

# Creating Critical Mass

# AV04



## Management's Discussion and Analysis

Overview of accomplishments  
and corporate growth

## Financial Statements

Fiscal accountability  
for 2003/04

## Partners and Clients

Key members of the  
agrivalue™ team

## Bridging the Gap

A step toward successful  
commercialization

## Stages of Venture

### Development

Client stories representing  
business stages

# Creating Critical Mass in Agrivalue™

# AV04

## Understanding the AVAC Network

The following are common acronyms that are used throughout this annual report.

<b>AAFC</b>	Agriculture and Agri-Food Canada
<b>AAFRD</b>	Alberta Agriculture, Food and Rural Development
<b>AARI</b>	Alberta Agricultural Research Institute
<b>ACIDF</b>	Alberta Crop Industry Development Fund
<b>AED</b>	Alberta Economic Development
<b>AERI</b>	Alberta Energy Research Institute
<b>AFC/CARDF</b>	Agriculture and Food Council/Canadian Adaptation and Rural Development Fund
<b>AFRI</b>	Alberta Forestry Research Institute
<b>AFSC</b>	Agriculture Financial Services Corporation
<b>ALIDF</b>	Alberta Livestock Industry Development Fund
<b>AFPA</b>	Alberta Food Processors Association
<b>AHFMR</b>	Alberta Heritage Foundation for Medical Research
<b>AIF</b>	Alberta Ingenuity Fund
<b>AIS</b>	Alberta Innovation and Science
<b>ARC</b>	Alberta Research Council
<b>CCAT</b>	Calgary Council for Advanced Technology
<b>DLIDF</b>	Diversified Livestock Industry Development Fund
<b>FCC</b>	Farm Credit Canada
<b>IFASA</b>	Institute of Food and Agricultural Sciences Alberta
<b>IRAP</b>	Industrial Research Assistance Program
<b>LFPDC</b>	Leduc Food Processing Development Centre
<b>NRC</b>	National Research Council
<b>OCCI</b>	Olds College Centre for Innovation
<b>PENCE</b>	The Canadian Protein Engineering Network
<b>RSO</b>	Research Services Office at the University of Alberta
<b>U of A</b>	University of Alberta
<b>U of C</b>	University of Calgary
<b>U of L</b>	University of Lethbridge
<b>UTI</b>	University Technologies Inc. at the University of Calgary
<b>VIDO</b>	Vaccine and Infectious Diseases Organization

AVAC Ltd. ([www.avacld.com](http://www.avacld.com)) is an Alberta-based, not-for-profit, private company that invests in innovative ideas that add value to agricultural commodities. AVAC's mission is to build the economic viability of Alberta's agrivalue™ and renewable resource ventures. Created in 1997, AVAC has, to date, committed \$31.3 million to agrivalue initiatives.

### CHAIRMAN

Aaron Falkenberg

### PRESIDENT & CEO

Keith Jones

### AVAC BOARD MEMBERS

Ted Bosse

Shelley Bradshaw

Bob Church

Tom Droog

Aaron Falkenberg

Ed Knash

Bern Kotelko

Neal Oberg

Bob Splane

Rory Campbell (ex-officio)

Ken McCready (ex-officio)

Barry Mehr (ex-officio)

Brian Rhiness (ex-officio)

### AVAC STAFF

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# Table of Contents

## AVAC Mission:



**Chairman's Message**  
Page 2

**President and CEO's Message**  
Page 3

**Active Projects**  
Page 4

**Stages of Venture Development**  
Page 6

**Discovery Stage**  
Page 8

**Seed Stage**  
Page 10

**Proof-of-Concept Stage**  
Page 12

**Management's Discussion  
and Analysis**  
Page 15

**Financial Statements**  
Page 20

**2004/05 Measures of Success**  
Page 27

**Commercial Start-Up Stage**  
Page 28

**Revenue Stage**  
Page 30

**Sales Viability Stage**  
Page 32

**Bridging the Gap**  
Page 34

**Partners**  
Page 36

**Alberta Agriculture  
Funding Consortium**  
Page 37

**Corporate Governance**  
Page 38

**AVAC Members**  
Page 39

**Board Members**  
Page 40

**Staff**  
Page 41

Building  
the  
economic  
viability of  
Alberta's  
agrivalue™  
and  
renewable  
resource  
ventures.

## Chairman's Message

Once again I'm pleased to present our annual report for the year April 1, 2003 to March 31, 2004. Throughout it you will find examples of not only our accomplishments and achievements, but also those of our clients.

We're now in our sixth year of operation and have more than 100 active projects. Our organization has matured to the point where it's appropriate to focus on funding for the future. In looking to the future, we held a groundbreaking strategic planning session in February 2004 with the goal of filling what we've identified as a major gap in the development of agrivalue in Alberta: nurturing companies and products through early commercial start-up.

To better achieve this, we will strengthen and solidify the many partnerships we've formed since our organization was founded (and particularly those formed in the past year) to focus more of our efforts on this crucial business phase.

Partnerships will be more important to us than ever before. Given the success we've had at developing sound business investment processes, organizations, investors and entrepreneurs are increasingly eager to form and strengthen their partnerships with us.

A good example is the interest and excitement we're seeing in a one-of-a-kind Agrivalue Food Processing Incubator Facility we're developing with AAFRD. This \$19-million project will be located in Leduc and will offer fledgling companies production facilities as well as a business support network. Construction begins in the fall of 2004.

AVAC's reputation for success continues to grow. In 2003/04 we reached a major milestone when three AVAC-supported companies began generating royalties.

The past year has been outstanding for AVAC. Our board is gratified to know that AVAC continues to meet the needs of our industry and its progress. Our support has resulted in an additional \$120 million of investment attracted to sound agrivalue projects. Our board, staff and members have worked as a team and done an outstanding job of guiding our organization, and bringing Alberta closer to generating \$20 billion of agrivalue activity by 2010. I'd like to thank all of them.

### **Aaron Falkenberg**

*Chairman, AVAC*

AVAC has committed  
\$31.3 million to  
154 agrivalue projects.



## President and CEO's Message

Since AVAC was formed six years ago, we have often asked ourselves and others: "What is the true potential of value-added agriculture?"

In the past year, we've seen some of the answers emerge. Valued-added agriculture, or agrivalue, has the potential to be a major economic engine and an innovative and progressive industry that attracts the best ideas, people and capital.

This past year AVAC reached critical mass. Our deal flow increased and the growth and depth of our core competencies has given us greater confidence and greater success in developing agrivalue in Alberta. We're seeing more people interested in our programs and services than ever before. Increasingly, investors, entrepreneurs and partners are asking us for advice and new services – in agriculture as well as in technology, energy, forestry, health and medicine – through more of the stages of business development.

We've achieved our success – and helped agrivalue grow – because we've held true to our mission (to build the economic viability of Alberta's agrivalue and renewable resource ventures) as well as our knowledge of the people, processes and resources needed to achieve progress and profits.

Eleven of our clients hit the revenue stage of business development this past year. Three began generating significant royalties. We know more clients can reach these stages, but they will need help bridging the gap that exists in commercializing technology (see page 34).

In the year ahead, we'll focus more of our efforts on helping them across that gap. Our plans for the year ahead – as well as our accomplishments for the past year – are discussed throughout this annual report. To date, AVAC has committed \$31.3 million to 154 agrivalue projects from over 700 proposals received. By 2007 we expect we will have committed \$60 million to agrivalue projects and attracted an additional \$240 million of investment to our sponsored projects.

Our goals and targets are ambitious, but a realistic response to market opportunity by entrepreneurs, clients, investors and partners. We're confident our future performance will be as strong as the past year's.

My thanks to everyone who has propelled our company and our industry forward in the past half dozen years. It is your energy, enthusiasm and confidence that give us so much momentum.

### **Keith Jones**

*President and CEO, AVAC*

# Active Projects Critical Mass

# AV04

Client	Funding approved	Funding disbursed (to March 31, 2004)
<b>ENABLING TECHNOLOGIES</b>		
<b>Agrivalue Food Processing Incubator Facility</b>	<b>\$ 5,000,000</b>	<b>\$ –</b>
Alberta Chambers of Commerce	\$ 42,000	\$ 31,000
ASTech Awards	\$ 73,500	\$ 73,500
EDA Alberta	\$ 25,000	\$ 8,750
Inno-centre Alberta	\$ 500,000	\$ 300,000
<b>Medicine Hat Chamber of Commerce Business Week</b>	<b>\$ 6,000</b>	<b>\$ 500</b>
Olds College Centre for Innovation – Research Capacity	\$ 2,500,000	\$ 543,100
PREDA Development Centre	\$ 25,000	\$ 25,000
SciMed Laboratories Inc.	\$ 296,813	\$ 262,000
SemBioSys Genetics Inc. – Pilot Scale Production of Protein A	\$ 2,500,000	\$ 1,150,000
<b>Tiffin Conference Series 2003</b>	<b>\$ 5,000</b>	<b>\$ –</b>
University of Alberta – Commercial Supercritical Fluid Extraction of Canola	\$ 70,000	\$ –
University of Alberta – Saskatoon Fruit Flavor & Quality	\$ 100,000	\$ 32,934
University of Alberta – Supercritical Fluid Extraction	\$ 66,125	\$ –
University of Alberta – Research Capacity	\$ 1,941,917	\$ 1,389,556
University of Alberta – Seminar Series	\$ 10,000	\$ –
University of Lethbridge – Agricultural Biotechnology	\$ 1,500,000	\$ –
<b>INDUSTRIAL APPLICATIONS</b>		
AFNS – Biopolymers from Oilseeds Research Network	\$ 500,000	\$ 125,000
<b>Agri-Boost Inc.</b>	<b>\$ 25,000</b>	<b>\$ 16,667</b>
<b>BioEnergy Opportunities for Alberta</b>	<b>\$ 10,000</b>	<b>\$ 4,000</b>
<b>BioProducts Showcase 2004</b>	<b>\$ 4,000</b>	<b>\$ –</b>
Canadian Fibretech Ltd.	\$ 313,849	\$ 313,849
Cevena Inc. – Seed Stage	\$ 1,000,000	\$ 1,000,000
G.S. Technology Corporation	\$ 136,150	\$ 78,000
German Bio Products Mission	\$ 28,000	\$ –
<b>Global Forage Alliance</b>	<b>\$ 25,000</b>	<b>\$ 16,750</b>
<b>NAS – Natural Animal Supplements Corporation (a division of V-S Feed Agri Supplies Ltd.)</b>	<b>\$ 23,247</b>	<b>\$ 15,850</b>
Olds Ag-Tech Industries Ltd.	\$ 25,000	\$ 25,000
Outlook Pork Ltd.	\$ 24,000	\$ 16,080
Prairie Tanners Inc. (formerly: P & R Trading)	\$ 227,058	\$ 212,058
Pure Lean Hogs Inc.	\$ 15,000	\$ 15,000
Rebus Corporation	\$ 2,000,000	\$ 700,000
U of A – Beta Glucan Depleted Flour	\$ 82,750	\$ 27,583
U of A – Importance of Beta Glucans to Immune Development in the Weaned Piglet	\$ 38,978	\$ 19,489

Note: Green denotes 2003/04 new clients.

