



GROWTH REQUIRES THE RIGHT SUPPORT

ANNUAL REPORT 2012/13

AVAC<sub>Ltd.</sub>

2	A Message from the Board Chair
3	A Message from the Interim President & CEO
5	Management Discussion and Analysis
5	2012–13 Highlights
5	Investment Fund
6	Measures of Success
7	Board Governance
7	Remuneration of Directors
8	Committees of the Board
8	FYE 2013 Membership List
9	Auditor's Report
10	Consolidated Statement of Financial Position
11	Consolidated Statement of Operations
13	Consolidated Statement of Changes in Net Assets
15	Consolidated Statement of Cash Flows
16	Consolidated Notes to Financial Statements
27	Schedule 1: Consolidated General and Administrative Expenses
29	Portfolio Companies

# The collective experience of our team is our greatest asset

The collective experience of our team is our greatest asset. It's a resource that drives every move we make. It's present in our assessments and forecasts. It's the foundation of our strategies, and it focuses our vision. Our experience is the cornerstone of our long-term sustainability as well as the basis of our creativity. And in a constantly changing economy, our experience is a constant that more Alberta companies have come to rely on to fuel their growth.

# A message from the Chairman of the Board

2012-2013 was a year of great change for Alberta's entire innovation system including its institutes of higher learning.

Premier Redford reinforced the importance of innovation as an engine to diversify Alberta's economy away from its current emphasis on oil and gas by appointing Deputy Premier Thomas Lukasuk as Minister of Enterprise and Advanced Education.

AVAC is also at a pivotal stage in its evolution as its original funding from the Government of Alberta approaches its term and the AVAC Board wants to ensure the sustainability and continued success of AVAC as an engine to support early stage entrepreneurs in value added agriculture, IT, health care and cleantech. AVAC is working with the Province and an independent consultant to identify options and move toward recommendations and next steps.

AVAC was created by the Government of Alberta in 1997 to be independent from any government, provincial or federal agencies. However, until recently, all of AVAC's \$ 130 million of funding has come from the Alberta departments of agriculture, what is now Enterprise and Advanced Education, and the Government of Canada.

AVAC's track record speaks for itself. AVAC has invested \$ 100 million in startups, enabling

61 companies to reach the Revenue Stage. AVAC investees have generated \$ 1 billion in commercial sales and \$ 50 million in annual payroll. The direct payback to the Government of Alberta is estimated to be \$ 10 million per year. AVAC also invested \$ 32 million in four "fund of funds" thus attracting new venture capital companies to invest in Alberta, which catalyzed \$ 65 million in new investment into Alberta companies. Leveraging our initial investments with co-investors is an important element of AVAC's investment model.

AVAC's strategy is to remain independent by becoming self-sustaining. AVAC can do this by receiving a return on its current investments in partnership with the Government of Alberta, by using its extensive experience and knowledge to attract new investments, and helping its investees succeed.

The first key milestone in implementing AVAC's new strategy occurred in November, 2012 when Alberta Enterprise Corporation (AEC) awarded \$ 10 million for AVAC to invest in the Accelerate Fund which is meant to match investments by "angels" in new, high tech Alberta companies.



**ROB RENNIE**  
Chairman of the AVAC Board

AVAC has considerable expertise in agriculture by virtue of the knowledge and skill set of its directors and senior management and the extensive investment experience deal flow in agriculture that AVAC has managed since its inception. AVAC believes there is a high level of interest in investing in agriculture, independent of the current emphasis on acquisition of agriculture land, and is exploring options with the Province and other parties to determine how best to attract capital to the agriculture sector. Agriculture already plays a major role in Alberta and throughout western Canada, and it also has huge potential for further development. AVAC believes it can play a key role in unlocking that potential.

We look forward to working with our AVAC membership, the Government of Alberta and Canada and co-investors in continuing to build on AVAC's successes to ensure a vibrant, entrepreneurial economy in our Province.

A handwritten signature in black ink, appearing to read 'Rob Rennie', written in a cursive style.

# A message from the Interim President & CEO

The past year at AVAC has been one characterized by both “change” and “business as usual.”

“Change” because we took on the management of a new fund and we’ve had some personnel changes, and yet “business as usual”, because we continue to be active in investing our existing funds and helping our portfolio companies to grow.

In November 2012, AVAC and Alberta Enterprise Corporation (AEC) completed an agreement for AVAC to manage the new Accelerate Fund (AF), an angel co-investment fund which, in parallel with angel investors, provides equity investment to promising Alberta-based start-ups and early-stage businesses. This is an exciting new development for AVAC and for Alberta in several ways:

- AF is the first fund managed by AVAC which can offer pure equity investment
- Its mandate requires angel co-investment alongside AVAC’s money which helps to bring in additional experienced advice and guidance for fledging businesses
- AF provides a mechanism to bring together the wisdom resident in Alberta’s AIOO entrepreneurs (hence links to CIOO), and the start-up business community, with a focus on investment in, and mentoring of early-stage businesses.



**DR. MICHAEL RAYMONT**  
Interim President & CEO

AF was officially launched in mid November at very well attended events in Calgary and Edmonton, and immediately started receiving a very significant volume of deal-flow, ranging from expressions of interest to full business plans. Fully operational in calendar Q1 2013, AF has already closed its first investment (in the medical device space), and is in the final stages of closing two additional investments in remote flow sensing and IT storage functionality/tools. Deal flow and deal quality continue to be strong, and AF anticipates several additional investments before year-end. Stay tuned, more to come...

Also in November, Ross Bricker, AVAC’s CEO, left after 6 years as CEO and several years in earlier roles with AVAC. We thank him for his many years of dedication to AVAC and the discipline he brought to its operations; we wish him well in his new endeavors. As a long-serving Board member with a background in venture/private capital, technology commercialization, and entrepreneurial activities, I took over as Interim CEO late last year, and it’s been a pleasure to work with the staff, our investee companies and our stakeholders.

