate of 7.8% over the past four years, Alberta is on track to achieve \$18.1 billion in sales by 2010; clearly, while progress is being made, we have much more work to do together to achieve the province's goal of \$20 billion. We look forward to working with you to grow agrivalue in Alberta.

Keith Jones
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial year completed March 31, 2002, represents a landmark in the history of AVAC, characterized by a number of key "firsts" for the Corporation:

- > Surpassing 100 proposals for investment in a single year
- > Exceeding \$15 million in aggregate investment approvals
- > Establishment of streamlined "Idea Builder" program
- > Exceeding \$3.5 million in disbursements direct to clients
- > First-ever "Access to Capital" symposium and workshop
- > Publication of the first "Agrivalue Index" study
- > First-ever series of Agrivalue Seminars across rural Alberta
- > Establishment of New Venture Development Officers through partnership
- > First-ever "Strategic Funders Roundtable" facilitating over \$8 million in new research funding
- > Addition of Portfolio Manager role to the AVAC team

These "firsts" represent continued maturation of AVAC's team, programs, business model and network partnerships. At the Strategic Planning Retreat of February 12, 2002, the AVAC Board confirmed AVAC's vision and mission for the next three years:

Vision: *Alberta achieves its goal of \$20 billion in value-added agriculture sales by 2010.*

Mission: *To help accelerate the growth of agrivalue in Alberta.*

Not-for-profit corporations such as AVAC Ltd. can struggle to make progress without a clear set of goals, measures and targets. Over the past year, AVAC Ltd. has benefited from the establishment and use of its first Measures of Success, which represent "True North" on AVAC's directional compass. Refinements to the future goals and measures for the Corporation are described in AVAC's 2003 Strategic Business Plan, which is available upon request. Let us now reflect on the progress achieved over the past year. The following Critical Success Factors guided AVAC over the 2001-02 operating year:

- > Increase agrivalue project quality and quantity
- > Enhance likelihood of project success
- > Attract financial capital to agrivalue
- > Establish and grow the Agrivalue Network
- > Connect entrepreneurs with knowledge for success
- > Improve access to research capacity for agrivalue
- > Increase industry, government and scientific collaboration

While the above goals provide direction for AVAC's tactics and business activities, the following measures provided an indication of progress towards the goals:

Key Performance Indicators	Baseline March 2001	Current March 2002	Target Full Year	Stretch March 2004
Projected Agrivalue Sales 2010	\$17.8 billion	\$18.1 billion	*	*
Deals Under Review (\$ millions)	10.2	11.2	10	10
\$ Approved (\$ millions)	10.0	15.0	16.2	27.5
\$ Contracted (\$ millions)	5.6	11.4	14.6	27.5
\$ Disbursed (\$ millions)	2.4	6.0	8.2	21.4
Leverage Ratio**	5.6	6.05	5.6	9.0
Referrals to Partners	132	480	240	480
Referrals to AVAC	82	247	184	360
# of Joint Projects	12	30	20	75

* under development.

** described in detail on page 6.

MANAGEMENT'S DISCUSSION AND ANALYSIS

We have exceeded a number of the aggressive targets which were set for the year on our Measures of Success, and although we fell short of several of our investment targets, we had the best one-year performance in every measure since AVAC was established.

Based on the average growth rate of 7.8% over the past four years, Alberta is on track to achieve \$18.1 billion in agrivalue sales by the year 2010...while the province is making good progress, there is clearly more work to be done to achieve the province's \$20 billion goal. We learned, through the Agrivalue Index study we commissioned in July 2001, that there are significant issues to be overcome in accurately measuring progress in agrivalue growth, particularly in the areas of wellness products such as functional foods and nutraceuticals, and in industrial and non-food products or "bioproducts." We also learned that farm cash receipts are closely linked to growth of value-added agriculture, and that a patient, long-term approach is necessary to capitalize on major opportunities.

AVAC's incoming deal flow volume drove total proposals received to 103 for the year (compared with 58 proposals received last year). We approved 35 new proposals over the year, which has seen our approval rate increase to roughly one approval for every three proposals reviewed. This is testimony to the quality of coaching and mentorship being provided by our staff, our partners and our New Venture Development Officers. Joyce Lencucha and Tim Keating left AVAC Ltd. at the end of June 2002 as a direct result of the restructuring within AAFRD; we wish them all the best in their future endeavors.

Scott Gilbert joined AVAC Ltd. as a New Venture Development Officer in March 2002, seconded to us by the Canadian Food Inspection Agency through the WestLink Technology Commercialization Internship Program. Scott's skills and experience provide a valuable asset for AVAC's facilitation of enhanced technology commercialization in agrivalue. The addition of Dale Clark as Portfolio Manager to the AVAC team has already increased our mentorship capacity. With 59 approved investments under management, the new Portfolio Manager position is a valuable addition to the team.

The following chart summarizes the level of deal flow and investment approvals over the 2001-02 financial year in each of AVAC's focus areas and investment types:

Investment Deal Flow in the 2001-02 Financial Year

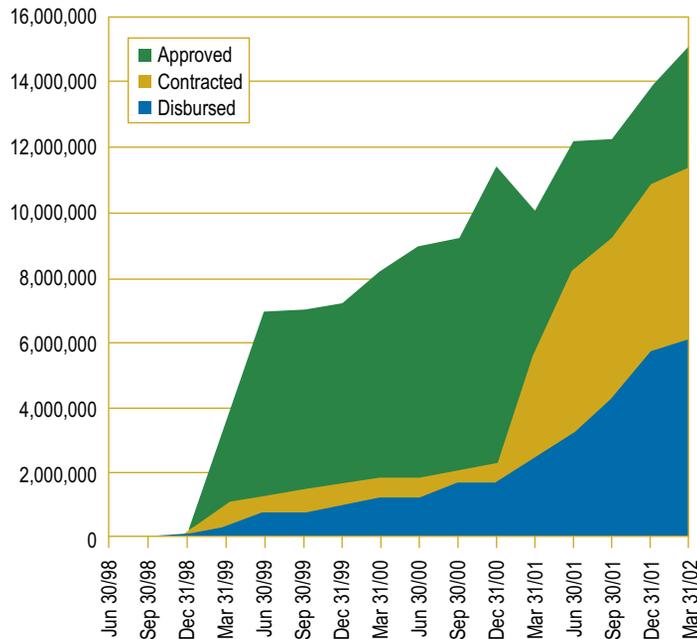
Focus Area/Investment Type	# of Proposals Received	\$ Value of Proposals Received	# Projects Approved	\$ Value of Projects Approved
New and Enhanced Food Products	31	\$15.6 million	8	\$225,882
Wellness Products	10	\$2.3 million	5	\$2,645,125*
Industrial and Non-Food Applications	15	\$11.7 million	4	\$766,058
Enabling Technologies	18	\$6.4 million	3	\$1,819,313
Strategic Initiatives	3	\$327,000	3	\$545,000*
Knowledge Initiatives	26	\$225,000	12	\$86,774
TOTAL	103	\$36.6 million	35	\$6,088,152

*includes approvals of proposals which were received in the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The increase in investment deal flow is attributable to the rebuilding of the AVAC team, enhanced clarity about AVAC's investment programs, stronger partnerships with other stakeholders in the Alberta community, and implementation of an aggressive communications program. The rate of change in AVAC's agrivalue deal flow is best illustrated by the history of the Corporation's investments approved, contracted and disbursed since AVAC's inception. This is illustrated below.

AVAC Investment Status (\$, including MOU's)



It is worthy to note that AVAC's investment business plateaued from June 1999 to September 2000; we have clearly broken through that plateau with our new team, partnerships, programs and communications activities and are well positioned to achieve our aggressive targets for the 2002-03 financial year. The results illustrated in our Referrals to AVAC and Referrals to Partners measures help to quantify the impact of our partnership building, communications and coaching activities.