Client	Funding approved	Funding disbursed (to March 31, 2004)
<b>NEW &amp; ENHANCED FOOD PRODUCTS</b>		
<b>AFPA Agrivalue Seminar Series</b>	<b>\$ 3,750</b>	<b>\$ –</b>
Agrivalue Marketing Competition	\$ 15,000	\$ 5,000
Alberta Beef Company	\$ 15,000	\$ 10,050
Alheim Corporation – Idea Builder	\$ 21,225	\$ 21,225
Alheim Corporation – Pre-commercial	\$ 130,350	\$ 130,350
Bashaw Pulse Group	\$ 12,500	\$ 12,500
<b>Ceresan (Hole Ventures Corporation)</b>	<b>\$ 25,000</b>	<b>\$ 16,750</b>
Classic Canning Ltd. (formerly Classic Foods Ltd.)	\$ 88,500	\$ 72,813
<b>EcoAg Initiatives</b>	<b>\$ 25,000</b>	<b>\$ 25,000</b>
Edelweiss Soft Cheese Manufacture Ltd. – Pilot Phase Testing	\$ 30,000	\$ 30,000
Edelweiss Soft Cheese Manufacture Ltd. – Process Planning and Expansion	\$ 28,500	\$ 28,500
Falher Seed Cleaning Plant	\$ 20,000	\$ 20,000
Growing Alberta	\$ 140,000	\$ 140,000
<b>International Food Safety Symposium</b>	<b>\$ 10,000</b>	<b>\$ –</b>
Kinnikinnick Foods Inc.	\$ 232,079	\$ 222,079
<b>Kool Foods Inc.</b>	<b>\$ 25,000</b>	<b>\$ 16,750</b>
KSL Foods Inc.	\$ 25,000	\$ 16,750
Lakeview Bakery	\$ 25,000	\$ 16,750
Lalany's International Meals Inc. (formerly A&G BisonView Ranch)	\$ 25,000	\$ 25,000
<b>Malay King</b>	<b>\$ 362,500</b>	<b>\$ 24,000</b>
New Era Nutrition Inc.	\$ 1,400,000	\$ 200,000
No Bull Marketing (a division of Diversifoods Inc.)	\$ 25,000	\$ 16,750
Nutris Inc.	\$ 25,000	\$ 16,750
<b>Of the Essence Organic Farms</b>	<b>\$ 24,582</b>	<b>\$ 24,582</b>
<b>Orchard Mist Products Ltd.</b>	<b>\$ 25,000</b>	<b>\$ 16,750</b>
<b>Palliser Economic Partnership</b>	<b>\$ 800</b>	<b>\$ 800</b>
Prairie Natural Processing Inc. – Marketing Study	\$ 51,000	\$ 51,000
Prairie Natural Processing Inc. – Product Development	\$ 78,620	\$ 78,620
<b>Tapeko Enterprises Inc.</b>	<b>\$ 19,688</b>	<b>\$ 13,170</b>
<b>Tian Fine Foods Inc.</b>	<b>\$ 25,000</b>	<b>\$ 16,750</b>
<b>TLC Holdings Inc.</b>	<b>\$ 25,000</b>	<b>\$ 16,750</b>
U of A – Development of Prebiotics, Probiotics and Synbiotics	\$ 103,500	\$ –
University of Lethbridge – Edible Oils	\$ 1,200,000	\$ 235,000
Urban Wafer Co. Inc. (formerly MMICODO Management Ltd.) – Expansion	\$ 148,000	\$ 148,000
Urban Wafer Co. Inc. – Packaging Wafer Products	\$ 25,000	\$ 25,000
<b>VitalyTeas Ltd.</b>	<b>\$ 25,000</b>	<b>\$ 16,750</b>
Wheatland Select Organic Turkey Ltd.	\$ 107,800	\$ 80,800
<b>WELLNESS PRODUCTS</b>		
AAFRD – Rosemary Nutraceutical Industry	\$ 32,500	\$ 16,250
AB BioPharma Inc.	\$ 1,250,000	\$ 800,000
CanBiocyn Inc.	\$ 250,000	\$ 250,000
Ceapro Inc. – Beta Glucan	\$ 164,882	\$ 164,882
<b>Ceapro Technology Inc. – AccuScreen</b>	<b>\$ 269,750</b>	<b>\$ 19,750</b>
<b>Cevena Bioproducts Inc. – Proof of Concept Stage</b>	<b>\$ 1,000,000</b>	<b>\$ –</b>
CV Technologies Inc. – Development of the ChemBioPrint Technology Platform	\$ 500,000	\$ 483,333
CV Technologies Inc. – Phase II Clinical Trial CVT-E002	\$ 25,000	\$ 25,000
Natural Farmworks Ltd.	\$ 200,000	\$ 200,000
Qeva Velvet Products Corp.	\$ 40,000	\$ 40,000
SemBioSys Genetics Inc. – Transgenic Production of Antibodies in Plants	\$ 2,384,000	\$ 2,200,000
University of Alberta – Fenugreek	\$ 70,000	\$ 30,000
<b>University of Lethbridge – Disease Fighting Nutraceuticals</b>	<b>\$ 160,000</b>	<b>\$ 40,000</b>

# Stages of Venture Development

# AV04

As a result of its work in agrivalue, AVAC has identified six development stages many agrivalue business start-up firms must go through to become sustainable and successful. While the stages are not necessarily sequential, and while some companies may bypass some stages on their way to economic viability, the chart on page 7 illustrates the challenge faced by new ventures.

## AVAC Ltd. will focus more of its efforts and expertise on creating a “commercialization bridge” to propel agrivalue products and services to economic viability.

The chart indicates the stages as well as the financing, funding sources and product descriptions that are typical at each stage. This model can also apply to venture development in any industry (although the scale of financial and management requirements vary by industry sector).

One of agrivalue’s greatest challenges has been to consistently grow and produce companies able to meet the demands of investors: angels, venture capital and traditional financiers who can assist in the successful commercialization of products to meet consumer demand.

The demand and need for financial capital is one of the single most important factors in a business success or failure. However many investors tell us there is no shortage of capital, rather there is a shortage of “good” deals lead by good management teams. There is a disconnect here that AVAC has investigated further.

The challenge to attract the right capital at the right time has created a significant gap in many businesses’ ability to reach commercialization. For instance, many companies seek venture capital but have neither the expertise nor the corporate infrastructure to qualify for the rigorous due diligence and reporting requirements of venture capitalists. The “commercialization gap” exists at the

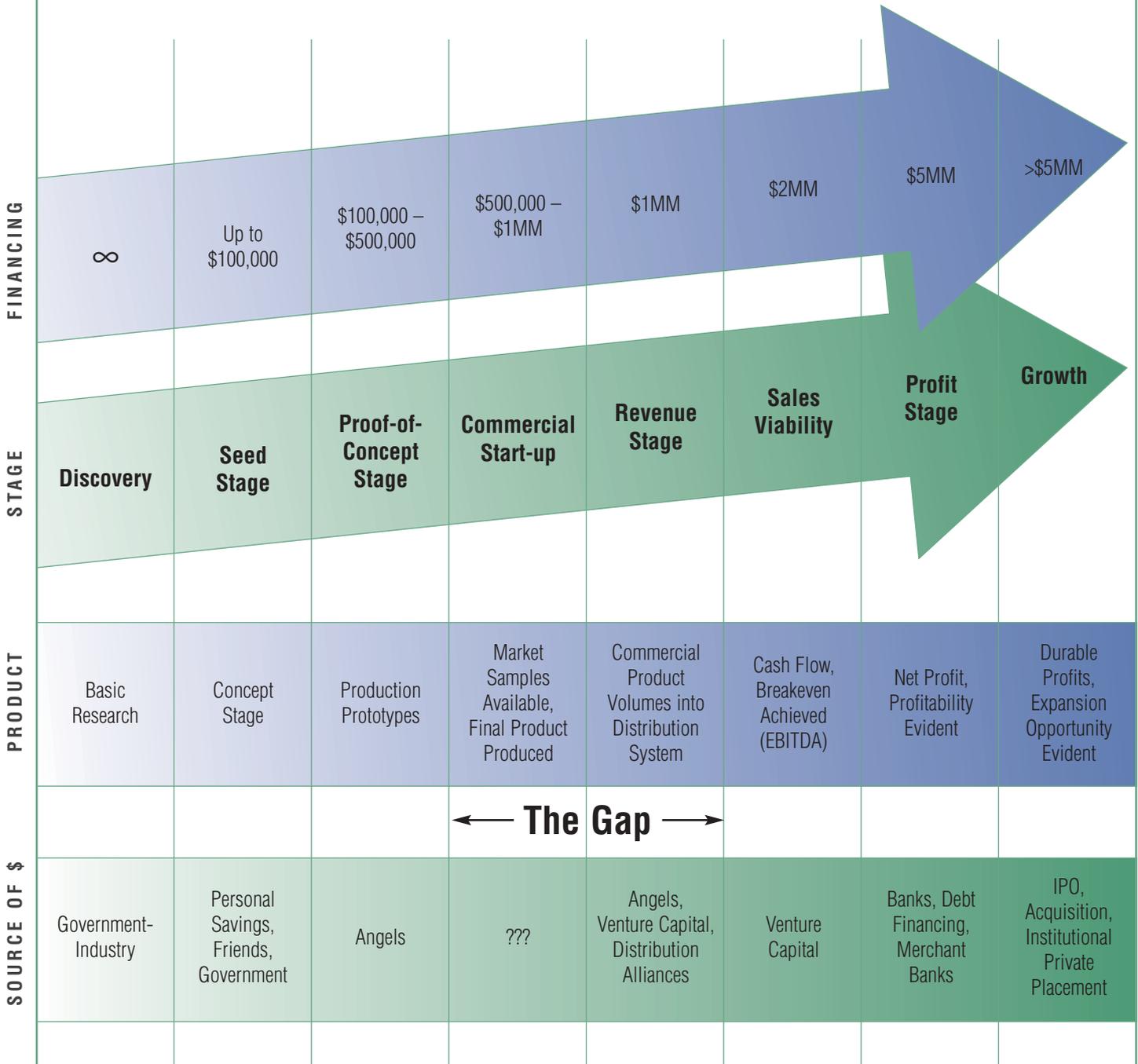
start-up and revenue stages for many types of new ventures; however, in AVAC’s experience the gap is most pronounced for the following types of ventures:

- New start-up or spinoff companies (those without a current revenue stream from other products)

- Companies operating inside mature or commodity industries (those in industries growing at less than 5% per year, even if the company’s business prospects are substantial)
- Companies with moderate revenue potential (less than \$50 million per year)
- Ventures which are unlikely to achieve “venture capital” rates of return of >30% ROI.

While these types of ventures often do not meet the financing “hurdle rates” of either debt or private equity investors, many of them have strong potential for economic viability and commercial success.

