

 **Invest. Strengthen. Succeed.**

AVAC Annual Report 2008 / 2009

## **Our mission**

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

## **Our vision**

**Unleashing innovation.**

## **Table of contents**

<b>2</b>	<b>Chairman's Message</b>
<b>3</b>	<b>President and CEO's Message</b>
<b>4</b>	<b>Who We Are and What We Do</b>
<b>5</b>	<b>Current Investment Area</b>
<b>6</b>	<b>Corporate Goals and Strategic Intent</b>
<b>7</b>	<b>Stages of Venture Development</b>
<b>8</b>	<b>Stories of Success</b>
<b>19</b>	<b>Management Discussion and Analysis</b>
<b>22</b>	<b>Measures of Success</b>
<b>24</b>	<b>Corporate Governance</b>
<b>26</b>	<b>Active Investments</b>
<b>27</b>	<b>Financial Statements</b>
<b>41</b>	<b>AVAC Members</b>



## **Invest. Strengthen. Succeed**

Invest. Strengthen. Succeed. Three simple words that describe what AVAC does and what AVAC makes possible. We invest strategically in early-stage commercial businesses that support Alberta's value-added sectors. We strengthen their commercialization efforts by beginning with an exhaustive due diligence process and then providing expertise, insight and guidance through every stage of the business development process. The result is that our investees succeed in moving toward commercialization, securing additional investment dollars and ensuring long-term sustainability.

In the process of investing in our client's success, we also strengthened Alberta's value-added industry and our entire economy, creating jobs, generating wealth and increasing our economic diversity and potential. Even as much of the world was left reeling from the recent global economic crisis, seeded with funding from the Province of Alberta, AVAC continued to help its investees work toward commercial success. And we continued to see impressive results. In fact, as of March 31, 2009, we helped 35 of our portfolio companies achieve \$340.6 million in aggregate sales.

In the following pages, you'll meet some of those investees and learn more about how AVAC's investment has strengthened their companies and their ability to succeed.

## Message From the Chairman of the Board



I am honoured to present this annual report, my last as AVAC's Chairman of the Board, on behalf of AVAC's board of directors, management and staff.

During the past year, AVAC's Board of Directors reviewed 20 different applications from early-stage businesses, and committed more than \$17.3 million to those companies. And, we dispersed almost \$11.3 million to AVAC clients.

We were tremendously impressed by the quality of the applications and the ingenuity of the applicants. It is a testament to Alberta's resourcefulness and entrepreneurial spirit, as well as to AVAC's ability to recognize and nurture the potential in early-stage companies. That ingenuity was also evident during our tenth anniversary celebration, held last September in Calgary, which showcased the successes of many of our existing clients to more than 150 guests and dignitaries.

It is impossible to reflect on the past year without discussing the recent global financial turmoil. Although most businesses were impacted, early-stage companies that rely on venture capital investments and angel investors were particularly hard hit. That is why we are understandably proud that so many of AVAC's portfolio companies not only weathered the financial storm, but also realized impressive results. I am particularly proud of the measured approach AVAC's management and staff took in dealing with the crisis and the energy they devoted to providing additional support to clients.

Our board, management and staff also lent their insight and expertise to an initiative led by Alberta Advanced Education and Technology to map and restructure the process of moving research to market. AVAC was honoured to be invited to participate in the Roles and Mandates Framework for Alberta's Provincially Funded Research and Innovation System and looks forward to its recommendations.

AVAC is grateful to the Government of Alberta for their ongoing support, which allows us to continue investing in and strengthening Alberta's value-added industry. We understand that the current recessionary environment creates challenges, and we appreciate their continued confidence in the work we do and their recognition of the importance of early-stage value-added investment.

This year we welcomed two new members to AVAC's board of directors. Kate Dykstra, an Edmonton-based lawyer, is senior counsel with Parlee McLaws LLP, while Art Froehlich is a senior partner in AdFarm, one of North America's largest agricultural marketing and communications companies. We also said farewell to two long-time board members – Tom Droog and Ken McCready. We are immensely grateful to both Tom and Ken for their outstanding service to AVAC and our investees. As I hand the role of chairman over to Art Froehlich, I am mindful of the challenges that lie ahead, including the need to revisit our funding agreements to allow for equity holdings when required and the importance of securing funding sources to support our future investment capacity. Most importantly, I am proud of the tangible results we have realized from our investment in Alberta's value-added industry. Many thanks.

A handwritten signature in black ink, appearing to read 'Robert A. Splane'. The signature is stylized with a large, looped initial 'R' and a long horizontal line extending to the right.

Robert A. Splane  
Chairman of the Board

**I am particularly proud of the measured approach AVAC's management and staff took in dealing with the crisis and the energy they devoted to providing additional support to clients.**

## Message From the President and CEO

A year ago, when AVAC celebrated its tenth anniversary, few of us could have imagined how much the global economy was about to change. Over the past twelve months we have seen world financial markets face unprecedented challenges, and witnessed the onset of a global recession that rivals anything in recent memory. Which is why it may seem incongruous to some that AVAC realized such remarkable successes during that same time period.

Over the past year, AVAC invested in 16 new companies, committing more than \$17.3 million to early-stage value-added companies. All of these investments were made during a time when traditional investors were curtailing their activities. We also continued our work as Alberta's leading fund-of-fund investor, helping to establish a third venture capital fund. During the course of the past year, these venture capital funds made three investments into Alberta companies, further demonstrating the importance of making venture capital and expertise available here in Alberta. The fact that all three of these companies were AVAC investees shows that the work we do readies our portfolio companies for successful venture capital investment.

By the end of the past fiscal year, 35 of our portfolio companies had reported aggregate sales in excess of \$340 million and we anticipate another \$80 million during the coming fiscal year. While the accomplishments are already significant with more still to come, these early stage results clearly show the value of supporting and building successful home-grown companies.

This past year saw AVAC complete our own management team, giving us a full range of in-house operational and tactical expertise in areas such as IT, life sciences, engineering, chemistry and agriculture. The breadth and depth of this experience allows us to employ a cross-functional team model that ensures every investee benefits from the talent and expertise of multiple team members. We also recently relocated our Leduc office to Edmonton's Alberta Research Park, placing us in a close proximity to several of our

portfolio companies in an office setting that better supports the consultative and confidential nature of our work. At the same time, we continued to work to streamline processes and enhance efficiencies, achieving a 22 per cent improvement in our management expense ratio over the previous year.

As he transitions to Vice-Chair position from that of Board Chair, I would like to thank Bob Splane for his leadership and dedication to AVAC in its role within the Province, and look forward to his continued and valued support.

One initiative that AVAC was very proud to be involved in this past year was planning the annual Canadian Venture Capital Association Conference, held the last week of May in Calgary. I was honoured to chair the conference, and pleased to have the opportunity to showcase both AVAC and Alberta's success to Canada's venture capital and private equity community.

While our clients were by no means immune to the impact of the global economic crisis, AVAC's commitment to due diligence and to improving their commercialization efforts put them in a position of strength. We are most grateful to both the Alberta and Canadian governments for the significant level of trust and financial support they have provided AVAC over the years, that has enabled us to do what we do. We continue to demonstrate how investing in early-stage value-added companies can help diversify our economy and stimulate economic growth, both today and into the future.



Ross Bricker  
President and CEO



**We continue to demonstrate how investing in early-stage value-added companies can help diversify our economy and stimulate economic growth, both today and into the future.**

## Who We Are and What We Do

**A**VAC is a private, not-for-profit company that invests strategically in promising early-stage commercial businesses focusing on the expansion of Alberta's value-added agri-business, ICT, life sciences and other industrial technology sectors. AVAC is also Alberta's leading fund-of-fund investor in early-stage venture capital and is nurturing the growth of Alberta's own venture capital sector.

AVAC was created in 1997 to stimulate and enhance the research and development capacity of the agribusiness value-added sector, facilitate the effective utilization of the research and development capacity, and assist with the commercialization of innovative value-added products and services in Alberta's value-added agriculture industry. In the intervening years, AVAC has dedicated itself to stimulating and strengthening Alberta's value-added industry and has invested in and provided guidance to 110 early-stage companies, 38 agriculture research programs and three venture capital funds.

Initially seeded with \$35 million from the Alberta Government and \$10 million from Agriculture and Agri-food Canada, AVAC has since grown its investment funds significantly with additional Provincial contributions of \$79 million, including the IVAC Initiative rolled-out in 2007. As of March 31, 2009 AVAC has helped 35 of its clients generate more than \$340 million in aggregate sales. When both AVAC's current and former investee companies are included, that aggregate sales number exceeds \$378 million. In total, the 110 companies we have invested in since our inception have raised over \$539.9 million in funds.

AVAC is a highly respected leader within Alberta's burgeoning value-added industry and the architect behind Alberta's emerging venture capital sector. As Alberta's leading fund-of-fund investor in early-stage venture capital, we have committed \$22 million to establish three early-stage venture capital funds in Alberta, with a combined total of \$269 million in available funds.