On a sad note, two key figures in AVAC’s early history passed away in the last year, Ian Strang, AVAC’s first

## A message from the Interim President & CEO

(Continued from previous page)

chair, and Dan Fullerton, AVAC's first Investment Manager. We extend our condolences to their families, but we also want to recognize Ian and Dan for making such valuable contributions to AVAC in its formative years.

Back to our more conventional activities, our "business as usual" though in most respects it's far from "usual", AVAC's commitment to innovation and supporting innovative Alberta companies has meant continued emphasis on investing in and nurturing Alberta-based emerging growth companies with our existing funds. Working in partnership with Alberta Enterprise and Advanced Education, and with Alberta Agriculture and Rural Development, we manage a current portfolio of some fifty companies from pre-revenue start-ups to well-established and profitable businesses some of whom are soon ready to "fly on their own", as other AVAC investees have before them – AVAC Mission Completed. And we continue to invest in new companies in the Ag/Plant/Food/Life Sciences sectors as well as in ITC and some industrial technology areas. And finally, we continue to support existing growth businesses in our portfolio by investing additional funds and providing regular advice and support.

AVAC has maintained its position as one of the most active early-stage investors in Alberta, and over the last decade or so in aggregate, there is no doubt that AVAC

has been the most active investor focusing on Alberta-based companies, with almost 100 investments made and supported in that time.

Over the years, 61 of our companies have reached commercial revenue stage. At the end of the day all of AVAC's investees since inception have generated over \$ 1 billion in commercial sales, and payrolls have grown steadily. In this last year alone, AVAC's current portfolio (not including our "graduates") employs Albertans, with aggregate payrolls in excess of \$ 50 million/year.

I would like to take this opportunity to thank the AVAC team for their efforts. Numbering just 12, every one of AVAC's staff brings unmatched commitment to their jobs, which in part explains how we are able to manage 5 different fund mandates, >50 current portfolio companies, the necessary reporting, prospecting for new and exciting opportunities and maintaining our relationships with our stakeholders and peers.

Our Board of Directors also deserves a strong vote of thanks. They are all experienced and well-respected successes in their varied fields. AVAC is proud to have them govern, guide and advise our company, and their contributions are clearly motivated by their belief in, and passion for what AVAC does every minute, every day and every year.

Over its 15+ years of operations, AVAC has gained a great deal of experience and knowledge, both internally through the trials, tribulations and successes of its investments, and externally though working with its stakeholders, peer groups in venture capital, service providers and above all, the spirited communities of entrepreneurs in Alberta.

With this strong background, along with well-tested policies and procedures refined over the years, and robust back-office systems, AVAC is positioned to continue to evolve and grow. Our Board is considering a number of options, which are being explored with our partners and stakeholders. AVAC's continued growth will, in turn, help grow Alberta's economy, which in the end benefits us all.

In other words, at AVAC it's going to be business as usual, but it's not! Stay tuned to the AVAC channel.



# Management Discussion & Analysis

## 2012/13 HIGHLIGHTS

- During the year, AVAC Ltd., through its subsidiary company - AVAC Mgmt Co., was selected to manage the new \$ 10 million Accelerate Fund, which is an “angel co-investments fund”, which can invest by way of equity in Alberta tech companies.
- Two project investments were approved, committing \$ 1.05 million of investment from the Agrivalue and AgResearch Funds.
- As a result of a defaulted Yaletown Ventures Fund II partner, AVAC received an additional \$ 233,000 deemed committed and invested capital in addition to its original \$ 6 million committed capital.
- \$ 109.1 million of additional sales reported by active AVAC investees for an aggregate total of \$ 646.9 million as of March 31, 2013 [Note: Does not include sales by companies from which AVAC has exited].
- \$ 49.8 million of new third party investment into AVAC portfolio companies for an aggregate total of \$ 746.2 million (leverage).

- The investee companies in the portfolio reported annual payroll of \$ 55.9 million during the year up from \$ 48.0 million reported in F2012.
- Alberta Agriculture and Rural Development agreed to extend the agriculture value-add and agriculture research agreement end dates from March 31, 2013 to March 31, 2014. This extension will allow us to continue to invest in promising early-stage agrivalue companies.

## INVESTMENT FUND

The Agrivalue™, Ag research, Capacity Builder, and Early Stage Venture Funds were invested during the year with Mawer Investment Management Ltd., with working capital invested with the Royal Bank (RBC). All portfolio funds are invested in a manner consistent with the conservative nature of the AVAC Investment Policy Statement. The current policy targets a 4% to 6% annualized return.

The funds invested with Mawer were invested in a combination of fixed income, cash instruments and Canadian and global equities.

The 12-month return for the Agrivalue fund, invested with Mawer, less fees, was 7.11%.

Ag Research Fund, invested with Mawer yielded an annualized return of 7.87%, less fees.

The return of the IVAC capacity builder and early-stage venture funds invested with Mawer was 8.57%, less fees.

Working capital accounts held at RBC continue to earn a rate of return equal to RBC Prime minus 2%.

Relevant comparables for the same period are as follows:

91-day T-bills	1.03%
S&P/TSX Composite Index	6.11%
MSCI EAFE one-year rate	13.64%
DEX Universe Bond index	4.54%

## MEASURES OF SUCCESS

	2013	2012
<b>Direct Investing Portfolio <sup>1</sup></b>		
Cumulative AVAC Investment (\$MM) <sup>2</sup>	\$ 95.4	\$ 98.4
Cumulative Additional Third Party Investment (\$MM)	\$ 665.8	\$ 606.0
<i>Leverage Multiple</i>	<b>7.0x</b>	6.2x
Sales (\$MM) <sup>3</sup>	\$ 646.9	\$ 537.8
Total Reaching Revenue Stage	<b>61</b>	61
Annual Payroll (\$MM)	\$ 55.9	\$ 48.0
<b>Indirect Fund-of-Funds Investing</b>		
Cumulative AVAC Investment (\$MM)	\$ 32.2	\$ 32.0
AVAC Venture Funds (\$MM)	\$ 363.7	\$ 363.7
<i>Leverage Multiple</i>	<b>11.3x</b>	11.4x
Cumulative Alberta Investments by AVAC supported Venture Funds	<b>17</b>	10

1 Investment fund agreement approvals, excludes Accelerate Fund I Limited Partnership.

2 Reduction in portfolio resulting from exits.

3 This is the total aggregate sales of current portfolio companies only and does not include exited investments. If sales from all AVAC investments were included, the total is estimated to be \$ 1 Billion.