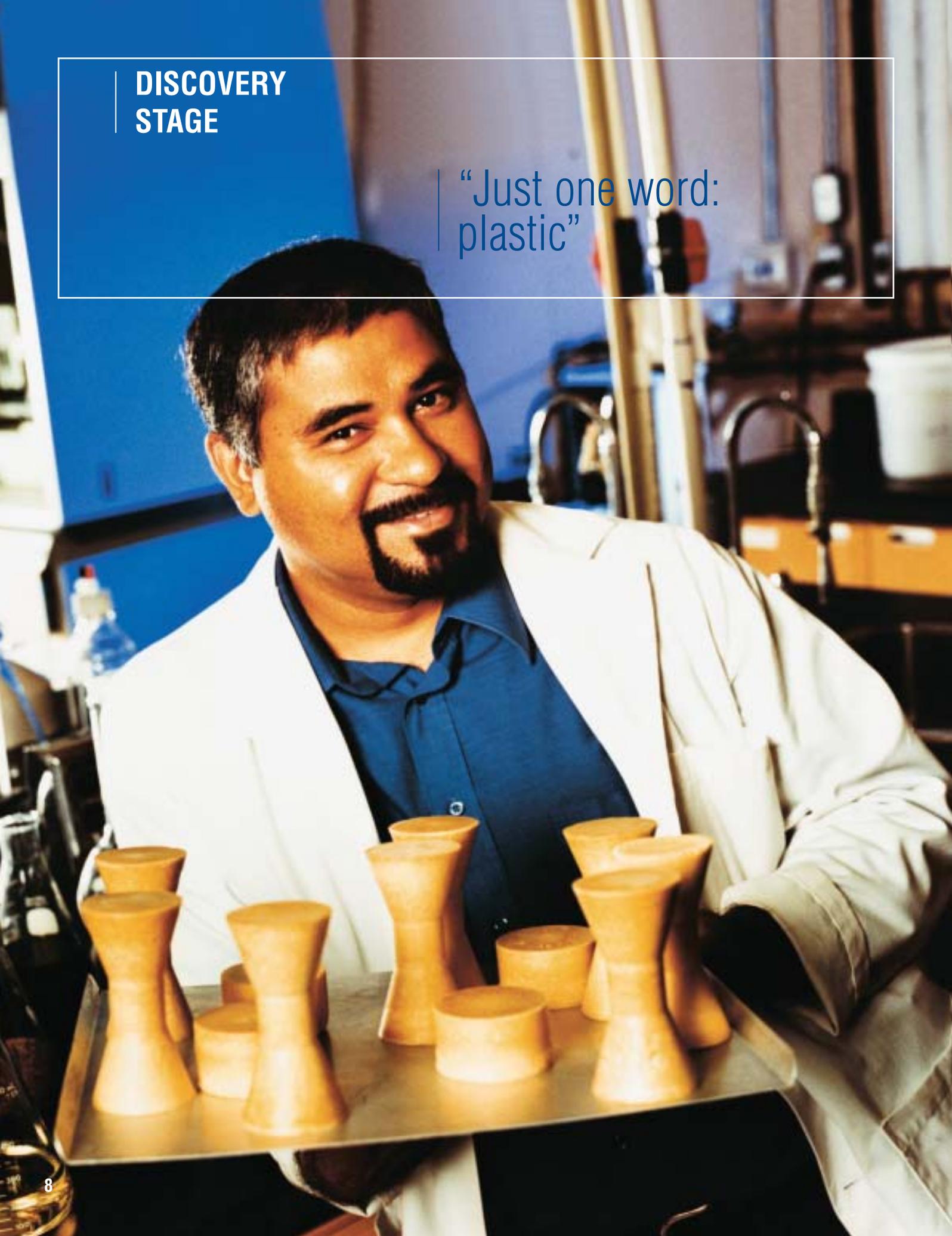
AVAC has already begun engineering the commercialization “bridge”, to help new ventures cross the gap. For example, in June 2004 it brought more than 40 experts together for its Financing Technology Commercialization symposium to discuss the need and the next steps to address those needs (see page 34).



Adapted from Robert Ironside, Learning Dividends Inc.

**DISCOVERY  
STAGE**

“Just one word:  
plastic”





As the demand for plastic grows and fossil fuels become more expensive and harder to find, scientists and manufacturers are searching for new and environmentally friendlier sources of plastics. Dr. Suresh Narine is among them.

In the 1967 movie *The Graduate*, a cocktail party guest gives protagonist Benjamin Braddock (played by Dustin Hoffman), a listless and recent college grad, advice about the direction his future career could take. “Just one word,” says the expansive guest, “plastic.”

Today, polymers are one of the most used materials in the world, used for everything from car parts (replacing steel) to hip joints (replacing bone). The demand for plastic continues to grow, but as fossil fuels – far and away the biggest source of plastic – become more expensive and harder to find, scientists and manufacturers are searching for new and environmentally friendlier sources of plastics.

include the University of Alberta, Alberta Research Council, Alberta Crop Industry Development Fund, Centre for Agri-Industrial Technology, Alberta Agricultural Research Institute, Agriculture and Agri-Food Canada, Environment Canada and Alberta Economic Development.

“The biggest challenge is to take the lab-scale processes we’ve developed and scale them up to produce a quality material and to ensure the cost of production will be competitive,” says Narine from his office at the U of A. “Right now we can’t duplicate all of the properties generated from petroleum-based plastics, but we can duplicate some of them and are working to duplicate more and more of them over time.”

A distinct advantage many bioplastics are expected to have over petroleum-based plastics is biodegradability. Not all bioplastics will have that ability, says Narine, but those that do will hold great market appeal.

From the dumbbell-sized prototypes Narine and his team have so far produced in their lab during the basic research stage,

they eventually hope to manufacture much larger products, such as vehicle bumpers and other automotive parts.

“Because Alberta has a large energy sector, this has great appeal,” says Narine, “because we can produce canola and flax oil every year . . . not the 500 million years it takes to produce petroleum.”

As Narine’s project proceeds to the next stage of venture development, he says his team and investors will be guided by a central principle: balancing the business potential of biopolymers and the parameters of basic research.

“Right now we can’t duplicate all of the properties generated from petroleum-based plastics, but we can duplicate some of them and are working to duplicate more and more of them over time.” – Dr. Suresh Narine

Dr. Suresh Narine is among them. A materials physicist with the Faculty of Agriculture, Forestry and Nutritional Science at the University of Alberta, Narine and a team of researchers are looking for ways to make polymers from Alberta oilseeds, particularly canola and flax.

AVAC helped bring Dr. Narine to Alberta, and supported the establishment of his lab at the U of A. In addition, through its Research and Strategic Initiatives investment program, AVAC invested \$500,000 in Narine’s biopolymer research project. The goal is to develop Alberta-made biodegradable plastics for international markets. Other project investors

SEED  
STAGE

Gaining Confidence  
with Curry





Having made and lost his first fortune in Toronto's real estate market, Fred Wai came to Calgary determined to rebuild his wealth. He began by opening a Malaysian restaurant and quickly discovered his next recipe for success would be the Malay King's secretly blended curry sauces. In order for Wai to get his business out of the kitchen and into retail markets, he turned to AVAC for support with product development and marketing.

When he opened a small restaurant called Malay King in Calgary's Chinatown in 1997, Fred Wai knew little about cooking. Previously the owner of a seat on the Hong Kong Stock Exchange, he was merely trying to regain his financial footing after making, and then losing, a fortune in Toronto's high stakes real estate market.

After seven years of learning about the food industry, he jokingly calls himself an Iron Chef and says he'd like to challenge one of the Japanese cooking show's nationally acclaimed chefs to a culinary duel.

Although highly competitive, business owner Fred Wai says he “doesn't want to play games” when it comes to growing his business. “I want to make sure I do everything right.”

Although highly competitive, Wai is quick to say he “doesn't want to play games” when it comes to growing his business' new product line, which is currently in the seed stage of venture development. “I want to make sure I do everything right.”

Wai has been doing exactly that by methodically studying the ins and outs of commercial-scale cooking and food production in order to protect, develop, market and sell his Malay King curry sauces and food products.

While his past business experience has served him well, he credits AVAC along with AFSC with helping get his new “ready to eat” meals closer to store shelves. (As of March 31, 2004, AVAC had approved, \$362,500 of funding for Malay King's future projects to propel the company, through the proof-of-concept development.)

“Right now I feel very comfortable about my business because with AVAC and AFSC I've been able to build credibility and confidence. Alberta Agriculture and its Food Processing Development Centre in Leduc have also been a great help,” says Wai. “My attitude before was to

underestimate people and try to do everything myself . . . I've learned that I need good advisors and that a business needs teamwork.”

Flavourful and complex, Malay King's sauces are currently sold in a number of major retail food stores. In the coming year Wai expects to increase

overall commercial production as well as introduce 24 new products, including curried beef jerky. Eventually, he plans to open a \$4.6-million production facility.

Wai has come a long way from the dim basement where he originally (and secretly) mixed his first sauces away from the prying eyes of his kitchen staff. “I'm confident now because I know my clients, my products and the industry.”

**PROOF-OF-CONCEPT  
STAGE**

A powerful weapon in a  
“wellness” revolution





As millions of people struggle with lifestyle diseases such as heart attacks and strokes, an Edmonton company is about to break into the market place with a highly concentrated, cholesterol-reducing dietary ingredient. Viscofiber™ could become one of the greatest weapons in the war on artery-clogging fat.

Cevena Bioproducts Inc. is poised to be one of the greatest allies in this nutritional battle. A spin-off company out of the University of Alberta's research program, and currently in the proof-of-concept stage of venture development, Cevena has started to produce a highly viscous, beta glucan concentrate from oats and barley called Viscofiber™. With up to 13 times more fibre than oat bran, Viscofiber's greatest benefit is that it can maintain or help lower cholesterol levels in the bloodstream.

14 leading causes combined. "We don't have all the answers but even a 10% reduction in cholesterol levels could reduce cardiovascular diseases and death by up to 30%."

Viscofiber's patented extraction process was discovered by Drs. Feral Temelli and Thava Vasanthan, researchers of the U of A's Department of Agricultural Food and Nutritional Science. The fibre, which resembles a coarse baking yeast and is natural, kosher and has GRAS (generally

recognized as safe) status in the U.S.A. gives food "mouth feel" without adding fats. It can be used several ways in functional foods including: dietary supplements, nutritional bars, breakfast cereals, soups, beverages, baking, ice cream, yogurt and pasta.

Other investors helping to grow Cevena include Foragen Technologies Management Inc. and the U of A.

"We're bringing this to market just as food companies are scrambling to make their products healthier," says Lucas, who joined the company in May 2003.

The science and potential are so impressive that AVAC has invested \$1 million in Cevena on two different occasions. The first \$1 million was used for enabling technology (fractionation processing of oats and barley) and the second \$1-million approved investment (not yet disbursed as of March 31, 2004) is to complete the proof-of-concept work and move Cevena to the commercial start-up phase.

A revolution of a different sort is coming to North America. It won't involve political intrigue or weapons of mass destruction. And hundreds of thousands of lives will be spared rather than sacrificed. This "harmless" revolt will take place in the diets of millions of people looking for ways to lower their cholesterol and increase their lifespan.

