

embracing change. exploring opportunities.

our mission

Providing early-stage investment, insight, and focus to build viable commercial value-added opportunities in Alberta.

our vision

Unleashing innovation

4

*the days it now takes to
respond to completed client
proposal submissions*

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embracing change. exploring opportunity.

There's an old proverb that states, "change is the only constant." That proverb certainly seemed to hold true for AVAC this past year. Over the past twelve months, AVAC has changed our management team, the way we work as an organization, and the way we interact with our clients. With the introduction of the IVAC initiative, we've also broadened our mandate to include value-added initiatives in the ICT, life sciences and other industrial sectors. What hasn't changed, and never will, is our commitment to recognizing the potential of Alberta ingenuity and helping to leverage it into commercial success.

In the following pages, you'll learn more about the changes we've made this past year and the successes we've realized. You'll also meet some of the clients AVAC has invested in who are realizing commercial success and pioneering research innovations. Most importantly, you'll learn about our plans for the future and how we will continue to explore and unleash the potential of Alberta's value-added industries.

2

*the minimum number of managers who
work with each client*



a message from Bern Kotelko,
chairman of the board

“Change and transformation are
the words that best describe this
past year for AVAC, its clients and
its staff.”

As an organization, AVAC has changed both the way it works with clients – taking a more collaborative approach to the day-to-day work of helping clients succeed – and the way it evaluates the potential of those seeking AVAC investment. Led by new President and CEO Ross Bricker, who has been with AVAC for more than seven years, the organization reinvigorated its commitment to building value-added economic opportunities. The AVAC Board would like to commend Ross for an outstanding job and thank him for his seamless transition into his new role.

Change is also the word that conveys what Alberta experienced over the previous year. Our province has witnessed unprecedented economic and population growth, which has created both incredible opportunities and daunting challenges for Alberta businesses. At the same time, we welcomed a new premier and a renewed focus on economic growth – a focus that encourages Alberta businesses to actively participate in our own growing economy and to aim for excellence.

In the midst of all this change, AVAC has realized many successes. One of the most exciting is our \$30 million IVAC Initiative, which allows us to provide investment and support to Alberta businesses in the ICT, life sciences and other industrial technology sectors. IVAC broadens our mandate to help stimulate a wide range of made-in-Alberta value-added industries and demonstrates the provincial government’s confidence in us and our work.

In early 2007 I was invited to participate in Advanced Education and Technology’s Alberta Value-Added and Technology Commercialization Task Force, which aims to improve our competitiveness in the knowledge-based global economy. Our thanks to Doug Horner, Minister of Advanced Education and Technology, for recognizing the lack of investment capital available to Albertans and for creating a task force that is exploring how to address those issues.

Our thanks also to George Groeneveld, Minister of Agriculture and Food, for supporting our vision of Alberta becoming a value-added leader in the global economy. We look forward to working with these ministries to continue to pursue high-value opportunities, and to working with Iris Evans, Minister of Employment, Immigration and Industry, as we help our clients become tomorrow’s industry leaders.

This year has been remarkable and rewarding, and I wish to thank the AVAC Board and staff for their vision and unwavering dedication. In particular, I would like to thank Aaron Falkenberg, the past AVAC Board Chair, for laying the foundation for much of this past year’s success. Also, a special thank you to past Board members Ed Knash and Ted Bossé for their unwavering commitment to AVAC and to the potential of our province.

I know that the changes we have embraced this past year have not only made us stronger in the here and now, but have also prepared us for the challenges and possibilities that lie ahead.

Bern Kotelko
Chair, AVAC

For AVAC, assessing and analyzing how a company works is standard practice whenever we review an investment proposal. This past year, we turned that same critical eye inward, and asked ourselves how we can improve the way we work as an organization.

The result of that self-assessment is a shift in the way we work with clients and with each other. We moved from a traditional one-client-one-manager structure to a team-based approach. We have also reduced the caseload for our managers so they have more time and attention to focus on individual opportunities.

We have always paid attention to the people behind the investments we make. Over the course of this past year, we intensified our emphasis on human resources. We know from experience that the best indicator of success for any company is their management team and as such, have begun focusing even more attention on who's involved rather than on the technology or the market demand. At the same time, we've strengthened our commitment to creating economic opportunity and growth by supporting the successful establishment of viable commercial companies and viable research interests that are building capacity in a sustainable way.

When AVAC was first created almost a decade ago, our focus was on building capacity in value-added agriculture. With the introduction last year of our IVAC Initiative, our mandate has expanded to include the ICT, life sciences and other technology sectors. We've already made important progress in building the IVAC Capacity Builder program, including developing policies and procedures, and networking with key ICT players and partners.

Our agrivalue™ and agriculture research funds continued to demonstrate incredible success, with the combined agrivalue™ investment in AVAC's clients increasing a remarkable \$79.1 million during the fiscal year. In an effort to better understand how successful our clients have been, this year we set out to calculate the agrivalue™ sales generated by our clients. We found that as of March 31, 2007 our clients had generated an astounding \$216.7 million in agrivalue™ sales over the last nine years. Remarkably, this measures the sales of products clients did not have in their pipelines before we invested in them.

As I finish my first year in this new role, I am especially grateful to AVAC's Board of Directors, both past and present, for their insight and leadership. I am particularly indebted to AVAC's staff for their energy, expertise and enthusiasm, and to former CEO and President Keith Jones for his contributions over the years.

It is my pleasure to extend a warm welcome to new staff members Stuart Callum and Dr. James Hardin, who joined us during the year. Welcome also to Brian Hierath, Vice-President, Investment, who will join us over the summer.

Finally, and most importantly, I would like to extend my deepest thanks to the Province of Alberta for their commitment to creating economic opportunity and their confidence in AVAC. I am excited with the prospects for the future and look forward to continuing to work together to unleash Alberta's potential.

*Ross Bricker
President and CEO, AVAC*



a message from Ross Bricker,
president and ceo

"We know from experience that the best indicator of success for any company is their management team and as such, have begun focusing even more attention on who's involved rather than on the technology or the market demand."

who we are and what we do

Much has been written about AVAC since we received our initial financial support of \$35 million from the Alberta Government in March 1997. Although the work we do has been described in many different ways, using a variety of terms and descriptions, the simplest explanation of what we do is that we create value-added economic opportunity in the province. What that means is that we invest in the development and commercialization of new products and services that transform basic commodities into a product that provides more value for the customer. A value-added product is something that provides a higher profit or value. The term agrivalue™ was created specifically to describe value-added agribusiness activities.

AVAC is not a government-granting agency, but instead a private, not-for-profit company that invests strategically in early stage commercial businesses that expand Alberta's value-added industry. Although we were created specifically to grow agrivalue™ in Alberta, our mandate has expanded to include research initiatives and the renewable resource, ICT, life sciences and other industrial technology sectors.

We carefully assess and examine every investment proposal, to determine potential and assess risks. We set high standards for accountability and expect successful alumni to reinvest in AVAC in order to support additional pre-commercial innovations in other enterprises. AVAC's reputation as an informed investor attracts additional resources including financial capital, managerial talent, and intellectual property for the value-added sector.

AVAC utilizes three investment programs to support Alberta's value-added industry:

Agrivalue™ Fund—focuses on agriculturally based businesses with research, commercialization or start-up investment capital in order to promote the creation of new and more profitable products and technologies

Ag Research Fund—invests in qualified research and development programs and projects in food products, environment management and other Alberta-based agricultural industries

IVAC Initiative—provides investment dollars and other resources to Alberta businesses in the ICT, life sciences and other industrial technology sectors to help them get to the investor-ready stage

A complete description of these funds, their focus areas and programs are available on our website at www.avacld.com.

Our experienced team of expert consultants helps potential clients understand the proposal process and which program is the best fit for their business idea or research proposal. Once proposals have been accepted, our team works with clients to explain investment requirements and expectations, navigate the business development process and transition into the phases.