## BOARD GOVERNANCE

AVAC's Board of Directors are independent industry representatives elected 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 investment opportunities and 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. Board members complete a Board Effectiveness 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 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 2012/2013, the Board met ten times (at eight Board meetings, an annual general meeting, and a strategic planning meeting).

In aggregate, AVAC's Board attendance was 97% and Committee attendance was 95%. In no case did any director attend less than 95% of the required meetings.

## REMUNERATION OF DIRECTORS

A retainer is paid to all regular directors for their services to the Corporation. An additional retainer is paid to Board and Committee Chairs. Directors (other than the Director who is also the Interim President and CEO) 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 Governance, Compensation and Nomination 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 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 for Directors as of March 31, 2013.

### DIRECTOR COMPENSATION:

Director Retainer	\$ 7,500 year
Board Chair Retainer	\$ 27,500 year
Committee Chair Retainer	\$ 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 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 Bill McKenzie (Chair), Robert Church, Art Froehlich, Myles Hamilton, and Jim Thacker. Bill McKenzie took over as Chair when Michael Raymont stepped down to assume the Interim President and CEO role. The committee met five times in 2012/2013.

### **AUDIT COMMITTEE**

Committee members are Colette Miller (Chair), Jerry Bouma, Myles Hamilton, Bill McKenzie and Jim Thacker. The committee met six times in 2012/2013.

### **INVESTMENT COMMITTEE**

Committee members are Sandy Slator (Chair), Robert Church, Art Froehlich, Myles Hamilton and Bill McKenzie. The committee met four times in 2012/2013.

### **ADVISORY COMMITTEE**

Committee members are Rick Smith (Chair), Jerry Bouma, Ken Harrison, Neal Oberg and Rick Pawluk. The committee met four times in 2012/2013.

## FYE 2013 MEMBERSHIP LIST

**JERRY BOUMA**, Director  
J. Bouma & Associates  
Edmonton, Alberta

**ROBERT CHURCH**, Director  
Lochend Luing Ranch  
Calgary, Alberta

**PETE DESAI**, Member  
Desai and Desai Inc.  
Calgary, Alberta

**TOM DROOG**, Member  
T&E Ventures  
DeWinton, Alberta

**DENNIS FITZPATRICK**, Member  
University of Regina  
Regina, Saskatchewan

**ART FROEHLICH**, Director  
AdFarm Communications  
Calgary, Alberta

**MYLES HAMILTON**, Director  
M.V.S. Hamilton Investments  
Calgary, Alberta

**KEN HARRISON**, Member  
Dow Chemical Canada Inc.  
Edmonton, Alberta

**JORDAN HOKANSON**, Member  
Hokanson Capital Inc.  
Edmonton, Alberta

**KEE JIM**, Member  
Feedlot Health  
Management Services  
Okotoks, Alberta

**JOHN KENNELLY**, Member  
University of Alberta  
Edmonton, Alberta

**L.E. (ED) KNASH**, Member  
ATB Financial  
Edmonton, Alberta

**BERN KOTELKO**, Member  
Highland Feeders Ltd.  
Vegreville, Alberta

**ELSON MCDUGALD**, Member  
3MC Stock Farms  
Drumheller, Alberta

**BILL MCKENZIE**, Director  
Next Equities  
Edmonton, Alberta

**COLETTE MILLER**, Director  
Wilde and Company  
Vegreville, Alberta

**NEAL OBERG**, Member  
Canadian Centre for DNA  
Diagnostics Inc.  
Leduc, Alberta

**RICK PAWLUK**, Member  
McCarthy Tetrault  
Calgary, Alberta

**JOHN PINSENT**, Member  
St. Arnaud, Pinsent and  
Associates  
Edmonton, Alberta

**MICHAEL RAYMONT**, Director  
Arzaq Power Investments LLC.  
Borderline Asia  
Calgary, Alberta

**ROBERT RENNIE**, Board Chair  
Keppoch Advisory Services Ltd.  
Lethbridge, Alberta

**RICK SEARS**, Member  
Two-W Livestock Equipment  
Nanton, Alberta

**R.A. (SANDY) SLATOR**, Director  
Prism Ventures Inc.  
Edmonton, Alberta

**RICK SMITH**, Director  
BioAlberta  
Calgary, Alberta

**JIM THACKER**, Director  
JHT Holdings  
Bow Island, Alberta

**BLAIR WRIGHT**, Member  
Olds Agtech Industries Ltd.  
Olds, Alberta

# Auditor's Report

To the Board of Directors of AVAC Ltd.