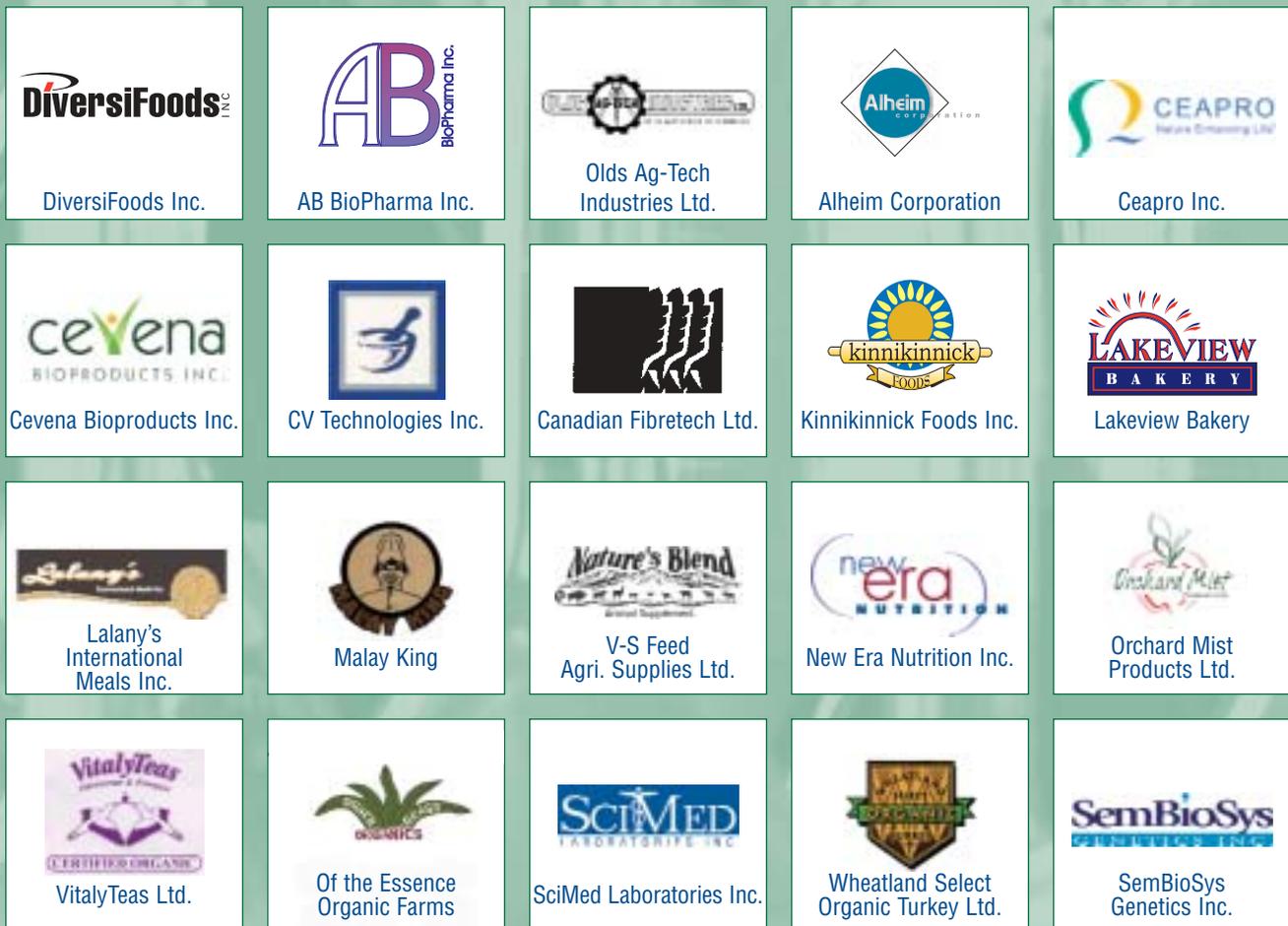
Viscofiber works this way: because it's highly viscous (glutinous or gel-like), it traps bile acid in the gastrointestinal tracts that is produced by the liver. Since trapped bile acids cannot be reabsorbed through the small intestine, some are eventually flushed from the body through the digestive tract. The liver then takes cholesterol out of the bloodstream to reproduce the lost bile acids.

Citing statistics from the American Health Association, Cevena president Kimmo Lucas says cardiovascular disease kills more people in the United States (where Cevena plans to launch Viscofiber) than the next

# | agrivalue: gaining critical mass

AVAC builds the economic viability of Alberta's agrivalue and renewable resource ventures by partnering to unleash value-added innovation.

Here are some of the companies AVAC is assisting to achieve economic viability with their new products and emerging technologies.



# Management's Discussion and Analysis

# AV04

As an industry, agrivalue™ in Alberta continues to grow. During 2003/04, critical mass was attained in projects, new proposals and partnerships.

AVAC itself reached critical mass during its sixth year of operation, reaching record levels of aggregate agrivalue investment and project approvals. We also received our first-ever royalty revenues and set an exciting new strategic direction for the Corporation.

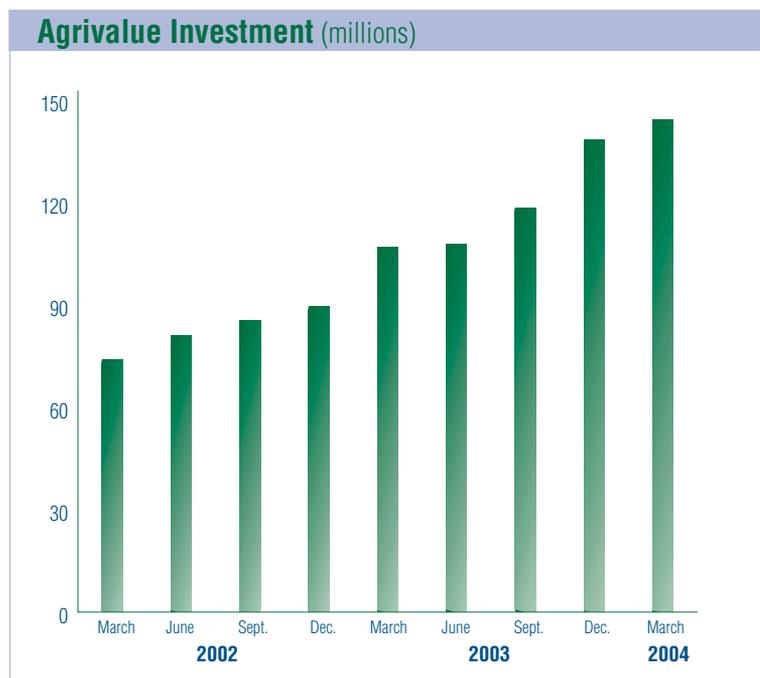
**AVAC's management team is pleased to provide the Corporation's progress on its measures of success for the year ending March 31, 2004.**

### Goals

- Increase agrivalue project quality and quantity
- Move client projects towards commercial success
- Attract financial capital and human resources to agrivalue
- Establish and grow an agrivalue network
- Connect entrepreneurs with the knowledge necessary for success
- Improve access to research capacity for agrivalue
- Build Alberta's technology commercialization capability

### Measures

March 31	Baseline 2003	Actual 2004	Target 2004	Stretch 2005
Aggregate Alberta agrivalue invested (millions)	104.9	144.3	135.8	147.9
Aggregate \$ approved (millions)	24.5	31.3	34.1	38.9
New projects approved	57	35	36	65
Active projects being coached	96	108	102	127
Projects at/entering revenue stage	7	11	12	18
Partner referrals to AVAC	366	330	300	450
Joint science industry projects	56	64	60	70



**Figure 1**

### Highlights for the year include:

- Leveraging AVAC's investment of \$22.2 million in Alberta agrivalue to more than \$144 million
- Reaching all-time highs for approved aggregate funding (\$31.3 million), including \$7.5 million for 35 new deals in 2003/04
- Fostering a record number of joint science/industry projects: 64
- Strengthening our fiscal stewardship by yielding an annual return of 12.75% on our investment portfolio
- Partnering in the development of a one-of-a-kind, \$19-million Agrivalue Food Processing Incubator Facility with AAFRD and Alberta Infrastructure (construction to begin in the fall of 2004)
- Creating BioProducts Alberta, to bring agriculture, forestry and energy industries together to pursue bioproduct opportunities in Alberta
- Receiving our first significant royalties from three clients
- Solidifying stakeholder confidence in AVAC's performance and results, an important step in positioning AVAC to receive and manage additional funding in the future
- Restructuring AVAC's management team to provide higher levels of business coaching and partnership development across the industry
- Refining AVAC's strategic direction, focusing on precommercial projects and increasing the economic viability of agrivalue ventures.

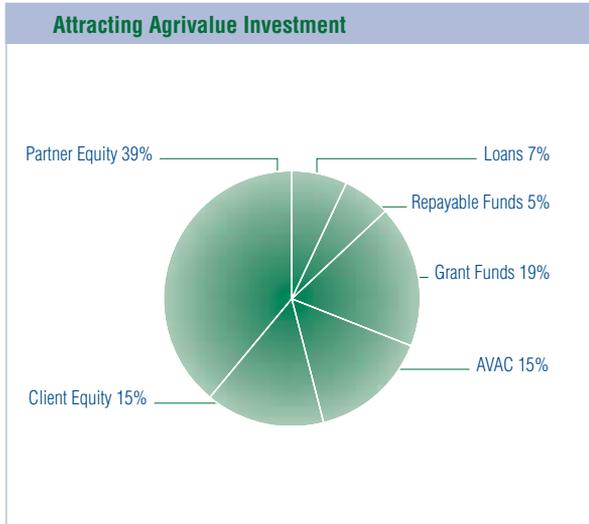
AVAC-catalyzed agrivalue investment in Alberta has surpassed \$144 million.

Our clients' ability to attract capital for their agrivalue ideas reflects their ingenuity, innovation and growing business acumen. In all, our clients have attracted \$144.3 million in investment in their projects (including AVAC's contracted obligations of \$22.2 million). For every \$1 invested by AVAC, \$6.50 has been attracted to agrivalue projects.

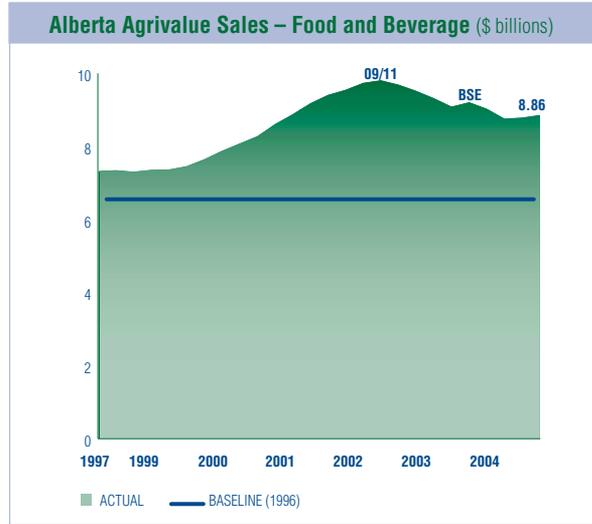
In 2003/04, the demand for AVAC coaching and mentoring increased sharply. We responded to our current clients' needs: in particular, a number of early clients who were completing proof-of-concept projects and seeking the next level of business development. AVAC coaching and mentoring has contributed substantially to our clients' ability to secure additional investment. Two notable examples: the successful second round of financing for the U of A spinoff company, Cevena (see story on page 12), and SciMed Laboratories Inc. capturing Economic Development Edmonton's Venture Prize of \$100,000.

The accelerated rate of agrivalue investment in Alberta over the past two years is illustrated in Figure 1.

It's worth noting that the majority of overall investment in agrivalue projects has come from client and follow-on equity investment. This validates the credible, business-based due diligence and investment decision-making process AVAC uses to evaluate and develop agrivalue projects with strong market potential. The proportion of agrivalue investment by client and other equity contributions is shown in Figure 2.