13

the number of AVAC staff

current investment criteria
 ICT, life sciences and industrial technologies

**IVAC Capacity Builder Program /
 IVAC Early Stage Venture Fund**

- Medicine/veterinary: therapeutics, medical devices, genomics, nutrition, etc.
- Metabolomics

Ag Research Fund

- Food ingredient and fermentation products

Agrivalue Fund

- Wellness products, new and enhanced foods

**IVAC Capacity Builder Program /
 IVAC Early Stage Venture Fund**

- Material science & manufacturing
- Environmental technologies
- Energy technologies
- Value-added energy products
- Engineering technologies

Agrivalue Fund

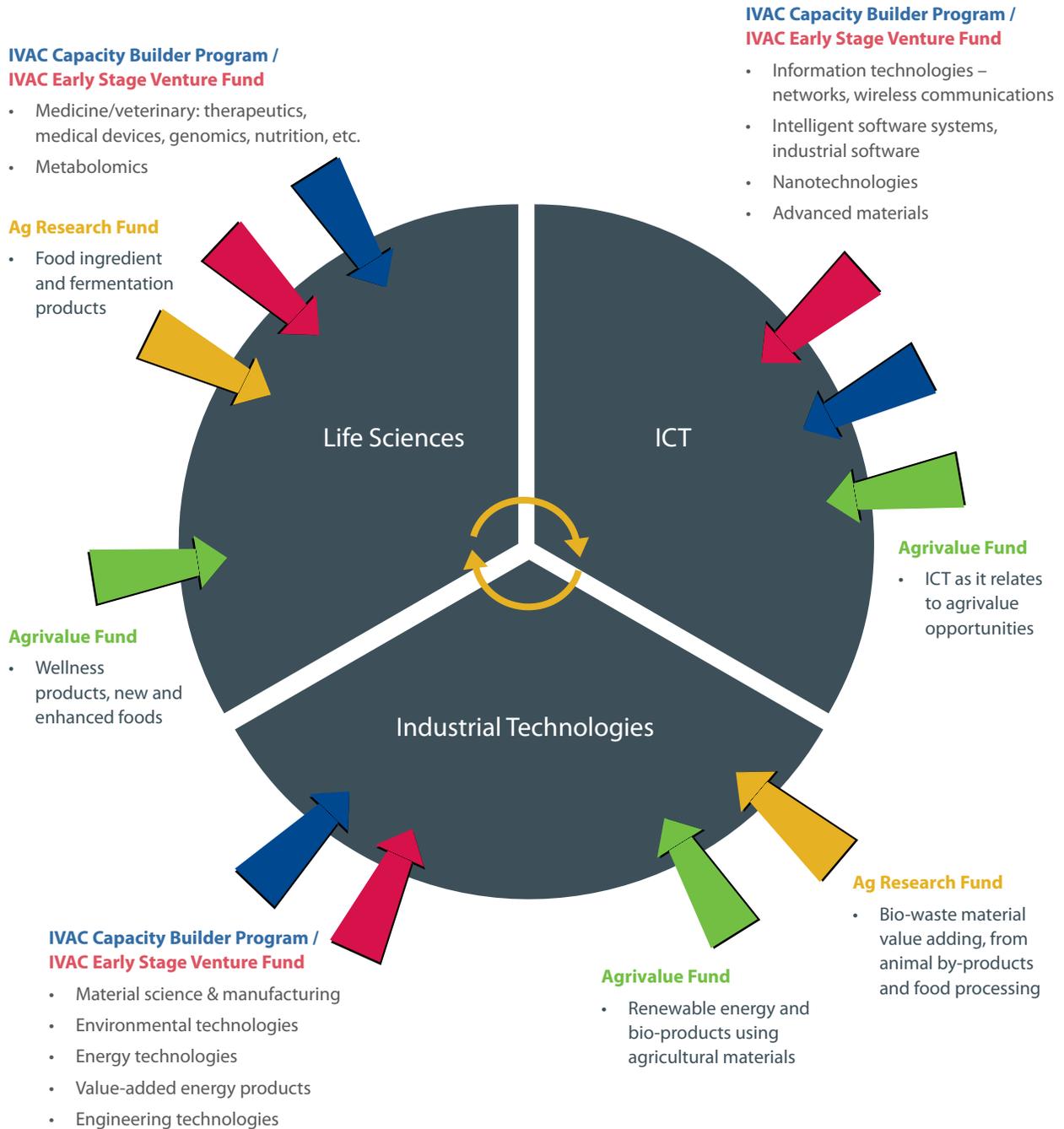
- Renewable energy and bio-products using agricultural materials

Ag Research Fund

- Bio-waste material value adding, from animal by-products and food processing

**IVAC Capacity Builder Program /
 IVAC Early Stage Venture Fund**

- Information technologies – networks, wireless communications
- Intelligent software systems, industrial software
- Nanotechnologies
- Advanced materials



IVAC Capacity Builder Program – royalty-based investments in companies

IVAC Early Stage Venture Fund – limited partner in venture capital funds who may make equity-based investments in companies

Agrivalue Fund – royalty-based investments in companies

Ag Research Fund – grant-based investments in research, and royalty-based investments in companies

corporate goals and strategic intent

AVAC's corporate goals

The following four corporate goals were originally established in 2004. As in the past, these goals continue to provide guidance for AVAC's strategic direction:

- 1) Strengthen the value-added commercialization bridge
- 2) Move clients toward commercial success and long-term sustainability
- 3) Increase attraction of financial and human capital
- 4) Improve technology commercialization from research

AVAC's strategic intent

The following will guide all aspects of the work of AVAC:

- AVAC will encourage support for research and development in a way that increases industry's capability to generate new value-added products and services; this includes encouraging investment in strong science to facilitate sustainable 'made-in-Alberta' competitive advantage;
 - AVAC will complement rather than duplicate the work of other agencies or organizations, and act to synergize efforts contributing to value-added;
 - AVAC will focus on activities that encourage growth and development of products and services in the medium and long term;
 - AVAC will evaluate all proposals presented to it which reflect the mandates of AVAC's various business units;
 - AVAC will invest in private enterprise by sharing innovation risk through provision of patient early-stage capital and mentoring, while using royalty arrangements to secure the commitment of those enterprises to reinvest an appropriate share of their success in the future agrivalue™ growth of others;
- AVAC will invest primarily within the Province of Alberta. Where strategic advantage and benefits to Alberta can be clearly established, AVAC reserves the right to invest in activities and developments taking place elsewhere in Canada or internationally;
 - AVAC, where appropriate, will encourage collaboration, alliances and partnerships amongst organizations interested in providing assistance to the growth and development of the value-added industry in Alberta's economy;
 - AVAC, as a not-for-profit corporation, will reinvest revenues in achieving its mission, and will not distribute profit to members.

AVAC will involve others to ensure the availability of needed knowledge and resources to stimulate the development of value-added products and services while at the same time minimize administrative costs. It will be technologically savvy, and will operate with low overhead and a small staff organization, which will outsource tasks and activities to others. AVAC will facilitate increased collaboration amongst all those who share the vision of strong value-added growth in Alberta. AVAC is headquartered in Alberta, but will facilitate access to global best practices and expertise for growth of value-added ventures.

32

the number of industry and institutional leaders that serve as AVAC members

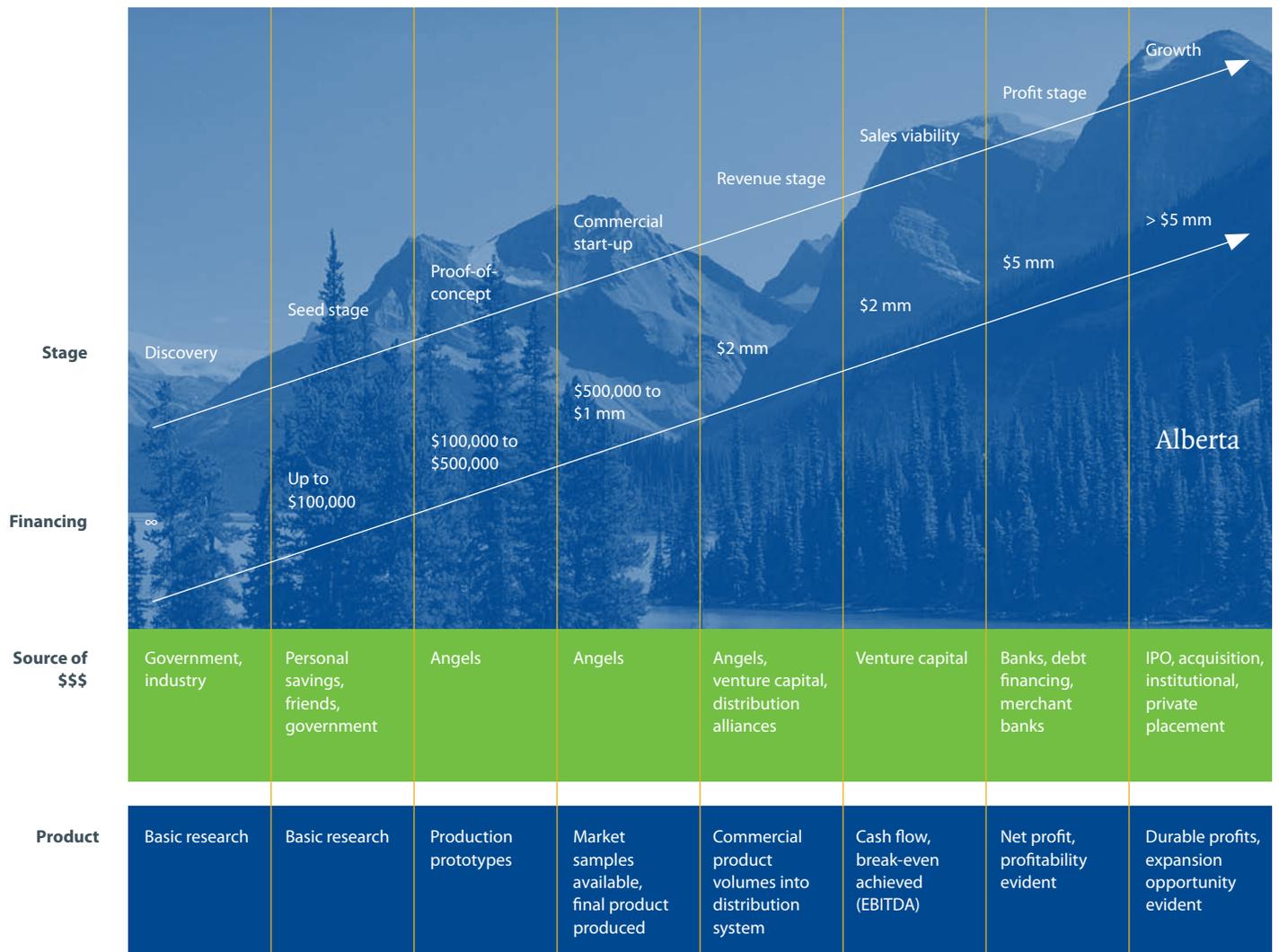
stages of venture development

AVAC has identified six stages that many value-added ventures must go through to become sustainable and successful.

