

**AVVAA WORLD HEALTH CARE PRODUCTS INC.**

**ANNUAL INFORMATION FORM  
FOR THE FISCAL YEAR ENDED MAY 31, 2010**

**SEPTEMBER 27, 2010**

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# avVaa World Health Care Products

Unit 4 – 4602 – 31<sup>st</sup> Street, Vernon, BC, V1T 5J9

## ANNUAL INFORMATION FORM

FOR THE FISCAL YEAR ENDED MAY 31, 2010

With Information as of September 27, 2010

(All amounts are expressed in US dollars unless otherwise indicated)

### CORPORATE STRUCTURE

#### Name, Address and Incorporation

avVaa World Health Care Products Inc. (“the Company”, “we” or “us”) was incorporated under the name Sierra Gigante Resources, Inc. on June 3, 1998 in the State of Nevada and was subsequently extra-provincially registered in British Columbia under the *Company Act* (BC) on September 15, 1998. On July 5, 2002, pursuant to shareholder approval, the Company filed a Certificate of Amendment to the Articles of Incorporation for Nevada Profit Corporations with the State of Nevada, effecting a name change from Sierra Gigante Resources, Inc. to avVaa World Health Care Products Inc. A corresponding filing was made with the BC Registrar of Companies to record the name change for extra-provincial registration as at October 31, 2002.

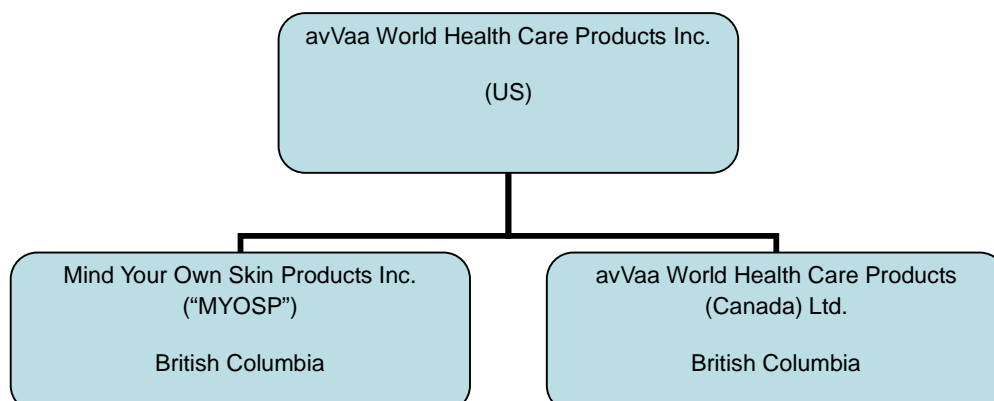
On June 8, 2008, the Company’s shareholders approved a 100 to 1 reverse stock split of its common stock, resulting in a reduction in its authorized share capital from 750,000,000 common shares (“Common Shares”) to 7,500,000 Common Shares. All share and per share amounts have been retroactively adjusted for all periods. On the same date the Company’s shareholders also approved the creation of 200,000,000 shares of preferred stock with a par value of \$0.001 per preferred share (the “Preferred Shares”). The Preferred Shares are convertible into Common Shares at the option of the holder at a ratio of 2 Common Shares for 1 Preferred Share and have liquidation rights of eight Common Shares per 1 Preferred Share. The Preferred Shares have a voting ratio of five votes for each Preferred Share.

On May 26, 2009, the Company’s shareholders approved an increase to the Company’s authorized Common Shares from 7,500,000 Common Shares to 1,750,000,000 Common Shares with no change in par value. On December 14, 2009 the Company’s shareholders approved a further increase to the Company’s authorized Common Shares from 1,750,000,000 Common Shares to 4,000,000,000 Common Shares, with no change in par value. The shareholders further approved an increase to the Company’s authorized Preferred Shares from 200,000,000 Preferred Shares to 400,000,000 Preferred Shares.

The registered office of the Company is located at 214 – 318 North Carson Street, Carson City, NV 89701-4202 and principal office of the Company is located at Unit 4 - 4602 – 31<sup>st</sup> Street, Vernon, British Columbia, Canada, V1T 5J9. The Company’s phone number is 1-866-864-6598, its fax number is 250-275-8522 and the address of its website is [www.avvaa.com](http://www.avvaa.com).

#### Subsidiaries

The Company has the following wholly-owned subsidiaries:



## FORWARD-LOOKING STATEMENTS

This Annual Information Form ("AIF") contains forward-looking statements within the meaning of the securities legislation of certain of the provinces of Canada. Forward-looking statements are made based on estimates and assumptions made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The estimates and assumptions are inherently subject to significant business, economic and competitive uncertainties, many of which, with respect to future events, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by the Company, or on its behalf.

In making the forward-looking statements in this AIF, the Company has applied numerous material factors and assumptions, including, but not limited to:

- The assumption that the Company will have access to the amounts of additional capital that are necessary to fund the costs associated with marketing, manufacturing and distributing human and animal care products; and
- The assumption that the Company will be successful in obtaining regulatory approvals to allow it to market and distribute human and animal care products.