**Figure 2**



**Figure 3**

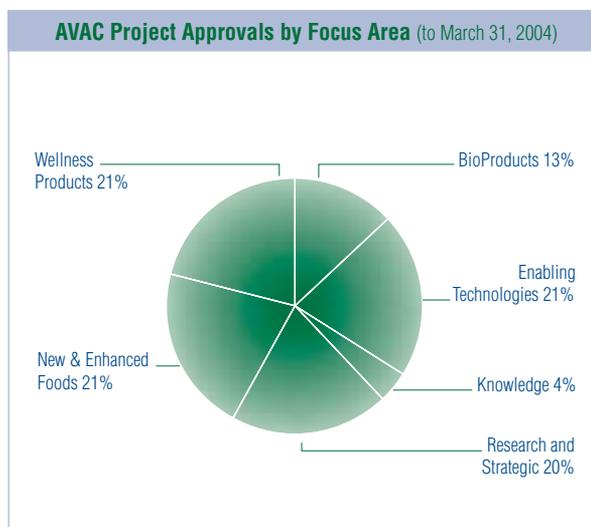
Following a 1996 value-added study, AVAC was created in 1997 to help Alberta achieve its goal of \$20 billion in value-added agriculture economic activity by the year 2010. At that time, the majority of value-added growth was expected to come from food and beverage sales. The past two years have been extremely challenging for value-added agriculture growth in the food sector. Agrivalue sales, shown in Figure 3, have struggled, largely due to issues related to the US economy and market access. For example, the promising growth of agrivalue in 2000 and early 2001 stalled in the fall of 2003 (following the 9/11 terrorist attacks on the United States), and following a single case of Bovine Spongiform Encephalopathy (BSE) in Alberta in May 2003, food manufacturing sales suffered another setback.

Even with these difficulties and challenges, the food sector continues to contribute a share of economic activity in value-added agriculture. Of the \$22.2 million AVAC has contracted for agrivalue growth, new and enhanced food product investments represent 21%. Those investments include support for developing new food products. Indeed, our commitment of \$5 million in the new Agrivalue Food Processing Incubator Facility at Leduc is AVAC's largest single commitment to date. This \$18-million facility is an important addition to Alberta's innovation capacity and will help kickstart new food processing ventures when completed in the fall of 2005 (construction will begin in the fall of 2004). AVAC is pleased to join AAFRD and Alberta Infrastructure as one of the founding partners in this initiative.

Alberta's goal of generating \$20 billion of agrivalue activity by 2010 is ambitious, and AVAC is encouraged by the province's progress toward it. Of course, value-added agriculture is more than food, and new sectors are playing an increasingly important role in its growth. AVAC sees tremendous growth potential in market opportunities that connect agriculture with other industry sectors (see Figure 4, page 18). For example, bioproducts connect agriculture with the forestry and energy industries; wellness products such as nutraceuticals and cosmeceuticals connect agriculture to health and medicine.

In 2003/04, AVAC did not reach its target of \$34.1 million in aggregate investment approvals (actual measure: \$31.3 million). Given the depleted deal flow funnel at the end of 2003, we feel approving a total of \$7.5 million in new projects was a satisfactory achievement. Our ability to seek and develop new deals was constrained by our current clients' high demand for our managerial coaching and assistance.

The slower-than-expected pace of disbursements experienced last year has persisted, with delays going back to the 2002/03 financial year of more than \$3 million in disbursements to clients such as the U of A, the U of L and the OCCL, among others. Ongoing difficulties in contracting approved deals and receiving timely, accurate reports were a challenge with clients working in the discovery (research) stage of business development. We are working with such clients in partnership with the Agriculture Funding Consortium to address these issues.



**Figure 4**

Agrivalue is more than food... of \$22.2 million contracted by AVAC, food projects are only 21% of total investment.

AVAC continues to strengthen and enhance its corporate and administrative control systems, procedures and policies. In 2003/04, AVAC engaged Gowlings Lafleur Henderson LLP to assist the Corporation in meeting the requirements of the Personal Information Protection Act (PIPA), effective in Alberta on January 1, 2004. Given AVAC's role in fostering partnerships while ensuring confidentiality and privacy, this is an important core competency to master. Full implementation of AVAC's new Privacy Policy is expected early in 2004/05.

Our new client relationship management system, known as the AVAC CRM, was installed in January 2004, and our legacy data has been entered. Following significant redesign, testing and modification to ensure it supports AVAC's specific investment policies, procedures and reporting requirements, the system went live in April 2004. We anticipate the AVAC CRM will help: streamline deal flow management; monitor and track milestones, reports and royalties; and more fully engage and coach existing clients.

AVAC's increased focus on agrivalue technology commercialization resulted in contributions to the following initiatives in the past year:

- Agrivalue Food Processing Incubator Facility
- European SMART Foods Tour and BioEnergy Mission
- Ag Funders Consortium and the Agrivalue Business Facilitators partnerships

- establishing strategic research networks including BioProducts Alberta and the Alberta Biopolymer Network
- participating in access-to-capital initiatives including Inno-centre Alberta, the Kieretsu Forum and the Alberta-California Venture Channel
- commissioning the BioEnergy Opportunities for Alberta study with AARI, AERI, AFRI, AAFRD and BioProducts Alberta
- the Federal BioProducts Technology Roadmap
- the Alberta Value-Added Strategy
- progress on implementation of the Alberta Agriculture Research and Innovation Strategic Framework, including significant input regarding IFASA.

These strategic initiatives have potential to enhance technology commercialization in Alberta as well as facilitate industry collaboration and partnerships.

Our communications program yielded satisfactory results, triggering more than 100 media stories about our client's accomplishments and successes. In addition to our Annual General Meeting, we held three members' dinners, distributed three members' newsletters and saw members engage in record numbers in AVAC activities.

We participated in 17 knowledge initiatives over the past year, including: the ASTech Awards; the BioProducts Showcase; the Harvest Gala; the launch of the AV03 and Reach and Discover magazines with our

AVAC has achieved a critical mass of agrivalue projects, corporate competencies, partnerships and teamwork, which position it well to deliver AVAC's vision and mission.

**AVAC Mission:** Building the economic viability of Alberta's agrivalue and renewable resource ventures.

**AVAC Vision:** AVAC is a respected and valued partner in unleashing value-added innovation.

Ag Funding Consortium partners; and the International Food Symposium. We continue to receive very favourable feedback about our Web site, and are committed to making it even more valuable and informative for our clients and network. As well, our stakeholder relations strategy will further engage our members and partners in stimulating and replenishing our deal flow funnel and "building the agrivalue bridge."

In February 2004, AVAC's Board and staff held a planning retreat to establish a new three-year Strategic Business Plan for the Corporation. This plan (which is available on request) anticipates that by March 2007 AVAC will have:

- invested in more than 65 precommercial projects
- committed \$60 million to sound agrivalue projects
- attracted total investment of \$300 million to value-added agriculture in Alberta.

The priorities of the 2004 Strategic Business Plan are:

- establish an agrivalue commercialization bridge that takes clients from the idea stage through market entry; foster growth by creating a new start-up program to help agrivalue products enter the market
- increase focus on "patient capital" seed, proof-of-concept and commercial start-up stage programs with companies; with research funding and capacity needs being served by other agencies, AVAC will focus on helping agrivalue companies achieve economic viability

- moving clients towards commercial success by increasing the financial and human capital attracted to good agrivalue projects; private investment must fuel the majority of technology commercialization
- strengthen long-term sustainability by refining royalty agreements with clients, and secure additional funding to ensure agrivalue growth to 2010 and beyond; as needed, form new regional and sectoral partnerships
- improve technology commercialization of discovery research.

In summary, AVAC continues to provide valuable contributions to our clients and strategic partners, despite the challenges associated with new deal flow and increased demand for coaching and strategic consultation. Throughout this annual report are stories about our clients' successes in various stages of business development – and how AVAC is assisting them.

Our organization responded well to the past year's restructuring of the management team and has welcomed a new staff member, Nikki Barnes.

## 2004 Financial Statements

# AV04

### Management Comments on Financial Performance

AVAC's Audited Financial Statements for the financial year ending March 31, 2004 demonstrate continued deal flow growth and solid financial performance. Total aggregate project approvals reached a new record at \$31.3 million (2003 – \$24.5 million). Project disbursements direct to clients for the year totalled \$2.61 million, a decrease of 45% from the previous year (2003 – \$4.74 million) due primarily to delays in contracting approved research and strategic investments. General and administrative expenses for the year totalled \$1.46 million, which although an increase from last year (2003 – \$1.37 million), was 13% below budget. Overall, the Corporation's "Mentoring Efficiency" (the ratio of investment approvals to overhead expenditures) has increased: for every dollar of overhead, AVAC is currently managing \$21.45 of agrivalue investment (2003 – \$17.88 million) for each dollar of overhead expended.

The 2003/04 Statement of Operations reports AVAC's first ever royalty income. While the revenue amount is relatively modest at \$53,288, this represents royalties from three clients who have now achieved a degree of sales viability with their AVAC-enabled products. AVAC anticipates steady growth of royalty revenues, and expects royalty revenues in excess of \$150,000 for the 2004/05 financial year.

AVAC continues to be in a strong asset position thanks to positive investment returns, and prudent fiscal management. AVAC ended the year with Unrestricted Net Assets of \$24.4 million. There remains an additional \$9.1 million in approved investments which have yet to be contracted; this means the approximate amount of "uncommitted" funds is \$15.3 million. The Companion Agreement between Canada and Alberta of \$10 million, which expired March 31, 2003 was extended by way of agreement, and AVAC anticipates accessing the balance of

\$0.87 million from Agriculture and Agri-food Canada in the 2004/05 financial year. AVAC has entered into discussions with various Alberta and Canada funding stakeholders to raise an additional \$35 million in seed capital to enable the Corporation to implement its revised strategic direction, and ensure long-term sustainability.

AVAC's fund portfolio performed well due to recovering equity markets and strong bond values, yielding an annualized return of 12.75% over the fiscal year. In compliance with the corporation's investment policy, at year end the market value of fund portfolio of \$33.5 million was invested primarily (62%) in domestic fixed income bond instruments, with 24% invested in equities and 14% held in cash and money market instruments. The portfolio's return compares reasonably with the following representative capital market total return indices over the same 12-month period, as reported by TD Asset Management Inc.:

Scotia Capital 91 Day T-Bills	3.00%
Scotia Capital Bond Universe	10.78%
S&P / TSE Composite Index	37.73%

AVAC's approved budget for the 2004/05 financial year anticipates total general and administrative expenses of \$1.87 million, compared to aggregate approvals totalling \$35.1 million, representing a target mentoring efficiency of \$18.77 to \$1. The Corporation anticipates increasing its core staff complement through the operating year to implement the revised strategic direction approved by the Board in April 2004. AVAC's goals, measures and targets are described in AVAC's 2005 Strategic Business Plan, and progress towards these targets is published on the AVAC Web site at [www.avactd.com](http://www.avactd.com) following their quarterly review and approval by the AVAC Board.

## Auditor's Report to the Members

We have audited the statement of financial position of AVAC Ltd. as at March 31, 2004 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The logo for KPMG LLP is written in a stylized, handwritten blue font. The letters 'K', 'P', 'M', 'G', 'L', 'L', and 'P' are connected and slanted to the right.

Chartered Accountants

Calgary, Canada

June 2, 2004

## Statement of Financial Position

At March 31, 2004, with comparative figures for 2003

	2004	2003
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 84,093	\$ 339,081
Accounts receivable (note 2)	1,960,152	2,581,407
Prepaid expenses and deposits	5,910	9,133
Investments (note 3)	31,342,938	31,254,702
Total current assets	33,393,093	34,184,323
Capital assets (note 4)	198,263	243,651
	<b>\$ 33,591,356</b>	<b>\$ 34,427,974</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 174,082	\$ 218,438
<b>Net assets:</b>		
Invested in capital assets	198,263	243,651
Net assets internally restricted for future contracted obligations (note 5)	8,824,731	8,578,858
Unrestricted	24,394,280	25,387,027
Total net assets	33,417,274	34,209,536
	<b>\$ 33,591,356</b>	<b>\$ 34,427,974</b>

See accompanying notes to financial statements.