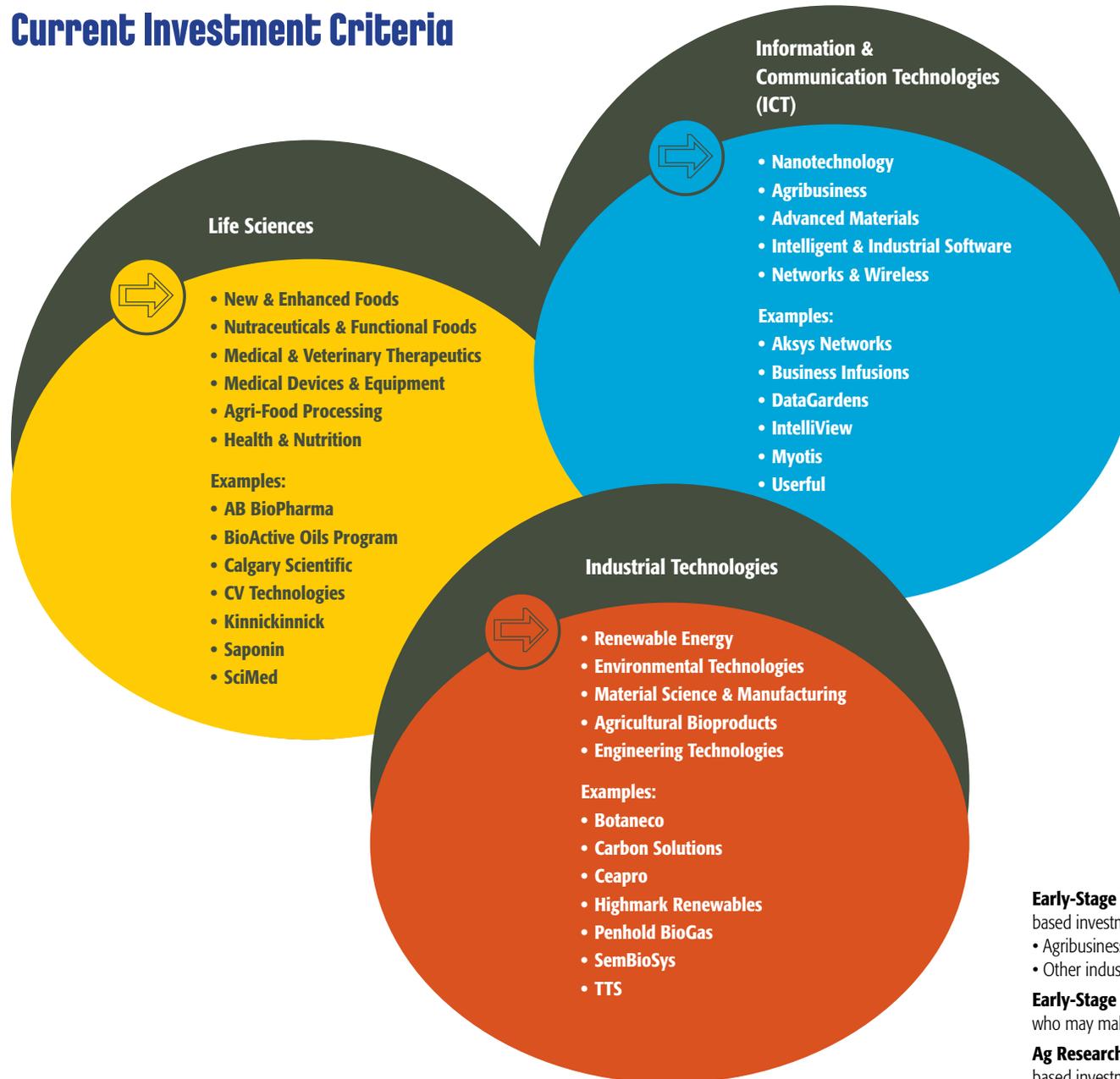
Working with a wide array of partners, investees, and sponsors, AVAC plays a critical role as the experienced investor in early-stage companies.

AVAC provides investment at a crucial stage in a company's life cycle – the pre-seed, seed, and pre-commercial stages that many traditional investors avoid. This stage is crucial, as it lays the foundation for all of the company's future commercialization efforts. Investing at this stage means that AVAC takes on substantially more risk than traditional investors are usually willing to take. We mitigate this risk by conducting extensive risk and stage of development analysis, and looking closely at the management team behind any venture.

After a company has been selected for investment, we do more than simply provide the investment dollars – we work closely with the management team to strengthen their commercialization efforts and prepare them for future investment. We set high standards for accountability and successful alumni are obligated 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.

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

# Current Investment Criteria



**Early-Stage Value Add Investment Program** – Focuses on royalty-based investments in companies in the following areas:

- Agribusiness (agrivalue)
- ICT
- Life sciences
- Other industrial technology businesses.

**Early-Stage Venture Fund** – Limited partner in venture capital funds who may make investments in companies.

**Ag Research** – Grant-based investments in research, and royalty-based investments in companies.

## Corporate Goals and Strategic Intent

The following four corporate goals were originally established in 2004. As in the past, these goals continue to provide guidance to AVAC's future strategy.

1. Strengthen the value-added commercialization path for early-stage ventures
2. Move investees toward commercial success and long-term sustainability
3. Increase attraction of financial and human capital
4. Improve market driven technology commercialization from research

AVAC will contribute to the growth and development of Alberta's value-added commercial industry. It will invest directly, and through early-stage venture funds, in Alberta's early-stage value-added companies, and commercially-relevant agricultural research. It will utilize and renew its finances to carry out its mandate on a sustainable basis, and re-invest its investment returns to support further investment in early-stage value-add opportunities beneficial to Alberta. It will use its reputation as a knowledgeable investor to leverage additional financial and business resources for the value-added sector. In all of its activities, AVAC will be fiscally, socially and environmentally responsible.

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 investment proposals presented to it which reflect the mission and strategic intent of AVAC;
- AVAC will invest in private businesses, and share the early-stage business risk through the investment of patient early-stage capital, professionally and actively managed to enhance potential commercial success. Using its royalty-based investment model, AVAC will re-invest its earnings from successful investee companies to support further early-stage value-add company investments;
- 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.

# Stages of Venture Development

**A**VAC 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 management 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 investors, 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.

						<b>Profit stage</b>	<b>Growth</b> 	
			<b>Commercial start-up</b>	<b>Revenue stage</b>	<b>Sales viability</b>		<b>&gt; \$5 million</b>	
<b>Stage</b>	<b>Discovery</b>	<b>Seed stage</b>						
<b>Aggregate Financing</b>	∞	Up to \$250,000	\$250,000 to \$1 million	\$1 million to \$5 million	\$2 million to \$5 million	\$2.5 million to \$10 million	\$2.5 million to \$15 million	
<b>Source of \$\$\$</b>	Government, industry	Personal savings, friends, government	Angels investors	Angels investors	Angels investors, venture capital, distribution alliances	Venture capital	Banks, debt financing, merchant banks	IPO, acquisition, institutional, private placement
<b>Product</b>	Basic research	Concept Stage	Production prototypes	Market samples available, final product produced	Commercial product volumes into distribution system	Cash flow, break-even achieved (EBITDA)	Net profit, profitability evident	Durable profits, expansion opportunity evident

## AVAC Investment Creates a More Affordable Prebiotic for Market



**AVAC's due diligence process was extremely helpful, because it got us focused on industry relations which happened to be quite beneficial from a scientific perspective.**

Over the past few years, more and more people have come to understand the myriad health benefits of adding prebiotics to our food. Unfortunately, getting those prebiotics into our food can sometimes be prohibitively expensive. Thanks to the work of a team at the University of Alberta and their development of Beta galactosidase, food manufacturers may soon have an affordable way to produce important oligosaccharide as prebiotics from by-products of the dairy industry.

"The oligosaccharides already on the market are mainly used in infant formula to replace the oligosaccharides found in human milk, but they are produced from purified enzymes and lactose, which is a very expensive, cumbersome process," explains Dr. Michael Gänzle, the research team leader for the project. "Our goal was to find a cheap way to purify oligosaccharides from whey."

With that idea in mind, Gänzle and his team approached AVAC in 2005, and "AVAC understood where I was going from the start," recalls Gänzle. "AVAC's due diligence process was extremely helpful, because it got us focused on industry relations which happened to be quite beneficial from a scientific perspective." As part of those industry relations, Gänzle and his team established several industry partnerships with companies that hope to benefit from a more economical way of introducing known oligosaccharides into the marketplace. "AVAC has been crucial in bridging that gap between academia and industry. They allow us to take our knowledge from the basic research, talk to industry and get something that is applicable so that you get transfer from university to industry faster."

Now nearing the end of the initial funding project with AVAC, Gänzle and his team have found that the project has evolved somewhat from their initial concept. "As you progress in the lab or the priorities of industry partners change, you need to be able to adapt your work so that you can focus on the most exciting and most promising topics as opposed to staying stuck to what was written in the original proposal. AVAC was very flexible in allowing us to pursue the objectives in evolving ways as long as we stayed focused on the end result."

One of the ways that the project has evolved, is that the team has also developed novel oligosaccharides, which have the potential to inhibit pathogens such as diarrheal disease in infants. "It has tremendous life-saving potential, and AVAC has helped make that possible." 📌

## AVAC Investment Gets Business Infusions Into the Race



**AVAC understands the bigger picture and has some pretty stringent standards for who they will invest in, but they are investing, and right now, they're one of the few people doing any funding of any kind in Western Canada... without them there are a lot of Alberta companies who wouldn't stand a chance.**

When most of us think of veterinarians, we rarely think beyond the animals to what's involved in running a veterinary business. But running a veterinary business is a complex undertaking, one that becomes even more complex if veterinarians work at multiple locations. Now Calgary-based Business Infusions, with a \$340,000 investment from AVAC, has developed a practice management solution that makes it easier for veterinarians to manage their businesses and increase profitability.

"The software was developed inside the largest equine veterinary hospital in Canada because there was not a software platform in the market that could address their need for a multi-location, multi-disciplinary practice," recalls Scott Pickard, President and CEO of Business Infusions. "We spent four years developing the product for internal purposes and after some industry-leading veterinarians saw what we were doing, they wanted it for their own practices." That was the fall of 2006. In March 2007 they were approached by AVAC, after some of AVAC's management team saw their presentation when they came in second for the Venture Prize competition.

"Working with AVAC was intensive right from the start," recalls Pickard. "But the due diligence process was extremely beneficial, because it forced us to define some of the strategies that we had discussed in general terms but hadn't committed to paper. AVAC asked questions that required us to look at business issues that we hadn't addressed before and that prepared us to be able to seek other investment. Even if people don't understand exactly what we do, they know that if AVAC has invested in us, we have a solid idea and a good chance of success."

Business Infusion's technology allows for veterinarians to work at multiple locations, and provides strong inventory requirements and reporting capabilities. Although still a relatively young company, they have realized enormous success, with some of the biggest equine veterinary practices in the world now running their software. Initially focused exclusively on the equine market, they are also now entering the small animal market, which is 20 times larger with immense potential across North America.

"AVAC has been phenomenal to work with, especially in terms of being flexible as the project evolves," says Pickard. "AVAC understands the bigger picture and has some pretty stringent standards for who they will invest in, but they are investing, and right now, they're one of the few people doing any funding of any kind in Western Canada... without them there are a lot of Alberta companies who wouldn't stand a chance." 📍

## AVAC Investment Helps Calgary Scientific Virtualize Medical Imaging



**We're really excited about where we're headed next and we're looking forward to working with AVAC to make that possible.**

**A**sk anyone who's experienced – or watched a loved one experience – a heart attack or stroke, and they'll tell you that getting a diagnosis can be frightening. Not only are the diagnostic procedures often invasive, uncomfortable and risky, but they also often require patients and their families to wait for hours before getting an accurate diagnosis. With investment from AVAC, Calgary Scientific Inc. is revolutionizing cardiac diagnosis with a virtualized medical diagnostic software that saves lives, time and money.