In light of the risks and uncertainties inherent in all forward-looking statements, the inclusion or incorporation by reference of forward-looking statements in this AIF should not be considered as a representation by the Company or any other person that its objectives or plans will be achieved. Numerous factors could cause the Company's actual results to differ materially from those in the forward-looking statements, including the following risks relating to the Company's business, which are discussed in greater detail under the "Risk Factors" section herein:

- our ability to establish and maintain intellectual property rights for the products;
- our access to additional capital;
- our ability to enter into and maintain relationships with third parties, such as licensors, manufacturers, suppliers and those who conduct clinical trials for us;
- our ability to implement and manage our sales and commercialization initiatives;
- the impact of competition and technological change;
- the timing of necessary regulatory approvals;
- general economic and business conditions, both nationally and in our markets;
- our ability to attract and retain key management and scientific personnel;
- existing and future regulations that affect our business; and
- other risk factors included under "Risk Factors" in this AIF.

The Company's actual results may also differ materially from those in the forward-looking statements because of risks related to its intellectual property and risks related to the Company's industry, both of which are discussed in detail under the "Risk Factors" section herein.

These factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. All forward looking statements and information made herein are based on our current expectations as of the date hereof and we disclaim any intention or obligation to revise or update such forward-looking statements and information to reflect subsequent events or circumstances after the date of this AIF or to reflect the occurrence of unanticipated events, except as required by law.

## GENERAL DEVELOPMENT OF THE BUSINESS

### Three Year History

**The following list of events has influenced the general development of the Company's business over the last three completed financial years.**

During February 2007, as part of a cost-cutting program, the Company's senior management agreed to reduce salary and consulting fees by 65% for the period March 1, 2007 to May 31, 2007. In addition, the

Company's office building was listed for sale. The Company sold the 4,500 sq.ft. Lumby Corporate Office Building on October 31, 2007. The sale was conditional on the Company leasing back the facility on a five year lease term. Proceeds of the sale fully repaid the existing high interest mortgages and also provided enough funds to repay all equipment leases, resulting in savings of \$1,100 per month. The Company vacated the leased premises in December 2009 and changed its operating location to rental premises in Vernon, British Columbia. The settlement of its obligations under the lease is currently being negotiated.

In April 2007, all of the officers and directors other than Jack Farley and Lorie-Campbell Farley resigned from the Company, with the result being that Jack Farley became sole director of the Company, and he and Lorie Campbell-Farley became the only officers.

In November 2007 the Company issued and filed a Form 15A with the Securities Exchange Commission (the "SEC"), to voluntarily be removed from the Over-The-Counter Bulletin Board (the "OTC BB"). The Company's removal from the OTC BB was granted in January 2008. The Company was then, and continues to be, registered on Pinksheets under the stock ticker of AVVH.

In November 2007, the Company signed a contract with Incredible Discoveries for the production of an infomercial for Neuroskin® Psoriasis Relief at a cost of \$75,000. The Company has paid \$75,000.00 to Incredible Discoveries, however the infomercial has not been completed and this contract is currently suspended. Subsequently, on May 12, 2009, the Company signed a contract with Creative Bube Tube to start filming of a direct response television ("DRTV") commercial for the Neuroskin® Psoriasis Relief, which filming occurred on May 29, 2009.

Between February 26, 2009 and March 13, 2009, the Company issued an aggregate 140,000,000 Preferred Shares (since converted into common shares) and 400,000,000 common shares to Jack Farley to settle accrued and outstanding wages valued at \$277,000.

On June 17, 2009, the Company signed an agreement with Synergixx LLC, a national telemarketing company, for all inbound customer calls.

In June 2009, the Company signed an agreement with 3PL Worldwide, Inc., for order management and fulfillment in relation to the Company's infomercial.

On July 2, 2009, the Company signed a contract with Koeppel Direct, a direct response television media buying agency, in connection with the airing of the Company's infomercial.

On August 12, 2009, the Company launched the infomercial for the Neuroskin® Psoriasis Relief and generated sales of \$35,000.00 The DRTV test program ended in October 2009 as the Company did not have the necessary funds to continue with the program.

In September 2009, the Company signed an agreement with Online Performance Marketing, LP (OPM), a leader in Internet marketing. OPM was engaged to promote Neuroskin® Psoriasis Relief on major search engines such as Google®, Yahoo® and Bing®, as well as on numerous health and wellness sites using a variety of specialized methods. The program was not launched due to lack of funding.

On October 1, 2009 British Columbia Securities Commission issued a Cease Order Trade ("CTO") in respect of the Company's securities due to its failure to file audited financials for 2009 and related continuous disclosure documents.

In December 2009, the Company was sued by a group of investment funds ("the NIR Group") in the Supreme Court of New York in relation to certain convertible notes held by the NIR Group. The Company is in the process of completing a settlement agreement in respect of this law suit.