On behalf of the Board:

  
**Aaron Falkenberg**  
 Director



**Bern Kotelko**  
 Director

## Statement of Operations

Year ended March 31, 2004, with comparative figures for 2003

	2004	2003
<b>Revenue:</b>		
Federal contributions	\$ 1,853,755	\$ 3,018,199
Royalty income	53,288	-
Investment fund income	1,754,841	1,481,083
Membership	5,300	7,000
Loss on disposal of capital assets	-	(113)
Write-down of investments to market value	-	(132,982)
	<b>3,667,184</b>	<b>4,373,187</b>
<b>Expenditures:</b>		
General and administrative	1,459,595	1,369,712
Projects (note 6)	2,999,851	5,272,453
	<b>4,459,446</b>	<b>6,642,165</b>
<b>Excess of expenditures over revenue</b>	<b>\$ (792,262)</b>	<b>\$ (2,268,978)</b>

See accompanying notes to the financial statements.

## Statement of Changes in Net Assets

Year ended March 31, 2004, with comparative figures for 2003

	Capital assets	Unrestricted	Net assets internally restricted for future contracted obligations	2004	2003
Balance, beginning of year	\$ 243,651	\$ 25,387,027	\$ 8,578,858	<b>\$ 34,209,536</b>	\$ 36,478,514
Excess of expenditures over revenue	—	(792,262)	—	<b>(792,262)</b>	(2,268,978)
Depreciation of capital assets	(152,329)	—	—	—	—
Distributions to project applicants	—	—	(2,607,677)	—	—
Net adjustments to unrestricted amounts	—	2,760,006	—	—	—
Additions to capital assets	106,941	(106,941)	—	—	—
Additional projects contracted	—	(2,853,550)	2,853,550	—	—
Balance, end of year	\$ 198,263	\$ 24,394,280	\$ 8,824,731	<b>\$ 33,417,274</b>	\$ 34,209,536

See accompanying notes to financial statements.

## Statement of Cash Flows

Year ended March 31, 2004, with comparative figures for 2003

	2004	2003
<b>Cash provided by (used for):</b>		
<b>Operating activities:</b>		
Excess of expenditures over revenue	\$ (792,262)	\$ (2,268,978)
Items not involving cash:		
Depreciation of capital assets	152,329	60,990
Investment income re-invested	(1,754,851)	(1,481,083)
Write-down of investments to market value	—	132,982
Change in non-cash working capital	580,122	(1,143,315)
	<b>(1,814,662)</b>	<b>(4,699,404)</b>
<b>Financing and investing activities:</b>		
Capital assets acquired	(106,941)	(181,868)
Investment fund proceeds	1,666,615	5,059,664
	<b>1,559,674</b>	<b>4,877,796</b>
<b>(Decrease) increase in cash</b>	<b>(254,988)</b>	<b>178,392</b>
<b>Cash, beginning of year</b>	<b>339,081</b>	<b>160,689</b>
<b>Cash, end of year</b>	<b>\$ 84,093</b>	<b>\$ 339,081</b>

See accompanying notes to financial statements.

## Notes to Financial Statements

Year ended March 31, 2004, with comparative figures for 2003

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") which expired March 31, 2003 and was extended by way of agreement, AVAC was to receive contributions on a matching basis from the Government of Canada up to a cumulative amount of \$10,000,000. These matching contributions were \$1,837,900 for the year ended March 31, 2004 and amounted to \$9,133,756 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:

The financial statements of AVAC have been prepared by management in accordance with Canadian generally accepted accounting principles for not for profit organizations. A precise determination of many assets and liabilities is dependent upon future events and consequently the preparation of periodic financial statements necessarily involves the use of estimates and approximations. Those estimates also affect the disclosure of contingencies at the date of financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

#### (a) 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.

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.

#### (b) Investment fund:

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

#### (c) 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

### 2. Accounts receivable:

Included in accounts receivable are Government of Canada contributions of \$1,839,441 (2003 – \$2,481,444) and GST receivable of \$120,711 (2003 – \$99,963).

### 3. Investments:

Investments consists of the following portfolio:

	2004 Cost	2004 Market	2003 Cost	2003 Market
Cash and cash equivalents	\$ 4,624,388	\$ 4,620,956	\$ 4,368,464	\$ 4,350,203
<b>Medium term investment fund:</b>				
Federal government bonds	9,922,263	10,147,753	12,472,843	12,463,941
Provincial government bonds	6,531,130	6,658,413	3,993,334	4,080,642
Other bonds	3,777,106	3,885,436	4,031,718	3,973,478
Canadian equities	4,338,252	6,504,804	4,238,544	5,144,572
Global equities	2,149,799	1,709,629	2,149,799	1,241,866
	<b>26,718,550</b>	<b>28,906,035</b>	26,886,238	26,904,499
<b>Total Investment Fund</b>	<b>\$31,342,938</b>	<b>\$33,526,991</b>	\$ 31,254,702	\$ 31,254,702

The Federal Government bonds mature between September 1, 2006 and June 1, 2012 and bear interest at rates ranging from 4.1% to 5.75%. The Provincial Government bonds mature between March 8, 2005 and June 2, 2013 and bear interest at rates ranging from 4.75% to 6.25%. Investment income has been recorded net of fees paid for portfolio management which amounted to \$85,539 (2003 – \$86,374).

### 4. Capital assets:

	Cost	2004 Accumulated depreciation	Net book value	2003 Net book value
Computer equipment	\$ 138,742	\$ 99,779	\$ 38,963	\$ 26,788
Computer software	297,526	180,018	117,508	168,938
Office equipment	36,294	14,960	21,334	23,493
Furniture and fixtures	39,364	19,457	19,907	23,745
Leasehold improvements	7,046	6,495	551	687
	<b>\$ 518,972</b>	<b>\$ 320,709</b>	<b>\$ 198,263</b>	\$ 243,651

### 5. 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, \$2,607,677 was distributed directly to project applicants.

AVAC has contracted to advance a total of \$22,193,940 of which \$13,369,209 has been advanced to March 31, 2004, with the remaining balance of \$8,824,731 to be advanced in future periods. This remaining advance is contingent on specified milestones being reached as contracted. The financial statements reflect an internal restriction of net assets for the \$8,824,731 for this purpose.

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

Aggregate Project Approval	\$ 31,301,251
Aggregate Contracted Obligations	\$ 22,193,940
Aggregate Disbursements	\$ 13,369,209
Future Contracted Obligations	\$ 8,824,731

During the year, amounts were transferred from unrestricted net assets to net assets internally restricted for future project obligations of \$2,853,550.

These transfers occurred as projects were approved during the year.

**6. 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 2004, AVAC made project disbursements of \$2,607,677 (2003 – \$4,735,475) on total aggregate project approvals of \$31,301,251 (2003 – \$24,515,491). Project expenses in 2004 of \$392,174 (2003 – \$536,978) are associated with projects which have been reviewed, projects with pending approvals, and approved projects.

**7. Financial instruments:**

Financial instruments of AVAC include cash, accounts receivable, investments, and accounts payable and accrued liabilities.

The fair values of financial instruments excluding investments approximate their carrying value due to the short-term nature of these instruments.

The fair value of investments is disclosed in note 3.

AVAC's accounts receivable are due from the federal government and therefore do not carry increased credit risk.

**8. Commitment:**

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

# AVAC

## 2004/05 Goals:

Establish agrivalue commercialization bridge

Increase pre-commercial projects

Develop greater long-term sustainability

Move clients towards commercial success

Increase financial and human capital attracted to agrivalue

Improve technology commercialization from research in agrivalue

# AVAC

## Performance Measures:

	<b>BASELINE MARCH 2004</b>	<b>TARGET MARCH 2005</b>	<b>STRETCH MARCH 2007</b>
Aggregate Alberta agrivalue invested (millions)	144.3	175	300
Aggregate \$ approved (millions)	31.3	35.1	60
Aggregate number of pre-commercial approvals	33	44	65
Active projects being coached	108	132	160
Projects at/entering revenue stage	11	17	30
Partners engaged in the agrivalue bridge	53	82	102
Joint science industry projects	64	65	75

**COMMERCIAL  
START-UP  
STAGE**

| Determined to succeed,  
| bound to change





Companies that fail to change often fail. Because Canadian Fibretech Inc. has been determined to succeed, it has changed to adapt to ever fluctuating market conditions and demands. Today the company has reached commercial start-up and expects to keep changing – for the better.

At one time in business, change was considered occasionally. Today it's considered every day – and the company that fails to change often fails.

Determined to succeed, Canadian Fibretech Inc. has tackled many changes since it was formed with foreign direct investment from Australia. Two of the biggest have been how it makes its products and what it uses to make them.

## To help Canadian Fibretech gear up for commercial production, AVAC invested \$313,849 to develop a prototype in-feed system that would help deal with biomass of varying moisture content and consistency.

Located in Forestburg, Alberta, Canadian Fibretech envisioned producing a line of “greenboards,” fibreboards made from canola, barley and wheat straw and wood waste using a non-toxic resin. Two years ago such waste products were cheap and abundant; sometimes it cost more to ship them than it cost to buy them.

But such raw materials presented other problems to Canadian Fibretech: the company had no way of controlling their moisture content. Moist fibres produced more steam during production, which could create enough pressure to split the boards wide open.

To help the company gear up for commercial production, AVAC invested \$313,849 to develop a prototype in-feed system that would help deal with biomass of varying moisture content and consistency.

“AVAC’s support gave us the ability to use multiple source raw materials in our plant,” says general manager Dave Shields.

But in mid-2003, just as Canadian Fibretech was engineering and redesigning its equipment and was becoming able to produce new kinds of fibreboard, the marketplace changed. Suddenly barley and wheat straw became more sought-after (and expensive) commodities. Wood waste

followed suit as businesses realized that what they once considered byproducts to be disposed of as waste could generate revenue or be used to create other products.

“Now we’re struggling to find new sources of affordable raw materials,” says Shields, who is confident he will find them. Should the market supply and demand for waste agricultural materials turn around Canadian Fibretech is ready.

These changes and challenges, however, haven’t kept Canadian Fibretech from reaching commercial production. Using wood chips and shavings from mills and furniture makers, the company currently makes a standard wood particleboard, the majority of which goes to a client in the United States for industrial- and commercial-grade shelving.

Shields says the company fully expects to keep changing. “We’re working to find new sources of materials to incorporate into our products, and the AVAC supported in-feed system has made this possible.” Plus, he expects to add at least one full shift to Canadian Fibretech’s production schedule.

**REVENUE  
STAGE**

Giving consumers  
what they want





Both loyal and demanding, Kinnikinnick Foods' clients are one of the main reasons the Edmonton-based producer of gluten-free baked goods is now selling its goods on store shelves all across North America.

When Kinnikinnick Foods Inc. of Edmonton signed an agreement in May 2004 with U.S.-based Tree of Life/Gourmet Award Foods to distribute Kinnikinnick's baked goods across North America, company president Jerry Bigam was quick to credit his customers for making the deal happen.

"Our customers have become our best salespeople," says Bigam, recalling a group of parents in Phoenix, Arizona who marched into a local food chain store and demanded it carry Kinnikinnick's products so their children could have gluten-free bread and bakery goods. Bigam has similar stories from clients and stores across the continent.

That pull comes from a growing legion of people with special dietary needs. Kinnikinnick customers often have a gluten-intolerant condition called Celiac disease, are children with autism or, more recently, are diabetics. Increasingly, Kinnikinnick customers are seeking alternative foods. What they share is a desire to eat fresh baked goods that "don't taste like the bottom of a pizza box."