"One of our goals is to get away from invasive procedures," says Dr. Bryon Osing, CEO of Calgary Scientific. "With our technology, we can take a CT image and we'll know definitively within 15 minutes what kind of plaque is in your arteries, if there's blockages and what kind of damage we're dealing with." Not only does the software create 3D images, but it can also create a 4D image of the beating heart that shows how much blood is flowing and how the valves are working. "You can do a full virtual heart exam in minutes, without any pain or risk, and at a substantial time and cost savings." Calgary Scientific's technology is so user friendly, that it even allows for doctors to view results via remote servers, including iPhones. This anytime, anywhere capability holds tremendous potential for ensuring patients in rural or remote locations receive the same acute care response as urban patients.

Calgary Scientific began working with AVAC in 2007, and in 2008 received a \$1-million investment from AVAC to help commercialize the cardiac assessment software. "AVAC got the idea behind our technology right away and immediately saw the potential and the possibilities," recalls Osing. He notes that the due diligence process, "was extremely valuable, as it strengthens your internal capabilities and allows you to take that information and reuse it."

In addition to their cardiac assessment software, the company also recently unveiled their PureWeb platform, which virtualizes third party applications so that physicians can access any software package, system or technology from any device anywhere to view patient medical records, lab reports and images. Unveiled in December 2008, PureWeb already has six patents pending against it. Both IDC and Frost and Sullivan, two of the most prestigious research institutions in the world, recently profiled Calgary Scientific and lauded them for their pioneering work in virtualizing medical information technology.

"We're really excited about where we're headed next and we're looking forward to working with AVAC to make that possible." 

## AVAC Sees the Potential in CanBiotic's Work to Improve Food Safety



**From the outset, AVAC understood the science behind what we were doing and asked a lot of questions that helped us plan ahead.**

**W**hen the stories about people becoming ill after eating certain food products began surfacing last summer, many Canadians had never heard of listeriosis. By October 2008, that had all changed. More than 20 deaths were linked to the outbreak and a massive recall cost the company millions of dollars. As food manufacturers around the world scrambled to address the problem, a team of researchers here in Alberta already had an answer – one that AVAC had invested in right from the start.

CanBiotic was formed in 1998 by three scientists from the University of Alberta to commercialize their investigation into Lactic Acid Bacteria (LAB) and the bio-preservation of foods. The result of their research efforts was Micocin<sup>®</sup>, a food biotechnology product that uses natural LAB on consumer ready-to-eat meats. "Micocin<sup>®</sup> targets Listeria by producing a natural by-product that inhibits the growth of Listeria," explains Denise Carlson, CanBiotic's Director of Operations. "Our product goes onto the meat right after it is cooked and before packaging. If there happens to be Listeria bacteria present, then Micocin<sup>®</sup> will inhibit their growth during the shelf-life of the meat product. It's very much a food safety insurance policy."

CanBiotic began working with AVAC in 1999, when "we needed seed funding to get us over the hurdle of getting our products up and running," explains Dr. Michael Stiles, President and CEO of CanBiotic. "From the outset, AVAC understood the science behind what we were doing and asked a lot of questions that helped us plan ahead." After completing the due diligence process, AVAC invested \$250,000 in CanBiotic and continues to work with them to assist them in commercializing Micocin<sup>®</sup>.

Although Micocin<sup>®</sup> has received FDA approval in the United States, and has been approved for use in Colombia, Costa Rica and Mexico. Canadian regulatory processes have slowed the approval in Canada. Undaunted, CanBiotic continues to work with Griffith Laboratories, a global manufacturer of food ingredients, to bring Micocin<sup>®</sup> and Procin<sup>®</sup>, their animal health product, to market.

Together with Carlson, Stiles and Dr. Lynn McMullen, CanBiotic has a team of five other researchers that are working to develop next generation products based on their platform technologies. They are also continuing to work with AVAC to develop their management team. "AVAC continues to be helpful, and to work with us to offer valuable support and connect us with industry contacts," notes Carlson. 📍

## AVAC Strengthens CoolIT Systems' Plans For Success



**Alberta has an incredibly talented high tech community and AVAC is ideally positioned to promote technology development within our province.**

Forget software malfunctions or hard drive failures; one of the biggest challenges in keeping computers up and running in top condition is minimizing the heat computers generate. "Heat is a massive issue," explains Geoff Lyon, CEO of CoolIT Systems. "When you put power into a computer chip, the byproduct of power is heat, so that heat becomes a limiting factor and can actually slow processors down."

"For many years, the way computer manufacturers dealt with heat was to include a heat sink, which as little as five or six years ago was simply a chunk of aluminum cut into fins with a fan bolted on top," laughs Lyon. "But with today's faster computers, cooling systems have to get better and more sophisticated and that's what CoolIT does."

Launched in 2001, today CoolIT provides one of the premier liquid cooling systems in the world. In 2006, they launched a premium retail product geared largely at high-end gamers and later that same year the company landed the contract for delivering some of the components for cooling technology to Dell Computers. That relationship with Dell continues today, with CoolIT now the sole provider of cooling technology for Dell's computers.

In 2009, with a \$6.2-million investment package from AVAC, iNovia and angel investors, CoolIT unveiled its Domino Advanced Liquid Cooling (ALC) solution for desktop computers. "It's a huge achievement for us," notes Lyon. "It represents everything we've learned and creates an accessible, affordable cooling system for the consumer." The product was an immediate sensation, and has already received more than 25 editor's choice awards, with sales eclipsing everything the company has done to date.

CoolIT began working with AVAC in early 2008, and submitted an application and completed the due diligence process just a few months later. "The due diligence process is very much about responsible business practice, and has already proven useful outside of AVAC." Lyon also credits AVAC for helping to open doors for the company and creating opportunities for discussions with other potential investors. "In this economy and within the local community, AVAC has been extremely helpful... we definitely see them as part of our team."

Lyon has been so impressed with AVAC that he has already recommended them to other early-stage companies. "Alberta has an incredibly talented high tech community and AVAC is ideally positioned to promote technology development within our province. 📍"

## AVAC Investment Helps Farmon.com Connect with Young Farmers



**AVAC's connections and support are more valuable than the monetary investment... we had no idea how much AVAC had to offer or what could help us achieve.**

Farming is not an occupation for the faint of heart. But when you're a young farmer, it can seem even more daunting, especially when you don't know where to turn for advice or support. Farmon.com, a website that's created an innovative online community for young farmers, is hoping to ease some of those challenges and help young farmers connect with one another.

Launched in 2008, Farmon.com is the brainchild of seven Albertans, including six young farmers that fall in the site's targeted age group of 18 to 30. "We know that it's hard to reach that demographic of young farmers," explains Jackie Northey, Farmon.com's Communications Officer. "We also know that our province lost more than half of that demographic between the years of 1996–2006." Northey and her partners realized that although business supports exist, young farmers were unsure of how to find them. "These programs and supports are being marketed in ways that don't reach this demographic – they're using newspapers, magazines, but that's not where this age group looks. So we thought there has to be another way."

The solution was to create a social media website that focuses on agriculture and aims to help young farmers find the resources, information and support they need. It was a huge undertaking for the partners, who until AVAC provided investment, had been relying completely on their own resources.

"AVAC has just been phenomenal," stresses Northey. "You know that when you've satisfied their due diligence requirements that you're doing a good job and that it can work. It's not just paperwork or forms, it's actually meeting with them, going over your idea and getting feedback. And they've connected us with people who can help you go further. We'd been struggling along for two years on our own, but once we connected with AVAC things took off. Their wisdom and experience helped us determine if we really had something valuable and how to take it to the next step."

Northey and her partners are currently working to make learning and training materials available on the site, and eventually hope to create an online marketplace. When they're ready to move forward, they know they can turn to AVAC for assistance. "AVAC's connections and support are more valuable than the monetary investment... we had no idea how much AVAC had to offer or what they could help us achieve." 📌

## AVAC and Highmark Renewables are Turning Waste Into Energy



**Our work with AVAC has a lot to do with what's next and framing what's sensible as we advance Highmark's intellectual property.**

**W**hen it comes to bioWaste, Alberta is prolific. Whether it's from farms or feedlots, Alberta produces most of Canada's bioWastes and is home to 70 per cent of Canada's feedlots. So it's no surprise that a unique technology that turns bioMass into renewable bioGas would be developed here in Alberta.

Highmark Renewables sells technology and technology designs to renewable energy plants. Their technology transforms organic wastes from outdoor feedlots, food industry residues and municipal sewer waste into clean energy for powering homes and businesses. Growing Power L.P. is Highmark's first large scale customer. Located near Vegreville, the Growing Power plant produces about 20 tonnes of premium bio-based fertilizer along with 24,000 kWh of green electricity daily – enough to meet the needs of 1,200 homes. In the near future, Growing Power plans to quintuple the amount of waste it processes and add another proprietary Highmark technology to produce environmentally friendly bioFuel.

"Where there's waste, there's opportunity," explains Evan Chrapko, one of Highmark's co-CEOs. "Some might say that Alberta is literally overflowing with opportunity."

Even though their technology has already attracted international attention, Chrapko stresses that R&D never stops. "Companies forget about feeding their R&D pipeline. You need to continually develop, enhance and refine your technology and try to make it obsolete with your own new inventions and know-how. Our work with AVAC has a lot to do with what's next and framing what's sensible as we advance Highmark's intellectual property."

Chrapko and his brother Shane joined the Kotelko family in running Highmark almost three years ago. Since then, he has worked extensively with AVAC and has found the experience to be "nothing short of refreshing. It's fantastic to work with a group of people who understand that you don't have to go to the far corners of the world to find good ideas. AVAC 'gets' that there is world class talent and ideas at home, and that they need nurturing to get onto the world stage."