#### **Recent and Future Developments**

On April 7, 2010, Ruth Brennan was appointed to the board of directors and Jack Farley subsequently resigned as a director and officer of the Company. Lorie Campbell-Farley also resigned as an officer of the Company at this time.

During May and June 2010, the Company appointed a new management team consisting of:

- President & COO - Roland J. (RJ) Busch;
- CFO & Director - Ruth Brennan;
- CEO - Lance Loose;
- Independent Director - Paul Ryan; and
- Independent Director - Dr. Mark Alden M.D., FACRO.

As of June 2010, a new management team was formed to restructure the Company and implement a new focus on sales. The management team has created new business and marketing plans to create a foundation and guideline for the Company's future. The plans are based on three distinctive lines of products: a line of skin care and health products for humans, pet and equine products for coat and skin care, and an industrial product line. With more than 80 products available for the Company to market, the Company has focused on launching the pet line of products with the dermal*lustre*® brand. The business plan calls for \$500,000 of capital to re-launch these products.

The Company will be focusing on entering the marketplace first through pet groomers and then through major distribution channels and private labelling. The Company's research shows that individuals that bring their pets for grooming are more likely to have disposable income to purchase products recommended by their groomers.

The Company has recently reformatted its website to include surveys and questionnaires in order to provide data for the Company's market research. In addition, a Google ad Words campaign program was launched in August 2010 to increase awareness of the skin care products.

As of August 2010, the Company filed its audited financial statements for the fiscal year ended May 31, 2009 and its interim financial statements for the first three quarters of the 2009 - 2010 fiscal year. On September 24, 2010 the Company has filed the continuous disclosure document AIF (Annual Information Form) for the fiscal year ended May 31, 2009 required under National Instrument 51-102 Continuous Disclosure Obligations. Accordingly, the Company intends to seek a full and/or partial revocation of the CTO. If the Company is unable to obtain a full or partial revocation of the CTO, its ability to secure the funds necessary to implement its business and marketing plans will be severely compromised.

## **BUSINESS OF THE COMPANY**

### **Summary**

The Company is a manufacturing and distribution company of a natural, steroid-free, therapeutic skin care products. The Company was previously operating under a Distribution Agreement dated December 30, 2005 between the Company, MYOSP, Jack Farley, Stalwart Participations Ltd., Mr Gerd Thone, Neosino Nanotechnologies AG and Sanalife Ltd. whereby the Company was granted the exclusive right to distribute the products in North America, Central America, South America, India, South East Asia, West Indies, Greater Antilles, Australia, Africa, China and Great Britain. Pursuant to this agreement, the Company was required to obtain its supply of the proprietary compounds for the products for distribution from Nanotechnologies AG and/or Sanalife Ltd. Around 2007, Nanotechnologies AG and Sanalife Ltd. became in default of their obligations to Gerd Thone, the owner of the relevant patents, and accordingly, the Distribution Agreement was deemed to be terminated. Since that time, the Company has continued to distribute the products pursuant to a verbal agreement with Gerd Thone, the inventor of the proprietary compounds for the products, and has received its supply of proprietary compounds for the products directly from Mr. Thone. The Company's mission is to provide the public with medically safe, natural, non-toxic health care products and specifically products that treat skin abnormalities as well as enhance the natural clarity and texture of healthy skin. The Company has developed a business plan and conducted research with respect to marketing these products.

The distribution of these products is intended for the principal markets of pet owners, animal shelters, pet stores, veterinarians, spas, skin specialists and persons suffering from skin diseases. The Company plans to use the following methods to distribute the products:

- wholesale sales to institutional, mainstream retail and specialty merchants, private brand and cosmetic companies and health and natural food stores; and

- directly to the consumer through infomercial and/or website orders.

The core products will be initially introduced throughout North America.

### **Overview of Products**

With a patented nano-particle mineral solution, the products provide the consumer market with a naturally sourced mineral product that absorbs quickly into the hair shaft and skin for deep treatment and conditioning which are safe for any person (including children) or pet. Each of the products offers a unique non-toxic formula.

#### *Pet/Equine Sector*

The pet product industry is a large and expanding market. The most rapidly growing market segment is pet products and supplies, which represents 5.5% of the market. This segment is projected to increase from \$5.2 billion to \$6.9 billion in the next five years, according to the Business Communications Company Pet Industry study. The reason for this tremendous growth in pet products and supplies is the growing number of pet owners and pets.

The Company intends to market a complete line of pet/ equine products including:

- *dermabrite*<sup>™</sup> - Shampoo/conditioner;
- *dermalustre*<sup>®</sup> -weekly coat and skin maintenance spray;
- *dermaspray*<sup>™</sup> – treatment for hot dry irritated skin;
- *dermahoof-fit*<sup>™</sup> – equine hoof conditioner and repair; and
- *dermashooaway*<sup>™</sup> - all natural insect repellent.

These products will be the focus of our first year of marketing according to our business and marketing plan, and will be introduced through North American groomers as end users and for retail in their outlets. Once the line has some market share the Company will approach major distributors and offer the complete line and/or private label opportunities.