A taste of Kinnikinnick's products – bread, bagels, donuts, muffins, buns and cake mixes – quickly reveals they taste like anything but. Indeed, Kinnikinnick's best selling products, a white sandwich bread that is gluten-free and dairy-free and was originally developed

through an AVAC-assisted research project for autistic children, had to "survive the brown-bag test" before going to market. That meant the bread had to make it to school intact in kids' lunches and kids had to enjoy eating it.

Developing Kinnikinnick's recipes –

which mainly use rice, tapioca and pea starches instead of traditional wheat flour – was a long and complex process. AVAC's funding (of the \$232,079 approved, \$222,079 has already been disbursed as of March 31, 2004) was "a bright light that allowed us to do what we do," says Bigam. "As a medium-sized company, it's hard for us to generate research and development dollars."

Today, Kinnikinnick's biggest challenge is meeting the demands of growth. Historically the company, formed in 1991, has grown 60% to 80% annually. In 2004 it expects to grow at double that rate, true success indeed.

Reaching the revenue stage of venture development is so much easier "when you have market pull," says Jerry Bigam, CEO of Kinnikinnick Foods. "Our customers have become our best salespeople."

Kinnikinnick initially built its customer base through a storefront in Edmonton and an e-business operation which has since become one of the largest of its kind in North America with 25,000 customers and next-day delivery. Kinnikinnick's deal with Tree of Life/Gourmet Award Foods could see the company's products in as many as 10,000 stores in the United States.

Reaching the revenue stage of venture development is so much easier, says Bigam, "when you have market pull."

**SALES VIABILITY  
STAGE**

Taking out  
the wrinkles





Both literally and figuratively, Ceapro has faced more than a few wrinkles since it was formed in 1998. Among other things, its beta glucan and colloidal extracts are used in wrinkle-reducing creams and cosmetics. The company also had to deal with the inevitable wrinkles that come with getting products to market. But as one of the three companies now paying royalties to AVAC Ltd., Ceapro has proven it knows how to “iron out the wrinkles.”

In 2003, Ceapro Inc. – an Edmonton-based company that produces and markets plant extracts for cosmetics, nutraceuticals, wellness products and animal health products – reported its best year ever. It launched two products – Avena-Lipid and Drago-Calm; recorded total revenues of \$2.42 million; increased net income by 281%; paid royalties to AVAC Ltd.; and successfully completed private placement financing.

Only five years before (a year after start-up and the launch of a dog shampoo for the Japanese market), the company survived a near-death experience: a critical need for funding.

“Our science is based on medicine,” says Redmond. “Our colloidal oat extract helps restructure skin and promotes skin growth and healing. In intact skin, it can reduce wrinkles.”

In a company committed to reducing wrinkles, Ceapro also had to iron out the business operating wrinkles that inevitably emerge during development. From 2000 to 2002, Ceapro concentrated its efforts on scaling up for commercial production and sales, improving its products, and rebuilding the company, making it stronger and more appealing to investors.

“In 1999 an investment from AVAC (of \$164,882) allowed us to produce our active ingredients in commercial quantities, which allowed us to open our markets.” – Dr. Mark Redmond, president, Ceapro

“We had our research and development down, but needed to complete our proof of concept and further develop our products for the market,” says Ceapro president Dr. Mark Redmond. “In 1999 an investment from AVAC (of \$164,882) allowed us to produce our active ingredients in commercial quantities, which allowed us to open our markets.”

From the beginning, Ceapro’s ideas and technology have been based on oats, or more specifically oat extracts. Its colloidal oat extract – a natural anti-irritant and redness-reducing agent – is used in baby care and animal health products. Its beta glucan extract – which stimulates immune systems and heals wounds – is used in products ranging from burn treatments used in hospitals to over-the-counter after-sun lotions.

With its earlier woes behind it, Ceapro found steady growth. Each year, company revenue grew as did its markets in Canada, Japan and Australia.

In 2002, Ceapro was given the Agrivalue New Venture Award of Distinction at the 11th annual Alberta Business Awards of Distinction. The company is currently traded on the Canadian TSX Venture Stock Exchange (TSX: CZO).

Today, Ceapro is a model example of how Alberta agrivalue companies can successfully compete in global markets. The company is paying royalties to AVAC based on its 1999 investment and current market success. Ceapro continues to grow: later this year it will launch a screening test for pre-diabetes called AccuScreen (through its wholly owned subsidiary Ceapro Technology Inc. and with an additional \$250,000 of approved funding from AVAC) and is also exploring the use of beta glucan as a drug delivery system.

## Commercializing Technology: Bridging the Gap

# AV04

Canada and Alberta are two of the most technologically advanced and innovative places in the world. Yet commercializing technology – from beta glucan extraction to converting methane to fuel – is typically a long and arduous process. Every stage of development is fraught with challenges and pitfalls. Success can take years to achieve and failure is always a possibility.

Recent federal budget announcements assured more support for the commercialization of promising technologies. Both Canada and Alberta want to generate more economic growth through technology commercialization. And both have supported the considerable work that's been done in the discovery and seed stages of technology commercialization, mainly by funding research.

**“Our goal is to find ways to bridge the gap between their ideas and their ability to generate sustainable profits from the market.”**

As companies and projects, however, move into the proof-of-concept and start-up stages of business they develop new needs – especially when they've exhausted the initial investment dollars available to them. In Alberta, access to risk capital is impaired: the province attracts only 3% of national venture capital investment although it accounts for 13% of the country's gross domestic product.

From now until 2007, AVAC Ltd. will focus more of its efforts and expertise on creating a strategic “commercialization bridge” to propel agrivalue products and services to success. Using the bridge metaphor, AVAC will play a leading role in creating and/or strengthening the pillars needed to support an agrivalue bridge deck to help businesses

span the current gap that stops many companies from reaching success. AVAC plans to offer new business financing and coaching programs for new ventures at the Commercial Start-up and Revenue stages.

Building the commercialization bridge and strengthening the pillars that support agrivalue development will bring like-minded people together to work toward the common goal of making agrivalue a leading industry in Canada and Alberta. The act of building the bridge is as important as the bridge itself – it will solidify relationships throughout the business and agrivalue sectors, and engage and involve stakeholders.

AVAC is building a model for making this happen in agrivalue. The model may also be extended to other regions and sectors and is a key priority in the Corporation's current three-year Strategic Business Plan (2004-2007). AVAC's goal is to establish an agrivalue commercialization bridge that takes clients from the idea stage through market entry.

In determining its direction and approaches, AVAC has consulted extensively with its partners as well as investors and experts from other sectors. Most notably,

AVAC organized and hosted an industry-wide symposium called Financing Technology Commercialization in June 2004.

More than 40 people from across the country attended the symposium, including presenters Dr. Michael Raymont of the National Research Council, Dr. Murray McLaughlin of Foragen Technology Management Inc. and Mrs. Oryssia Lennie of Western Economic Diversification.

A number of key themes emerged during the intensive day of presentations and discussions, among them: common challenges in technology commercialization that need to be addressed and industry's need for a critical mass of ideas, expertise and funding.



As noted by one contributor to AVAC's symposium, every significant venture needs three types of capital to achieve commercial success: financial, intellectual, and managerial. AVAC will work with its partners to build the bridge that helps new ventures access all three types of capital.

Consensus key learnings from the symposium included:

- The gap exists
- The gap is a resource gap which includes both money and management
- The gap is perceived differently by different participants in the innovation continuum (by different partners/service providers, and by different SME types)
- No one sector/player "owns" the gap, or the solutions to overcome it
- Government is making facilitative contributions (especially federally), but needs to do more.

Keith Jones presented AVAC's bridge-building concept at the symposium, and the industry leaders in attendance were generally supportive of this approach.

To achieve this, participants agreed Alberta and Canada need to increase cooperation in building firms while respecting competition between those firms. Plus, they need to develop mechanisms to assist in developing management expertise, marketing skills and funding options for start-up companies to move them from concept to success.

Other key concepts discussed at the symposium included:

### Research Funding

- Talent, funding and ideas must "think and act" world class and world scale; as a country, we must create an environment in which entrepreneurs can be successful.

- Industry should guide not direct public research; to better protect intellectual capital, researchers should better understand when and how to announce and share their findings.

### Equity and Risk Capital Financing

- Companies need to better understand the types of financing available and at what stages of development they're applicable: venture capital is not for everyone.
- Investors look for good people, market knowledge and business strategies as well as clear exit strategies and realistic returns on their investment. Start-up and developing companies must understand and satisfy these needs.

### Seed and Start-up Financing

- Create, enhance and foster knowledgeable management teams through all stages of development. Money follows good management teams.
- Develop attractive programs for small investors: flow-through tax losses and tax incentives. Connect investors and companies. Government support is best directed to winning sectors and winning agencies/performers (such as AVAC).

June's symposium validated AVAC's new directions and strategies, and emphasized the need for leadership and clear direction in technology commercialization. As a novel private/public partnership, AVAC can and will help meet the challenges of today's new economy.

The keynote presentations and findings from AVAC's Financing Technology Commercialization symposium are available from AVAC's Web site at [www.avac ltd.com](http://www.avac ltd.com).

## Partners Critical Mass

# AV04

Throughout the past six years, AVAC has worked closely with a number of organizations to help accelerate the growth of agrivalue in Alberta. Because we've been able to reach many milestones, tackle many challenges and, of course, see our clients and industry grow with our help and support, we've come to recognize them as partners. We'd like to thank them for their commitment of managerial and financial resources to value-added agriculture. Among them are:

Agricore United  
 Agricultural, Food and Nutritional Science  
 Agriculture and Agri-Food Canada  
 Agriculture and Food Council  
 Agriculture Financial Services Corporation of Alberta  
 Agrium Inc.  
 Alberta Agricultural Research Institute  
 Alberta Agriculture, Food and Rural Development  
 Alberta Barley Commission  
 Alberta Beef Producers  
 Alberta Chicken Producers  
 Alberta Crop Industry Development Fund Ltd.  
 Alberta Economic Development  
 Alberta Energy Research Institute

Alberta Forest Research Institute  
 Alberta Heritage Foundation for Medical Research  
 Alberta Innovation and Science/ASRA  
 Alberta Livestock Industry Development Fund  
 Alberta Milk  
 Alberta Pork  
 Alberta Research Council  
 Alberta Soft Wheat Producers  
 Alberta Sunflower Seeds Ltd.  
 Canada West Health Innovation Council  
 Canadian Adaptation and Rural Development Fund  
 Canadian Agriculture and Food International Program  
 Canadian Institutes of Health Research

Centre for Agri-Industrial Technology  
 Cevena Bioproducts Inc.  
 CIBC  
 City of Lethbridge  
 City of Medicine Hat  
 Dow AgroSciences  
 Farm Credit Canada  
 Food Beverage Canada  
 Foragen Technologies Management Inc.  
 Leduc Food Processing Development Centre  
 Lethbridge Research Station  
 Martek Biosciences Corporation  
 Meyers Norris Penny  
 National Research Council – IRAP  
 National Research Council – TPC  
 National Research Council – TPP  
 Natural Factors Nutrition  
 Natural Sciences and Engineering Research Council  
 Newlywed Foods/Norac Technologies Inc.

Olds College Centre for Innovation  
 Prairie Turfgrass Research Centre  
 University of Alberta  
 University of Lethbridge  
 University of Saskatchewan/VIDO  
 Westco Fertilizer  
 Western Economic Development

# The strength of numbers

Together the members of the Alberta Agriculture Funding Consortium are making public research dollars do more.