We have audited the accompanying consolidated financial statements of AVAC Ltd., which comprise the consolidated statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, and the consolidated statements of operations, changes in net assets and cash flows for the years ended March 31, 2013 and March 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

## MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards

require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AVAC Ltd. as at March 31, 2013, March 31, 2012 and April 1, 2011, and its consolidated results of operations and its consolidated cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Accountants  
Calgary, Canada  
June 10, 2013

# Consolidated Statement of Financial Position

Year ended March 31, 2013, with comparative figures for 2012

	March 31, 2013	March 31, 2012	April 1, 2011
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash reserve fund account (note 6)	\$ 287,127	\$ 285,703	\$ 329,626
Due from Accelerate fund LP (note 2)	248,759	-	-
Accounts receivable (note 2)	-	-	35,937
Prepaid expenses and deposits	46,176	42,005	27,704
Total current assets	582,062	327,708	393,267
<b>Investments:</b>			
Agrivalue Fund (note 3)	6,802,222	10,260,466	14,463,545
Ag Research Fund (note 4)	11,515,922	12,084,843	14,434,240
IVAC Initiative (note 5)	33,760,455	33,284,033	35,181,398
Capital assets (note 7)	210,260	318,193	432,842
	\$ 52,870,921	\$ 56,275,243	\$ 64,905,292
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities	\$ 454,966	\$ 389,977	\$ 506,783
<b>Net assets:</b>			
Invested in Limited Partnerships	16,720,461	12,663,229	9,641,836
Net assets internally restricted for future contracted obligations (notes 3,4 and 5 )	26,659,332	36,867,309	32,983,692
Unrestricted	9,036,162	6,354,728	21,772,981
Total net assets	52,415,955	55,885,266	64,398,509
	\$ 52,870,921	\$ 56,275,243	\$ 64,905,292

See accompanying notes to the financial statements.

Approved on behalf of the Board:



Director



Director

# Consolidated Statement of Operations

Year ended March 31, 2013, with comparative figures for 2012

	2013	2012
<b>General Revenue:</b>		
Membership	\$ 3,100	\$ 2,400
Interest earned	124	124
Unencumbered income	1,300	1,031
	<b>4,524</b>	3,555
<b>Agrivalue Fund Revenue:</b>		
Royalty income	669,824	240,850
Investment income	249,842	325,329
Gain/(loss) on investments	291,753	(67,515)
	<b>1,211,419</b>	498,664
<b>Ag Research Fund Revenue:</b>		
Royalty income	16,781	57,356
Investment income	218,821	390,824
Gain/(loss) on investments	497,398	(1,339,544)
	<b>733,000</b>	(891,364)
<b>IVAC Initiative Revenue:</b>		
Royalty Income	907,537	762,317
Expense Recovery	50,000	-
Investment income	515,914	737,275
Gain on investments	802,377	1,623,750
Limited Partnership income	853,910	625,339
Limited Partnership gain (loss)	585,881	208,627
Funding agreement proceeds	-	-
	<b>3,715,619</b>	3,957,308
<b>Accelerate Fund Revenue:</b>		
Accelerate Fund Expense Recovery	248,759	-
	<b>248,759</b>	-
Total Revenue	<b>5,913,321</b>	3,568,163

See accompanying notes to the financial statements. Continued on next page.

## Consolidated Statement of Operations (Continued from previous page)

Year ended March 31, 2013, with comparative figures for 2012

	2013	2012
<b>General and Administrative Expenditures (schedule 1)</b>		
Agrivalue Fund	<b>1,561,742</b>	1,156,485
Ag Research Fund	<b>482,312</b>	318,130
IVAC Initiative	<b>1,275,333</b>	1,277,203
Early Stage Venture Funds (ESVF)	<b>85,124</b>	11,899
	<b>3,404,511</b>	2,763,717
Agrivalue Fund Project Expenditures (note 8)	<b>2,976,733</b>	3,497,916
Ag Research Fund Project Expenditures (note 8)	<b>822,675</b>	2,651,279
IVAC Initiative Expenditures (note 8)	<b>1,929,954</b>	3,123,415
Reserve Fund Expenditures (note 8)	–	45,079
Accelerate Fund Expenditures	<b>248,759</b>	–
Total Expenditures	<b>\$ 9,382,632</b>	\$ 12,081,406
Excess of expenditures over revenue	<b>\$ (3,469,311)</b>	\$ (8,513,243)

See accompanying notes to the financial statements.

## Consolidated Statement of Changes in Net Assets

Year ended March 31, 2013	Invested in Capital assets	Limited Partnerships	Net assets internally restricted for future contracted obligations	Unrestricted	Total
Balance, April 01, 2012	\$ 318,193	\$ 12,663,229	\$ 36,867,309	\$ 6,036,535	\$ 55,885,266
Excess of expenditures over revenue				(3,469,311)	(3,469,311)
Depreciation of capital assets	(216,881)			216,881	–
<b>Distributions to projects:</b>					
Agrivalue			(2,186,260)	2,186,260	–
Ag Research			(733,834)	733,834	–
Capacity Builder			(1,625,000)	1,625,000	–
Reserve			–	–	–
Invested in Limited Partnerships		4,786,883	(4,786,883)		–
Return of Capital in Limited Partnership		(729,651)		729,651	–
Additions to capital assets	108,948			(108,948)	–
<b>Additional projects contracted:</b>					
Agrivalue			(816,000)	816,000	–
Ag Research			(612,000)	612,000	–
Capacity Builder			319,000	(319,000)	–
Reserve			–	–	–
Additional Limited Partnerships contracted (note 5)			233,000	(233,000)	–
Balance, March 31, 2013	\$ 210,260	\$ 16,720,461	\$ 26,659,332	\$ 8,825,902	\$ 52,415,955

See accompanying notes to the financial statements. Continued on next page.