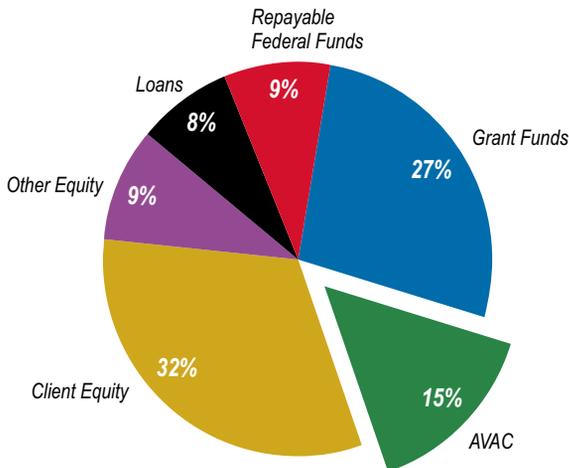
An important contribution to the "True North" on AVAC's performance compass is the measure Number of Joint Industry/Science Projects. While Alberta has a very impressive history in investing in world class science and research, there has been less progress on successfully commercializing potential technologies arising from this research in Alberta. AVAC's investments in scientific positions at the University of Alberta, the Olds College Centre for Innovation and the University of Lethbridge have been focused on establishing research capability in areas of strong commercial opportunity. These positions are already paying dividends through the establishment of a number of important industry and science collaborations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

AVAC also invests in other research projects, strategic initiatives such as the Crop Development Opportunities Initiative and Inno-centre Alberta, and knowledge initiatives such as the "Access to Capital Symposium" to foster agrivalue technology commercialization. AVAC has learned that successful technology commercialization occurs at the intersection of good science and good business, and the Corporation remains focused on facilitating agrivalue science and technology commercialization. AVAC is working in partnership with AARI, AAFRD and others to transform Alberta's current agricultural R&D capability into a research, development and commercialization core competence which can accelerate agrivalue growth. Our Number of Joint Industry/Science Projects measure helps us track our performance in providing effective facilitation towards this goal.

Particularly notable is our leverage impact; AVAC's \$11.4 million in contracted investments have facilitated nearly \$63 million in additional investment in value-added agriculture growth in Alberta. This indicator monitors the additional capital attracted to investment projects by AVAC's investments; it is defined as the ratio of total dollars invested in each agrivalue project to the dollars invested by AVAC in those projects. Our early results in attracting additional capital to the agrivalue challenge are remarkably positive; we hope to continue to build on this early success, which is likely to be the benchmark on which AVAC's overall effectiveness will be assessed in the future. As shown on the chart below, AVAC's investments have attracted private sector equity investment to the agrivalue challenge, as well as federal government resources and a modest amount of debt financing.

Leverage by Capital Type



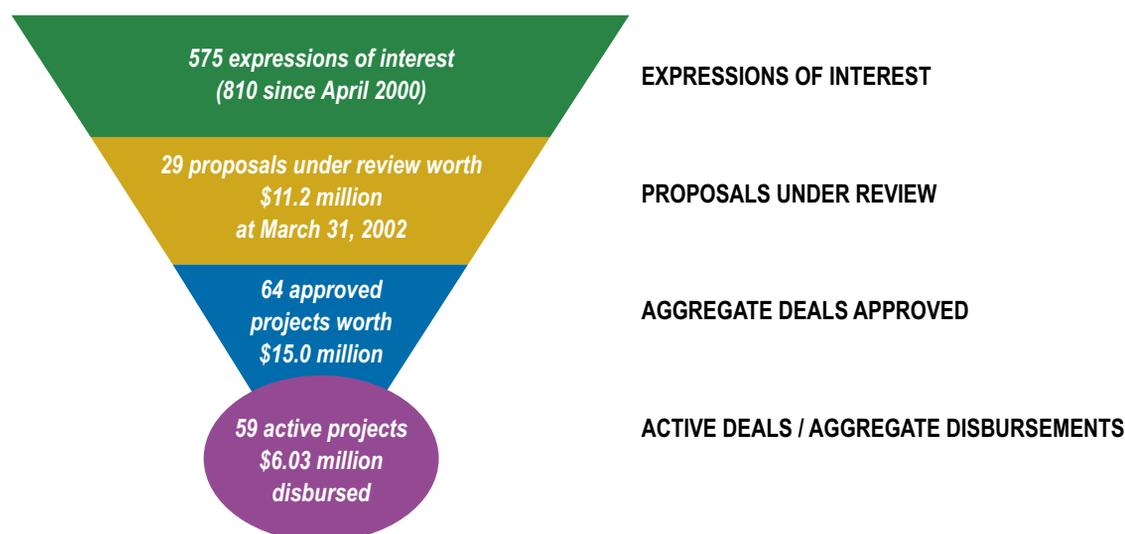
Over \$74 million has been committed to good agrivalue projects since AVAC started ... facilitated by \$11.4 million contracted by AVAC.

The remainder of this Annual Report provides specific examples of clients we are working with, partnerships, coaching and exciting agrivalue initiatives which are moving the province towards its \$20 billion goal. It also illustrates the key tactics and activities which we are undertaking in the coming year "to help accelerate the growth of agrivalue in Alberta." For additional information and updates on our plans, our programs and our progress, please visit our website at www.avacld.com.

AVAC INVESTMENT

This year AVAC experienced tremendous growth in deal flow. We received 575 expressions of interest that resulted in 103 formal proposals, a 94% increase from last year's 53. AVAC approved 35 proposals totalling over \$6 million in new investments with an average deal size of \$173,947. Our deal flow is best summarized in the graph below.

AVAC's Deal Flow Funnel (at March 31, 2002)



A recap of AVAC's direct investments to clients to the end of March 2002 is provided in the table below.

AGGREGATE AVAC INVESTMENTS AND DISBURSEMENTS (to March 31, 2002) (based on the year that the investment was approved)

<i>Fiscal Year</i>		<i>\$ Approved</i>	<i>\$ Disbursed</i>	
1998-99				
	CV Technologies Inc., Edmonton	Enabling Technology	\$500,000	\$483,333
	CanBiocyn Inc., Edmonton	Enabling Technology	\$250,000	\$250,000
	Ceapro Inc., Leduc	Industrial Application	\$164,882	\$164,882
	Alta Genome Services, Calgary	Enabling Technology	\$60,000	\$60,000
	AVANET, Calgary	Knowledge Initiative	\$100,000	\$100,000
1999-00				
	Urban Wafer Co., Calgary	New Food Products	\$148,000	\$148,000
	Going Organic Conference, Edmonton	Knowledge Initiative	\$40,000	\$40,000
	Growing Alberta, Alberta	Knowledge Initiative	\$35,000	\$35,000
	BioTechnology Network, Alberta	Knowledge Initiative	\$2,761	\$2,761
	BCL Landview, Edmonton	Enabling Technology	\$25,000	\$25,000
	University of Alberta - Faculty of Business, Edmonton	Knowledge Initiative	\$50,000	\$50,000
	University of Alberta - Food for Health, Edmonton	Research Capacity	\$1,941,917	\$877,000
	Alberta Soft Wheat Growers, Lethbridge	New Food Products	\$3,718	\$3,718
	Olds College Centre for Innovation, Olds	Research Capacity	\$2,500,000	\$323,720
	AFPA Food Safety Program, Alberta	Knowledge Initiative	\$274,500	\$213,250
	ASTech Innovation in Agricultural Science Award, Alberta	Knowledge Initiative	\$10,000	\$10,000
	Edelweiss Soft Cheese, Edmonton	New Food Products	\$58,500	\$58,500

AVAC INVESTMENT

AGGREGATE AVAC INVESTMENTS AND DISBURSEMENTS (to March 31, 2002)

(based on the year that the investment was approved)