#### *Human Sector*

The Company will rebrand the complete line of human products including:

- Neuroskin<sup>®</sup> Mild – a skin moisturizer;
- Neuroskin<sup>®</sup> Acne – a new cleanser and a treatment application;
- Neuroskin<sup>®</sup> Psoriasis – a treatment of eczema and psoriasis;
- Neuroskin<sup>®</sup> Shooaway<sup>™</sup> – a natural insect repellent; and
- Spa line – a complete spa line that has been formulated and will be introduced in year two of our business plan.

These products will also be offered as private labels to major distribution channels and/or private labels to major pharmaceutical companies. The Company has been in discussions for the past four months with 2 major pharmaceutical companies in India to carry the human line. The Company anticipates having the first major order from one of the two companies within six to eight months.

#### *How are the Products Different from its Competitors?*

##### **About Silicone & the Skin**

Silicone is a lubricant which can be used to moisturize the skin and assist the skin in withstanding the elements. However, on its own, it can be heavy and sticky making it uncomfortable for consumers to use.

##### **About Silica and the Skin**

In its biologically active “amorphous” form, silica plays an important role in the growth and development of collagen, which in turn provides skin with firmness, elasticity and strength. Silica contributes to injury-healing and increases the ability of proteins to bind with water, causing the skin to be more moist and supple. It is considered an essential trace element.

However, the silica that is found in many cosmetics, powdered food products, toothpastes, and deodorants is present largely as a filler, abrasive agent or impurity. The silica in most products is microscopically coarse, not absorbed through the skin and not biologically active.

### **The Neuroskin® and derma™ Silica-Based Products**

Unlike other products currently on the market today containing silica ingredients, the products have biologically active silicon dioxide. This is because the silica is broken down to a very tiny or “nano-particle” level. This patented nanotechnology allows the silica in both the human and animal care products to be absorbed into the skin while maintaining its biologic properties. By using these miniature particulates, absorption is enhanced. This combination of nanotechnology and biologically active silica, allows the products’ active ingredient to enter deeper into the skin than many other products thereby better supporting healthy skin processes.

### **Production**

The Company has engaged contract manufacturing facilities in Vernon, British Columbia, Canada and Chicago, Illinois, USA to complete the final phases of producing the products from proprietary compounds supplied by inventor.

### **Specialized Skill and Knowledge**

The Company has two (2) employees who have received training from the patent owners on the method of production of the products. These employees oversee the manufacturing of the products at the contract manufacturing facilities in Vernon, BC and Chicago, IL.

### **Competitive Conditions**

The comparisons of competitive products fall into two categories: over-the-counter products and prescription products. The Neuroskin® line will compete in the over-the-counter market directly with other products that treat dry irritated skin including cases of psoriasis, eczema, acne, dermatitis and burns.

Unlike other over-the-counter products, these products are non-greasy, odourless, steroid-free, natural and do not stain clothing. As well, these products are versatile and can be used to treat many chronic skin conditions and irritations, including eczema, psoriasis, acne and dermatitis, thus providing consumers with more value for their dollar.

The products are currently being re-registered under the *Natural Health Products Act* (Canada) and are supported by over a decade of European research and development.

### **Uniqueness within Competitive Markets**

As previously disclosed, the products contain a unique patented absorption property through the use of nanotechnology. As a result of the silica/nano-particle combination, these products offer consumers superior duration which, in turn, results in fewer treatments, thus providing greater value to the consumer.

### **Pet/Equine**

dermalustre®, the patented nano-fine naturally sourced mineral solution for pets, is unique compared to other pet coat and mane products as it does not coat the hair shaft and skin with waxes or silicone but rather is absorbed into the hair shaft and skin providing deep conditioning and treatment. dermalustre® has been proven by professionals to be an excellent pre-treatment and conditioner prior to banding and braiding horse’s manes and is therefore highly recommended as an excellent conditioner, repairing dry brittle coats, manes and tails, relieving dry, itchy and flaky skin, relieving and treating an equine industry skin irritation called sweet itch. dermalustre® has also been proven to be an excellent detangler and repelling dust and dirt.

The main competitors to dermalustre®, are Cowboy Magic Body Shine Dust Control and Cowboy Magic Detangler and Shine produced by CHARMAR Land and Cattle Co. which is based out of Anaheim, CA USA. Both of these competitive products contain silicone for the lustre effect but create matting and dirt build-up, whereas dermalustre® contains silica which eliminates dirt build-up and matting.

The main difference between dermalustre® and other products is dermalustre’s® ability to absorb into the animal’s hair shaft and skin to treat these areas rather than just coating the hair. Accordingly, the Company is using this advantage in marketing this safe, natural, deep skin treatment and conditioning to pet and equine owners.

### **Human Line**

Neuroskin® Psoriasis, Neuroskin® Acne Treatment, Neuroskin® Itch Relief and Neuroskin® Mild Skin Moisturizer are available over-the-counter and are proven effective, easy to use, safe, non-toxic, and

environmentally friendly. These products do not contain unnatural ingredients such as cortisone, antibiotics and/or alcohol, but are proven to provide effective results without the common side effects of thinning skin. Conversely, due to the replenishment of the necessary minerals provided from the Neuroskin® line of products, consumers should experience skin strengthening and re-growth.