These stages do not always happen in the same order and not all companies travel through every stage on their way to economic viability. The illustration on this page shows the progression many new companies can face.

These stages of development are applicable to any industry, although financial, managerial and intellectual/technology requirements can vary by sector. Obviously, financial capital is a crucial factor in the success or failure of any business. But it is not the only factor and all companies must also develop their managerial and intellectual property/ technology.

One of the main challenges for early-stage technology sectors is to grow companies capable of meeting the demands of investors, angels, venture capitalists and traditional financiers that can assist in successful commercialization. Like AVAC itself, today's investors want more than good ideas – they want “good” bets led by good management teams. With that understanding, we have increased our focus on helping companies develop the leadership, knowledge and expertise they need to compete and thrive in the marketplace.



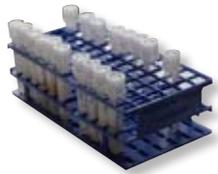


“It’s a true multidisciplinary approach, you can go from the bench to the field to animal feeding trials and then you’ve got processors with expertise in formulating a final product, all in one team.”

Chris Kazala



AVAC helps new Bioactive Oils Program create healthier oils for healthier foods



Show most people a field of canola or flax, and they'll likely see crops that are common across much of Alberta. Show those same fields to Dr. Randall Weselake, professor and Canada Research Chair in agricultural lipid technology at the University of Alberta, and he sees the potential to improve the health of people around the world.

As head of the \$16 million, five-year Bioactive Oils Program (BOP), Weselake and his team are developing innovative value-added canola and flax oils. "We're interested in developing plants that have health benefits beyond what normal nutrition might provide," explains Weselake. "When AVAC approached us about investing up to \$5.3 million through their Ag Research Fund, we brainstormed together about what targets to pursue." In the end, they chose two – creating a new line of canola oils that would reduce the need for trans-fat producing hydrogenation, and breeding flax seed that contains enhanced polyunsaturated fatty acids (PUFA) such as omega-3 and omega-6.

With canola, the goal is to create a more viscous oil for commercial frying and baking applications. Its potential for use in baking is particularly promising. "About 60 % of all trans fats in our diet are coming from things like cookies, breads and crackers," explains Dr. Roman Przybylski, professor of chemistry and biochemistry at the University of Lethbridge and a member of the BOP team. "It would be a great commercial advantage to have canola oils that could provide the same textural function without trans fats."

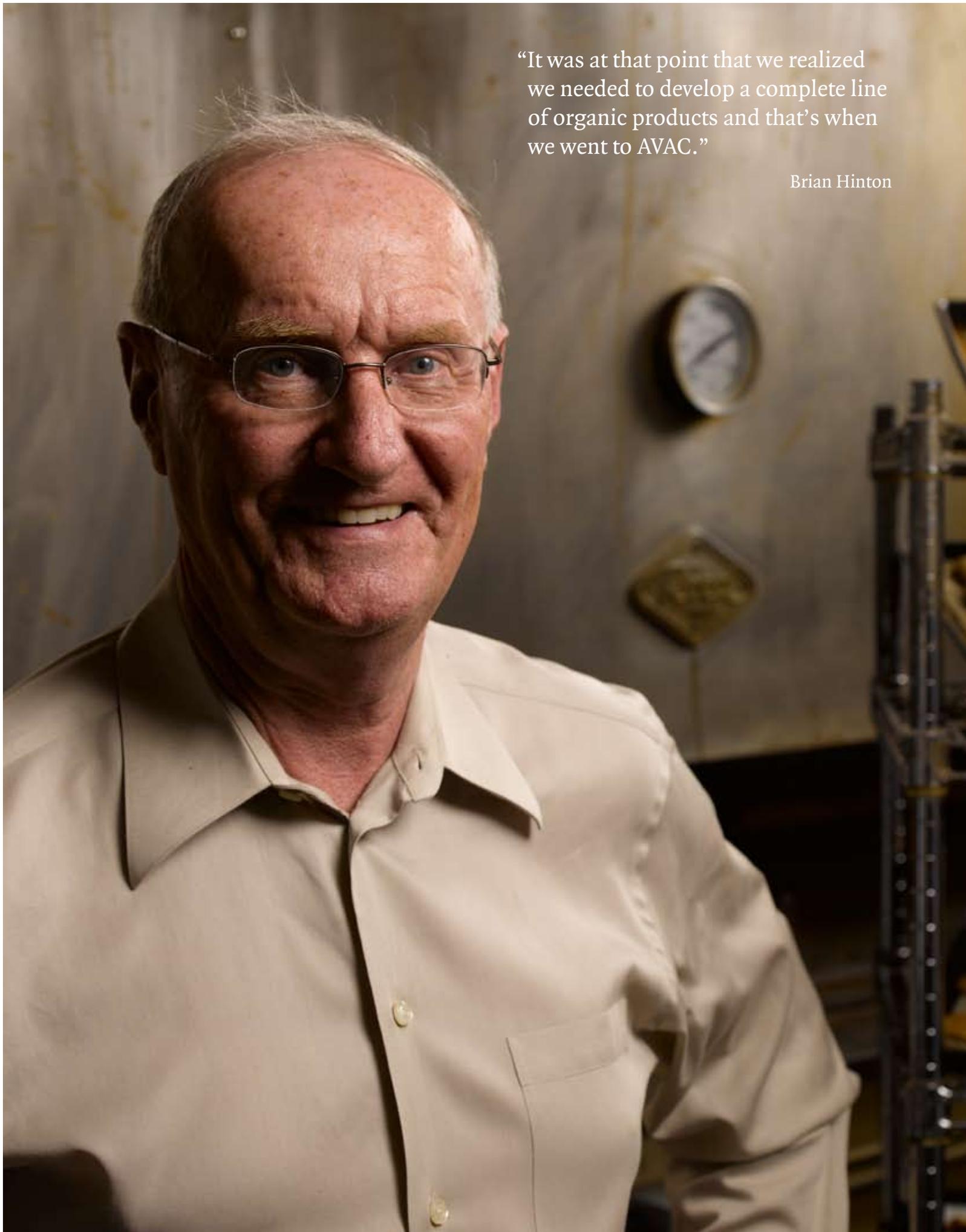
The team is also working to develop an enhanced flax seed line that will contain PUFAs such as omega-3, which are linked to reduced cardiovascular disease. "Fish oils are an excellent source of omega-3," notes Weselake. "But there are problems with fish, including diminishing stocks, so we need to develop a sustainable land-based source of those fatty acids."

In addition to Weselake and Przybylski, the Bioactive Oils team includes five other principal investigators, and six collaborating scientists. "It's a true multidisciplinary approach," notes Chris Kazala, the program manager. "You can go from the bench to the field to nutritional studies and then you've got processors with expertise in formulating a final product, all in one team." For Dr. Przybylski, that multidisciplinary approach is essential. "It's only when you have people with different expertise working together that you can get results...that is the way that all future research projects should go."

Both Weselake and Przybylski stress that AVAC's support has been essential. "Without AVAC it would almost be impossible to do a project like this," says Przybylski. "Here in Alberta, sources of available funding are quite compartmentalized and it's difficult to get all the funding institutions together... AVAC breaks down those barriers and focuses on the research and the end result."

“It was at that point that we realized we needed to develop a complete line of organic products and that’s when we went to AVAC.”

Brian Hinton





AVAC's investment lets Lakeview Bakery take an organic approach to success



It's not so long ago that organic foods were considered by many to be a niche market. But today, fuelled by an aging boomer population and an interest in healthy eating, organic foods have gone mainstream. And today's consumers want more than organic apples and oranges; they want organic baked goods as well. That's where Calgary's Lakeview Bakery comes into the picture and where AVAC's investment came into play.

For Brian Hinton, owner of Lakeview Bakery and a fellow of the Institute of British Bakers, the evolution into offering organic products was a natural one. "We began in 1990 as your average community bakery," he recalls. Before long, they began serving the needs of the special dietary baking market, creating several highly successful specialty products, including a line of gluten-free products for Calgary's Co-op food stores.