Chrapko has also been impressed with AVAC's flexibility. "The nature of R&D is unpredictable. What comes out the other end of the pipe is almost always different than what you expected. That seems to surprise conventional lenders, which makes no sense because if you knew what was coming out the other end then you wouldn't call it research. AVAC gets that. And they let you adapt and adjust accordingly so that your end result is even more successful." 📌

## AVAC Helped Kinnikinnick Fine Tune Their Recipe For Success



**AVAC understands that things change and they allow you to make choices quickly and respond quickly. They keep their eye on the target and they get that there's more than one way to get to that target.**

**W**hen Kinnikinnick Foods first approached AVAC for funding, they were looking to explore technologies that would let them expand their market. At that time, the Edmonton-based gluten-free bakery was interested in modified atmosphere packaging that would extend the shelf life of their products and new product development. "Research funded by AVAC proved that type of packaging was the wrong direction for us," recalls Jerry Bigam, Kinnikinnick's President and CEO. "But those same funds helped us develop our most successful product – a gluten-free white sandwich bread which is our best selling product in North America. "

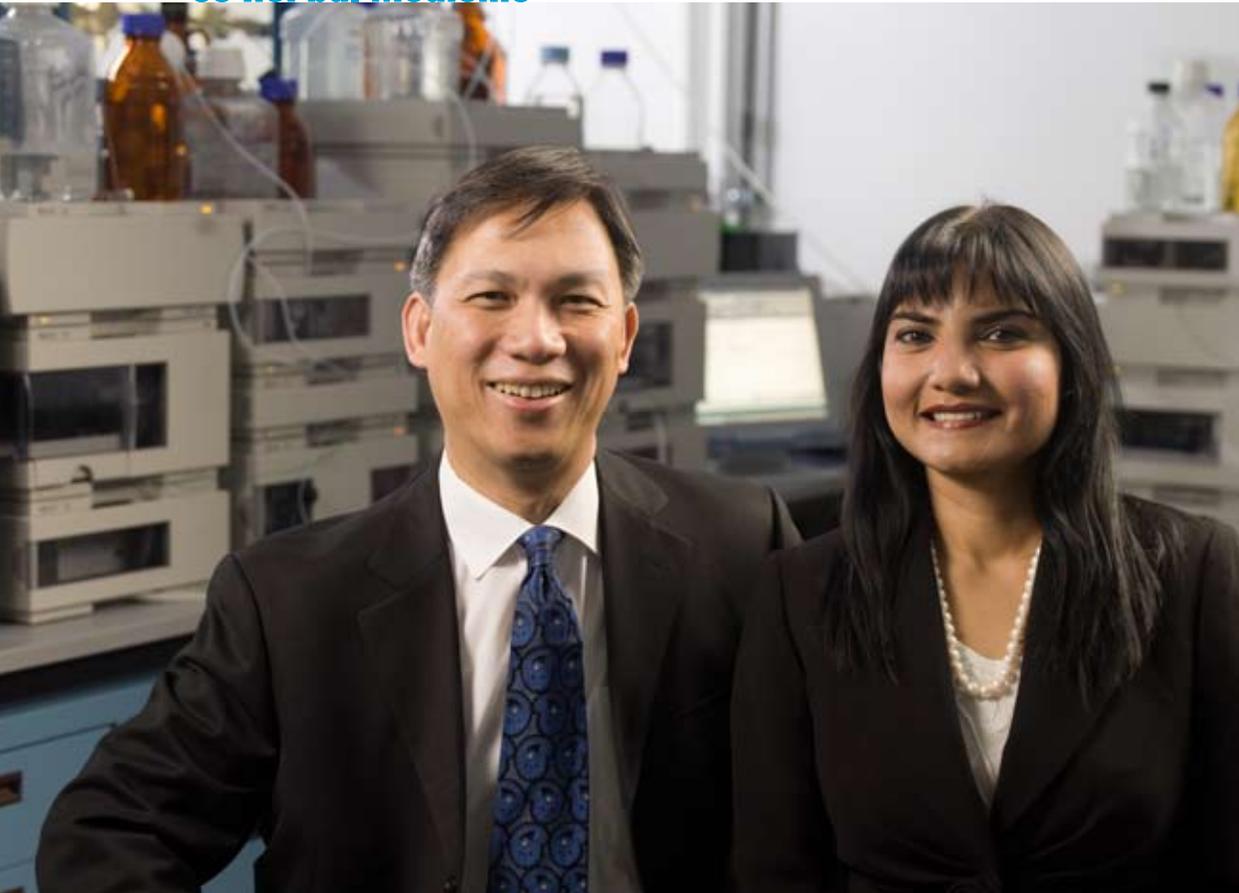
A small company at the time, "R&D funds were out of our reach, so the AVAC funding was a Godsend for us." Soon after, Kinnikinnick approached AVAC for more funding to expand their existing facility, and just as the proposal was approved, they had the opportunity to buy the largest, most sophisticated bakery in North America, located in Edmonton. "When the facility became available, AVAC switched gears and said no problem. They were very flexible and that was key to us being able to acquire the plant. AVAC understands that things change and they allow you to make choices quickly and respond quickly. They keep their eye on the target and they get that there's more than one way to get to that target."

Today Kinnikinnick produces over 60 products in two multifaceted gluten-free, dairy-free, nut-free facilities with over 140,000 sq. ft. of manufacturing space and 150 employees. They are one of the largest facilities in North America, and one of the most allergy-friendly production facilities in the world. And they are quick to credit AVAC with making that possible. "Edmonton is now the centre of the gluten-free industry in North America. We'll take a lot of credit for it, but without AVAC it wouldn't have been possible. We would never have made it without AVAC investment. "

Although Kinnikinnick is now in the repayment phase of their contract with AVAC, they continue to maintain close ties with the organization and even have an ex-officio board member from AVAC. "From our perspective they're a partner and always will be," notes Bigam.

Bigam's enthusiasm for AVAC has also led him to recommend them to many of the young companies he encounters. "As chair of the Alberta Food Processors Association, I talk to new companies all the time and my standard response is if you're looking for funding for new, creative product ideas and development talk to AVAC." 📌

## AVAC Helps SinoVeda Take a Scientific Approach to Herbal Medicine



**Although AVAC was quick to see the potential in Dr. Tam's process, they still "asked a lot of challenging questions. And if they identify any deficiencies they have connections to link you to people who can help."**

**M**any people believe that there is little herbal or traditional medicine can't do when it comes to improving health and treating illness. Unfortunately, until recently, the one thing herbal medicine couldn't do was explain how it worked or standardize the formula necessary to achieve results. Thanks in part to Edmonton-based SinoVeda, and a \$2.9 million investment from AVAC, that is changing.

"We're working to take the uncertainty out of herbs," explains Dr. Yun K. Tam, SinoVeda's president and CSO and a former professor of pharmaceutical sciences at the University of Alberta. Together with his wife, Dr. Nuzhat Tam-Zaman, an expert in pharmacokinetics, Dr. Tam is working to develop a unique line of phytomedicinal products that takes a scientific approach to herbal medicine.

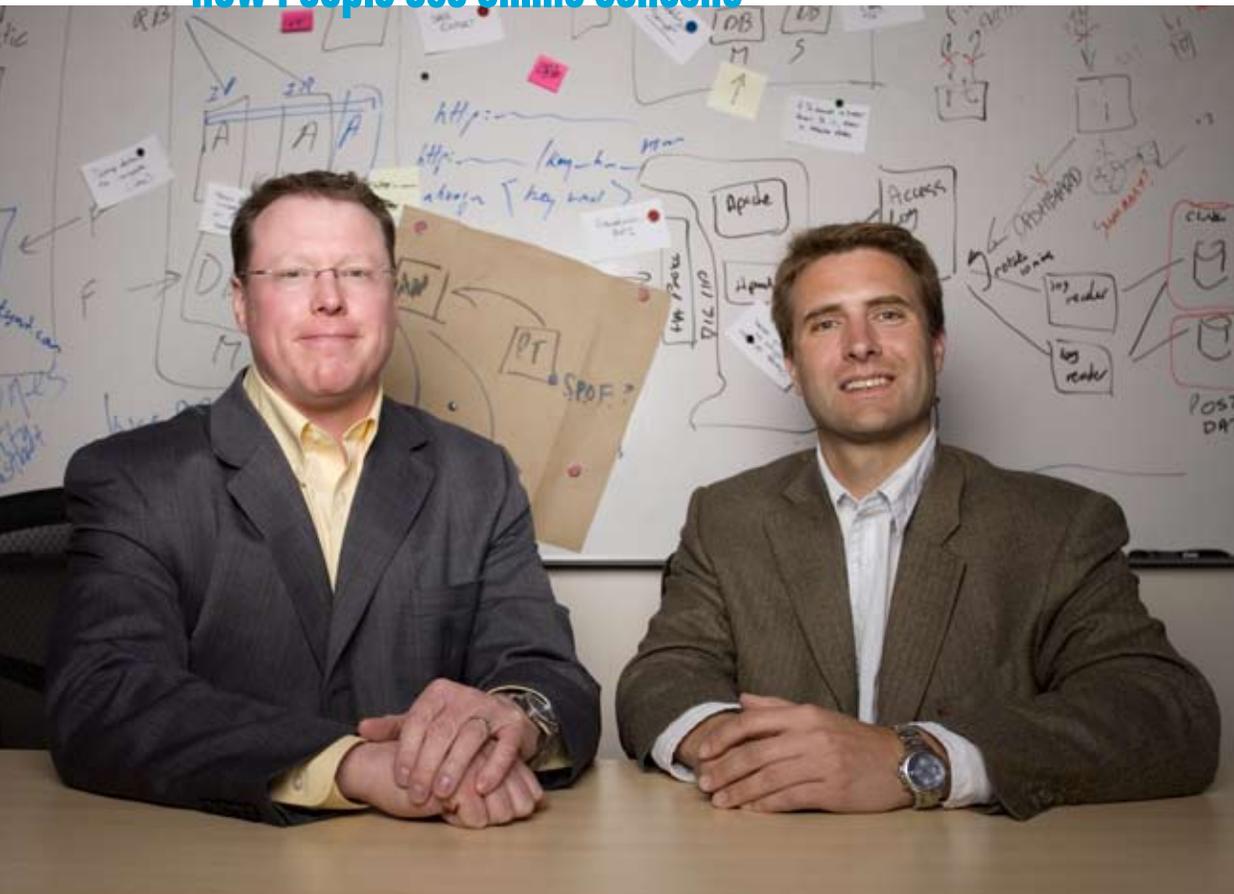
"Good pharmaceutical companies have been trying to find a way to identify, separate and purify the active ingredients in herbal or natural products for years. We've created a patented process that allows us to find the active ingredients in each herb without purification and create an ingredient profile. This profile tells us the quantity and ratio of each active ingredient and how they interact with each other, making it possible to standardize that particular herb, and produce pills that are of pharmaceutical grade."

SinoVeda was established in 2006 and began working with AVAC in 2007. Dr. Tam saw the fit with AVAC, both because of AVAC's commitment to value-added products and their willingness to invest in high tech companies like SinoVeda. "AVAC really liked the idea of having the made-in-Alberta technology to add value to grown-in-Alberta products," notes Tam. Using their unique pharmaceutical approach, SinoVeda has already begun developing a line of human phytomedicinal products that utilize Alberta-grown red clover for the treatment of osteoporosis. The patented process developed by SinoVeda can also be applied to other natural or herbal manufacturers who want to take a scientific approach to ensuring the quality of their products.

"With our technology, and access to grown-in-Alberta materials, we can make Alberta a one stop shop for developing, refining and producing standardized herbal medicine."