There are many other competitors on both the human and pet side.

- Animal: Epi Pet, PetsBest, Doctors Foster & Smith, 4Paws, Cowboy Magic (Source avVaa Internal Research 2010);
- Human: L'oreal Skin Genesis, P&G (Olay Regenerist, Cover Girl, Annaa Sui, and Secret) Unilever (Vaseline, Salon Selectives), Shiseido Cosmetics, Estée Lauder (Good Skin), Avon (Skin So Soft Solutions), Johnson & Johnson (Neutrogena) (Source: Beauty International Sales Report 2009)

In the prescription products category, prescribed products are only available through a general practitioner or dermatologist and are generally more expensive. Therefore the Company considers these prescription products to be indirect competitors.

The Company is currently in the research phase of branding the products to create a new look for the entire product line, including size and labels, to position the products with the average consumer as products of real value, distributed by a Company that can be trusted.

#### **Intangible Properties**

As previously noted, the Company's main asset is its distribution rights for patented European skin care products, which are scientifically developed to treat the symptoms of skin diseases including eczema, psoriasis and acne and for animal coat and skin treatments. These products are the subject of a variety of registered patents and/or trade-marks either owned by Gerd or Oliver Thone or the Company, as listed below:

<b>Patent Title/Owner</b>	<b>Patent #</b>	<b>Country</b>	<b>PCT Filing Date</b>	<b>Expiry Date</b>
Remedy for external application and use of an oil-in-water emulsion for said remedy/Oliver Thone or Gerd Thone	2285012	Canada	March 11, 1997	March 11, 2017
	1997919265	European Patent Office	March 11, 1997	March 11, 2017
<b>Trademark/Owner</b>	<b>Registration #</b>	<b>Country</b>	<b>Registered Date</b>	<b>Renewal date</b>
Neuro Skin/Gerd Thone	2235063	USA	March 23, 1999	Sec. 8 & 9 due between March 23, 2018 and March 23, 2019
Neuro Skin/Gerd Thone	3336361	USA	Nov. 13, 2007	Sec. 8 & 15 due between Nov. 13, 2012 and Nov. 13, 2013
Neuro Skin/Gerd Thone	TMA558165	Canada	Feb. 19, 2002	Feb. 19, 2017
dermalustre/ avVaa World Health Products Inc.	3120728	USA	July 25, 2006	Sec. 8 & 15 due between July 25, 2011 and July 25, 2012

### Applied for Trade-Marks

Trademark/Owner	Application #	Country	Application Date	Status
ShooAway/avVaa World Health Care Products, Inc.	77627087	USA	December 5, 2008	Statement of Use filing due January 7, 2011
dermaShooAway/avVaa World Health Care Products, Inc.	77627085	USA	December 5, 2008	Statement of Use filing due January 7, 2011

Should the owner(s) of the patents noted above fail to maintain the patents, upon the expiry of the patents, other competitors may utilize the patents for the products and create their own line of competitive products containing parallel elements.

Should the owner(s) of the trade-marks fail to meet the filing deadlines in the United States and Canada with respect to certain Declaration of Use and Renewal deadlines, other companies could begin using variations of the trade-marks for their products, thus creating confusion in the marketplace which may result in a loss of sales for the Company.

In addition to the above-noted patents and trade-marks, the Company has also registered the Neuroskin® line of products under the Canadian Drug Identification Number system and has specifically qualified the Neuroskin® Mild, Acne Psoriasis and Itch Relief for registration under the *Natural Health Products Act* (Canada). These products are in the process of being re-registered, along with the initial registration of the Company's new products: Shooaway and Shampoo for dry skin, under the *Natural Health Products Act* (Canada). In the United States, the Company has registered the Neuroskin® Mild, Acne Psoriasis and Itch Relief under the Drug Registration and Listing System.

Should the Company fail to maintain its registrations in Canada and the US with respect to its Neuroskin® products, the Company may be prevented from selling the products into Canada and the United States, respectively.

### Employees/Management and Organization Summary

To remain consistent with our overall strategy of minimizing fixed costs, the Company currently has three management employees and two regular employees and does not foresee increasing these numbers significantly in the near term. Some of the product design activities and all of the manufacturing and distribution activities will be outsourced. This dramatically reduces the in-house requirements for employees.

### Risk Factors

An investment in our common stock is highly speculative and involves a high degree of risk. Therefore, you should consider all of the risk factors discussed below, as well as the other information contained in this document. You should not invest in our common stock unless you can afford to lose your entire investment and you are not dependent on the funds you are investing.

WE HAVE SUSTAINED SUBSTANTIAL LOSSES TO DATE AND WE EXPECT TO CONTINUE TO EXPERIENCE ADDITIONAL LOSSES INTO THE FUTURE WHICH COULD LEAD TO THE FAILURE OF OUR BUSINESS.