A few years back, Hinton and his team recognized a gap in the natural/organic food market. "We saw that there was no one making it in the city, so we sourced whatever ingredients we could get our hands on and got into the bread and buns business." That first foray into organics proved to be such a hit, that the Calgary Co-op approached them about supplying their stores with organic baked goods.

"It was at that point that we realized we needed to develop a complete line of organic products," says Hinton. "And that's when we went to AVAC." They applied for funding through AVAC's Agrivalue™ Idea Builder program in late 2001. AVAC's assessment was done in quick order, and Lakeview received their funding through AVAC's Agrivalue™ Fund in February 2002. Since then, Lakeview has worked to source the right ingredients, analyze nutritional components and complete the due diligence necessary to make their products commercially viable on a larger scale. Today the bakery supplies products to 22 different Co-op stores, and has a staff of 18, including Hinton's two sons. Just recently, they found a co-packer in Edmonton that will produce four of their five products, a move that will allow them to expand into the four western provinces. Hinton is quick to credit AVAC's support for making much of this possible.

"AVAC allows you access to capital during the early start-up phase of a specific category of products that you simply can't get anywhere else," he explains. More than money, Hinton found that AVAC provided reassurance on your chances for success. "If you go there with an ill-thought out idea, they'll show you the door," laughs Hinton. "But if you know what you're doing, and you can show them what you're capable of, they'll see the potential and help you get the idea off the ground."

A woman with short, wavy, light brown hair and glasses is smiling in a field of green plants. She is wearing a white button-down shirt and a red and white patterned skirt. The background is a blurred field of green plants under a blue sky with light clouds.

“We were definitely focused on value-added agriculture because we were taking a basic commodity like barley and looking to develop a concentrated means of delivering greens.”

Lori Wheeler



AVAC support got things growing for Natural Farmworks



What happens when you bring together a former police officer, a Manitoba farm-girl, and an opportunity to develop a plant-based, high-protein, whole food product? If those people are Brad McNish and Lori Wheeler, you get Natural Farmworks, one of North America's premier greens manufacturers.

For McNish the Natural Farmworks story began with a yearning to embrace country living. "I was always drawn to the farm, even though I had no experience with it," he recalls. While working as a police officer in Calgary in the early 80s, he purchased land and bought his first cows. Soon after, he began researching animal nutrition in hopes of finding a natural alternative to the ground rock that passed for livestock mineral supplements. His quest led him first to seaweed and eventually to barley, which he realized had the potential to be a nutritional powerhouse for both livestock and humans.

By the mid 90s, his interest in nutrition had blossomed into a full-time business. In 1996, he met business partner Lori Wheeler and Natural Farmworks was born. Armed with a business plan, Lori and Brad set out to find the financing they needed. As luck and timing would have it, AVAC had just been launched and Lori and Brad submitted a proposal.

"We came to AVAC because we felt it was a good fit," says Wheeler. "We were definitely focused on value-added agriculture because we were taking a basic commodity like barley and looking to develop a concentrated means of delivering greens." They approached several government agencies, but "AVAC was the first to give us a vote of confidence. They saw the value and the potential in what we were doing," she recalls. AVAC's vote of confidence also helped them find other financing. "Nobody wants to be the first to invest," notes McNish, "but with that commitment letter from AVAC we were able to get financing from Farm Credit Corporation, who told us flat out that without AVAC's vote of confidence they wouldn't have been comfortable financing us."

That was in 1997. In the intervening decade Natural Farmworks moved from producing products for the livestock industry, into providing bulk greens for the health food industry. In 2001 they purchased their own production facility in Barrhead, Alberta and began focusing their attention on building their own Natural Farmworks consumer brand. In the summer of 2007, they launched their Rubisco™ product; a protein powder that uses concentrated greens from spinach, peas and barley.

While the company has evolved over the years, they have always stayed true to the original business plan they presented to AVAC. And they have remained grateful to AVAC for their support. "AVAC banked on our potential from the start," stresses Wheeler. "And that's something that has paid off all around."



“The above ground portion can be used to produce bio-ethanol or as animal feed. In fact, you can use almost every part of the plant.”

Terry McKay



AVAC investment helps researchers explore inulin's potential



In the realm of functional foods, inulin is a superstar. Found in roots and rhizomes such as chicory, Jerusalem artichoke, and garlic, inulin has prebiotic effects (meaning it stimulates the growth of beneficial bacteria in the colon), is a good source of fiber and can be used to replace fat and sugar in some foods.

AVAC has invested in two research initiatives that are exploring the best way to grow and harvest inulin, with an eye to commercial applications. Although relatively new to Alberta, inulin has annual global sales of \$400 million.

Dr. Manjula Bandara is the lead researcher on a project that is studying the feasibility of growing chicory crops for inulin in southern Alberta. With investment from a funding consortium led by AVAC, and the support of an industry partner, Bandara and his team have spent the past three years testing a variety of chicory crops. Despite the challenges created by Alberta's shorter growing season, they discovered that with proper irrigation, chicory can be a viable crop. "We now have a good understanding of the issues that need to be resolved," explains Bandara.

At Olds College School for Innovation, Dr. Paul Kolodziejczyk, is exploring inulin in Jerusalem artichoke. "First off, they're not artichokes and not from Jerusalem," laughs Kolodziejczyk. Instead, he explains, the tubers are a part of the sunflower family and resemble oddly shaped potatoes. What makes the artichokes interesting is the inulin they contain and the effect inulin has on human health. "The good bacteria in our intestines thrive on inulin," notes Kolodziejczyk. And that good bacteria can aid digestion, improve our immune systems and even fight cancer. Inulin's prebiotic effect has made it popular in Europe, where it's added to everything from breads to cheese.

With support from AVAC, and in partnership with of the Alberta Research Council, Kolodziejczyk and his team are exploring the extraction, separation and purification of inulin from artichokes. As Terry McKay, a process engineer on the team explains, "my role is to determine extraction times, pressures and temperatures, to determine if it is commercially viable." He notes that Jerusalem artichoke, which grows particularly well in Alberta, also have many non-food applications. "The above ground portion can be used to produce bio-ethanol or as animal feed. In fact, you can use every part of the plant."

Now in the final year of the project, Kolodziejczyk and his team, who also provide assistance with analyzing the inulin from Manjula Bandara's chicory project, are in discussions with the Alberta Research Council about moving into commercialization with industry. "Without AVAC this project would never have happened," explains Kolodziejczyk, who notes that AVAC's role goes beyond financial investment. "AVAC stimulates collaboration between different organizations and helps to develop important research expertise right here at home."

developing the future of technology in Alberta

Announced in November 2006, IVAC is a new initiative that provides investment and other assistance to Alberta businesses in the ICT, life sciences and other industrial technology sectors. With IVAC, Alberta businesses can get the early-stage financing and support they need to get to the investor-ready stage and begin their journey toward commercialization.

IVAC was created to address a shortage of available funding from third-party investors for new and existing companies. Through IVAC, we will provide mentoring, marketing and operational guidance, and other support to help Alberta businesses become competitive in both local and global markets.

The IVAC Initiative has two parts, the \$10 million Capacity Builder Program and the \$20 million Early Stage Venture Fund.

IVAC's Capacity Builder Program is directed at helping qualified, Alberta-based early stage technology companies get to the investor-ready stage. A cornerstone to the Capacity Builder Program is the commitment to partnership with industry and innovation partner organizations in the technology sector to find and support promising investment opportunities.

The Capacity Builder Program concentrates on producing the management talent and funding support needed to accelerate Alberta's high-technology and value-added industries associated with the ICT, life sciences and industrial technologies sectors.

Our investment in these early stage ventures may be used for a range of eligible purposes, including mentoring, management expertise, product development, market assessments, sample or prototype production and business plan development.

The Early Stage Venture Fund invests, as a limited partner, in qualified early stage venture capital companies. Our preference is to locally-managed funds, that will focus on investments in early stage ventures in one or more of the ICT, life sciences and other industrial technology sectors.

In keeping with our focus on human resources, we will look for professional, experienced general partner(s) and fund manager(s) that are able to attract significant private capital leverage and support the likelihood of financial success.

Although IVAC is still in its infancy, we have already made tremendous progress in establishing the Capacity Builder Program. To date, we have developed and incorporated the investment policies and procedures and started recruiting our IVAC investment managers. Most importantly, we have been establishing more formal relationships with key players in the ICT and life sciences industries, in preparation for the formal operational launch of IVAC.

We look forward to realizing the same kind of success with IVAC that we have with our Agrivalue™ and Ag Research Funds and to continuing to grow Alberta's value-added economy.

\$1 million

the amount available for AVAC to invest per qualified early-stage technology company through its Capacity Builder Program

management discussion and analysis

2006/2007 highlights

AVAC realized many goals and surpassed several expectations during the 2006/2007 fiscal year. Our highlights from the past year include:

Agrivalue™ sales by AVAC clients, directly associated with pre-commercial AVAC investments, reach an aggregate total of \$216.7 million.

AVAC's agrivalue™ clients attracted an additional \$79.1 million in investment during the fiscal year, for an aggregate total of \$349.8 million.

\$5.4 million of new agrivalue™ investments were approved during the year to quality early-stage Alberta entrepreneurial companies.