Although AVAC was quick to see the potential in Dr. Tam's process, they still "asked a lot of challenging questions. And if they identify any deficiencies they have connections to link you to people who can help." Most importantly, AVAC's investment tells other potential funders that the company is a good bet. "AVAC's involvement helps in the process of finding other investments and that will help us grow." 

## AVAC Invests in Tynt's Plans to Revolutionize How People Use Online Content



**AVAC's due diligence was pretty thoughtful and thorough and gave them and us a good idea of what we had and what we didn't have at that time.**

**W**hen Calgary's Tynt Multimedia first began looking for ways to create an online product that was focused primarily on teens and social networking, they had no way of knowing how the coming economic crisis would create a new opportunity.

"The economic downturn forced our potential customers to rethink their business models," notes Derek Ball, Tynt's CEO. "Then suddenly we saw this opportunity emerging to pursue the evolution of online journalism." That opportunity took the form of their Tracer service, which can monitor and track when online users copy content from a web site, and then attach attribution to that content. This tells publishers where the content is being used and which content is most interesting to users, while helping to drive traffic back to their sites. "It really provides added value to the publishing industry, which is something they really need in the current market."

Ball says that feedback so far on Tracer has been amazing. "People keep saying they didn't realize you could do this and are asking why someone hadn't thought to do it before." During Tynt's first eight weeks of beta testing, they racked up more than 200 million impressions and lined up contracts with several online publishers, including the New York Daily News.

For Ball, AVAC's decision to invest in Tynt was something of a leap of faith. "We know that we're a little different than what AVAC usually invests in – we don't manufacture software that's easy to make and sell, or a product which you can hold, which makes it difficult for potential investors to see where the return on investment would be. And of course with AVAC, the idea for Tracer hadn't evolved yet, so they were betting on the management team and our track record and they were willing to take that chance."

AVAC isn't alone. In early March, iNovia, one of AVAC's fund-of-fund partners also announced that they were investing in Tynt, and together with AVAC and angel investors, helped complete a \$5-million financing round. Ball knows that AVAC's investment makes it easier for others to get onboard. "AVAC's due diligence was pretty thoughtful and thorough and gave them and us a good idea of what we had and what we didn't have at that time. It can also make other investors, particularly angel investors who may not be able to perform the same amount of due diligence, feel more comfortable with putting their own money into it." 📌

## AVAC Helps Userful Make Computers Accessible and Sustainable



**AVAC investment helped us accelerate our growth and undertake important initiatives we couldn't have otherwise done, like investing in building an international channel sales program or investing in more aggressive marketing. AVAC let us look to more long-term, strategic initiatives.**

Computers are one of the most significant costs for any young business. With traditional desktop computers costing anywhere from \$2000 – \$4000 per year to support and maintain, computers can be a serious financial strain for any company that's struggling to keep costs down. Now, with investment support from AVAC, Calgary's Userful has brought to market their patented software that not only makes it affordable to use and maintain computers, but actually reduces CO2 emissions in the process by turning one PC into ten.

"Userful allows ordinary individuals to manage and deploy a fleet of desktop computers," explains Tim Griffin, President of Userful. "We make deploying desktop computers extremely low cost and efficient by multiplying and managing them. Multiply means taking an ordinary computer and attaching up to ten monitors and keyboards; managing means using a simple webpage to manage all your computers at once." This process not only saves the initial cost of buying individual computers, but also the cost of employing IT specialists to manage and maintain them once they're in use. And it reduces energy usage by up to 80 per cent.

Userful began working with AVAC in late 2007, when they realized they needed additional funding to take the company to the next level. "AVAC investment helped us accelerate our growth and undertake important initiatives we couldn't have otherwise done, like investing in building an international channel sales program or investing in more aggressive marketing. AVAC let us look to more long-term, strategic initiatives."

Griffin stresses that the process of working with AVAC has been very valuable. "They've really added value above and beyond financial investment, and helped us set a bunch of milestones to guide our activity." Some of those milestones are already being realized, with Userful recently securing a contract to roll out over 350,000 PCs for Brazil's 2.6 million school children and similar initiatives under way with clients around the world. "Our mission is to connect the world through sustainable desktop computers, and for us that means making computers affordable to deploy, easy to support and minimizing their environmental footprint."

Even during the current economic downturn, Userful's software is attracting plenty of attention. "There's a lot of interest in our company because people are looking for ways to trim IT costs and that's exactly what we do," notes Griffin. "Our timing with AVAC's investment worked out perfectly, because it allowed us to do these things at exactly the right time." 📈

# Management Discussion and Analysis

## Highlights

In June 2008, the Province of Alberta through the Department of Advanced Education and Technology, released its Bringing Technology to Market action plan. The \$178-million plan identified nine specific action items directed at strengthening the technology commercialization space in Alberta's priority technology areas of clean energy, life sciences, information and communications technology, and nanotechnology. As part of the plan, AVAC's Capacity Builder Program was earmarked to receive an additional \$30 million to support pre-commercial and seed stage technology companies. As of March 31, 2009, AVAC had received \$15 million of that money and had committed that money to support 18 companies to date.

On September 25, 2008 AVAC held its 10th Annual General Meeting: to celebrate AVAC's tenth anniversary and the \$100 million in funding that has been distributed to early-stage Alberta value-added companies. In concert with our 10th Annual General Meeting, AVAC held an "Insight on Innovation" event offering insight from renowned Canadian experts on innovation and entrepreneurship. The showcase event featured: Michael Raymont, former President, and Vice-President, Technology and Industry Support, National Research Council and current AVAC Director on the topic of "Energy, Environment and Innovation -- An Alberta Perspective;" Jack Mintz, Palmer Chair in Public Policy, University of Calgary on "Public Policy and Venture Capital: What Works Best to Nurture Innovation;" and Richard Bartrem, Vice-President, WestJet on "The 5 Secrets to WestJet's Success." The event was opened with a welcome address from Bob Splane, AVAC Chair followed by a presentation of AVAC accomplishments, and a outline of the day's program from Ross Bricker, President and CEO, and messages from Alberta Advanced Education & Technology and Alberta Agriculture and Rural Development. Attendees also had the opportunity to meet and interact with a number of AVAC clients who participated in the trade show including Aksys Networks, BioNeutra, Botaneco Specialty Ingredients Inc., Business Infusions,

Cadillac Coatings Canada Inc., duJour Bakery Inc., The Growing Power Group, IntelliView, Kinnikinnick Foods Inc., SciMed Technologies Inc., SemBioSys Genetics Inc., Soil Less Growing Systems Inc., and Useful among others.

In late 2008, AVAC board members, management and staff were invited to participate in the Government of Alberta's Roles and Mandates Framework for Alberta's Provincially Funded Research and Innovation System. AVAC shared its expertise and insight as Alberta's leading investor in early-stage value-added commercial businesses in the agri-business, ICT, life sciences and other industrial technology sectors to help develop the model for Alberta's Research and Innovation System.

During the past year, AVAC helped establish the third venture capital fund operating in Alberta. Within the first year of operation of these three venture capital funds, investments were made to three early-stage Alberta companies – companies that are also AVAC investees.

Over the course of the past year, AVAC realized impressive financial and operational results, and realized several important milestones as of March 31, 2009, including:

- A total of \$340.6 million in aggregate commercial sales reported by 32 agribusiness value-added and 3 Capacity Builder investee companies that can be directly attributed to AVAC investments. This included \$339.1 million from agribusiness value-add companies, and \$1.4 million from Capacity Builder companies. When both AVAC's current and former investee companies are included, the aggregate sales number exceeds \$378 million reported to date.

## Management Discussion and Analysis

- The approval of 16 investment proposals during the past fiscal year, including
 

• Madentec Ltd.	\$650,000
• Kent Imaging Inc.	\$1.2 million
• Preo Software Inc.	\$1.3 million
• MoboVivo Inc.	\$1 million
• Cadillac Coatings Canada Inc.	\$900,000
• Synodon Inc.	\$1.3 million
• EThor Media Ltd.	\$25,000
• Psyko Audio Labs Inc.	\$975,000
• Ph03nix New Media Inc.	\$1.1 million
• Tynt Multimedia Inc.	\$1 million
• CoolIT Systems Inc.	\$1.2 million
• Radient Technologies Inc.	\$2.9 million
• Innovotech Inc.	\$25,000
• QSV Biologics Inc.	\$750,000
• SBI Fine Chemicals Inc.	\$25,000
• Farmon.com	\$25,000
- \$79.3 million invested in agribusiness value-add investees, agriculture research initiatives, and Capacity Builder investees.
  - \$46 million Agribusiness value-add
  - \$16.2 million Agriculture Research
  - \$16.4 million Capacity Builder
  - \$750,000 Reserve Fund
- 32 commercially-oriented Agribusiness value-add investees and 3 Capacity Builder investees achieved commercial sales of \$340.6 million
- Total investment in value-add agriculture projects in excess of \$474.9 million
  - \$443.9 million Agribusiness value-add
  - \$31 million Agriculture Research

- Commercially-oriented agribusiness value-add investees successfully attracting an additional \$318 million in investment with a significant portion coming from angel, venture capital and private equity investors.
- Our pre-commercial investees generated a total investment in value-add agriculture company projects of \$443.9 million; \$31 million in agriculture research projects and programs, and \$31.8 million in the first full year for Capacity Builder portfolio company projects. For the Capacity Builder portfolio this included a total of \$13.8 million of additional private equity injected into their businesses before the end of fiscal 2009, with each anticipating significant further private equity investment thereafter.
- 116 highly qualified persons that engaged with AVAC clients in Agriculture Research Focus Areas

### People

One of the biggest highlights for AVAC during fiscal 2009 was the completion of our management team. AVAC now has a full-staff complement of 12 FTE (full time equivalent) staff members that encompass a broad range of tactical and operational expertise in areas such as IT, life sciences, chemistry, engineering and agriculture. The breadth and depth of our in-house expertise allows us to further refine our cross-functional team model, which ensures that the complimentary strengths of each team member are available to every investee. With this approach, a minimum of two staff members collaborate on every investee file.

We were very pleased to welcome Mark Carlson to the role of Vice President – Investment, as well as Martin Vetter and Peggy LeSueur to our investment management team with K. Lyster and A. Green joining the administration team. We are thrilled with the experience and expertise these new team members bring to AVAC and look forward to working with them on behalf our investees to further develop Alberta’s emerging value-added commercial industry.

## Management Discussion and Analysis

In an effort to continuously streamline processes and improve efficiencies, during fiscal 2009 we relocated our Leduc office to Edmonton's Alberta Research Park. Our new office, located in the Advanced Technology Centre allows us to be closer to many of our investees, including three companies that are located in the same building and 12 others that have offices in the Alberta Research Park. Our new office space offers several features that will allow us to better serve the needs of investees, including a boardroom, confidential meeting space, and security features that will ensure the privacy and confidentiality of our investees' information. The multimedia capabilities of our new office will also allow for video conferencing, which will reduce some of the travel costs often associated with the due diligence process.