## Consolidated Statement of Changes in Net Assets (Continued from previous page)

Year ended March 31, 2012	Invested in Capital assets	Limited Partnerships	Net assets internally restricted for future contracted obligations	Unrestricted	Total
Balance, April 01, 2011	\$ 432,842	\$ 9,641,836	\$ 32,983,692	\$ 21,340,139	\$ 64,398,509
Excess of expenditures over revenue				(8,513,243)	(8,513,243)
Depreciation of capital assets	(236,343)			236,343	–
<b>Distributions to projects:</b>					
Agrivalue			(3,097,118)	3,097,118	–
Ag Research			(2,563,194)	2,563,194	–
Capacity Builder			(2,760,000)	2,760,000	–
Reserve			–	–	–
Invested in Limited Partnerships		3,305,422	(3,305,422)		–
Return of Capital in Limited Partnership		(284,029)		284,029	–
Additions to capital assets	121,694			(121,694)	–
<b>Additional projects contracted:</b>					
Agrivalue			2,852,684	(2,852,684)	–
Ag Research			3,256,667	(3,256,667)	–
Capacity Builder			(500,000)	500,000	–
Reserve			–	–	–
Additional Limited Partnerships contracted			10,000,000	(10,000,000)	–
Balance, March 31, 2012	\$ 318,193	\$ 12,663,229	\$ 36,867,309	\$ 6,036,535	\$ 55,885,266

See accompanying notes to the financial statements.

# Consolidated Statement of Cash Flows

Year ended March 31, 2013

	2013	2012
<b>CASH PROVIDED BY (USED FOR):</b>		
<b>Operating activities:</b>		
Excess of expenditures over revenue	\$ (3,469,311)	\$ (8,513,243)
Items not involving cash:		
Depreciation of capital assets	216,881	236,343
Loss/(gain) on market value adjustments of LP investments	(585,881)	(208,627)
Loss/(gain) on LP investments	(853,910)	(625,339)
Investment income re-invested	(2,576,105)	(1,670,118)
Change in non-cash working capital	(187,941)	(95,170)
	<b>(7,456,267)</b>	<b>(10,876,154)</b>
<b>Financing and investing activities:</b>		
Capital assets acquired	(108,948)	(121,694)
Investments in Limited Partnerships	(4,786,883)	(3,305,422)
Transfer from (to) portfolio funds	12,353,522	14,259,347
	<b>7,457,691</b>	<b>10,832,231</b>
Increase/(Decrease) in cash	<b>1,424</b>	<b>(43,923)</b>
Cash, beginning of year	<b>285,703</b>	<b>329,626</b>
Cash, end of year	<b>\$ 287,127</b>	<b>\$ 285,703</b>

See accompanying notes to the financial statements.

# Consolidated Notes to Financial Statements

Year ended March 31, 2013

AVAC Ltd. ("AVAC" or the "Company") was incorporated February 27, 1997 under Part 9 of the Companies Act (Alberta) as a not-for-profit company limited by guarantee. The Company changed its name from 727457 Alberta Ltd. on May 25, 1997. AVAC 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, 2006. Upon expiry of the funding agreement on March 31, 2015, 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 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, 2006. Upon expiry of the funding agreement on March 31, 2015, 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 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 expended or committed to be expended.

On March 18, 2008, the Second Amending Agreement pertaining to the Amended and Restated IVAC Initiative Grant Agreement was executed to provide a further \$ 5 million in support for the Capacity-Builder component of the IVAC Initiative.

On October 7, 2008, the Third Amending Agreement pertaining to the Second Amending and the Amended and Restated IVAC Initiative Grant Agreement was executed to provide a further \$ 10 million in support for the Capacity-Builder component of the IVAC Initiative.

On July 28, 2009 the Fourth Amending Agreement pertaining to the Third Amending and Amended and Restated IVAC Initiative Grant Agreement was executed to provide a further \$ 2 million in support for the Capacity-Builder component of the IVAC Initiative.

On November 03, 2010 the Fifth Amending Agreement pertaining to the Fourth Amending and Amended and Restated IVAC Initiative Grant Agreement was executed to provide a further \$ 3 million in support for the Capacity-Builder component of the IVAC Initiative.

AVAC Ltd. ("AVAC" or the "Company") operates with primary support from the three funding agreements noted above, if these agreements are not renewed prior to their expiry dates the Company may not be able to fulfill its obligations as and when they come due and may not be able to continue its existing business activities in the same manner.

Under paragraph 149 (1) (l) of the Canada Income Tax Act, AVAC Ltd, is considered as a tax-exempt non-profit organization (NPO).

# Consolidated Notes to Financial Statements

Year ended March 31, 2013

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

On April 1, 2012, AVAC adopted the Canadian Accounting Standards for Not-For-Profit Standards in Part III of the CICA handbook. These are the first financial statements prepared in accordance with Not-For-Profit Standards. 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) **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

- (c) **Investment funds:** The Company has adopted the Accounting Standards Board's Handbook Section 3856, Financial Instruments. AVAC holds its investment portfolio assets at fair value and recognize changes in unrealized gains and losses in the Statement of Operations for the year. This results in additional volatility in the operating results as unrealized gains and losses are recorded in investment income.

## NOTE 2: RELATED PARTY

During fiscal year 2013, AVAC Management Co Ltd., a wholly owned subsidiary of AVAC Ltd, has been contracted by Accelerate Fund GP Ltd (the "General Partner") through a Management Agreement, to provide investment services to the Accelerate Fund I Limited Partnership (the "Partnership"). Accelerate Fund GP Ltd is also a subsidiary of AVAC Ltd.

For 2013, the \$ 248,759 receivable is comprised of the expense recovery for the new Accelerate fund being currently managed by AVAC Management Co Ltd.

# Consolidated Notes to Financial Statements

Year ended March 31, 2013

## NOTE 3: AGRIVALUE FUND

Agrivalue Fund investments consist of the following portfolio:

	March 31, 2013	March 31, 2012	April 1, 2011
Cash and cash equivalents:	\$ (508,081)	\$ 1,682,764	\$ 69,140
<b>Medium term investment fund:</b>			
Provincial government bonds	3,784,427	4,434,966	6,378,422
Other bonds and accrued interest	774,338	774,990	1,510,883
Canadian equities	1,943,296	2,307,786	4,792,993
Global equities	808,242	1,059,960	1,712,107
	<b>7,310,303</b>	8,577,702	14,394,405
	<b>\$ 6,802,222</b>	\$ 10,260,466	\$ 14,463,545

The Provincial Government bonds mature between December 03, 2013 and March 8, 2015 and bear interest at rates ranging from 4.5% to 5.3%.