\$6.8 million of new agricultural research investments were approved to commercially-relevant agricultural research projects and programs.

The amount of time to respond to completed client proposal submissions was dramatically reduced from a 60-day average response time to 4 days over the 12-month period.

With the investment of \$30 million in new funding from the Province of Alberta, AVAC launched the IVAC Initiative – comprised of the IVAC Capacity Builder Program and the IVAC Early Stage Venture Fund.

The Agrivalue Processing Business Incubator in Leduc opened in the fall of 2006. The CFIA certified facility represents AVAC's single largest agrivalue investment to date (\$5 million), and is dedicated to assisting food processors in the scale up and commercialization of new products and technologies.

Two new investment managers were added during the year, and AVAC moved to an interdependent, cross-functional team-based approach to investment management.

\$216.7 million

aggregate sales generated by
AVAC investor companies;
related to AVAC investments

results and performance

During a year of unprecedented change and evolution, AVAC continued to realize impressive results in many of our key measures over the past year.

One new measure that was introduced during the past year is the agrivalue™ sales by our clients that are directly associated with pre-commercial investments made by AVAC. This measures the sales of products that did not exist before AVAC investment and reached an aggregate total of \$216.7 million during 2006/2007. At the same time, our agrivalue™ clients attracted an additional \$79.1 million in investment during the fiscal year, for an aggregate total of \$349.2 million – up from \$270.1 million the year before.

In terms of new investments, \$5.4 million were approved for quality early-stage Alberta companies, while \$6.8 million was approved for commercially-relevant agricultural research projects and programs. Net approvals during the year were markedly higher than the previous year at \$0.6 million and \$0.3 million respectively for F2006. In total, we distributed a record \$8.9 million to clients during the year, an amount that exceeded the previous record disbursement of \$6.7 million set in F2006.

As of March 31, 2007 we had 131 active projects being coached, 23 clients that are entering the revenue stage of their business and 12 active research projects or programs. There were also nine agrivalue™ and two ag research proposals under review as of the March 31, 2007 year-end.

Our total revenue for 2006/2007 exceeded our budgeted amount by \$0.9 million, primarily due to increased interest income earned on higher portfolio balances due to reduced and postponed expenses. At the same time, our annual general and administrative expenses of \$2.15 million are 14.7 per cent below budget.

As part of our ongoing efforts to streamline processes and improve our performance, we reduced our client roster from 158 to 131 clients during the year. This change resulted from two primary strategies: a) the cancellation of the Knowledge Initiatives as project investments and moving those supported initiatives to advertising and promotions expenses, and b) the conscious effort to close-off and/or cancel stalled project investments that are not expected to be able to move forward in a timely fashion.

By closing off stalled projects, we are able to focus more time and resources on projects that have the potential to move into commercial success. With that goal in mind, we have also added two new investment managers and moved to a interdependent, cross-functional team based approach to investment management that ensures clients actively interact with at least two managers.

management discussion and analysis

Investment fund

Our Agrivalue™ Fund and Ag Research Fund were invested during the year with Mawer Investment Management Ltd., while the IVAC Initiative was invested with the Royal Bank (RBC). All portfolio funds are invested in a manner consistent with the conservative nature of AVAC Investment Policy Statement, as revised from time to time. The current policy targets a 4% to 6% annualized return.

In total, unrestricted assets declined by \$10.4 million during the year, primarily reflecting the new project commitments made during the year, for an ending balance of \$69.9 million that includes \$30.8 million in the IVAC Initiative, \$21.2 million in the Agrivalue™ Fund and \$17.2 million in the Ag Research Fund, as well as a reserve fund of \$0.7 million.

The Agrivalue™ Fund was invested in a combination of Canadian and global equities (17.8 %, and 9.4% respectively), with the balance held in fixed income and cash instruments; for an annualized return of 4.9% at Mawer.

The Ag Research Fund was invested in a combination of Canadian and global equities (21.9%, and 8.5% respectively), with the balance held in fixed income and cash instruments; for an annualized return of 3.2% at Mawer.

Overall, the Mawer portfolio achieved an annualized return of 4.2% during the year.

Both the Agrivalue™ Fund and the Ag Research Fund maintain working cash accounts at RBC and these funds earn RBC Prime minus 2%.

The IVAC Initiative was maintained in cash deposits at the Royal Bank for the entire year, and earned a rate of return of RBC Prime minus 2%, for an annualized return of 4%.

Relevant comparables for the same period are as follows:

Scotia Capital 91 Day T-bills	4.2 %
Scotia McLeod Mid-term Bonds	5.5%
S&P/TSE Composite Index	11.4 %
MS EAFE	19.2 %

21.40:1

the ratio of aggregate investment dollars approved to the annual operating overhead: management efficiency

measures of success

Agrivalue™ Fund Measures of Success

	Baseline March 2006	Actual March 2007	Target March 2007	Stretch March 2009
Aggregate Alberta agrivalue™ investment (millions)	\$270.1	\$349.2	\$320	\$440
Aggregate \$ approved (millions)	\$33.5	\$38.9	\$38.6	\$55
# of Active projects being coached	158	131	170	200
# of clients at/attending revenue stage	19	23	24	40
# Joint sci/ind projects	72	71	75	81
Days to respond to completed client submission	60	4	21	21

Measures of Success Quarterly Results

Agrivalue™ Fund

For Year Ended 2007	Q1	Q2	Q3	Q4
Change in Alberta agrivalue™ investment	1,973,915	71,058,271	4,698,526	1,365,029
Change in \$ approved	718,225	4,054,984	90,375	501,354
Change in # of active projects being coached	2	(28)	20	(21)
Change in # of clients at/entering revenue stage	1	2	1	0
Change in # of Joint sci/ind projects	2	(1)	1	(3)
Days to respond to completed client submission	19 (June)	13 (Sept)	12 (Dec)	4 (March)

Ag Research Fund Measures of Success

	Baseline March 2006	Actual March 2007	Target March 2007	Stretch March 2009
Aggregate Alberta Ag Research investment (millions)	\$0.88	\$12	\$20	\$60
Aggregate \$ approved (millions)	\$0.32	\$7.1	\$7.4	\$21
Aggregate industrial and extra-provincial investment \$ (millions)	\$0.22	\$2.6	\$2.6	\$7.4
Aggregate # of research projects/programs	3	12	15	25
# HQP engaged in Ag Research focus areas	11	83	65	125

Measures of Success Quarterly Results

Ag Research Fund

For Year Ended 2007	Q1	Q2	Q3	Q4
Change in Alberta Ag Research investment	429,244	536,288	492,000	9,662,553
Change in \$ approved	321,215	5,551,285	75,275	871,450
Change in industrial and extra-provincial investment \$	40,000	83,200	492,000	1,798,632
Change in # of research projects/programs	4	2	1	2
Change in # HQP engaged in Ag Research focus areas	24	7	11	30



AVAC board of directors

From left to right: Neal Oberg, Rick Smith, Robert Church, Tom Droog, Jim Thacker, Ken McCready, Bern Kotelko, R. (Sandy) Slator, Bob Splane.

board governance

The members of AVAC's Board of Directors are independent industry representatives elected from and by the Corporation's membership.

Collectively, their role is to guide and monitor the company. Individually, Board members maintain their independence while working with AVAC management, a primary principle for successful corporate governance. By providing a disciplined approach to business concerns, AVAC's corporate governance practices ensure the corporation fulfills its mandate within prudent risk management parameters. The Board receives and approves a Statement of Compliance each quarter from the President and CEO.

A Board Manual is used to orient new Board members, and is referred to by existing members. Each Board member acknowledges the Board's code of conduct in writing and reviews the code annually. Plus, Board members complete a Board Performance Evaluation Questionnaire annually.

All Board Committees are proactive in keeping abreast of new business practices and their required responsibilities. Their due diligence processes have improved controls and enhanced the Board's monitoring of corporate results.

The Board of Directors is kept informed of AVAC's operations through regularly scheduled meetings of the Board and its committees, and through reports, analysis and discussions with management. The Board also meets to review and establish AVAC's strategic direction. During the fiscal year 2006/2007, the Board met six times (at four Board meetings, an annual general meeting, a special members' meeting and a strategic planning meeting) and participated in four members' events.

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 per diem for attendance at Board or committee meetings or while otherwise engaged in AVAC business at the request of the Corporation.

Board compensation is reviewed annually 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, Compensation and Nomination Committee; Directors' expenses are reviewed and approved by the Board Chair.

out-of-pocket expenses

- Directors are compensated for travel to meetings held outside their normal place of residence at \$200 for up to four hours and at \$375 for more than four hours.
- 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 \$1,000 per diem or part thereof while engaged in AVAC business.

The following summarizes the compensation schedule for directors as of March 31, 2007.