<i>Fiscal Year</i>		<i>\$ Approved</i>	<i>\$ Disbursed</i>
2000-01			
QEVA Velvet Products Corp. / Elk Equities Inc., Calgary	Wellness Products	\$40,000	\$20,000
AFPA - E Commerce, Edmonton	Knowledge Initiative	\$1,000	\$1,000
Classic Canning Inc., Calgary	New Food Products	\$88,500	\$72,813
Moving the Markets, Toronto	Knowledge Initiative	\$5,000	\$5,000
Kinnikinnick Foods Inc., Edmonton	New Food Products	\$232,079	\$125,000
Rebus Corporation, Calgary	Industrial Application	\$2,000,000	\$700,000
Functional Foods Alberta, Alberta	Wellness Products	\$15,000	\$15,000
Economic Development Assoc. of Canada, Calgary	Knowledge Initiative	\$15,000	\$15,000
G.S. Technology Corp., Edmonton	Enabling Technology	\$136,150	\$47,000
Agrivalue Business Award of Distinction, Alberta	Knowledge Initiative	\$10,000	\$10,000
Prairie Natural Processing Inc., Red Deer	New Food Products	\$51,000	\$51,000
Natural Farmworks Ltd., Red Deer	Wellness Products	\$200,000	\$200,000
2001-02			
SemBioSys Genetics Inc., Calgary	Wellness Products	\$2,384,000	\$1,250,000
Growing Alberta, Edmonton	Strategic Initiative	\$35,000	\$35,000
Prairie Tanners, Three Hills	Industrial Application	\$227,058	\$187,058
Inno-centre Alberta, Alberta	Strategic Initiative	\$500,000	\$100,000
Access to Capital Symposium & Workshop, Calgary	Knowledge Initiative	\$15,000	\$4,000
ASTech Innovation in Agricultural Science Award, Edmonton	Knowledge Initiative	\$22,000	\$22,000
Crop Development Opportunities Initiative, Alberta	Strategic Initiative	\$10,000	\$6,700
Agrivalue Business Award of Distinction, Alberta	Knowledge Initiative	\$10,000	\$10,000
Economic Developers Association Alberta, Alberta	Knowledge Initiative	\$1,000	\$1,000
First Agra, Calgary	Enabling Technology	\$22,500	\$15,074
Biotechnology & Biomedicine Conference, Edmonton	Knowledge Initiative	\$2,000	\$2,000
Food Fest 2001, Grande Prairie	Knowledge Initiative	\$1,000	\$1,000
Bashaw Pulse Group, Bashaw	New Food Products	\$12,500	\$8,375
Alheim Corporation, Calgary	New Food Products	\$21,450	\$14,372
D & B Specialty Foods, Calgary	New Food Products	\$25,000	\$25,000
Canadian Council of Grocery Distributors, Calgary	Knowledge Initiative	\$5,000	\$5,000
Orchard Mist, Medicine Hat	New Food Products	\$25,000	\$16,750
Lalany's International Meals, Edmonton	New Food Products	\$25,000	\$16,750
CV Technologies Inc.II, Edmonton	Wellness Products	\$25,000	\$16,667
University of Lethbridge - Ag Biotechnology, Lethbridge	Enabling Technology	\$1,500,000	
Pure Lean Hogs Inc., Medicine Hat	Industrial Application	\$15,000	\$10,050
BioAlberta, Edmonton	Knowledge Initiative	\$18,674	\$15,025
Canadian Society of Plant Physiologists, Calgary	Knowledge Initiative	\$1,500	\$1,500
Prairie Natural Processing, Red Deer	New Food Products	\$78,620	\$50,760
SciMed Laboratories, Edmonton	Enabling Technology	\$296,813	\$50,000
AFNS BioPolymers Network, Edmonton	Industrial Application	\$500,000	
Avantera Technologies Inc., Calgary	Knowledge Initiative	\$2,100	
Outlook Pork Ltd., Nobleford	Industrial Application	\$24,000	\$16,080
Alberta Institute of Agrologists 2002 Conference, Edmonton	Knowledge Initiative	\$5,000	\$5,000
Dots Canada, Calgary	New Food Products	\$13,312	\$8,919
MMICODO Management Ltd., Calgary	New Food Products	\$25,000	\$25,000
U of A AFNS - Tapan Basu, Edmonton	Wellness Products	\$70,000	
U of A AFNS - Wendy Wismer, Edmonton	Wellness Products	\$100,000	
U of A AFNS - Feral Temelli, Edmonton	Wellness Products	\$66,125	
Agricultural Biotechnology International Conference 2002, Saskatoon	Knowledge Initiative	\$3,500	

More information about our investment programs can be found at our web site: www.avacld.com, or we would be happy to mail you our fact sheets. Simply contact AVAC at avacinfo@avacld.com.

AVAC INVESTMENT

IDEA BUILDER

Since the launch of Idea Builder in June 2001, AVAC has received 25 proposals and has to date approved 10 investments, totalling \$183,762. We received significant media coverage from the press releases announcing our investments in these early stage projects – a great benefit to our clients which also helped build awareness of AVAC.

Helping Farmers Produce Value-Added Products

Study aims to uncover how local crop producers can develop their crops into more valuable products to generate premium prices on the global market.



With the current consumer trend to purchase functional foods, nutraceuticals and other value-added products, there is significant opportunity for Alberta producers to capitalize on local and global market demands.

The Crop Development Opportunities Initiative (CDOI) is the first industry-focused initiative that addresses the topic of value-added crop development. Innovative, development technology used to process one Alberta crop into value-added products could also be used to develop and process other crops as well – a huge benefit for multi-crop farmers.

“There is a need to create a stable market and environment for Alberta commodities. The future of agriculture in Alberta is dependant on our ability to make use of products produced on the farm, and our ability to process them within this province,” states Clifton Foster, Steering Committee Chair for the Initiative.

Creating a Recipe for Success ... and A New Chocolate Covered Biscuit Bar

For Guillermo von Bassenheim, President and Founder of Alheim Corporation, his dream of creating a chocolate covered biscuit bar is fast becoming reality.

As a first-time entrepreneur, Guillermo von Bassenheim is dedicated to developing his new food product in Canada and making it a success. “In a previous job, quite a few of my colleagues were travelling to Argentina; when they returned to Calgary, they would bring back this chocolate covered biscuit bar. They loved it. I was intrigued to give this idea a try.”

In four short months, Alheim Corp. has performed market research, revised their business plan, created a marketing plan and begun development of their product's package. How? “My company was able to do all these things with financial assistance from AVAC. This investment enabled me to get on the fast-track with my business objectives,” comments von Bassenheim.

Alheim Corp. approached AVAC by applying for financial assistance under AVAC's Idea Builder Program. Idea Builder helps entrepreneurs test their early-stage projects by providing matching project capital up to \$25,000.

From Idea to Product – a Natural Progression

As an idea changes and grows, so does AVAC's investment.

AVAC invested \$10,000 under its Idea Builder Program to help the study develop a well-defined business plan and plan of action that will guide planning, development and implementation of the Crop Development Opportunities Initiative.

Developing two new industries in Alberta

Two key emerging areas that show considerable growth potential in the global marketplace are enhanced food products and enhanced industrial products.

“Alberta is a province rich in both agricultural crops that can form the basis of value-added food and industrial products, as well as it has the expertise to bring about the development and commercialization of these products,” states Foster. The CDOI will focus on research, development and commercialization of new crop-based products.

The CDOI is also funded by:

- > Alberta Agricultural Research Institute (AARI)
- > Alberta Agriculture, Food and Rural Development (AAFRD)
- > Alberta Crop Industry Development Fund (ACIDF)
- > Alberta Canola Producers Commission
- > Alberta Barley Commission
- > Alberta Pulse Growers Commission

Once completing the objectives under AVAC's Idea Builder Alheim Corp. has returned to AVAC for a follow-on investment – this time under AVAC's Pre-Commercial and Entrepreneurial program. An application to this program requests a matching investment over \$25,000 and helps move a project towards commercialization.

Alheim Corp.'s request for more capital will enable the Company to use what they learned from the Idea Builder program to create their own Alberta-style chocolate covered biscuit bar – a highly anticipated event for von Bassenheim.

Alheim is working with food specialists at Alberta Agriculture, Food and Rural Development's Leduc Food Processing Development Centre to create yummy formulas for their three-layered chocolate biscuit bar. Whenever possible Alberta food ingredients will be used.



AVAC INVESTMENT

PRE-COMMERCIAL AND ENTREPRENEURIAL PROJECTS

AVAC received 35 Pre-Commercial and Entrepreneurial proposals over the past year resulting in six approvals to March 2002, totalling \$3,036,491. The total dollars approved has increased year over year by \$288,762. We are pleased to note that the number of proposals received is increasing and as projects graduate from the Idea Builder program, we expect to see a continued increase in the number of Pre-Commercial and Entrepreneurial projects approved.

Nutrient Makeovers for Dairy Products

The creation of a new diagnostic kit that assesses the exact amount of vitamins A and D in dairy products could launch an explosion of new dairy products with unique nutrient profiles into the marketplace.

As health-conscious consumers are increasingly looking for specific nutrition information on the foods they buy, milk and dairy products are no exception. Edmonton-based SciMed Laboratories aims to capitalize on niche market opportunities for these consumers. "Our kit will allow a dairy processor to tell exactly how much vitamin A and D is in a batch of milk within three hours. Timely test results will enable the processor to label exact vitamin amounts on each product, which we believe will create a value-added dairy product for consumers," comments Dr. Rajan Gupta, President of SciMed Labs.