### Partnerships

During fiscal 2009, AVAC continued its efforts to expand the availability of venture capital funds within the province of Alberta, investing as a limited partner in venture capital funds with an interest in agri-business, ICT, life sciences, and other industrial technology sectors. Our investment as a limited partner in venture capital funds with a shared interest in our priority areas allows us to leverage our investment dollars, while expanding the pool of venture capital available to our investees and other early-stage Alberta companies.

After successfully helping to attract and establish two national venture capital funds to the province of Alberta in fiscal 2008, AVAC succeeded in securing a third venture capital fund that will further enhance the growth of Alberta's venture capital community. During the past year, these venture capital funds – iNovia, Avrio and Yaletown made investments in three early-stage Alberta companies – CoolIT Systems, Tynt Multimedia and Botaneco. AVAC was pleased to note that all three of the Alberta companies that received investment from these venture capital funds are also AVAC investees. This is another demonstration of how effective the support AVAC provides to

investees is in helping strengthen their ability to attract future venture capital investment, and that our work as Alberta's leading fund-of-fund investor in early-stage venture capital is successfully increasing the availability of venture capital dollars within the province of Alberta.

### Priorities

AVAC is committed to its mission of providing early-stage investment, insight, and focus to build viable commercial value-added opportunities in Alberta. Over the past 11 years, we have worked closely with our investees to strengthen their commercialization path, while moving them toward commercial success and long-term sustainability. While our investees have achieved tremendous successes, in recent years it has become apparent that there are situations where our investees have difficulty attracting later-stage investments due to the inherent limitations of AVAC's royalty-based investment agreement.

Approximately 10 per cent of AVAC's active early-stage investees are promising high-growth companies with high investment requirements. Unfortunately, when these investees attempt to seek follow-on financing, other investors view AVAC's royalty investments as certain debt, which impairs the investees share valuations, debt servicing and debt-equity values. These investees tell us that they need AVAC to be able to acquire equity, so that they can secure follow-on investments and remain in Alberta.

AVAC has been working with the Government of Alberta on this issue for a number of years and has formally requested they consider amending our royalty-based agreement to allow for equity holdings in these situations. AVAC's ability to co-invest with others on like terms and would make companies significantly more attractive to other investors. AVAC will continue to work with the Province on exploring ways to amend those funding agreements.

# Measures of Success

## Early Stage, Value-add Investment Performance Measures

### Key Result Areas

- Early stage value-add commercialization enhanced – with increased financial and management capital attracted to Alberta’s agrivalue, ICT, Life Sciences and Industrial Technology sectors
- Timely, efficient investment process for early stage value-add investments
- Clients moved towards commercial success – new venture clients achieving revenue stage, in venture development process
- Improved technology commercialization from research in well-funded early stage value add companies
- Additional private investment attracted by early stage value-add companies

### Measures

	Baseline March 2008	Actual March 2009	Target March 2009	Stretch March 2013
Aggregate Alberta early stage value-add Investment (millions)	\$445.2	\$518	\$575	\$1,100
Aggregate early stage value-add Investment Approved (millions) (Net)	\$62.1	\$79.3	\$95.5	\$224
Aggregate Gross Sales of early stage value-add Investees (millions)	\$300.9	\$340	\$340	\$820
Aggregate # Clients that have reached Revenue Stage	29	35	40	100
# New early stage value-add Investees in Fiscal Year	19	15	29	50

## Agrivalue Measure of Success

### Key Result Areas

- Agribusiness value-add (agrivalue) commercialization enhanced
- Timely, efficient investment process agrivalue investments
- Clients moved towards commercial success
- Increased financial and human capital attracted to agrivalue
- Improved technology commercialization from research in agrivalue

### Measures

	Baseline March 2008	Actual March 2009	Target March 2009	Stretch March 2013
Aggregate Alberta Agrivalue Investment (millions)	\$418.1	\$443.9	\$480	\$750
Aggregate Fund 1 Approved (millions) (Net)	\$43.5	\$46	\$53.5	\$100
Aggregate Gross Sales of Agrivalue Investees (millions)	\$300.9	\$339.1	\$340	\$750
Aggregate # Clients that have reached Revenue Stage	29	32	40	75
# New Agrivalue Investees in Fiscal Year	11	4	15	25

# Measures of Success

## Ag Research Measures of Success

### Key Result Areas

- Increased value creation and enhanced research capacity in the targeted theme areas
- Increased number of highly qualified personnel in agriculture research
- Increased financial capital attracted to agriculture research from industrial and extra-provincial partners
- Enhanced collaboration and effective processes for agriculture research investment
- Improved technology commercialization from agriculture research

### Measures

	Baseline March 2008	Actual March 2009	Target March 2009	Stretch March 2013
Aggregate Alberta Ag Investment (millions)	\$20.5	\$30	\$45	\$50
Aggregate Fund 3 Approved (millions) (net)	\$12.9	\$16.2	\$24	\$24
Aggregate Industrial and Extra-Provincial Investment (millions)	\$3.7	\$4.7	\$5	\$7
# Highly Qualified Persons Engaged in Ag Research Focus Areas	117	116	120	120

## IVAC Initiative Measures of Success

### Key Result Areas

- Increased financial and human capital attracted to Alberta's ICT, Life Sciences and Industrial Technology sectors
- Additional private investment attracted by IVAC Initiative investments
- More early stage venture capital participants investing Alberta's ICT, Life Sciences and Industrial Technology sectors
- New venture clients achieving revenue stage, in the venture development process
- Improved technology commercialization from research in well-funded companies

### Measures

	Baseline March 2008	Actual March 2009	Target March 2009	Stretch March 2013
<b>Capacity Builder Program</b>				
Aggregate Alberta Capacity Builder Investment (millions)	\$6.6	\$31.8	\$50	\$300
Aggregate Capacity Builder Approved (millions) (net)	\$5.7	\$16.4	\$18.0	\$100
Aggregate # of Capacity Builder Projects approved	7	18	21	100
# Aggregate additional private equity attracted (millions)	\$1.5	\$13.8	\$10	\$150
<b>IVAC Early Stage Venture Fund</b>				
# Limited Partnership Agreements Signed	1	3	3	6
Aggregate size (\$ million) of Venture Funds	\$107	\$269	\$275	\$600
Aggregate # IVAC-VC-backed investments in AB	0	3	5	30

# Corporate Governance

## 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 2008/2009, the Board met six times (at four Board meetings, an annual general 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, 2008.

### 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

# Corporate Governance

## 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 Michael Raymont (Chair), Art Froehlich, Ken McCready, Neal Oberg, Sandy Slator, Rick Smith, and Bob Splane . The committee met four times in 2008/2009.

### Audit Committee

Committee members are Neal Oberg (Chair), Tom Droog, Kate Dykstra, Ken McCready, Michael Raymont and Rick Smith. The committee met five times in 2008/2009.

### Investment Committee

Committee members are Rick Smith (Chair), Robert Church, Art Froehlich, Neal Oberg, Sandy Slator, Bob Splane and Jim Thacker. The committee met four times in 2008/2009.

### IVAC Investment Committee

Committee members are Sandy Slator (Chair), Shane Chrapko, Robert Church, Kate Dykstra, Ken Harrison, Ken McCready, Michael Raymont and Bob Splane. The committee met five times in 2008/2009.

## AVAC Board

Bob Splane, Board Chair  
Robert Church  
Tom Droog  
Kate Dykstra  
Art Froehlich  
Ken McCready  
Neal Oberg  
Michael Raymont  
R. (Sandy) Slator  
Rick Smith  
Jim Thacker

## AVAC Staff

Ross Bricker, President & CEO  
Mark Carlson, Vice President – Investment  
Wendy Lam, Senior Investment Manager  
Jacques LaPointe, Senior Investment Manager  
Peggy LeSueur, Senior Investment Manager  
Jim Hardin, Investment Manager  
Craig Urton, Investment Manager  
Martin Vetter, Investment Manager

### Administration Group:

L. Sexsmith  
J. Flather  
K. Lyster  
A. Green



AVAC Board from L to R:

Sandy Slator, Art Froehlich, Kate Dykstra, Bob Splane, Robert Church,  
Michael Raymont, Jim Thacker, Neal Oberg, Rick Smith  
(Missing Tom Droog and Ken McCready)

# Active Investments



AVAC currently invests as a limited partner with three venture capital funds:



## Auditor's Report to the Members

We have audited the statement of financial position of AVAC Ltd. (the "Company") as at March 31, 2009 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, 2009 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.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P', serving as a separator or underline.

Chartered Accountants  
Calgary, Canada  
June 11, 2009

# Statement of Financial Position

March 31, 2009, with comparative figures for 2008

	2009	2008
Assets		
Current assets:		
Cash reserve fund account (note 6)	\$ 18,619	\$ 756,988
Accounts receivable (note 2)	93,123	5,025,104
Prepaid expenses and deposits	49,364	45,910
Total current assets	161,106	5,828,002
Agrivalue Fund Investments (note 3)	18,649,941	24,659,867
Ag Research Fund Investments (note 4)	17,229,939	22,595,454
IVAC Initiative (note 5)	40,512,780	30,628,063
Capital assets (note 7)	204,974	77,873
	\$ 76,758,740	\$ 83,789,259
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 337,508	\$ 407,517
Net assets:		
Invested in capital assets	204,974	77,873
Invested in limited partnerships (note 5)	4,680,557	1,000,000
Net assets internally restricted for future contracted obligations (notes 3, 4, 5 and 6)	45,647,694	28,226,214
Unrestricted	25,888,007	54,077,655
Total net assets	76,421,232	83,381,742
Commitments (note 10)		
	\$ 76,758,740	\$ 83,789,259

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

# Statement of Operations

March 31, 2009, with comparative figures for 2008

	2009	2008
General revenue:		
Membership	\$ 5,700	\$ 5,200
Interest earned	8,869	22,376
Unencumbered income	6,808	51,972
Disposal of fixed assets	-	(757)
	21,377	78,791
Agrivalue Fund revenue:		
Royalty income	6,808	51,972
Other income	59,098	-
Investment income	1,360,676	1,023,620
Gain (loss) on investments	(2,712,291)	74,749
	(1,285,709)	1,150,341
Ag Research Fund revenue:		
Investment income	1,115,131	747,406
Gain (loss) on investments	(2,871,535)	(64,634)
	(1,756,404)	682,772
IVAC Initiative revenue:		
Investment income	488,170	1,049,437
Gain (loss) on investments	106,641	342,702
Limited partnership gain (loss)	(118,010)	(17,328)
Funding agreement proceeds	10,000,000	5,000,000
	10,476,801	6,374,811
<b>Total revenue</b>	<b>\$ 7,456,065</b>	<b>\$ 8,286,715</b>
General and Administrative Expenditures (schedule 1):		
Agrivalue fund	\$ 883,583	\$ 1,370,583
Ag Research fund	335,721	371,643
IVAC initiative	1,024,141	418,025
	2,243,445	2,160,251
Agrivalue Fund Project Expenditures (note 8)	3,705,615	4,148,117
Ag Research Fund Project Expenditures (note 8)	3,266,834	2,104,329
IVAC Initiative Expenditures (note 8)	4,505,799	1,158,614
Reserve Fund Expenditures (note 8)	754,046	-
<b>Total expenditures</b>	<b>\$ 14,475,739</b>	<b>\$ 9,571,311</b>
<b>Excess of expenditures over revenue</b>	<b>\$ (7,019,674)</b>	<b>\$ (1,284,596)</b>

See accompanying notes to the financial statements.