Investment income has been recorded net of fees paid for portfolio management which amounted to \$ 31,453 (2012 \$ 50,294).

### 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, \$ 2,186,260 was distributed directly to project applicants from the Agrivalue Fund.

AVAC has contracted to advance a total of \$ 52,994,258 of which \$ 50,735,417 has been advanced to March 31, 2013, with the remaining balance of \$ 2,258,841 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 \$ 2,258,841 for this purpose.

# Consolidated Notes to Financial Statements

Year ended March 31, 2013

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

Aggregate project approvals	\$	52,994,258
Aggregate contracted obligations	\$	52,994,258
Aggregate disbursements	\$	50,735,417
Future contracted obligations	\$	2,258,841

During the year, \$ 800,000 were contracted to projects and \$ 1,616,000 were de-committed resulting in amounts transferred from unrestricted net assets to net assets internally restricted for future contracted obligations of - \$ 816,000 (2012 \$ 2,852,684). These transfers occurred as projects were approved and decommitted during the year. \$ 38,508,233 (2012 \$ 39,324,233) of the aggregate project approvals of \$ 52,994,258 (2012 \$ 53,810,258) 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 investments in research, strategic or knowledge projects.

## NOTE 4: AG RESEARCH FUND

Ag Research Fund investments consist of the following portfolio:

	March 31, 2013	March 31, 2012	April 1, 2011
Cash and cash equivalents:	\$ 3,685,843	\$ 958,104	\$ (55,673)
<b>Medium term investment fund:</b>			
Federal government bonds	1,023,740	2,035,700	2,012,850
Provincial government bonds	1,029,080	2,309,864	2,306,318
Other bonds and accrued interest	1,865,720	2,269,965	4,461,314
Canadian equities	2,785,571	3,478,921	4,237,789
Global equities	1,125,968	1,032,289	1,471,642
	<b>7,830,079</b>	11,126,739	14,489,913
	<b>\$ 11,515,922</b>	\$ 12,084,843	\$ 14,434,240

The Federal Government bond mature on September 15, 2014 and bear an interest rate of 2.75%. The Provincial Government bond mature on September 08, 2014 and bear an interest rate of 3.25%.

Investment income has been recorded net of fees paid for portfolio management which amounted to \$ 39,630 (2012 \$ 49,201).

# Consolidated Notes to Financial Statements

Year ended March 31, 2013

**AG RESEARCH FUND ASSETS INTERNALLY RESTRICTED FOR FUTURE CONTRACTED 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, \$ 733,834 was distributed directly to project applicants from the Ag Research Fund.

AVAC has contracted to advance a total of \$ 20,865,796 of which \$ 14,346,428 has been advanced to March 31, 2013, with the remaining balance of \$ 6,519,368 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 \$ 6,519,368 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	\$ 20,865,796
Aggregate contracted obligations	\$ 20,865,796
Aggregate disbursements	\$ 14,346,428
Future contracted obligations	\$ 6,519,368

During the year, \$ 250,000 were contracted to projects and \$ 862,000 were decommitted resulting in amounts transferred from unrestricted net assets to net assets internally restricted for future contracted obligations of - \$ 612,000 (2012 \$ 3,256,667). These transfers occurred as projects were approved and decommitted during the year. \$ 12,154,898 (2012 \$ 12,816,898) of the aggregate project approvals of \$ 20,865,796 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 investments in research or knowledge projects.

# Consolidated Notes to Financial Statements

Year ended March 31, 2013

## NOTE 5: IVAC INITIATIVE

IVAC Initiative investments consist of the following portfolio:

	March 31, 2013	March 31, 2012	April 1, 2011
<b>Capacity Building Program</b>			
Cash and cash equivalents	\$ 8,454,703	\$ 10,628,108	\$ 14,159,281
<b>Early Stage Venture Fund</b>			
Cash and cash equivalents	\$ (8,696,919)	\$ (8,460,190)	\$ (3,964,346)
Limited Partnerships	18,031,148	12,767,125	8,911,766
	<b>9,334,229</b>	4,306,935	4,947,420
<b>Medium term investment fund:</b>			
Federal government bonds	1,023,740	2,035,700	2,012,850
Provincial government bonds	1,029,080	1,040,300	1,020,290
Other bonds and accrued interest	7,835,194	9,081,103	6,938,454
Canadian equities	4,295,760	4,579,079	4,603,548
Global equities	1,787,749	1,612,808	1,499,555
	<b>15,971,523</b>	18,348,990	16,074,697
	<b>\$ 33,760,455</b>	\$ 33,284,033	\$ 35,181,398

The Federal Government bond mature on September 15, 2014 and bear an interest rate of 2.75%. The Provincial Government bonds mature September 08, 2014 and bear interest rates of 3.25%

Investment income has been recorded net of fees paid for portfolio management which amounted to \$ 63,970 (2012 \$ 61,900) and general partner management which amounted to \$ 212,887 (2012 \$ 187,498).

### IVAC INITIATIVE - CAPACITY BUILDING ASSETS INTERNALLY RESTRICTED FOR FUTURE CONTRACTED OBLIGATIONS:

AVAC Ltd. funds qualifying capacity builder 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, \$ 1,625,000 was distributed directly to project applicants from the IVAC Initiative.

# Consolidated Notes to Financial Statements

Year ended March 31, 2013

AVAC has contracted to advance a total of \$ 20,769,000 of which \$ 17,144,000 has been advanced to March 31, 2013, with the remaining balance of \$ 3,625,000 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 \$ 3,625,000 for this purpose.