SciMed's dairy diagnostic kit is just one of the many analytic kits that SciMed is developing. In fact, it is SciMed's diagnostic platform that is truly revolutionary. This new platform is a proactive response to the changing food ingredient and nutrition labelling requirements and may open the dairy industry's ability to manufacture value-added fortified dairy products for the functional foods market.



"The benefits of our kit reside in the kit itself; it is easy to use, testing can be performed in house – no outside expertise is needed, results within three hours, and would be available at a very economical cost. With AVAC's support, we are able to expedite the development of our kit," says Dr. Gupta.

By commercializing their technology, SciMed hopes to provide a competitive advantage to the Alberta dairy industry when they launch their kit in the fall of 2003.

Put all the pieces together

Slow and steady – not words you commonly hear these days when talking about the frantic pace innovators maintain to bring new products to the marketplace. But that's the business strategy Ceapro Inc. is building its future on – that and oats.

It all goes back 13 years ago when Dr. Mark Redmond discovered that beta glucan, an ingredient found in oats, can act as an immune stimulant.

Jump ahead to 2002. Redmond is now Chief Operating Officer and Chief Scientific Officer at Ceapro Inc., an Edmonton-based biotechnology company that uses proprietary technology to make active ingredients and therapeutic products from natural materials.



"We had determined what the market was looking for in products," he says. "So we put together a business blueprint and approached AVAC for support." After a careful assessment, which included bringing in an internationally renowned expert in the field of agriculture value-added processing, AVAC invested in Ceapro in 1999.

"Without AVAC's funding, we wouldn't have been able to get it all rolling," Redmond asserts. "It was absolutely critical that they were able to make that investment to allow us to start out and develop pilot products." Ceapro set up shop in the laboratories and pilot plant at Alberta Agriculture, Food and Rural Development's Leduc Food Processing Development Centre.

The first line of products Ceapro produced was for the personal care cosmetic industry. Along with consumer health and cosmetics, Ceapro now has a line of veterinary health products, which are distributed in Japan, Australia and Canada.

Ceapro is currently developing therapeutic products, diagnostic aids and drug delivery platforms. "We've taken oats to pieces. The fun part is what can be made out of the pieces when you recombine them and come up with different formulations."

Redmond believes that assistance from partners like AVAC is essential to encourage growth in a sector that has huge potential. "Ceapro is a good example of how AVAC came in when the company was still a concept all the way through the lab to the markets," Redmond says. "Now it's a profitable company with enormous potential."

AVAC INVESTMENT

RESEARCH AND STRATEGIC INITIATIVES

Over the past year, seven Research and Strategic investments were approved for a dollar value of \$2,771,125. Our investments under this program play a key role in enabling innovation and collaboration between industry and science, helping the province to support and develop agrivalue sales.

Something old into something new

The plants may not be new or uncommon, but the way we are starting to use them is. Just ask Dr. Paul Kolodziejczyk, Lead Research Scientist for New Crops and Bioprocessing at Olds College Centre for Innovation (OCCI) as well as Adjunct Professor at the University of Alberta, Faculty of Agricultural and Nutritional Science. Dr. K., as he is known, serves in one of five agrivalue research positions funded by AVAC.

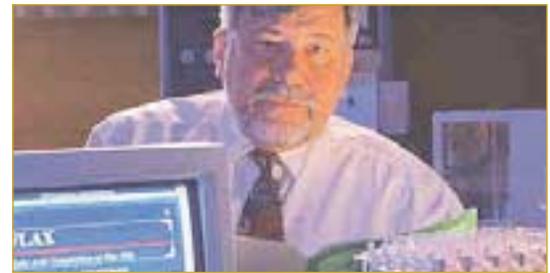
Kolodziejczyk is focusing his time and energy on extracting components from plants, common and rare, as well as developing the next generation of plant research scientists.

Since joining OCCI just over a year ago, he has broken ground for a new research centre with plans to include a pilot processing plant that will be able to continue work on plants used for nutraceuticals and pharmaceuticals.

"We will be extracting and isolating the bioactive components (active ingredients) that come from plants that are grown here in Alberta," he explains. "As well, we are also looking into projects on how to utilize parts of the plants which are being wasted or are underutilized."

As an educator, Kolodziejczyk believes the best education is when students can apply theory in a real world setting. That's where the adjunct professorship will be able to bridge the College's research centre with his work at the University of Alberta.

"We'll be able to connect university students with our pilot plant and industrial partners to give them hands-on experience with equipment and real projects," he contends. "I strongly believe that education should include opportunities for students to perform practical tasks, such as these."



The value of a great coach

"Coaching accelerates the financing and the ultimate commercial success of an emerging technology company," Susan Miller, President and CEO, Inno-centre Alberta.



A good business coach can be the difference between a successful enterprise and a dismal failure. Making that difference is what Inno-centre Alberta (ICA) is all about.

"Inno-centre's professional business coaches and extensive network make it possible for entrepreneurs to access more sources of financing sooner, establish operations faster and add significant value to their company," comments Miller.

ICA offers a program where selected candidates will be coached through all levels of business development. The ultimate goal is to prepare a company for financing from angel investors and venture capitalists. Approximately 10 new companies are invited to participate in ICA's program each year.

Throughout Inno-centre's two-year commitment, each company receives expert advice and hands-on help with strategic positioning, financing plans, product development and business engineering.

Inno-centre's business coaches meet with entrepreneurs weekly, ensuring achievement of key milestones that accelerate

value. An Advisory Council of experienced industry leaders is formed for each emerging enterprise, helping to avoid common pitfalls and enabling better business decisions.

Strategic Partners

As ICA and AVAC are catalysts for economic growth in Alberta, the strategic alliance between the two is a natural fit. For example, as some of AVAC's clients naturally graduate to another level for coaching as their start-up venture proceeds to the next stage, additional forms of capital will be needed.

"Help should not stop when the cheque is signed. What is needed is a process that moves with a company's growth," says Brad McNish, Founder and President of Sepallo Nutraceuticals and an AVAC client. McNish believes there is a real need for an organization with development expertise that can provide further assistance.

The alliance between AVAC and ICA may be that bridge or process that helps high-tech agrivalue entrepreneurs move their technologies to commercialization and their companies forward.

AVAC is dedicated to growing Alberta's industry through technology commercialization. That's why AVAC committed \$500,000 over five years to help establish the ICA coaching program. Additional financial resources have also been provided by a number of Alberta's prominent research and development agencies and institutions.

COLLABORATE, CONNECT

AVAC's Knowledge Business bridges the gap between innovator and success with coaching, knowledge, contacts, financial resources and business management expertise to guide a product from concept to commercialization.

"Gaining knowledge is a human process dealing with mental objects, requiring awareness and intuition, and is transferable through learning. Information, on the other hand, is easily transferable, represented in physical objects, and reproducible at a low cost." Debra M. Amidon, Innovation Strategy for the Knowledge Economy: The Ken Awakening.

Collaboration

The strength of Alberta's agrivalue business can be seen in four focus areas (new and enhanced food products, wellness products, industrial and non-food applications and enabling technologies) that are each demonstrating significant growth year after year. The following four charts provide examples of the Networks AVAC is building.

New and enhanced food products network

Ready-to-serve dinners, whole meal replacements, pre-packaged salads and gluten-free cookie dough are all examples of new or enhanced food products consumers are looking for on their grocery store shelves. AVAC works with innovators and researchers to ensure these new products are "a fit" for today's marketplace.



Wellness products network

Healthy living is on just about everyone's mind these days. An aging population is demanding products that will enhance their lives. Alberta is meeting this demand with wellness products made from natural ingredients grown here, produced here and shipped around the world.



* see inside back cover for a full listing of abbreviations.

AND COMMUNICATE.

Knowledge is hard-won wisdom from people who have been there and back. They know the pitfalls to watch out for and where the biggest gains can be made. Through AVAC's extensive Network of industry professionals, innovators and researchers, entrepreneurs have access to valuable resources to help them develop business objectives, strategies and long-term goals.

AVAC's Knowledge Business provides insight "on call," seeks out information and sources, links knowledge and skills to an entrepreneur's needs, communicates successes and tries to prevent the repeat of failure, builds collaboration not competition and does not build a library of information – it builds a network of people!