# Statement of Changes in Net Assets

Year ended March 31, 2009, with comparative Figures For 2008

	Capital assets	Limited Partnerships	Net assets internally restricted for future contracted obligations	Unrestricted	2009	2008
Balance, beginning of year	\$ 77,873	\$ 1,000,000	\$ 28,226,214	\$ 54,077,655	\$ 83,381,742	\$ 82,324,149
Change in accounting policy	-	-	-	-	-	2,342,189
GST adjustment (note 2)	-	-	-	59,164	59,164	-
Excess of expenditures over revenue	-	-	-	(7,019,674)	(7,019,674)	(1,284,596)
Depreciation of capital assets	(35,693)	-	-	35,693	-	-
Distributions to projects:						
Agrivalue	-	-	(3,531,820)	3,531,820	-	-
Ag Research	-	-	(3,148,757)	3,148,757	-	-
Capacity Builder	-	-	(3,912,750)	3,912,750	-	-
Reserve	-	-	(750,000)	750,000	-	-
Invested in limited partnerships	-	3,680,557	(3,680,557)	-	-	-
Additions to capital assets	162,794	-	-	(162,794)	-	-
Additional projects contracted:						
Agrivalue	-	-	3,661,852	(3,661,852)	-	-
Ag Research	-	-	3,983,512	(3,983,512)	-	-
Capacity Builder	-	-	12,050,000	(12,050,000)	-	-
Reserve	-	-	750,000	(750,000)	-	-
Additional limited partnerships contracted	-	-	12,000,000	(12,000,000)	-	-
Balance, end of year	\$ 204,974	\$ 4,680,557	\$ 45,647,694	\$ 25,888,007	\$ 76,421,232	\$ 83,381,742

See accompanying notes to financial statements.

# Statement of Cash Flows

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Cash provided by (used for):		
Operating activities:		
Excess of expenditures over revenue	\$ (7,019,674)	\$ (1,284,596)
Items not involving cash:		
Depreciation of fixed assets	35,693	34,864
Investment income re-invested	2,513,208	(3,173,280)
Change in non-cash working capital	4,858,518	(4,855,305)
	387,745	9,278,317
Financing and investing activities:		
Fixed assets acquired net disposed	(162,794)	(31,192)
Transfer from (to) portfolio funds	(963,320)	9,376,313
	(1,126,114)	9,345,121
Increase (decrease) in cash	(738,369)	66,804
Cash, beginning of year	756,988	690,184
Cash, end of year	\$ 18,619	\$ 756,988

See accompanying notes to financial statements.

# Notes to Financial Statements

Year ended March 31, 2009, with comparative figures for 2008

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 received 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 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 Restated IVAC Initiative Grant Agreement was executed to provide a further \$10 million in support for the Capacity Builder component of the IVAC Initiative.

## 1. Significant accounting policies:

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

### (a) Revenue and expenditure recognition:

The Company follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Project expenditures are expensed as incurred. Some expenditures may result in a future return to the Company in the form of a contingent success-based royalty; such returns are recorded as income in the period received.

### (b) 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

# Notes to Financial Statements

Year ended March 31, 2009, with comparative figures for 2008

## 1. Significant accounting policies (continued):

(c) Investment fund:

The mandatory adoption date for the Accounting Standards Board's Handbook Section 3855, Financial Instruments - Recognition and Measurement became effective for AVAC April 1, 2007. AVAC has elected to designate the fair value of investment portfolio assets, as held for trading and recognize changes in unrealized gains and losses in the Statement of Operations for the year. This policy results in additional volatility in the operating results as unrealized gains and losses are recorded in the investment income.

## 3. Agrivalue Fund:

Agrivalue Fund investments consist of the following portfolio:

	2009 Market	2008 Market
Cash and cash equivalents	\$ 2,744,261	\$ (976,205)
Medium term investment fund:		
Federal government bonds	-	6,413,795
Provincial government bonds	10,471,606	10,996,338
Canadian equities	3,576,876	5,758,618
Global equities	1,857,198	2,467,321
	15,905,680	25,636,072
Total Agrivalue Investments	\$ 18,649,941	\$ 24,659,867

## 2. Accounts receivable:

Accounts receivable is comprised entirely of GST claims amounting to \$93,123 (2008 GST receivable - \$25,104 plus \$5,000,000 relating to proceeds receivable on the funding agreements). As of May 15, 2009, \$33,959 remained outstanding relating to the 2009 GST claim.

The Provincial Government bonds mature between August 23, 2010 and March 8, 2015 and bear interest at rates ranging from 4.5% to 6.375%.

Investment income has been recorded net of fees paid for portfolio management which amount to \$68,464 (2008 - \$86,443).

# Notes to Financial Statements

Year ended March 31, 2009, with comparative figures for 2008

### 3. Agrivalue Fund (continued):

#### 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, \$3,531,820 was distributed directly to project applicants from the Agrivalue fund.

AVAC has contracted to advance a total of \$45,975,624 of which \$39,816,327 has been advanced to March 31, 2009, with the remaining balance of \$6,159,297 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 of \$6,159,297 for this purpose.

### 4. Ag Research Fund:

Ag Research Fund investments consist of the following portfolio:

	2009 Market	2008 Market
Cash and cash equivalents	\$ 5,199,205	\$ 3,474,769
Medium term investment fund:		
Federal government bonds	4,065,431	6,622,701
Provincial government bonds	1,330,848	2,824,776
Other bonds	1,233,843	1,999,259
Canadian equities	3,805,471	5,556,144
Global equities	1,595,141	2,117,805
	12,030,734	19,120,685
Total Ag Research Investments	\$ 17,229,939	\$ 22,595,454

The Federal Government bonds mature between June 1, 2009 and June 1, 2010 and bear interest at rates ranging from 4.25% to 5.5%. The Provincial Government bonds mature between October 1, 2013 and bear interest rates of 5.25%.

Investment income has been recorded net of fees paid for portfolio management which amounted to \$62,620 (2008 – \$72,877).

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

Aggregate project approvals	\$	45,975,624
Aggregate contracted obligations		45,975,624
Aggregate disbursements		39,816,327
Future contracted obligations		6,159,297

During the year, amounts were transferred from unrestricted net assets to net assets internally restricted for future contracted obligations of \$3,661,852. These transfers occurred as projects were approved during the year. \$31,489,600 of the aggregate project approvals of \$45,975,624 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, 2009, with comparative figures for 2008

## 4. Ag Research Fund (continued):

### 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, \$3,148,757 was distributed directly to project applicants from the Ag Research Fund.

AVAC had contracted to advance a total of \$16,228,734 of which \$5,647,030 has been advanced to March 31, 2009, with the remaining balance of \$10,581,704 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 of \$10,581,704 for this purpose.

## 5. IVAC Initiative:

IVAC Initiative investments consist of the following portfolio:

	2009 Market	2008 Market
Capacity Building Program:		
Cash and cash equivalents	\$ 19,336,837	\$ 9,403,643
Early Stage Venture Fund:		
Cash and cash equivalents	16,610,756	20,221,780
Limited partnerships	4,565,187	1,002,640
	21,175,943	21,224,420
Total IVAC Initiative Investments	\$ 40,512,780	\$ 30,628,063

AVAC's portfolio of limited partnerships has a cost value that amounts to \$4,680,557 (2008 – \$1,000,000).

Investment income has been recorded net of fees paid for portfolio management which amount to \$61,464 (2008 – \$64,363) and general partner management fees which amount to \$476,237 (2008 – \$3,120).

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

Aggregate project approvals	\$	16,228,734
Aggregate contractual obligations		16,228,734
Aggregate disbursements		5,647,030
Future contracted obligations		10,581,704

During the year, amounts were transferred from unrestricted net assets to net assets internally restricted for future contracted obligations of \$3,983,512. These transfers occurred as projects were approved during the year.

# Notes to Financial Statements

Year ended March 31, 2009, with comparative figures for 2008

## 5. IVAC Initiative (continued):

### IVAC Initiative – Capacity Builder assets internally restricted for future contracted obligations:

AVAC Ltd. funds qualifying IVAC 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, \$3,912,750 was distributed directly to project applicants from the IVAC Initiative.

AVAC has contracted to advance a total of \$16,350,000 of which \$4,762,750 has been advanced to March 31, 2009, with the remaining balance of \$11,587,250 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 of \$11,587,250 for this purpose.

Limited Partnership At March 31, 2009	LP Units	Proportion of FV Investment In Investee Companies	No. of Investee Companies
iNovia Investment Fund II-B	10,000,000	\$ 1,999,918	10
Avrio Ventures	6,000,000	1,784,523	6
Yaletown Ventures II	6,000,000	41,538	2

AVAC has contracted to advance a total of \$22,000,000 of which \$4,680,557 has been advanced to March 31, 2009, with the remaining balance of \$17,319,443 to be advanced in future periods. This remaining advance is contingent on cash call requirements as determined by the General Partner. The financial statements reflect an internal restriction of net assets of \$17,319,443 for this purpose.

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

Aggregate project approvals	\$ 22,000,000
Aggregate contractual obligations	22,000,000
Aggregate disbursements	4,680,557
Future contracted obligations	17,319,443

During the year, amounts were transferred from unrestricted net assets to net assets internally restricted for future contracted obligations of \$12,000,000. These transfers occurred as one Limited Partnership was approved during the year.