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

Aggregate project approvals	\$ 20,769,000
Aggregate contracted obligations	\$ 20,769,000
Aggregate disbursements	\$ 17,144,000
Future contracted obligations	\$ 3,625,000

During the year, \$ 1,900,000 were contracted to projects and \$ 1,581,000 were decommitted resulting in amounts transferred from unrestricted net assets to net assets internally restricted for future contracted obligations of \$ 319,000 (2012 - \$ 500,000). These transfers occurred as projects were approved and decommitted during the year. \$ 20,769,000 of the aggregate project approvals of \$ 20,769,000 is committed to projects which result in a future return to the Company in the form of a contingent success-based royalty.

## **IVAC INITIATIVE - EARLY STAGE VENTURE FUND ASSETS INTERNALLY RESTRICTED FOR FUTURE CONTRACTED OBLIGATIONS:**

AVAC Ltd. invests in qualifying investment funds as a Limited Partner. During the year, \$ 4,786,883 (2012 \$ 3,305,422) was distributed directly to Early Stage Venture Funds from the IVAC Initiative. An amount of \$ 729,651 (2012 \$ 284,029) was received as return of capital.

AVAC holds 10,000,000 (2012 10,000,000) units in iNovia Investment Fund 11-B, Limited Partnership. Its proportion of the fair market value of 24 (2012 28) investee companies amounts to \$ 9,223,269 (2012 \$ 7,210,521).

AVAC holds 10,000,000 (2012 10,000,000) units in iNovia Investment Fund III, Limited Partnership. Its proportion of the fair market value of 17 (2012 4 ) investee companies amounts to \$ 2,223,899 ( 2012 \$ 626,132).

AVAC holds 6,000,000 (2012 6,000,000) units in Avrio Ventures Limited Partnership. Its proportion of the fair market value of 10 (2012 10) investee companies amounts to \$ 4,170,388 (2012 \$ 3,891,177).

AVAC holds 6,233,000 (2012 6,000,000) units in Yaletown Ventures II Limited Partnership. Its proportion of the fair market value of 13 (2012 11) investee companies amounts to \$ 2,413,592 (2012 \$ 1,039,295).

# Consolidated Notes to Financial Statements

Year ended March 31, 2013

AVAC has contracted to invest a total of \$ 32,233,000 (2012 \$ 32,000,000) of which \$ 17,976,876 (2012 13,189,983) has been advanced to March 31, 2013, with the remaining balance of \$ 14,256,124 (2012 \$ 18,810,017) to be advanced in future periods. This remaining investment is forwarded based on cash call requirements. The financial statements reflect an internal restriction of net assets for the \$ 14,256,124 (2012 \$ 18,810,017) for this purpose.

The table below discloses the aggregate level of AVAC approvals, Limited Partner obligations and cash calls from the IVAC Initiative to date:

Aggregate Limited Partnership approvals	\$	32,233,000
Aggregate contracted obligations	\$	32,233,000
Aggregate cash calls	\$	17,976,876
Future contracted obligations	\$	14,256,124

During the year, amounts were transferred from unrestricted net assets to net assets internally restricted for future contracted obligations of \$ 233,000 (2012 \$ 10,000,000). This transfer occurred when Yaletown redistributed contributed capital due to a forfeited YVII US LP which they redistributed among all remaining partners.

## NOTE 6: RESERVE FUND

Reserve Fund investments consist of the following portfolio:

	March 31, 2013	March 31, 2012	April 1, 2011
Cash and cash equivalents	\$ 287,127	\$ 285,703	\$ 329,626
Total Reserve Proceeds	\$ 287,127	\$ 285,703	\$ 329,626

# Consolidated Notes to Financial Statements

Year ended March 31, 2013

## NOTE 7: CAPITAL ASSETS

March 31, 2013	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 318,172	\$ (281,764)	\$ 36,408
Computer software	885,167	(781,081)	104,086
Office equipment	80,960	(53,718)	27,242
Furniture and fixtures	66,463	(52,186)	14,277
Leasehold improvements	119,564	(91,317)	28,247
	<b>\$ 1,470,326</b>	<b>\$ (1,260,066)</b>	<b>\$ 210,260</b>

March 31, 2012	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 299,248	\$ (258,185)	\$ 41,063
Computer software	795,983	(608,143)	187,840
Office equipment	80,960	(50,679)	30,281
Furniture and fixtures	65,623	(49,369)	16,254
Leasehold improvements	119,564	(76,809)	42,755
	<b>\$ 1,361,378</b>	<b>\$ (1,043,185)</b>	<b>\$ 318,193</b>

April 01, 2011	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 281,091	\$ (241,648)	\$ 39,443
Computer software	694,090	(409,738)	284,352
Office equipment	80,155	(46,945)	33,210
Furniture and fixtures	64,783	(46,323)	18,460
Leasehold improvements	119,564	(62,187)	57,377
	<b>\$ 1,239,683</b>	<b>\$ (806,841)</b>	<b>\$ 432,842</b>

# Consolidated Notes to Financial Statements

Year ended March 31, 2013

## NOTE 8: 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 2013, AVAC made project disbursements of \$ 2,186,250 (2012 \$ 3,097,118) on total aggregate project approvals of \$ 52,994,258 (2012 \$ 53,810,258). Project expenses in 2013 of \$ 790,483 (2012 \$ 400,798) 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 2013 managers were allocated for each of Q1, Q2, Q3 and Q4 amounting to \$ 1,561,742 being attributed to the Agrivalue Fund (2012 \$1,156,485).

- (b) **Ag Research Fund expenditures:** In 2013, AVAC made project disbursements of \$ 733,833 (2012 \$ 2,563,194) on total aggregate project approvals of \$ 20,865,796 (2012 \$ 21,477,796). Project expenses in 2013 of \$ 88,841 (2012 \$ 88,086) are associated with projects which have been reviewed, projects with pending approvals, and approved projects.