Our date of inception is March 25, 1999. Our accumulated losses were \$32,631,163 as of May 31, 2010. We will continue to incur losses in the future and there is no assurance that we will generate significant revenues or become profitable. We have had minimal revenues and nominal operations since inception.

Based upon current plans, we expect to incur operating losses in the immediate future as we prepare for the full implementation of our business plan. We cannot guarantee that we will be successful in generating revenues in the future. Failure to generate sufficient revenues will cause us to go out of business.

OUR AUDITOR HAS EXPRESSED SUBSTANTIAL DOUBT AS TO OUR ABILITY TO CONTINUE AS A GOING CONCERN.

Based on our financial history since inception, our auditor has expressed substantial doubt as to our ability to continue as a going concern. We are a development stage company that has generated limited revenues. We have only generated \$237,645 in cumulative revenues, and we have incurred a cumulative net loss of \$32,631.163 as of May 31, 2010. If we cannot generate sufficient revenues from the sale of our products, we may not be able to implement our business plan and may be forced to cease our business activities.

THE TERMINATION OF GOVERNMENT APPROVAL FOR THE PRODUCTS THAT THE COMPANY HAS THE RIGHT TO DISTRIBUTE CAN CAUSE US TO LOSE THE USE OF SUCH PRODUCTS RESULTING IN A LACK OF PRODUCTS TO GENERATE ANY SIGNIFICANT REVENUES.

The products that we sell have received US Federal Food and Drug Administration (FDA) approvals as compliant products for over-the-counter pharmaceuticals as well as cosmetic skin care products. The re-registration of these products under the *Natural Health Products Act* (Canada) is in the process. The Company's distribution rights include all countries in the world with the exception of Germany, Switzerland, Austria, The Netherlands, Belgium, Luxembourg and Lithuania. The termination of current and/or future government approvals in the US, Canada and all other countries noted above will cause us to lose the use of such products resulting in a lack of products to generate significant revenues. This situation could arise should significant scientific evidence be brought forward that question the safety of components in the product formulas. All other companies using the same components would be in a similar situation.

“PENNY STOCK” RULES MAY MAKE BUYING OR SELLING OUR COMMON STOCK DIFFICULT

Trading in our securities is subject to the “penny stock” rules. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than \$5.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors, must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser's written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from effecting transactions in our securities, which could severely limit the market price and liquidity of our securities. Broker-dealers who sell penny stocks to certain types of investors are required to comply with the SEC's regulations concerning the transfer of penny stocks. These regulations require broker-dealers to:

- Make a suitability determination prior to selling a penny stock to the purchaser;
- Receive the purchaser's written consent to the transaction; and
- Provide certain written disclosures to the purchaser.

These requirements may restrict the ability of broker-dealers to sell our common stock and may affect your ability to resell our common stock.

OUR BUSINESS DEPENDS ON A LIMITED NUMBER OF KEY PERSONNEL, THE LOSS OF WHO COULD NEGATIVELY AFFECT US.

Lance Loose, our Chief Executive Officer; RJ Busch, our President and Chief Operating Officer; and Ruth Brennan, our Chief Financial Officer, are important to our success and they have no immediate plans for leaving the Company or retiring; however, if one of them became unable to continue in their present position, our business and financial results could be materially negatively affected. With limited start-up personnel, the Company's core management team and current employees have worked together to develop all aspects of the Company's operations. Each has gained knowledge in every aspect of the day-to-day workings giving us full confidence in the ability to continue full operations with the short term loss of any key personnel.

IF WE FAIL TO ADEQUATELY MANAGE OUR GROWTH, WE MAY NOT BE SUCCESSFUL IN GROWING OUR BUSINESS AND BECOMING PROFITABLE.

The sales and marketing division of the Company will undertake both traditional marketing and Internet marketing initiatives to drive sales in targeted market areas. To carry out the marketing strategies, the Company will concentrate on building a strong relationship with trade distributors (national and international) and end users to drive sales in the various market areas: direct consumer, institutional, clinical, mainstream retail and specialty merchants, private brand and cosmetic companies, and health and natural food stores. Failure to attract the mass merchants and additional sales staff during the initial growth and training period could hamper the increase in sales necessary for the survival of the Company.

Sales and marketing efforts will be initially focused on the US markets with direct to consumer sales and distributorship agreements. Expansion into international markets with sales and distributorship agreements will be aggressively pursued with early discussions having already taken place. These activities will be concurrent to the development of clinical, institutional and food, drug and mass merchant channels. The Company is forecasting substantial advertising, product launch and research and development expenditures. Any failure to address the needs of our growing business successfully could have a negative impact on the Company's chance of success.

#### SELLING SHAREHOLDERS MAY IMPACT OUR STOCK VALUE THROUGH THE EXECUTION OF SHORT SALES WHICH MAY DECREASE THE VALUE OF OUR COMMON STOCK.