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

Aggregate project approvals	\$ 16,350,000
Aggregate contractual obligations	16,350,000
Aggregate disbursements	4,762,750
Future contracted obligations	11,587,250

During the year, amounts were transferred from unrestricted net assets to net assets internally restricted for future contracted obligations of \$12,050,000. These transfers occurred as projects were approved during the year.

### IVAC Initiative – Early Stage Venture Fund assets internally restricted for future contracted obligations:

AVAC Ltd. invests in qualifying venture capital funds as a Limited Partner. During the year, \$3,680,557 was distributed directly to Early Stage Venture Funds from the IVAC Initiative.

# Notes to Financial Statements

Year ended March 31, 2009, with comparative figures for 2008

## 6. Reserve Fund:

Reserve Fund investments consist of the following portfolio:

	2009 Market		2008 Market
Cash and cash equivalents	\$ 18,619	\$	756,988
Total Reserve Investments	\$ 18,619	\$	756,988

### Reserve Fund assets internally restricted for future contracted obligations:

AVAC Ltd. funds qualifying pre-commercial 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, \$750,000 was distributed directly to project applicants from the Reserve fund.

AVAC has contracted to advance a total of \$750,000 of which \$750,000 has been advanced to March 31, 2009, with the remaining balance of \$0 to be advanced in future periods.

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

Aggregate project approvals	\$	750,000
Aggregate contracted obligations		750,000
Aggregate disbursements		750,000
Future contracted obligations		-

During the year, amounts were transferred from unrestricted net assets to net assets internally restricted for future contracted obligations of \$750,000. These transfers occurred as projects were approved during the year. \$750,000 of the aggregate project approvals of \$750,000 is committed and disbursed to projects which result in a future return to the Company in the form of a contingent success-based royalty.

## 7. Capital assets:

	Cost	Accumulated depreciation	2009 Net book value	2008 Net book value
Computer equipment	\$ 229,869	\$ (199,777)	\$ 30,092	\$ 45,087
Computer software	378,718	(316,128)	62,590	-
Office equipment	47,334	(35,504)	11,830	15,461
Furniture and fixtures	54,199	(40,014)	14,185	17,325
Leasehold improvements	101,669	(15,392)	86,277	-
	\$ 811,789	\$ (606,815)	\$ 204,974	\$ 77,873

Cost and accumulated depreciation is \$648,995 and \$571,122 respectively for March 31, 2008.

**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 2009, AVAC made project disbursements of \$3,531,820 (2008 – \$3,799,420) on total aggregate project approvals of \$45,975,624 (2008 – \$45,503,706). Project expense in 2009 of \$173,795 (2008 - \$348,697) 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 2009 the equivalent of 2.75, 2.75, 2 and 2.8333 managers were allocated for each of quarter 1, 2, 3 and 4 and the related expenses of \$883,583 was attributed to the Agrivalue Fund (2008 – \$1,370,583).

(b) Ag Research Fund expenditures:

In 2009, AVAC made project disbursements of \$3,148,757 (2008 – \$2,020,431) on total aggregate project approvals of \$16,228,734 (2008 – \$12,937,442). Project expenses in 2009 of \$118,077 (2008 – \$83,899) are associated with projects which have been reviewed, projects with pending approvals, and approved projects.

	2009	2008
Ag Research Fund Project Disbursements and expenses:		
Theme 1 - Biowaste Value Added - ENMA:		
Disbursements	\$ 663,269	\$ 413,423
Project expenses	21,222	45,424
Theme 2 – Food Ingredients and Fermentation Products:		
Disbursements	2,160,483	1,595,002
Project expenses	78,995	25,701
Theme 3 – Biowaste Value Added - SRM:		
Disbursements	325,005	12,006
Project expenses	17,860	12,773

AVAC's general and administrative expenditures are allocated among the Funds based on a manager allocation each quarter. In 2009 the equivalent of one manager was allocated for each quarter and the related expense of \$335,721 was attributed to the Ag Research Fund (2008 – \$371,664).

## 8. Fund expenditures (continued):

### (c) IVAC Initiative expenditures:

In 2009, general operating expenditures directly associated with IVAC amounted to \$100,784 (2008 – \$48,057).

#### (i) Capacity Builder expenditures:

In 2009, AVAC made project disbursements of \$3,912,750 (2008 – \$850,000) on total aggregate project approvals of \$16,350,000 (2008 – \$5,700,000). Project expenses in 2009 of \$404,507 (2008 – \$100,378) 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 2009 the equivalent of 3, 3, 4 and 2.3333 managers were allocated for each of quarter 1, 2, 3 and 4 and the related expenses of \$988,958 was attributed to the IVAC Initiative – Capacity Builder (2008 – \$346,183).

#### (ii) Early Stage Venture Fund expenditures:

In 2009, AVAC made cash call advances to General Partners in the amount of \$3,680,557 (2008 – \$1,000,000) on total contracted Limited Partnership agreements totalling \$22,000,000 (2008 – \$16,000,000). Early Stage Venture Fund expenses in 2009 amounted to \$9,911 (2008 – \$10,168).

AVAC's general and administrative expenditures are allocated among the Funds based on a manager allocation each quarter. In 2009 the equivalent of 0.25 managers were allocated for each of quarter 1, 2, amounting to \$35,183 was attributed to the IVAC Initiative – Early Stage Venture Fund (2008 – \$71,841).

Start-up costs associated with setting up the Early Stage Venture Fund amounted to \$77,847 (2008 – \$149,561).

### (d) Reserve Fund expenditures:

In 2009, AVAC made project disbursements of \$750,000 (2008 – \$0) on total aggregate project approvals of \$750,000 (2008 – \$0). Project expenses in 2009 of \$4,046 (2008 – \$0) are associated with projects which have been reviewed, projects with pending approvals, and approved projects.

## 9. Financial instruments:

AVAC has chosen to apply Accounting Standards Board's Handbook Section 3861 – Financial Instruments – Disclosure and Presentation in place of Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation.

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, 5 and 6. AVAC's accounts receivable are due from the federal government and therefore do not carry increased credit risk.

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 \$3,452,339 U.S. equities (2008 – \$4,585,126) which are recorded at the Canadian dollar equivalent and are subject to foreign currency risk.

## 10. Commitments:

At March 31, 2009 AVAC is committed to an office lease with minimum monthly lease payments of approximately \$7,000 to February 29, 2012, and minimum monthly lease payments of approximately \$7,700 from March 1, 2012 to February 28, 2015.

At March 31, 2009 AVAC is committed to a second office lease with minimum monthly lease payments of approximately \$2,700 to January 31, 2010, and minimum monthly lease payments of approximately \$2,800 from February 1, 2010 to January 31, 2011.

# General and Administrative Expenses

## General and Administrative Expenses, Schedule 1

	2009	2008
General and administrative expenditures:		
Staff salaries, benefits and development	\$ 1,007,716	\$ 968,510
Public relations and communications	327,446	247,599
Office expenses	200,915	169,086
Honoraria and fees	190,730	195,185
Consulting/professional	189,048	171,140
Board and meeting expenses	98,776	65,946
Computer systems maintenance	85,328	199,753
Travel expenses	56,174	39,488
Depreciation expense	35,693	34,864
GST expense	32,159	53,472
Insurance	17,302	13,186
Transaction charges	2,158	2,022
	\$ 2,243,445	\$ 2,160,251
	2009	2008
Remuneration paid for-provided to:		
Current Directors:		
Bob Splane, Chairman of the Board	\$ 52,000	\$ 40,192
Robert Church	14,100	16,340
Tom Droog	11,747	14,816
Kate Dykstra	5,882	-
Art Froehlich	7,482	-
Ken McCready	11,143	17,382
Neal Oberg	18,730	20,587
Michael Raymont	16,154	9,874
Sandy Slator	18,542	21,625
Rick Smith	18,938	21,654
Jim Thacker	16,012	18,984
Past Directors:		
Bern Kotelko, Past Chair	-	16,340
Current IVAC Committee Members:		
Shane Chrapko	11,000	8,643
Ken Harrison	10,409	10,255
Management personnel reporting directly to Board <sup>2</sup>	381,815	324,414
All other permanent personnel employed or under contract <sup>1,2</sup>	1,060,495	1,004,480

<sup>1</sup>Includes severance.

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

## AVAC Members

**A**VAC'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**

Toma & Bouma  
Management Consultants  
Edmonton, Alberta

### **Stewart Campbell**

S.J. Campbell Investments Ltd.  
Cochrane, Alberta

### **Shane Chrapko**

Highmark Renewables  
Edmonton, Alberta

### **Robert Church**

Lochend Luing Ranch  
Airdrie, Alberta

### **Pete Desai**

Desai and Desai Inc.  
Calgary, Alberta

### **Kate Dykstra**

Parlee McLaws LLP  
Edmonton, Alberta

### **Tom Droog**

Alberta Sunflower  
Seeds Ltd.  
Bow Island, Alberta

### **Dennis Fitzpatrick**

University of Lethbridge  
Lethbridge, Alberta

### **Art Froehlich**

AdFarm Communications  
Calgary, Alberta

### **Ken Harrision**

Dow Chemical  
Canada Inc.  
Edmonton, 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**

Alberta Oats Milling Ltd.  
Edmonton, 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

### **Ken McCready**

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

### **Elson McDougald**

MC Stock Farms  
Drumheller, Alberta

### **Neal Oberg**

ENO Farms  
Stettler, Alberta

### **Rick Pawluk**

McCarthy Tetrault  
Calgary, Alberta

### **John Pinscent**

John HC Pinscent Professional Corp.  
Edmonton, Alberta

### **Ross Purdy**

Bank of Montreal  
Red Deer

### **Michael Raymond**

LACC Group  
Calgary, Alberta

### **Rick Sears**

Two-W Livestock Equipment  
Nanton, Alberta

### **R.A. (Sandy) Slator**

Prism Ventures Inc.  
Edmonton, Alberta

### **Rick Smith**

SemBioSys Genetics Inc.  
Calgary, Alberta

### **Bob Splane**

Splane Farms  
Boyle, Alberta

### **Jim Thacker**

G. Thacker Sons  
Bow Island, Alberta

### **Tom Thompson**

Olds College  
Olds, Alberta

### **Michael Welsh**

ALMASA Capital Inc.  
Edmonton, Alberta

### **Blair Wright**

Transfeeder Inc.  
Olds, Alberta

### **Paul Sabine**

Rabobank Nederland  
Canadian Branch  
Calgary, Alberta





Suite 220, 6815-8th Street NE  
Calgary, Alberta Canada T2E 7H7  
Phone: 403.274.2774  
Fax: 403.274.0101  
e-mail: [avacinfo@avactd.com](mailto:avacinfo@avactd.com)  
Website: [www.avactd.com](http://www.avactd.com)

FSC Information Here