It is within these four focus areas that AVAC is concentrating on expanding its Network of researchers, investors, industry representatives, government partners and clients. As well, AVAC continues to expand its knowledge and expertise in each of the sectors. To become a member of AVAC's Agrivalue Network, please contact us at avacinfo@avacitd.com.

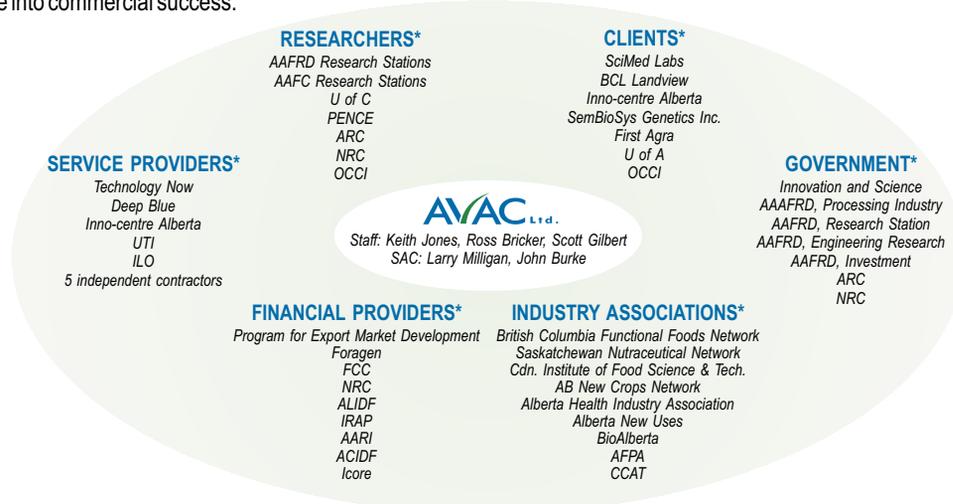
Industrial and non-food applications network

Agricultural products are being used for non-food or industrial uses as well – construction materials from straw, plant ingredients used for personal care products and animal waste transformed into natural fertilizers for lawns and gardens. It's a win-win situation for agriculture and consumers.



Enabling technologies network

New products and innovations demand new technology. Alberta's agrivalue industry is leading the way with technologies that can measure vitamin levels in milk and the risk of contracting diabetes. AVAC's Knowledge Business is helping turn promising science into commercial success.



AVAC KNOWLEDGE

Connections

AVAC continues to expand its Network of industry connections. In 2001, AVAC helped foster a unique industry collaboration. The occasion was the Alberta Agricultural Research Institute's (AARI) yearly review of research proposals and grant requests.

AARI invited representatives from AVAC, the Alberta Agriculture and Food Council and the crop, livestock and diversified livestock industries in Alberta to a roundtable meeting. The three producer groups each received new development funds for research in 2001.

This meeting was an opportunity for each of the stakeholders to consider new research proposals and to identify areas or projects where they could collaborate. The scientific community also benefited because they have access to more funding groups at one time. As well, researchers only have to submit one pre-proposal and one full proposal to funding groups.

As a result of the "Strategic Funders Roundtable," over \$8 million in new funding was approved. Proposals brought forward at the meeting resulted in AVAC working with AARI and the Alberta Crop Industry Development Fund (ACDIF) on three projects at the University of Alberta.

Communications

Knowledge can only grow and expand if it is shared. To that end, AVAC incorporates three distinct communication strategies to interact with researchers, innovators, stakeholders and entrepreneurs.

Face-to-Face brings people together to share and exchange information and knowledge. It happens every time a staff member or stakeholder talks with other people. Seminars, conferences, presentations and networking with key associations are all part of the face-to-face process.

Collaborative Intelligence links AVAC's knowledge and investment with science and enterprise through electronic means. Through Web-based initiatives, AVAC's collaborative intelligence projects and tools accessible at www.avacld.com focus on elements of training, development and investment opportunities.

Communications activities are critical to AVAC's overall business operations and the dissemination of essential knowledge about the Company. AVAC continues to build awareness about its clients and the industry by getting the message out in as many ways as possible through success stories, advertising, media relations, research initiatives and promotional activities.

The next step

Many of Alberta's agriculture and agri-food partners have increased their chances for success through AVAC's Knowledge Business. There are others who could be part of this Network but haven't heard about how they can benefit from AVAC's access to knowledge and expertise. While AVAC is an active partner in the agri-food sector, the Company is looking to grow agrivalue beyond traditional linkages. Industries such as pharmaceuticals, biotechnology and energy can be linked with AVAC's Network of industry connections. Creating new contacts through the AVAC Network offers opportunities to gain new knowledge and put existing knowledge to new uses.

AVAC KNOWLEDGE

Money isn't everything

For this entrepreneur, AVAC's Knowledge Business gave him the insight to save his resources for a viable project.

It all starts with an idea, a dream. Maybe it will work, maybe it won't. That's what often brings entrepreneurs and innovators to AVAC. Yoshiaki Nakamura had a dream that he wanted to bring to life.

A professional chef for over 20 years, Nakamura wanted to start a product development business aimed at the hospitality and food industry. However, businesses similar to the one he envisioned already existed in the province so the prospects didn't look good.

Nevertheless, with advice and contacts from AVAC, Nakamura took his idea to the industry to see if it was marketable and feasible. This meant talking with key industry players, processors and market leaders.

Through a series of meetings and interviews he established a network of investors who were willing to invest over a half million dollars in the venture. But, in the end, he decided not to pursue further development because he wasn't able to confirm everything needed to get the business off the ground. For that he credits the information, contacts and resources that he got through AVAC's Knowledge Business.

"Although I was able to attract investment funding, I was unable to secure business contracts to ensure the viability of the project," he says. "I chose not to go forward with the project." However, he still remains optimistic about future business opportunities and continues to look for new projects in Alberta for he and his network of investors.

The road to success

With AVAC's knowledge sharing and coaching, this Alberta innovator found a way to get her project off the ground.

Gulzar Lalany knew she had a winning food product idea but really needed help overcoming hurdles if she was going to make it a reality. That's where AVAC's knowledge sharing and coaching has really paid off.

With an investment from AVAC's Idea Builder program, product development began by determining whether there was a market for the product and if it was financially feasible to produce it. Positive response from market testing with potential customers gave the project a green light.

AVAC provided coaching and expertise each step of the way in the production process beginning with market testing and research all the way through to processing. When Lalany encountered challenges along the way, she relied on AVAC's Network of contacts in Alberta's food processing industry to assist her.

"AVAC really helped my company by referring me to contacts in their Network who have helped me advance my project," she says.

Making dollars from dough

When this Canmore entrepreneur wanted to roll out her new enterprise, she started with AVAC.

Lisa Downing probably knows everything there is to know about cookie dough. In 1997, she started the In-Dey-Go Cookie Dough Company selling frozen cookie dough exclusively for fundraising groups. Ironically, her previous career was coach of Canada's national ski team.

"I've gone from being frozen on the hill to selling frozen cookie dough," she quips.

Five years later, her unique venture is well-established and running smoothly but the business can be vulnerable to the seasonal nature of fundraising, especially in schools. That's when she came up with the idea for Baker Creek Natural Foods where she would market organic cookie, muffin and bread dough to specialty retail outlets.

"I was looking for other potential markets with the cookie dough but I didn't want to damage the integrity of the In-Dey-Go brand by going retail. I looked at finding a new niche market and that was organic cookie dough."

Downing hooked up with AVAC through an acquaintance who worked for the provincial government. To test her idea and learn more about how AVAC could assist her, she sat down with some of AVAC's staff. As well, she completed an Idea Builder application.

"Much of the plan was already in my head but Idea Builder showed me where else I could go with the product because I had to put it down in words," she says. "The application form was almost like a coach itself."

Downing says one of the biggest benefits she found was finding out exactly what the cost projections were to produce the product.

"I had no idea that dollar amounts would be so incredible if I had to pay someone else for what I do. That was a bit of a revelation."

In a strange twist of fate, the former coach ended up being coached. That's the way the cookie crumbles.

AVAC KNOWLEDGE

ACCESS TO CAPITAL

Looking for money in all the right places

Two years ago, industry leaders and stakeholders met for Ag Summit 2000 to develop strategies to deal with the challenges and opportunities facing Alberta's agriculture and food industry.

One of the many Action teams that are working to ensure this vision becomes reality is the Attract Equity Financing to Primary Agriculture and Agri-Industry Action Team. Led by George Jones, the team organized the first-ever Access to Capital Symposium and Workshop in June 2001. The two-day event, which was held in Calgary, brought together new venture developers, entrepreneurs and professional financial service providers.