Director Compensation

Director Retainer	\$ 7,500 year
Board Chair Retainer	\$ 27,500 year
Committee Chair Fee	\$ 2,000 year
Director Meeting Fee Attendance	\$ 750 full day \$ 375 half day
Chair Meeting Fee Attendance	\$ 1,000 full day \$ 500 half day
Conference Call Fee	\$ 250 meeting

committees of the board

The Board's four 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, Compensation and Nomination Committee.

corporate governance, compensation and nomination committee

Committee members are Bob Splane (Chair), Sandy Slator, Ken McCready and Bern Kotelko. The committee met six times in 2006/2007.

audit committee

Committee members are Ken McCready (Chair), Tom Droog, Neal Oberg and Rick Smith. The committee met four times in 2006/2007.

investment committee

Committee members are Sandy Slator (Chair), Bob Splane, Robert Church, Neal Oberg, Rick Smith and Jim Thacker. The committee met six times in 2006/2007.

IVAC investment committee

Committee members are Sandy Slator (Chair), Bob Splane (vice chair), Robert Church, Ken McCready, Shane Chrapko, Ken Harrison and Michael Raymont. The committee met twice in 2006/2007.



AVAC staff

From left to right:

Janet Flather, Ross Bricker,
Lorna Sexsmith, Jim Hardin,
Stuart Cullum, Craig Urton,
Westlink Intern Danielle Reid,
Nicole Wozniczka, Wendy Lam,
Jeremy Heigh

active approved projects

Agrivalue™ Portfolio

Applicant Name	Amount Approved	Amount Disbursed	Focus Area
Agrivalue Incubator Facility	\$5,000,000	\$4,267,767	Enabling Technologies
Carbon Solutions Inc. ("CSI")	\$25,000	\$16,750	Enabling Technologies
Chinook Entrepreneur Challenge	\$24,000	\$16,000	Enabling Technologies
CytoStore Inc – Pre-Commercial	\$323,750	\$226,000	Enabling Technologies
Olds College Centre For Innovation – Research Capacity	\$2,500,000	\$2,006,149	Enabling Technologies
SciMed Laboratories Inc.	\$700,000	\$700,000	Enabling Technologies
SciMed Laboratories Inc.	\$296,813	\$262,000	Enabling Technologies
SemBioSys Genetics Inc.– Pilot Scale Production of Protein A	\$2,500,000	\$1,879,000	Enabling Technologies
U of A –Supercritical Fluid Extraction	\$70,000	\$63,000	Enabling Technologies
U of A – Supercritical Fluid Extraction	\$66,125	\$66,125	Enabling Technologies
U of A – Saskatoon Fruit Flavor	\$100,000	\$69,367	Enabling Technologies
U of A – Research Capacity	\$1,937,556	\$1,673,255	Enabling Technologies
U of L – Improvement Of Plant Regeneration	\$585,000	\$–	Enabling Technologies
CytoStore Inc - Idea Builder	\$25,000	\$25,000	Industrial Application
ABIC 2007	\$25,000	\$25,000	Industrial Applications
Agri-Boost	\$25,000	\$16,667	Industrial Applications
BioAlberta - Partnership Program 2006/07	\$5,000	\$5,000	Industrial Applications
BioComposites Group	\$23,375	\$23,375	Industrial Applications
Canadian Fibretech Ltd.	\$313,849	\$313,849	Industrial Applications
Cevena BioProducts Inc.	\$1,000,000	\$1,000,000	Industrial Applications
Entreprises Macay Inc.	\$690,000	\$570,819	Industrial Applications
G.S. Technology Corp.	\$136,150	\$78,000	Industrial Applications
Kolk Farms Ltd.	\$25,000	\$25,000	Industrial Applications
Prairie Tanners Inc. (formerly P & R Trading)	\$227,058	\$212,058	Industrial Applications
U of A – Biopolymers from Oilseeds Research Network	\$500,000	\$125,000	Industrial Applications
U of A – Beta-glucan Depleted Barley	\$82,750	\$56,875	Industrial Applications
Alheim Corp – Idea Builder	\$21,225	\$21,225	New & Enhanced Food Products
Alheim Corp. – Pre-Commercial	\$130,350	\$130,350	New & Enhanced Food Products
All in Good Taste	\$25,000	\$25,000	New & Enhanced Food Products
EcoAg Initiatives	\$25,000	\$25,000	New & Enhanced Food Products
Growing Alberta 2006-07	\$35,000	\$35,000	New & Enhanced Food Products
Kinnikinnick Foods Inc. – Start-Up	\$2,500,000	\$2,300,000	New & Enhanced Food Products
Kinnikinnick Foods Inc. – Pre-Commercial	\$232,079	\$222,079	New & Enhanced Food Products
Lakeview Bakery	\$25,000	\$25,000	New & Enhanced Food Products
LesLee Creations Ltd.	\$13,425	\$8,995	New & Enhanced Food Products
Malay King – Idea Builder	\$24,000	\$24,000	New & Enhanced Food Products
Malay King – Pre-Commercial	\$338,500	\$258,500	New & Enhanced Food Products
PEAK Swine Genetics Inc.	\$25,000	\$16,750	New & Enhanced Food Products
Prairie Natural Processing Inc.	\$78,620	\$78,620	New & Enhanced Food Products
Rancher's Beef	\$2,512,500	\$2,012,500	New & Enhanced Food Products
Ranchers Meats Inc.	\$97,750	\$35,000	New & Enhanced Food Products

Tian Fine Foods Inc.	\$25,000	\$25,000	New & Enhanced Food Products
U of L – Edible Oils	\$1,200,000	\$665,000	New & Enhanced Food Products
Urban Wafer Co. Inc.	\$25,000	\$25,000	New & Enhanced Food Products
Urban Wafer Co. Inc. (formerly MMICODO Management Ltd.)	\$148,000	\$148,000	New & Enhanced Food Products
VitalyTeas Ltd.	\$25,000	\$25,000	New & Enhanced Food Products
Wheatland Select Organic Turkey Ltd.	\$107,800	\$80,800	New & Enhanced Food Products
Prairie Natural Processing Inc.	\$51,000	\$51,000	New & Enhanced Food Products
AB BioPharma	\$1,250,000	\$1,225,000	Wellness Products
BioLipids Inc. – Idea Builder	\$25,000	\$25,000	Wellness Products
BioLipids Inc. – Pre-Commercial	\$1,500,000	\$500,000	Wellness Products
CanBiocin Inc.	\$250,000	\$250,000	Wellness Products
Ceapro Inc.	\$362,250	\$362,250	Wellness Products
Ceapro Inc.	\$250,000	\$225,000	Wellness Products
Ceapro Inc.	\$164,882	\$164,882	Wellness Products
Ceapro Inc.	\$19,750	\$19,750	Wellness Products
Ceapro Technology Inc.	\$800,000	\$510,000	Wellness Products
Cevena Bioproducts Inc.	\$1,250,000	\$1,250,000	Wellness Products
Cevena Bioproducts Inc.	\$1,000,000	\$900,000	Wellness Products
CV Technologies Inc.	\$25,000	\$25,000	Wellness Products
CV Technologies Inc.	\$500,000	\$483,333	Wellness Products
Natural Farmworks	\$200,000	\$200,000	Wellness Products
Qeva Velvet Products Corp.	\$40,000	\$40,000	Wellness Products
SemBioSys Genetics Inc.	\$2,384,000	\$2,384,000	Wellness Products
U of L – Disease Fighting Nutraceuticals	\$160,000	\$144,000	Wellness Products

Ag Research Portfolio

Applicant Name	Amount Approved	Amount Disbursed	Focus Area
U of C – Development of Novel Electro-Oxidation Technique	\$54,050	\$27,025	Biowaste Value Added - ENMA
ARC – Wheat Milling and Ethanol Plant By-Products	\$187,500	\$62,500	Biowaste Value Added – ENMA
U of A – Production of Industrial Foaming Agents	\$90,045	\$60,030	Biowaste Value Added – SRM
OCSI – Bioactive Substances from Mustard Seed and Plant	\$128,500	\$–	Food Ingredients & Fermentation Products
Alberta Rhodiola Rosea Program	\$742,950	\$–	Food Ingredients & Fermentation Products
Process Development for Commercial Extraction of Inulin from Chicory	\$75,275	\$35,390	Food Ingredients & Fermentation Products
Bioactive Oils Alberta (BOA)	\$5,312,310	\$–	Food Ingredients & Fermentation Products
U of A – Beta-Galactosidase and Disrupted Bacterial Cell Technology	\$238,975	\$94,075	Food Ingredients & Fermentation Products
U of A – Functional Genomics of Safflower	\$250,000	\$151,000	Food Ingredients & Fermentation Products
AAFRD – Evaluation of Chicory	\$44,094	\$30,658	Food Ingredients & Fermentation Products
Issues Ink – Reach & Discover Magazine	\$15,665	\$15,664	Food Ingredients & Fermentation Products

auditor's report to the members

We have audited the statement of financial position of AVAC Ltd. as at March 31, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The current year's supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