With a shared passion and commitment to grow the province's agricultural industry, seven major agricultural research funding groups, including AVAC, formed the Alberta Agriculture Funding Consortium in 2001 to leverage resources and support for agricultural research and development.

The Consortium's goal is to ensure that funding decisions and investments made in Alberta contribute to the industry's vision for a thriving and innovative future. As well, the Consortium aims to streamline the process of applying for and administering research funds and coordinating and improving how resources are accessed and used in agricultural research and development.

In 2003, the Consortium invested \$9.8 million in 41 research projects, bringing its total to date to more than \$40 million of investments in some 100 projects.

"We're a small group with small funds, and there's no way we can fund some of the larger projects alone," says Bill Buchta, general manager of the Diversified Livestock Fund of Alberta. "But by collaborating with other organizations, there's opportunity for us to get some fairly big projects funded."

The Consortium supports projects that focus on the following priorities:

- Agri-food and health – functional foods and nutraceuticals
- Crop sciences
- Environmental sustainability
- Food safety
- Livestock sciences and animal welfare
- Non-food, fibre and industrial uses (including molecular farming)
- Value-added processing.

When reviewing funding applications, the Consortium evaluates projects and initiatives that have the potential to:

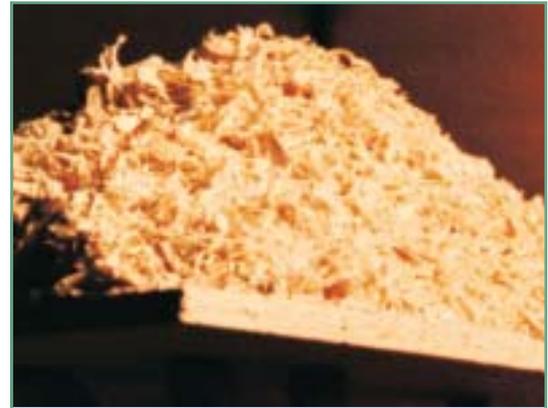
- Improve the profitability of agricultural production and processing in Alberta
- Enhance the global competitiveness of Alberta farmers, producers and processors
- Ensure the safety, quality and nutritional value of Alberta food products
- Contribute to the conservation of agricultural resources and the preservation of a wholesome environment
- Promote the diversification of agricultural production and processing in Alberta.

In addition, proposals must meet the following conditions:

- Meet the purpose and eligibility criteria of the program and be consistent with the identified focus areas
- Be conducted by a qualified project team
- Be carried out with the equipment and facilities available to the project team.

The Consortium, which is attracting national attention, is "essential in today's research environment," says Freda Molenkamp of the AARI. "There are more research activities and more funding organizations than ever before, and it only makes sense for us to work together to avoid duplication and make the best use of public dollars."

Working together, says Molenkamp, allows researchers and funders to "accomplish far more than we ever could individually."



## 2003/04 Alberta Agriculture Funding Consortium members:

Alberta Agricultural Research Institute  
 Alberta Crop Industry Development Fund  
 Climate Change Central  
 AVAC Ltd.  
 Alberta Livestock Industry Development Fund  
 Agriculture & Food Council  
 Diversified Livestock Fund of Alberta

## Among the projects the Alberta Agriculture Funding Consortium has supported research into are:

- The optimal storage and packaging conditions for Saskatoon berries to extend their fresh shelf life and potential market opportunities
- The various stages at which pathogenic bacteria is added to or removed from meat
- Using a protein in milk to treat gastrointestinal diseases
- Extracting beta glucans from oats and barley to use as food additives, given their positive health benefits
- Methods of producing bioplastics using Canadian oilseeds

# Corporate Governance

An industry-focused Board of Directors, elected from and by the Corporation's membership, guides AVAC Ltd. The list of AVAC members at March 31, 2004 appears on page 39.

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, analyses and discussions with management. The Board also meets to review and establish AVAC's strategic direction. During the fiscal year 2003/04, the Board met 10 times at: five Board meetings, an annual general meeting, one strategic planning meeting and three member events.

AVAC benefits tremendously from the strategic perspectives shared by its four ex-officio directors at meetings of the Board:

**Rory Campbell**, Deputy Minister, Alberta Economic Development

**Ken McCready**, Regional Director, Market Industry Services, Agriculture and Agri-Food Canada.

**Barry Mehr**, Deputy Minister, Alberta Innovation and Science

**Brian Rhiness**, Assistant Deputy Minister, Alberta Agriculture, Food and Rural Development

## 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 an annual basis by the audit committee and approved by the membership at the annual general meeting. The Board chair's compensation and out-of-pocket expenses are reviewed and approved by the chair of the Governance and Compensation Committee, while directors' expenses are reviewed and approved by the Board Chair.

The following summarizes the compensation paid to all directors for the fiscal year ending March 31, 2004.

## Director Compensation

Director Retainer (per year)	\$ 5,000 <sup>1</sup>
Board Chair Retainer (per year)	\$ 14,400 <sup>2</sup>
Committee Chair Fee (per year)	\$ 2,000
Meeting Fee Attendance	\$ 500 per full day, \$ 250 for half day, for Board or Committee meetings or while engaged in other AVAC business
Conference Call Meeting Fee	\$ 250
Out of Pocket Expenses	Reasonable expenses reimbursed

<sup>1</sup> Directors are compensated for travel to meetings held outside their normal place of residence at \$125 for up to four hours and \$250 for more than four hours.

<sup>2</sup> The Board Chair retainer fee includes compensation for Chair duties. The Chair receives Board meeting fees and the Director retainer. The Chair also receives a \$500 per diem or part thereof while engaged in AVAC business for any period in excess of the two days per month committed under the Board Chair retainer.

## Committees of the Board

The Board's three standing committees perform certain advisory functions, make recommendations and report 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

Committee members are: Bob Splane (Chair), Ted Bosse, Robert Church and Aaron Falkenberg. The committee met five times in the 2003/04 fiscal year.

### Audit Committee

Committee members are Bern Kotelko (Chair), Tom Droog, Ed Knash and Neal Oberg. The committee met six times during 2003/04.

### Investment Committee

Committee members are Ed Knash (Chair), Shelley Bradshaw, Robert Church and Bob Splane. The committee met five times in 2003/04.

## AVAC Members Critical Mass

# AV04

AVAC's members are known for their leadership and contributions to value-added agriculture in Alberta and Canada. They are recruited for their industry insight, leadership, innovation, collaboration and experience across the agrifood and non-food chain.

Our members play an important role in AVAC's governance and knowledge network. They provide valuable input to our organization and are helping value-added agricultural products, services and companies become economically sustainable.

#### **TED ALLEN**

Agricore United  
Calgary, Alberta

#### **THEA AVIS**

Saxby Foods Ltd.  
Edmonton, Alberta

#### **ANDREW BAUM**

SemBioSys Genetics Inc.  
Calgary, Alberta

#### **TED BOSSE**

Ogilvie and Company  
Edmonton, Alberta

#### **JERRY BOUMA**

J. Bouma & Associates  
Edmonton, Alberta

#### **SHELLEY BRADSHAW**

Beck Farms  
Innisfail, Alberta

#### **FRANK BURDZY**

Lilydale Foods  
Edmonton, Alberta

#### **STEWART CAMPBELL**

S.J. Campbell Investments Ltd.  
Cochrane, Alberta

#### **ROBERT CHURCH**

Lochend Luing Ranch  
Airdrie, Alberta

#### **TOM DROOG**

Alberta Sunflower Seeds Ltd.  
Bow Island, Alberta

#### **PATRICK DURNIN**

Camas Inc.  
Kathryn, Alberta

#### **AARON FALKENBERG**

Skyline Poultry Farms Ltd.  
Sherwood Park, Alberta

#### **DENNIS FITZPATRICK**

University of Lethbridge  
Lethbridge, Alberta

#### **GRANT HANSEN**

Canada Safeway Limited  
Calgary, Alberta

#### **JIM HOLE**

Hole's Greenhouse & Gardens  
St. Albert, Alberta

#### **BILL HUNTER**

Alberta Pacific Forest  
Boyle, Alberta

#### **LLOYD JOHNSTON**

Alberta Chicken Producers  
Edmonton, Alberta

#### **ROBERT KALEF**

Centennial Food Corp.  
Calgary, Alberta

#### **KERRY KEATING**

Alberta Oats Milling  
Edmonton, Alberta

#### **PAT KLAK**

Leduc/Nisku EDA  
Leduc, Alberta

#### **L.E. (ED) KNASH**

ATB Financial  
Edmonton, Alberta

#### **BERN KOTELKO**

Highland Feeders Ltd.  
Vegreville, Alberta

#### **JOE MAKOWECKI**

Heritage Frozen Foods Ltd.  
Edmonton, Alberta

#### **TOM MARWICK**

Agriculture & Food Council  
Nisku, Alberta

#### **ELSON MCDUGALD**

3MC Stock Farms  
Drumheller, Alberta

#### **MURRAY MCLAUGHLIN**

Foragen Technology Ventures Inc.  
Guelph, Ontario

#### **IAN MORRISON**

University of Alberta  
Edmonton, Alberta

#### **NEAL OBERG**

ENO Farms  
Forestburg, Alberta

#### **MIKE PERCY**

University of Alberta  
Edmonton, Alberta

#### **TOM POOLE**

Dallimore Management  
Langley, British Columbia

#### **GREG ROCKAFELLOW**

Lux Farms Inc.  
Crossfield, Alberta

#### **DAVE SCHURMAN**

AFSC  
Lacombe, Alberta

#### **RICK SEARS**

Two-W Livestock Equipment  
Nanton, Alberta

#### **R.A. (SANDY) SLATOR**

PTI Group Inc.  
Edmonton, Alberta

#### **BOB SPLANE**

Splane Farms  
Boyle, Alberta

#### **KEN STICKLAND**

KenAgra Management  
Edmonton, Alberta

#### **IAN STRANG**

Strang Management  
Papamoa, Mt. Maunganui,  
New Zealand

#### **JIM THACKER**

G. Thacker Sons  
Bow Island, Alberta

#### **TOM THOMPSON**

Olds College  
Olds, Alberta

#### **BLAIR WRIGHT**

Transfeeder Inc.  
Olds, Alberta

#### **BRYAN YAAKOV**

Wow! Factor Desserts  
Sherwood Park, Alberta

*(Members as of March 31, 2004)*

# Board Members

Ted Bosse

Tom Droog

Brian Rhiness (ex-officio)

Barry Mehr (ex-officio)

Robert Church

Neal Oberg

Bob Splane

L.E. (Ed) Knash

Ken McCready (ex-officio)

Bern Kotelko

Aaron Falkenberg (Chair)

Shelley Bradshaw

Rory Campbell (ex-officio)



# AV04

## Staff

Amber Daniels

Mike Leslie

Nikki Barnes

Dale Clark

Keith Jones

Lorna Sexsmith

Ross Bricker

Starting, growing and sustaining a business is no easy task. Our team helps entrepreneurs, businesses and researchers understand the complexities, risks and potential of competing in consumer markets.

Time and again, our team's knowledge, expertise and encouragement have proven invaluable in the development of new agrivalue projects and companies. Working as a team, our Board and staff bring our Members' directives to life and play a significant role in the growing success of AVAC and of our clients.



AVAC 2004 ANNUAL REPORT

# AV04

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Alberta



Agriculture and  
Agri-Food Canada

Agriculture et  
Agroalimentaire Canada

AVAC Ltd.