"We found that information on equity financing and venture capital wasn't readily available in agriculture in Alberta," says Jones. We wanted to show the wide spectrum of financing and funding opportunities that are available as well as where people should start looking."



Raising awareness

The first day featured a symposium with presentations from industry leaders such as Agriculture Financial Services Corporation, Borden Ladner Gervais, Meyers Norris Penny, AVAC, Alberta Treasury Branches and Alberta Agriculture, Food and Rural Development. The event gave entrepreneurs a comprehensive overview of how to successfully access capital.

"There's an educational requirement on both sides. On one side are the people who are putting together proposals for business ideas. And on the other side with investors and funders, there needed to be an awareness that there were investment proposals in agriculture worth looking at," Jones says.

Industry development professionals, accountants and economic development officers attended the workshop the following day. This workshop consisted of real-life business examples along with background information about business development and valuation. Business venture representatives profiled their own experiences and answered questions from workshop participants.

One-stop shopping

Dr. Andre Buret, Associate Professor, Department of Biological Sciences at the University of Calgary, attended both days to gain a better understanding of what financing strategies and options were available.

"I was interested in attending because at the time we had a technology that we had patented and we were interested in incorporating," he says. "If you're developing a company or intend to, the event gave you access to all the strategies you may need to generate capital."

The knowledge assembled at the Symposium continues to add value long after the event. From January to April 2002, over 2,600 presentations were downloaded by clients and partners from the AVAC web site.

AGRIVALUE SEMINARS

Taking the next step with agrivalue seminars

Launching a new product or building a new business takes teamwork. Just ask anyone who has tried to find funding or a source to manufacture a new product. That's exactly what the AVAC-sponsored Agrivalue Seminars were all about – bringing people together to share stories, information and knowledge about developing agrivalue businesses in rural Alberta.

The Agrivalue Seminars were held in rural centres across Alberta in late February and early March 2002. Communities included Vermilion, Drumheller, Taber, Lethbridge, Fairview and Barrhead.

Timing is everything

Doug Lester, an Economic Development Officer in Barrhead, says the idea for the seminar came along at just the right time.

"We wanted to do something for the agriculture sector here in Barrhead," says Lester. "We were already considering holding a conference with a trade show so when AVAC presented this idea, we found it to be a very happy marriage."

Like all of the seminars, the Barrhead event provided an ideal opportunity for people to network with other entrepreneurs and innovators in their local community.

Each seminar featured presentations from local agripreneurs such as an organic market gardener and distributor who was seeking other growers to expand his business, and a company making nutraceuticals from locally grown products.

"There is something about listening to people who have the courage to take the first step," says Lester. "It can be a daunting task to reinvent your company to meet new market demands so to have the opportunity to see others who are doing it, the spirit of being around them just rubs off on you."

Rick Tofani, CEO of Olds College Centre for Innovation and featured speaker at several seminars, commented, "The seminars brought a lot of value by bringing together the people who are trying to develop new products and business ideas in one place."

MEMBERSHIP

The role of the Corporation's Members is to provide their innovative ideas, industry insight and build a collaborative approach to growing agrivalue in Alberta. The Members elect AVAC's Board of Directors from the Corporation's membership.

AVAC's membership represents various elements of the agrivalue system in Alberta (including agriculture supply, primary production, primary processing, secondary processing, distribution and retail) as well as key collaborator and stakeholder perspectives (financial providers, research organizations, educational institutions, industry associations and knowledge providers). Each year new Members are recruited to join AVAC Ltd. based on the following criteria:

Industry Insight

- > *Authoritative knowledge and expertise*
- > *Represents a key stakeholder perspective*
- > *Exhibits commitment to agrivalue*
- > *Key influence in their area*

Innovation and Collaboration

- > *Systems / strategic thinking*
- > *Flair for creativity and innovation*
- > *Entrepreneurial orientation*
- > *Willingness to share and contribute*

AVAC is pleased to welcome six new Members this year.

AVAC MEMBERS

Ted Allen <i>Agricore United</i> Winnipeg, MB	Frank Fallwell <i>Billingsgate Fish Co. Ltd.</i> Calgary, AB	Brad McNish <i>Sepallo Corporation</i> Red Deer, AB
Andrew Baum <i>SemBioSys Genetics Inc.</i> Calgary, AB	Dennis Fitzpatrick <i>University of Lethbridge</i> Lethbridge, AB	Ian Morrison <i>University of Alberta</i> Edmonton, AB
Frank Burdzy <i>Lilydale Foods</i> Edmonton, AB	Grant Hansen <i>Canada Safeway Ltd.</i> Calgary, AB	Neal Oberg <i>Alberta Agriculture Research Institute</i> Forestburg, AB
Ted Bosse <i>Ogilvie and Company</i> Edmonton, AB	Lloyd Johnston <i>Alberta Chicken Producers</i> Edmonton, AB	Tom Poole <i>Sepps Fine Foods</i> Langley, BC
Jerry Bouma <i>J. Bouma and Associates</i> Edmonton, AB	Robert Kalef <i>Centennial Food Corp.</i> Calgary, AB	Greg Rockafellow <i>Lux Farms Inc.</i> Crossfield, AB
Shelley Bradshaw * <i>Beck Farms</i> Innisfail, AB	Kerry Keating <i>API Grain Processing</i> Red Deer, AB	Barry Schmitt <i>Transfeeder Inc.</i> Olds, AB
Stewart Campbell <i>S.J. Campbell Investments Ltd.</i> Cochrane, AB	Patricia Klak <i>Leduc/Nisku EDA</i> Leduc, AB	Dave Schurman <i>Agriculture Financial Services Corporation</i> Lacombe, AB
Robert Church * <i>Lochend Luing Ranch</i> Airdrie, AB	Ed Knash * <i>Alberta Treasury Branches</i> Edmonton, AB	Rick Sears <i>Two-W Livestock Equipment</i> Nanton, AB
Tom Droog * <i>Alberta Sunflower Seeds</i> Bow Island, AB	Alanna Koch * <i>KoHert Agri</i> Edenwold, SK	Ken Stickland <i>KenAgra Management</i> Edmonton, AB
Patrick Durmin * <i>Camas Inc.</i> Kathym, AB	Bernie Kotelko * <i>Highland Feeders Ltd.</i> Vegreville, AB	Ian Strang <i>Strang Management</i> Calgary, AB
Aaron Falkenberg * <i>Skyline Poultry</i> Sherwood Park, AB	Tom Marwick <i>Agriculture and Food Council</i> Nisku, AB	Bryan Yaakov <i>WOW! Factor Desserts</i> Sherwood Park, AB

* denotes Director of the Board

CORPORATE GOVERNANCE

STRATEGIC CHALLENGES AND OPPORTUNITIES

Our Board Strategy Retreat in February provided a review of the opportunities and challenges for Alberta agrivalue growth over the next five years. The Board selected an additional strategic priority for the next three years – Agrivalue Research and Technology Commercialization. AVAC can play a facilitative role in connecting scientists and researchers to industry, leading to successful new commercial opportunities.

BOARD OF DIRECTORS

The Company welcomed Aaron Falkenberg as AVAC's new Board Chair and Bernie Kotelko as Director of the Board at the Annual General Meeting in November 2001. AVAC also thanked Ian Strang, founding Board Chair, for his years of leadership, strategic direction and devoted belief in AVAC.

In addition, AVAC thanked retiring Director Tom Poole for his contributions to building AVAC.

The Board of Directors is kept informed of the Corporation's operations through regularly scheduled meetings of the Board and its Committees and through reports, analysis and discussions with management. During fiscal 2001-02 the Board met on nine occasions:

- > 5 Board Meetings
- > Annual General Meeting
- > 1 Strategic Planning Session
- > 1 Members Event
- > 1 Conference Call

AVAC benefits tremendously from the strategic perspectives shared by its three Ex-Officio Directors:

- > Dan Bader, Deputy Minister, Alberta Innovation and Science
- > Barry Mehr, Deputy Minister, Alberta Economic Development
- > Brian Rhiness, Assistant Deputy Minister, Alberta Agriculture, Food and Rural Development

To maintain high caliber stewardship of the Corporation, the performance of the Board of Directors and the President and CEO is evaluated each year. In 2001-02, the Board Assessment was conducted by Governance West Inc. of Calgary. The results of the assessment are used to facilitate continuous improvement in the effectiveness of the Board to the benefit of the Corporation, its clients and its Members.