Chartered Accountants
Calgary, Canada
June 20, 2007

statement of financial position

March 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Current assets:		
Cash reserve fund account	\$ 690,184	\$ 580,839
Accounts receivable (note 2)	25,104	30,025,104
Prepaid expenses and deposits	45,910	22,517
Total current assets	761,198	30,628,460
Agrivalue Fund Investments (note 3)	27,190,987	36,083,256
Ag Research Fund Investments (note 4)	23,722,286	23,834,946
IVAC Initiative (note 5)	30,830,956	-
Capital assets (note 6)	81,545	70,457
	\$ 82,586,972	\$ 90,617,119
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 262,823	\$ 195,526
Net assets:		
Invested in capital assets	81,545	70,457
Net assets internally restricted for future contracted obligations (notes 3 and 4)	12,333,990	10,008,219
Unrestricted	69,908,614	80,342,917
Total net assets	82,324,149	90,421,593
Commitment (note 9)	\$ 82,586,972	\$ 90,617,119

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

statement of operations

Year ended March 31, 2007, with comparative figures for 2006

	2007	2006
General revenue:		
Membership	\$ 3,600	\$ 4,800
Interest earned	20,477	2,734
Unencumbered income	88,868	361,310
Disposal of fixed assets	(880)	-
	112,065	368,844
Agrivalue Fund revenue:		
Royalty income	82,283	361,310
Other income	268,926	-
Investment income	1,537,491	2,990,328
Funding agreement proceeds	-	10,000,000
	1,888,700	13,351,638
Ag Research Fund revenue:		
Investment income	812,693	308,607
Funding agreement proceeds	-	24,000,000
	812,693	24,308,607
IVAC Fund revenue:		
Investment income	1,084,110	-
Funding agreement proceeds	-	30,000,000
	1,084,110	30,000,000
Total revenue	\$ 3,897,568	\$ 68,029,089
General and Administrative Expenditures (schedule 1):		
Agrivalue fund	\$ 1,720,923	\$ 1,242,076
Ag Research fund	430,231	414,025
	2,151,154	1,656,101
Agrivalue Fund Project Expenditures (note 7)	9,108,649	6,984,078
Ag Research Fund Project Expenditures (note 7)	499,481	61,431
IVAC Initiative Expenditures (note 7)	235,728	-
Total expenditures	\$ 11,995,012	\$ 8,701,610
Excess of expenditures over revenue	\$ (8,097,444)	\$ 59,327,479

See accompanying notes to the financial statements.

statement of change in net assets

Year ended March 31, 2007, with comparative figures for 2006

	Capital assets	Net assets internally restricted for future contracted obligations	Unrestricted	2007	2006
Balance, beginning of year	\$ 70,457	\$ 10,008,219	\$ 80,342,917	\$ 90,421,593	\$ 31,094,114
Excess of expenditures over revenue	-	-	(8,097,444)	(8,097,444)	59,327,479
Depreciation of capital assets	(35,144)	-	35,144	-	-
Distributions to projects:					
Agrivalue	-	(8,912,796)	8,912,796	-	-
Ag Research	-	(430,373)	430,373	-	-
Additions to capital assets	48,383	-	(48,383)	-	-
Disposal of fixed assets	(2,151)	-	2,151	-	-
Additional projects contracted:					
Agrivalue	-	4,790,714	(4,790,714)	-	-
Ag Research	-	6,878,226	(6,878,226)	-	-
Balance, end of year	\$ 81,545	\$ 12,333,990	\$ 69,908,614	\$ 82,324,149	\$ 90,421,593

See accompanying notes to financial statements.

statement of cash flows

Year ended March 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used for):		
Operating activities:		
Excess of expenditures over revenue	\$ (8,097,444)	\$ 59,327,479
Items not involving cash:		
Depreciation of fixed assets	35,144	33,058
Investment income re-invested	(3,434,294)	(4,302,399)
Change in non-cash working capital	30,043,901	(29,155,071)
	18,547,307	25,903,067
Financing and investing activities:		
Fixed assets acquired net disposed	(46,232)	(34,021)
Transfer from (to) portfolio funds	(18,391,730)	(25,505,000)
	(18,437,962)	(25,539,021)
Increase in cash	109,345	364,046
Cash, beginning of year	580,839	216,793
Cash, end of year	\$ 690,184	\$ 580,839

See accompanying notes to financial statements.

notes to financial statements

Year ended March 31, 2007, with comparative figures for 2006

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 and a further \$10 million on October 4, 2005. Upon expiry of the funding agreement on March 31, 2012, AVAC may be required to repay to the Ministry all or a portion for the original funding (together with any income earned from investment thereof) that has not been expensed 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 to March 31, 2006, AVAC was to receive contributions on a matching basis from the Government of Canada up to a cumulative amount of \$9,944,000. These matching contributions have been paid in full. AVAC allocates 50% of royalties received from projects funded under the Companion Agreement as general revenue.

AVAC received additional funding of \$24 million from the Alberta Ministry of Agriculture, Food and Rural Development on September 29, 2005. Upon expiry of the funding agreement on March 31, 2012, 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 expensed or committed to be expended.

AVAC was granted additional funds in the amount of \$30 million from the Government of Alberta, under the "IVAC Initiative – Grant Agreement" dated March 23, 2006. An Amended and Restated IVAC Initiative Grant Agreement was executed November 21, 2006. The funds will be used to facilitate and promote a range of industry sectors like information and communication technology, life sciences and other industrial technology ventures, all consistent with and in furtherance of the "Securing Tomorrow's Prosperity" strategy of the Government of Alberta. Upon expiry of the funding agreement on March 31, 2016, AVAC may be required to pay all or a portion of the original funding (together with any income earned from investment thereof) that has not been expensed or committed to be expended.

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 reasonable assured. Project expenditures are expenses 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) Investments fund:

If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to 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 the accounts receivable is GST receivable of \$25,104 (2006 GST receivable – \$25,104).

3. Agrivalue Fund:

Agrivalue Fund investments consist of the following portfolio:

	2007		2006	
	Cost	Market	Cost	Market
Cash and cash equivalents	1,741,291	1,743,208	10,966,687	11,015,736
Medium term investment fund:				
Federal government bonds	6,445,056	6,407,121	8,040,239	7,890,963
Provincial government bonds	12,019,081	12,157,006	12,237,131	12,165,834
Other bonds and accrued interest	-	-	-	-
Canadian equities	4,571,487	6,119,371	1,839,199	3,450,463
Global equities	2,414,072	2,652,649	3,000,000	3,000,000
	25,449,696	27,336,147	25,116,569	26,507,260
	\$ 27,190,987	\$ 29,079,355	\$ 36,083,256	\$ 37,522,996

The Federal Government bonds mature between December 15, 2008 and September 15, 2009 and bear interest at rates ranging from 4.15% to 4.65%. The Provincial Government bonds mature between June 9, 2008 and March 8, 2015 and bear interest rates ranging from 4.5% to 6.375%.

Investment income has been recorded net of fees paid for portfolio management which amount to \$98,707 (2006 - \$88,776).

Agrivalue Fund assets internally restricted for future contracted obligations:

AVAC Ltd. funds qualifying Agrivalue pre-commercial, research and strategic projects based on a progressive series of steps including evaluating 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, \$8,912,796 was distributed directly to project applicants from the Agrivalue fund.

AVAC has contracted to advance a total of \$38,284,555 of which \$32,485,087 has been advanced to March 31, 2007, with the remaining balance of \$5,799,468 to be advanced in future periods. This remaining advance is contingent on specified milestones being reached as contracts. The financial statements reflect an internal restriction of net assets for the \$5,799,468 for this purpose.

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

Aggregate project approvals	\$	38,869,555
Aggregate contracted obligations		38,284,555
Aggregate disbursements		32,485,087
Future contracted obligations		5,799,468

During the year, amounts were transferred from unrestricted net assets to net assets internally restricted for future contracted obligations of \$4,790,714. These transfers occurred as projects were approved during the year. \$24,643,065 of the aggregate project approvals of \$38,869,555 is committed to projects which result in a future return to the Company in the form of a contingent success-based royalty; the remainder represents approved investment in research, strategic or knowledge projects.

notes to financial statements

Year ended March 31, 2007, with comparative figures for 2006

4. Ag Research Fund:

Ag Research Fund investments consist of the following portfolio:

	2007		2006	
	Cost	Market	Cost	Market
Cash and cash equivalents	\$ 1,400,701	\$ 1,424,126	\$ 8,420,926	\$ 8,442,321
Medium term investment fund:				
Federal government bonds	8,064,640	8,080,804	6,554,278	6,554,287
Provincial government bonds	4,057,810	4,076,532	2,838,120	2,837,823
Other bonds and accrued interest	2,764,046	2,775,466	4,021,622	4,019,886
Canadian equities	5,362,671	5,931,378	–	–
Global equities	2,072,418	2,276,428	2,000,000	2,000,000
	22,321,585	23,140,608	15,414,020	15,411,996
	\$ 23,722,286	\$ 24,564,734	\$ 23,834,946	\$ 23,854,317

The Federal Government bonds mature between December 1, 2007 and June 1, 2010 and bear interest at rates ranging from 2.75% to 5.5%. The Provincial Government bonds mature between December 1, 2008 and October 1, 2013 and bear interest rates ranging from 5.25% to 5.7%.

Investment income has been recorded net of fees paid for portfolio management which amounted to \$81,931 (2006 – \$1,860).