	2013	2012
<b>AG RESEARCH FUND PROJECT DISBURSEMENTS AND EXPENSES</b>		
<b>Theme 1 - Biowaste Value Added - ENMA</b>		
Disbursements	<b>323,500</b>	525,000
Project expenses	<b>21,408</b>	26,900
<b>Theme 2 - Food Ingredients and Fermentation Products</b>		
Disbursements	<b>410,333</b>	2,038,194
Project expenses	<b>64,964</b>	49,939
<b>Theme 3 - Biowaste Value Added - SRM</b>		
Disbursements	-	-
Project expenses	<b>2,470</b>	11,247

AVAC's general and administrative expenditures are allocated among the Funds based on manager allocation each quarter. In 2013 managers were allocated for each of Q1, Q2, Q3, and Q4 respectively, amounting to \$ 482,312 being attributed to the Ag Research Fund (2012 \$ 318,130).

# Consolidated Notes to Financial Statements

Year ended March 31, 2013

(c) **IVAC Initiative expenditures:** General operating expenditures directly associated with IVAC as a result of an independent review of the IVAC initiative amounted to nil (2012 nil).

(i) **Capacity Builder expenditures:** In 2013, AVAC made project disbursements of \$ 1,625,000 (2012 \$ 2,760,000) on total aggregate project approvals of \$ 20,769,000 (2012 \$ 22,350,000). Project expenses in 2013 of \$ 284,655 (2012 \$ 339,101) 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 2013 managers were allocated for each of Q1, Q2, Q3 and Q4 respectively, amounting to \$ 1,275,333 being attributed to the IVAC Initiative - Capacity Builder (2012 \$ 1,277,203) .

(ii) **Early Stage Venture Fund expenditures:** In 2013, AVAC made cash call advances to General Partners in the amount of \$ 4,553,883 (2012 \$ 3,305,422) on total contracted Limited Partnership agreements totalling \$ 32,233,000 (2012 \$ 32,000,000). Early Stage Venture Fund expenses in 2012 amounted to \$ 20,298 (2012 \$ 24,314).

AVAC's general and administrative expenditures are allocated among the Funds based on a manager allocation each quarter. In 2013 managers were allocated for each of Q1, Q2, Q3 and Q4 respectively amounting to \$ 85,124 was attributed to the IVAC Initiative - Early Stage Venture Fund (2012 \$ 11,899).

Start-up costs associated with setting up the Early Stage Venture Fund amounted to nil (2012 nil).

(d) **Reserve Fund expenditures:** In 2013, AVAC made project disbursements of nil (2012 nil) on total aggregate project approvals of \$ 750,000 (2012 \$ 750,000). Project expenses in 2013 of nil (2012 \$ 45,079) are associated with projects which have been reviewed, projects with pending approvals, and approved projects.

## NOTE 9: 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, 4 and 5.

AVAC is exposed to, and market risk arises from, the possibility that market price fluctuations will affect the value of the investment portfolio. Cash equivalents bear interest at floating rates based on the bank prime rate, and as such, are subject to interest rate cash flow risk resulting from market fluctuations in interest rates. AVAC has \$ 3,721,958 Global equities (2012 - \$ 3,705,057) which are recorded at the Canadian dollar equivalent and are subject to foreign currency risk.

## NOTE 10: COMMITMENT

At March 31, 2013 AVAC is committed to an office lease with minimum monthly lease payments of approximately \$ 7,700 from March 1, 2012 to February 28, 2015.

## Schedule 1: Consolidated General and Administrative Expenses

Year ended March 31, 2013	2013	2012
<b>GENERAL AND ADMINISTRATIVE EXPENDITURES:</b>		
Staff salaries, benefits and development <sup>1</sup>	\$ 2,032,915	\$ 1,426,630
Public relations & communications	229,133	212,173
Computer system maintenance	139,174	146,285
Honoraria and fees	229,045	192,038
Consulting/professional	92,356	31,176
Office expenses	218,826	249,232
Board and meeting expenses	110,197	127,509
GST expense	73,585	57,898
Travel expenses	49,321	65,847
Depreciation expense	216,881	236,343
Insurance	10,132	15,813
Transaction charges	2,946	2,773
	<b>\$ 3,404,511</b>	<b>\$ 2,763,717</b>

<sup>1</sup> Includes severance payments to a senior AVAC executive

Continued on next page.

## Schedule 1: Consolidated General and Administrative Expenses (Continued from previous page)

Year ended March 31, 2013	2013	2012
<b>REMUNERATION PAID FOR/PROVIDED TO:</b>		
<b>Directors:</b>		
Rob Rennie, Chairman of the Board	\$ 50,394	\$ 14,764
Jerry Bouma	11,935	–
Robert Church	14,725	16,405
Art Froehlich	27,856	55,868
Myles Hamilton	13,521	–
Bill McKenzie	13,766	–
Colette Miller	21,113	20,798
Michael Raymont	18,660	17,643
Sandy Slator	19,188	16,463
Rick Smith	20,122	18,069
Jim Thacker	17,763	15,039
Advisory Committee Members:	25,332	21,880
Management personnel reporting directly to Board <sup>1</sup>	926,976	344,369
All other permanent personnel employed or under contract <sup>2</sup>	1,507,535	1,355,790

<sup>1</sup> Includes severance payments to a senior AVAC executive

<sup>2</sup> Includes amounts allocated to projects. Does not include amounts accrued in prior year.

# Portfolio Companies

## AGRIBUSINESS VALUE-ADD AND AG RESEARCH


## CAPACITY BUILDER


## VENTURE CAPITAL FUNDS

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## INVESTMENT GRADUATES

Cevena Bioproducts Inc.  
 CV Technologies Inc. (Afexa Life Sciences Inc.)  
 FarmOn.com

New Era Nutrition  
 Tapeko Natural Flavours Inc.  
 Wheatland Select Organic Turkey Ltd.

With financial assistance from



Agriculture and Agri-Food Canada

Agriculture et Agroalimentaire Canada



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