*Back row (l-r):
Brian Rhiness, Bernie Kotelko, Alanna Koch,
Ed Knash, Robert Church*

*Front row (l-r):
Tom Droog, Aaron Falkenberg,
Shelley Bradshaw, Patrick Durnin*

*Not shown:
Barry Mehr, Dan Bader*

CORPORATE GOVERNANCE

REMUNERATION OF DIRECTORS

A retainer is paid to all regular Directors for their services as Directors of the Corporation. An additional retainer is paid to Board and Committee Chairs. Directors (other than Ex-Officio Directors) are compensated on a per diem basis for attendance at Board or Committee meetings, or while otherwise engaged in AVAC business at the request of the Corporation.

Board compensation is reviewed on a regular basis by the Board Chair and is also reviewed on an annual basis by the Audit Committee. The Board Chair's compensation and out-of-pocket expenses are approved by the Chair of the Governance and Compensation Committee.

The following is a summary of the compensation paid to all Directors for the fiscal year ended March 31, 2002.

Director Compensation Table

Compensation	Per Year
Director Retainer	\$ 5,000.00 ¹
Retainer for Chair of the Board	\$14,400.00 ²
Committee Chair Fee	\$ 2,000.00
Meeting Fee Attendance	\$ 500.00 per diem or part thereof, for Board or Committee meetings, or while otherwise engaged in AVAC business
Conference Call Meeting Fee	\$ 250.00 ¹
Out-of-Pocket Expenses	Reasonable expenses reimbursed

(1) *In addition to attending regularly scheduled Board meetings, the \$500.00 annual retainer includes participation in up to eight conference call meetings and attendance at up to three functions on AVAC's behalf, on an expense basis only. Conference call meetings in excess of eight are compensated at \$250.00 per meeting. Directors are compensated for travel to meetings held outside their normal place of residence at \$125.00 for up to four hours and \$250.00 for more than four hours.*

(2) *The Board Chair retainer fee includes compensation for Chair duties, including attendance at all Committee meetings. The Chair does not receive additional fees for attending Committee meetings but does receive Board meeting fees and the Director retainer. The Chair also receives a \$500.00 per diem or part thereof while engaged in AVAC's business for any period in excess of the two days a month committed to under the Board Chair retainer.*

COMMITTEES OF THE BOARD

The Board has three standing committees (see below). Each Committee performs certain advisory functions, makes recommendations and reports to the Board as a whole. Committee members are appointed annually, following the Annual General Meeting of Members, on the recommendation of the Corporate Governance and Compensation Committee.

Corporate Governance and Compensation Committee

Members of the Committee are Robert Church (Chair), Bernie Kotelko and Tom Droog.

The Committee met four times during the 2001-02 fiscal year.

Audit Committee

Members of the Committee are Ed Knash (Chair), Alanna Koch and Tom Droog.

The Committee met three times during the 2001-02 fiscal year.

Investment Committee

Members of the Committee are Patrick Durnin (Chair), Shelley Bradshaw, One Director at Large, Keith Jones and Ross Bricker or Corey Keith.

The Committee met four times during the 2001-02 fiscal year.

MANAGEMENT'S COMMENTS ON FINANCIAL STATEMENTS

AVAC's Audited Financial Statements for the financial year ending March 31, 2002, indicate a record level of project disbursements to clients, with a related increase in general and administrative expenditures. Project disbursements direct to clients for the year totaled \$3,535,677 (2001 – \$1,226,392), while general and administrative expenses of \$1,445,331 (2001 – \$1,085,135) came in at 3.4% below budget for the year. The increase in accounts receivable reported on the financial statements is directly attributable to the increase in federal contributions for the third and fourth quarters of the financial year, facilitated by the increase in disbursements to clients.

This year's general and administrative expenses included a one-time unusual expense of \$61,252 relating to a write-down of GST receivable based on a revised ruling by Canada Customs and Revenue Agency. AVAC Ltd.'s addition to net investment in capital assets of \$86,648 includes initial costs for a customized client and project management software system currently under development. Overall, the Corporation's "Mentoring Efficiency" (the ratio of investment approvals to overhead expenditures) has increased; for every dollar of overhead, AVAC is managing \$10.41 of agrivalue investment (2001 – \$9.26).

AVAC Ltd.'s stewardship of its original portfolio fund provided by the Province of Alberta resulted in another positive return of 5.18% over the fiscal year ending March 31, 2002. This rate of return compares favourably with the following representative capital market total return indices over the same period reported by TD Asset Management Inc.:

Scotia Capital 91 Day T-Bills	3.71%
Scotia Capital Mid-term Bond Index	4.79%
TSE 300 Index	4.88%

The AVAC Board is to be commended on their stewardship of the original funding of \$34.8 million received from the Alberta Ministry of Agriculture on March 18, 1997. As a result of this stewardship, AVAC Ltd. has built its operations over five years, has committed over \$15 million to agrivalue growth projects, and at March 31, 2002, held an investment fund with a market value of \$35.5 million.

AVAC's approved budget for the coming 2002-03 financial year anticipates total general and administrative expenses of \$1.54 million, compared to aggregate approvals totaling \$21.5 million, representing a target Mentoring Efficiency ratio of \$13.96 to 1. The establishment of AVAC's full-time staff complement of eight individuals as of April 1, 2002, will dramatically reduce expenses for contract services compared to prior years. The Corporation plans capital expenditures of \$162,500 in the coming year to complete development and implementation of its Client Relationship Management software system.

Given the Corporation's vision, mission and approved uses of funds, AVAC Ltd. has established aggressive goals and targets in its "Measures of Success" for the coming year. These goals and targets are described in AVAC's 2003 Strategic Business Plan, and progress towards these targets is published on the AVAC website at www.avacld.com following their quarterly review and approval by the AVAC Board.

AUDITORS' REPORT

We have audited the statement of financial position of AVAC Ltd. as at March 31, 2002 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants
Calgary, Canada
May 24, 2002

STATEMENT OF FINANCIAL POSITION

March 31, 2002, with comparative figures for 2001

	2002	2001
Assets		
Current assets:		
Cash	\$ 160,689	\$ 47,553
Accounts receivable (note 2)	1,409,870	898,808
Prepaid expenses and deposits	5,910	-
Investment fund (note 3)	34,966,265	36,221,268
Total current assets	36,542,734	37,167,629
Capital assets (note 4)	122,773	67,944
	\$ 36,665,507	\$ 37,235,573
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 186,993	\$ 27,186
Net assets:		
Invested in capital assets	122,773	67,944
Net assets internally restricted for future contracted obligations (note 6)	5,328,230	3,106,398
Unrestricted	31,027,511	34,034,045
Total net assets	36,478,514	37,208,387
Commitments (note 7)		
	\$ 36,665,507	\$ 37,235,573

See accompanying notes to financial statements.

On behalf of the Board:



Aaron Falkenberg
Director



Ed Knash
Director

STATEMENT OF OPERATIONS

Year ended March 31, 2002, with comparative figures for 2001

	2002	2001
Revenue:		
Investment fund income	\$ 2,353,850	\$ 3,029,843
Federal contributions	2,229,344	892,830
Membership	6,100	12,300
	4,589,294	3,934,973
Expenditures:		
General and administrative	1,445,331	1,085,135
Projects (note 5)	3,873,836	1,422,364
	5,319,167	2,507,499
Excess (deficiency) of revenue over expenditures for the year	\$ (729,873)	\$ 1,427,474

See accompanying notes to the financial statements.