Ag Research Fund assets internally restricted for future contract obligations:

AVAC Ltd. funds qualifying research and development projects and programs in three theme areas. Project and program investments are based on a progressive series of steps including evaluating 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, \$430,373 was distributed directly to project applicants from the Ag Research Fund.

AVAC had contracted to advance a total of \$7,012,364 of which \$477,842 has been advanced to March 31, 2007, with the remaining balance of \$6,534,522 to be advanced in future periods. This remaining advance is contingent on specified milestones being reached as contacted. The financial statements reflect an internal restriction of net assets for the \$6,534,522 for this purpose.

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

Aggregate project approvals	\$ 7,140,864
Aggregate contractual obligations	7,012,364
Aggregate disbursements	477,842
Future contracted obligations	6,534,522

During the year, amounts were transferred from unrestricted net assets to net assets internally restricted for future contracted obligations of \$6,878,226. These transfers occurred as projects were approved during the year.

5. IVAC Initiative:

IVAC Initiative investments consist of the following portfolio:

	2007 Cost	2006 Market
Capacity Building Program:		
Cash and cash equivalents	\$ 10,282,620	\$ 10,282,620
Early Stage Venture Fund:		
Cash and cash equivalents	20,548,336	20,548,336
Total IVAC Proceeds	\$ 30,830,956	\$ 30,830,956

There were no portfolio management fees paid on investment income.

6. Capital assets:

	Cost	Accumulated depreciation	2007 Net book value	2006 Net book value
Computer equipment	\$ 202,517	\$ (155,135)	\$ 47,383	\$ 25,102
Computer software	315,758	(313,084)	2,675	9,357
Office equipment	45,235	(27,398)	17,837	21,727
Furniture and fixtures	45,508	(31,884)	13,623	13,996
Leasehold improvements	8,757	(8,729)	27	275
	\$ 617,775	\$ (536,230)	\$ 81,545	\$ 70,457

Cost and accumulated depreciation is \$571,544 and \$501,086 respectively for March 31, 2006.

7. Fund expenditures:

Fund expenditures consist of project disbursements direct to investee clients, project expenses which include allocated salary and benefits, out of pocket expenditures for external consultants, other expenses directly related to projects and an allocation of general and administrative expenses. Project disbursements are made on the basis of satisfaction of milestone commitments on approved projects.

a) Agrivalue Fund expenditures:

In 2007, AVAC made project disbursements of \$8,912,796 (2006 – \$6,677,303) on total aggregate project approvals of \$38,869,555 (2006 – \$33,504,617). Project expense in 2007 of \$195,853 (2006 – \$306,775) are associated with projects which have been reviewed, projects with pending approvals, and approved projects.

AVAC's general and administrative expenditures are allocated among the Funds based on a manager allocation each quarter. In 2007 the equivalent of four managers were allocated each quarter and the related expense of \$1,720,923 was attributed to the Agrivalue Fund (2006 – \$1,242,078).

(b) Ag Research Fund expenditures:

In 2007, AVAC made project disbursements of \$430,373 (2006 – \$47,469) on total aggregate project approvals of \$7,140,864 (2006 – \$321,639). Project expenses in 2007 of \$69,108 (2006 – \$13,962) are associated with projects which have been reviewed, projects with pending approvals, and approved projects.

notes to financial statements

Year ended March 31, 2007, with comparative figures for 2006

7. Fund expenditures (continued):

	2007		2006
Ag Research Fund Project Disbursements and expenses:			
Theme 1 - Biowaste Value Added - ENMA:			
Disbursements	\$ 89,525	\$	-
Project expenses	26,421		3,454
Theme 2 - Food Ingredients and Fermentation Products:			
Disbursements	310,833		17,454
Project expenses	38,867		9,238
Theme 3 - Biowaste Value Added - SRM:			
Disbursements	30,015		30,015
Project expenses	3,820		1,269

AVAC's general and administrative expenditures are allocated among the Funds based on manager allocation each quarter. In 2007 the equivalent of one manager was allocated each quarter and the related expense of \$430,231 was attributed to the Ag Research Fund (2006 - \$414,027).

(c) IVAC Initiative expenditures:

In 2007, IVAC's start-up expenditures amounted to \$190,809 and start-up costs associated with setting up the early stage venture fund amounted to \$16,904. General operating expenditures directly associated with IVAC amounted to \$28,015. In 2007, there is no allocation of AVAC's general and administrative expenditures as IVAC operating activities did not commence before March 31, 2007.

8. 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 notes 3 and 4. AVAC's accounts receivable are due from the federal government and therefore do not carry increased credit risk.

9. Commitment:

At March 31, 2007 AVAC is committed to an office lease with minimum monthly lease payments of approximately \$5,000 from March 1, 2007 to February 28, 2012.

general and administrative expenses
schedule 1

Year ended March 31, 2007, with comparative figures for 2006

	2007		2006
General and administrative expenditures:			
Staff salaries, benefits and development	\$ 1,116,977	\$	805,108
Honararia and fees	203,034		201,557
Public relations and communications	173,056		148,096
Office expenses	145,433		134,231
Consulting/professional	143,081		111,271
Computer systems maintenance	125,978		56,119
Board and meeting expenses	78,280		63,323
Travel expenses	68,851		62,649
GST expense	45,365		24,814
Depreciation expense	35,144		33,058
Insurance	13,287		12,511
Transaction charges	2,668		3,364
	\$ 2,151,154	\$	1,656,101
2007			
2006			
Remuneration paid for-provided to:			
Current Directors:			
Bern Kotelko, Chairman of the Board	\$ 39,243	\$	18,125
Robert Church	17,860		8,625
Tom Droog	16,863		14,000
Ken McCready	10,975		-
Neal Oberg	19,565		19,075
Sandy Slator	20,247		12,625
Rick Smith	8,833		-
Bob Splane	23,825		19,950
Jim Thacker	9,505		-
Past Directors:			
Mary Arnold	665		15,125
Ted Bosse	4,260		18,000
Aaron Falkenberg, Past Chair	42,597		64,012
L.E. (Ed) Knash	9,796		12,020
Current IVAC Committee Members:			
Shane Chrapko	5,440		-
Ken Harrison	3,754		-
Management personnel reporting directly to Board ¹	576,848		282,578
All other permanent personnel employed or under contract ²	706,992		732,399

¹Includes severance.

²Includes amounts allocated to projects. Does not include amounts accrued for in prior year.

avac members and partners

AVAC's members play a crucial role in guiding our operations and shaping our strategic direction. The breadth and depth of their expertise in agrivalue™, finance, research and industry provides our clients with unparalleled insight and understanding.

The members listed here have been instrumental in helping AVAC unleash the potential of our clients and in creating a dynamic, thriving value-added industry. We are grateful for their contributions and their commitment to making Alberta's one of the world's strongest value-added economies.

We are also grateful to our many industry, academia and government partners for their ongoing support of AVAC and the work we do to stimulate Alberta's value-added industry. It would be impossible to do the work we do without their leadership and vision.

Andrew Baum

SemBioSys Genetics Inc.
Calgary, Alberta

Ted Bosse

Ogilvie and Company
Edmonton, Alberta

Jerry Bouma

J. Bouma & Associates
Edmonton, Alberta

Stewart Campbell

S.J. Campbell Investments Ltd.
Cochrane, Alberta

Shane Chrapko

Highmark Renewables
Edmonton, Alberta

Robert Church

Lochend Luing Ranch
Calgary, Alberta

Tom Droog

Spitz International Inc.
Bow Island, Alberta

Aaron Falkenberg

Skyline Poultry Farms Ltd.
Sherwood Park, Alberta

Dennis Fitzpatrick

University of Lethbridge
Lethbridge, Alberta

Jim Hole

Hole's Greenhouse & Gardens
St. Albert, Alberta

Kee Jim

Feedlot Health Management Services
Okotoks, Alberta

Lloyd Johnston

Alberta Chicken Producers
Edmonton, Alberta

Kerry Keating

Agri-Food & Bio-Tech Solutions
Fort Saskatchewan, Alberta

John Kennelly

University of Alberta
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

Ken McCready

K.R. McCready & Assoc. Ltd.
Calgary, Alberta

Elson McDougald

3MC Stock Farms
Drumheller, Alberta

Murray McLaughlin

McLaughlin Consultants Inc.
Saskatoon, Saskatchewan

Neal Oberg

ENO Farms
Stettler, Alberta

Tom Poole

Dallimore Management
White Rock, British Columbia

John Ramsey

Weber Motors
Edmonton, Alberta

Rick Sears

Two-W Livestock Equipment
Nanton, Alberta

R.A. (Sandy) Slator

Prism Ventures Inc.
Edmonton, Alberta

Rick Smith

Cevena Bioproducts Inc.
Calgary, Alberta

Bob Splane

Splane Farms
Boyle, Alberta

Jim Thacker

G. Thacker Sons
Bow Island, Alberta

Tom Thompson

Olds College
Olds, Alberta

Blair Wright

Olds Ag-Tech Industries
Olds, Alberta

Govert Verstralen

Rabobank Nederland
Canadian Branch
Toronto, Ontario





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