STATEMENT OF CHANGES IN NET ASSETS

Year ended March 31, 2002, with comparative figures for 2001

	Capital assets	Unrestricted	Net assets internally restricted for future contracted obligations	2002	2001
Balance, beginning of year	\$ 67,944	\$ 34,034,045	\$ 3,106,398	\$ 37,208,387	\$ 35,780,913
Excess (deficiency) of revenue over expenses	-	-	-	(729,873)	1,427,474
Depreciation of capital assets	(31,819)	-	-	-	-
Distributions to project applicants	-	-	(3,535,677)	-	-
Net adjustments to unrestricted amounts	-	2,837,623	-	-	-
Net additions to capital assets	86,648	(86,648)	-	-	-
Additional projects contracted	-	(5,757,509)	5,757,509	-	-
Balance, end of year	\$ 122,773	\$ 31,027,511	\$ 5,328,230	\$ 36,478,514	\$ 37,208,387

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

Year ended March 31, 2002, with comparative figures for 2001

	2002	2001
Cash provided by (used for):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ (729,873)	\$ 1,427,474
Items not involving cash:		
Depreciation of capital assets	31,819	22,698
Investment income re-invested	(2,353,850)	(3,029,843)
Change in non cash working capital	(357,165)	(686,072)
	(3,409,069)	(2,265,743)
Financing and investing activities:		
Capital assets	(86,648)	(19,318)
Investment fund proceeds	3,608,853	2,284,494
	3,522,205	2,265,176
Increase (decrease) in cash	113,136	(567)
Cash, beginning of year	47,553	48,120
Cash, end of year	\$ 160,689	\$ 47,553

See accompanying notes to financial statements.

AVAC Ltd. ("AVAC" or the "Company") received funding of \$34,808,758 (\$34,944,000 less administrative costs of \$135,242) from the Alberta Ministry of Agriculture, Food and Rural Development (the "Ministry") on March 18, 1997. Upon expiry of the funding agreement on March 31, 2007, AVAC may be required to repay to the Ministry all or a portion of the original funding (together with any income earned from investment thereof) that has not been expended or committed to be expended. AVAC has granted the Province of Alberta a security interest in all of its property.

In accordance with the terms of a Companion Agreement (the "Companion Agreement") AVAC is to receive matching contributions from the Government of Canada up to a cumulative amount of \$10,000,000. These matching contributions were \$2,229,344 for the year ended March 31, 2002 and are \$4,277,657 on a cumulative basis.

AVAC has received favourable income tax rulings from Canada Customs and Revenue Agency concerning the Company's status as a not-for-profit organization.

1. Significant accounting policies:

(a) *General:*

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) *Revenue and expenditure recognition:*

The Company follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income is recognized as revenue when earned.

Project expenditures are expensed as incurred. Some expenditures may result in a future return to the Company in the form of a contingent success-based royalty; such returns are recorded as income in the period received.

(c) *Investment fund:*

Investment purchases are recorded at cost. At year end, the total investment fund is reported at the lower of cost or market value.

(d) *Capital assets:*

Purchased capital assets are recorded at cost. Repairs and maintenance are charged to expense. Improvements, which extend the estimated life of an asset, are capitalized. When a capital asset no longer contributes to the Company's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are depreciated on a straight-line basis using the following annual rates:

Computer equipment	30%
Computer software	50%
Office equipment	10%
Furniture and fixtures	10%
Leasehold improvements	Over the term of the lease

(e) *Comparative information:*

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

2. Accounts receivable:

Accounts receivable consists of Government of Canada contributions due of \$1,348,618 (2001-\$838,719) and GST receivable of \$61,252 (2001-\$60,089).

3. Investment fund:

The investment fund consists of the following portfolio of investments:

	2002 Cost	2002 Market	2001 Cost	2001 Market
Cash and cash equivalents	\$ 7,591,709	\$ 7,558,862	\$ 7,798,333	\$ 7,777,635
Medium term investment fund:				
Federal government bonds	17,954,244	17,736,882	17,633,037	17,864,608
Provincial government bonds	2,814,143	2,851,040	3,295,337	3,367,342
Other bonds	387,545	387,545	347,863	347,863
Canadian equities	4,130,038	5,463,755	5,089,381	6,271,051
Global equities	2,088,586	1,569,497	2,057,317	1,697,215
	27,374,556	28,008,719	28,422,935	29,548,079
Total Investment Fund	\$ 34,966,265	\$ 35,567,581	\$ 36,221,268	\$ 37,325,714

3. Investment fund (continued):

Federal Government bonds mature between June 1, 2003 and June 1, 2023 and bear interest at rates ranging from 5.5% to 8.0%. The Provincial Government bonds mature between June 2, 2004 and November 19, 2010 and bear interest at rates ranging from 4.875% to 6.10%.

Investment income has been recorded net of fees paid for portfolio management in the amount of \$88,270 (2001 – \$88,328).

4. Capital assets:

			2002	2001
	Cost	Accumulated depreciation	Net book value	Net book value
Computer equipment	\$ 95,288	\$ 66,093	\$ 29,195	\$ 19,311
Computer software	58,676	15,336	43,340	3,753
Office equipment	33,749	7,944	25,805	20,307
Furniture and fixtures	36,230	11,797	24,433	24,573
Leasehold improvements	6,220	6,220	–	–
	\$ 230,163	\$ 107,390	\$ 122,773	\$ 67,944

5. Project expenditures:

Project expenditures consist of project disbursements direct to investee clients, and project expenses which include allocated salary and benefits, out-of-pocket expenditures for external consultants and other expenses directly related to projects. Project disbursements are made on the basis of satisfaction of milestone commitments on approved projects. In 2002, AVAC made project disbursements of \$3,535,677 (2001 – \$1,226,392) on total aggregate project approvals of \$15,046,159 (2001 – \$10,047,829). Project expenses in 2002 of \$338,159 (2001 – \$195,972) are associated with projects which have been reviewed, projects with pending approvals contracted and approved projects.

6. Net assets internally restricted for future contracted obligations:

AVAC Ltd. invests in qualifying agrivalue pre-commercial, research and strategic projects based on a progressive series of steps including evaluation and mentoring of investment proposals; approval of project investment based on specific milestones; contracted obligations to disburse funds; and disbursement of funds based on achievement of each milestone. During the year, \$3,535,677 was distributed directly to project applicants.

AVAC has contracted to advance a total of \$11,354,287 of which \$6,026,057 has been advanced to March 31, 2002, with the remaining balance of \$5,328,230 to be advanced in future periods. This remaining advance is contingent on reaching specified milestones as contracted. The financial statements reflect an internal restriction of net assets for the \$5,328,230 which is consistent with the presentation made for the 2001 financial statements.

The table below discloses the aggregate level of AVAC approvals, project obligations and disbursements to date:

Aggregate Project Approvals	\$ 15,046,159
Aggregate Contracted Obligations	\$ 11,354,287
Aggregate Disbursements	\$ 6,026,057
Future Contracted Obligations	\$ 5,328,230

During the year, amounts were transferred from unrestricted net assets to net assets internally restricted for future project obligations of \$5,757,509. These transfers occurred as projects were approved during the year.

7. Commitments:

At March 31, 2002 AVAC is committed to an office lease with minimum monthly lease payments of approximately \$3,800 to February 28, 2004 and approximately \$4,000 from March 1, 2004 to February 28, 2007.

AVAC MANAGEMENT TEAM



*Back row (l-r):
Fae Fillo, Mike Leslie, Corey Keith,
Ross Bricker, Kim McLelland, Keith Jones*

*Front row (l-r):
Scott Gilbert, Tim Keating, Lorna Sexsmith,
Dale Clark*

*Not shown:
Joyce Lencucha*

AVAC'S MISSION IS TO HELP ACCELERATE THE GROWTH OF AGRIVALUE IN ALBERTA

ABBREVIATIONS FROM AVAC'S NETWORK

AAFC	Agriculture and Agri-Food Canada
AAFRD	Alberta Agriculture, Food and Rural Development
AARI	Alberta Agricultural Research Institute
ACIDF	Alberta Crop Industry Development Fund
AED	Alberta Economic Development
AFC / CARDF	Agriculture and Food Council / Canadian Adaptation and Rural Development Fund
AFSC	Agriculture Financial Services Corporation
ALIDF	Alberta Livestock Industry Development Fund
AFPA	Alberta Food Processors Association
AHFMR	Alberta Heritage Foundation for Medical Research
ARC	Alberta Research Council
CCAT	Calgary Council for Advanced Technology
FCC	Farm Credit Canada
ILO	Industry Liaison Office at U of A
IRAP	Industrial Research Assistance Program
LFPDC	Leduc Food Processing Development Centre
NRC	National Research Council
OCCI	Olds College Centre for Innovation
PENCE	The Canadian Protein Engineering Network
U of A	University of Alberta
U of C	University of Calgary
U of G	University of Guelph
U of L	University of Lethbridge
UTI	University Technologies Inc. at U of C
VIDO	Veterinary Infectious Diseases Organization

For further information, please contact us at:



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FINANCIAL RESOURCES

COACHING

KNOWLEDGE

CONTACTS



www.avactd.com