Short sales are transactions in which a selling shareholder sells a security it does not own. To complete the transaction, a selling shareholder must borrow the security to make delivery to the buyer. The selling shareholder is then obligated to replace the security borrowed by purchasing the security at the market price at the time of replacement. The price at such time may be higher or lower than the price at which the security was sold by the selling shareholder. If the underlying security goes down in price between the time the selling shareholder sells our security and buys it back, the selling shareholder will realize a gain on the transaction. Conversely, if the underlying security goes up in price during the period, the selling shareholder will realize a loss on the transaction. The risk of such price increases is the principal risk of engaging in short sales. Such short selling could impact the value of our stock in an extreme and volatile manner to the detriment of other shareholders.

#### PRODUCT DEFECTS COULD LEAD TO LITIGATION THAT WOULD PUT THE COMPANY AT RISK.

Although the FDA reviews and approves products for over-the-counter drugs and cosmetics, their approval does not leave a company immune to litigation. We have followed the guidelines as established by the FDA and are not aware of any product defects at this time. However, if defects were found there could be a potential lawsuit. Substantial legal costs to defend against the claims or settlements would negatively impact the Company.

#### CLAIMS AGAINST OUR INTELLECTUAL PROPERTY RIGHTS COULD LEAD TO LITIGATION THAT WOULD PUT THE COMPANY AT RISK.

Similarly, while we are confident of our rights to the trade-marks owned by the Company as listed under "Intangible Properties", should another party step forward with claims of parallel rights we could be faced with litigation. Substantial legal costs to defend against the claims or settlements would negatively impact the Company.

#### COMPETITION WITH RESPECT TO DISTRIBUTION RIGHTS.

The Company is currently manufacturing and distributing the noted skin care products pursuant to a good faith verbal agreement whereby the unwritten understanding is that the Company has the exclusive right to distribute the skin care products in the permitted territory. Although it is the intent that the parties involved, namely the Company, the inventor and the owner of the patents, will enter into a formal exclusive distribution agreement by the end of this year, there can be no assurance that such an exclusive distribution agreement will be finalized. Should the owner of these patented products choose to engage another company to distribute the products in the same territory as the Company, and should said company have better financial resources for marketing and distribution, it is unlikely that the Company would be able to continue as a viable business.

## THE FIGHT FOR MARKET SHARE IN THE OVER-THE-COUNTER AND PRESCRIPTION PRODUCT MARKET PLACE WILL BE A DIFFICULT CHALLENGE.

The competition for market share in the market place is a significant risk for the Company's management and shareholders. The comparisons of competitive products fall into two categories: over-the-counter and prescription products. The products, namely **Neuroskin® Spray for Psoriasis/Eczema**, **Neuroskin® Spray for Acne Relief** and **Neuroskin® Spray for Itch Relief**, will compete in the over-the-counter market, competing directly with products that treat psoriasis, eczema, acne and dermatitis. In the prescription products category, prescribed products are only available through a general practitioner or dermatologist and are generally more expensive. Therefore the Company considers these prescription products to be indirect competitors. The majority of treatments for psoriasis/eczema are in the prescription product category and are expensive compared to over-the-counter treatments. There are a large number of acne treatments available over-the-counter and through mail order/infomercials which will be direct competitors and will increase the risk of being able to penetrate the market.

Initial research on the competitive environment has been undertaken to complete the business plan. The second phase of market research planned will be extremely comprehensive with full qualitative and quantitative research. This critical data, once collected and analyzed will direct the Company into its next phase of development and could help lower the market penetration risks.

Milestones in competitive environment will include the second phase of in-depth research concluded by the end of 2010. During 2010, follow up research will be planned to gauge the success of the marketing messages and product performance. The follow-up research is planned as survey and focus group testing.

The Company cannot guarantee that it can successfully compete in the market place and failure to generate sales revenues will result in the Company ceasing operations.

## THE MARKET ACCEPTANCE OF THE PRODUCTS IS NOT GUARANTEED AND ANY LACK OF ACCEPTANCE WILL CREATE ADDITIONAL BURDENS ON THE COMPANY.

There is a risk that the products distributed by the Company will not be accepted in the market place. The Company's research and development team (the "R&D Team") feels that Neuroskin® Sprays are effective treatment for all major skin diseases. The core products are registered FDA compliant and DIN approved (subject to renewal) as over-the-counter pharmaceuticals as well as cosmetic skin care products. However, this will not ensure acceptance in the market place.

## THERE ARE RISKS ASSOCIATED WITH THE INTRODUCTION OF NEW PRODUCTS THAT COULD RESULT IN DELAYS TO ANTICIPATED LAUNCH DATES, WHICH WOULD NEGATIVELY AFFECT THE FINANCIAL SITUATION OF THE COMPANY.

There may be regulatory issues particular to a specific product segment that will have to be addressed. For example, we have the right to distribute a natural insect repellent that has been delayed as it has four active ingredients whereas FDA regulations restrict the number of active ingredients to two. The launch date of the product has thus been delayed as it has been returned to the product development stage. The business plan calls for the launch of new products on an ongoing basis and any delays could negatively affect the financial situation of the Company.

## INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES.

The Company may face risks if there are deficiencies in its internal control over financial reporting and disclosure controls and procedures. As the Board of Directors of the Company currently consists of only three members, the entire board also acts as the audit committee and therefore is solely responsible for assessing the progress and sufficiency of internal controls over financial reporting and disclosure controls and procedures. However, these assessments may not be effective at remedying any deficiencies in internal control over financial reporting and disclosure controls and procedures. Any deficiencies, if uncorrected, could result in the Company's financial statements being inaccurate and in future adjustments or restatements of its financial statements, which could adversely affect the price of the common shares and its business, financial condition and the results of operations.

## SHARES ELIGIBLE FOR PUBLIC SALE IN THE FUTURE COULD DECREASE THE PRICE OF OUR COMMON SHARES AND REDUCE OUR FUTURE ABILITY TO RAISE CAPITAL.

Sales of substantial amounts of our common stock in the public market could decrease the prevailing market price of our common stock and our ability to raise equity capital in the future.

### **Cease Trade Order**

As previously disclosed, the British Columbia Securities Commission has issued a cease trade order in respect of the Company's securities. Should the cease trade order fail to be removed, the Company will be unable to complete securities-based financings. This could result in the Company being unable to complete its marketing and business plans and to manage its existing debt. Accordingly, the Company could fail to continue its operations.

### **British Columbia Securities Commission Review**

On October 6, 2009, the BCSC issued an Order for Production of certain corporate documents of the Company for the purposes of determining compliance by the Company with applicable British Columbia securities laws and in connection with the enforcement of securities laws of another jurisdiction. The Company has delivered two boxes of corporate documents to the BCSC pursuant to the Order for Production. The BCSC has expressed concerns regarding the five debt wrap transactions entered into by the Company in August, 2009. In particular, the BCSC has indicated that certain sales of shares issued in connection with these debt wrap transactions do not appear to have complied with the applicable British Columbia resale restrictions. Any enforcement proceedings taken by the BCSC against the Company in respect of these debt wrap transactions or any other transactions entered into by the Company could have a material adverse affect on the Company and could lead to the Company ceasing its operations.

## **DIVIDENDS**

The Company has not declared or paid any dividends on outstanding Common Shares since its inception and it does not anticipate that it will do so in the foreseeable future. The declaration of dividends on the Company's Common Shares is within the discretion of the Board of Directors and will depend on the assessment of, among other factors, the Company's earnings, capital requirements and its operating and financial condition. At the present time, anticipated capital requirements are such that the Company intends to follow a policy of retaining earnings in order to finance the future development of the business.

## **DESCRIPTION OF CAPITAL STRUCTURE**

The Company's authorized share capital consists of 4,000,000,000 Common Shares with a par value of \$0.001 and 400,000,000 Preferred Shares with a par value of \$0.001.

As of September 27, 2010, there were 1,672,178,559 Common Shares issued and outstanding. The holders of Common Shares are entitled to equal dividends and distributions when, as, and if declared by the Board of Directors from funds legally available therefore. Each Common Share is entitled to one vote at all general meetings of shareholders of the Company whether ordinary or special, and may participate in any dividends declared by the directors of the Company. The Common Shares carry the right to receive a proportionate share of the Company's assets available for distribution to the shareholders upon liquidation, dissolution or winding up of the Company. The Common Shares do not have any special liquidation, pre-emptive or conversion rights.

As of September 27, 2010, there were 1,250,000 Preferred Shares issued and outstanding. The Preferred Shares are convertible into Common Shares at the option of the holder at a ratio of two Common Shares for each Preferred Share and have liquidation rights at eight Common Shares per Preferred Share. The Preferred Shares have a voting ratio of five votes per Preferred Share.

## **MARKET FOR SECURITIES**

### **Trading Price and Volume**

The Company's Common Shares are listed and traded under the symbol "AVVH" on the OTC Markets Pinksheets. The following table sets out the high and low share prices and the trading volume on Pinksheets for the months indicated.

Month	High (\$)	Low (\$)	Volume
May 2010	0.0026	0.0022	37,662,304
April 2010	0.0029	0.0026	55,992,584
March 2010	0.0039	0.0031	135,738,558
February 2010	0.0020	0.0016	105,298,755
January 2010	0.0017	0.0014	42,557,972
December 2009	0.0021	0.0017	124,888,978
November 2009	0.0035	0.0031	67,670,729
October 2009	0.0067	0.0057	268,070,662
September 2009	0.0114	0.0087	597,389,857
August 2009	0.0117	0.0088	278,498,976
July 2009	0.0035	0.0026	235,475,985
June 2009	0.0045	0.0034	21,358,580

## DIRECTORS AND OFFICERS

### Names, Occupations and Security Holdings

During the fiscal year ended May 31, 2010, the Company had the following director and officers:

Name & Residence	Position	Appointed	End of Term	Shareholdings
John Farley BC, Canada	Chief Executive Officer and Director	Jun-02	Apr-10	342,512,000
Lorie Farley BC, Canada	Acting President, Chief Operations Officer	Apr -07	Apr-10	342,512,000
As at September 23, 2010, the Company has the following directors and officers				
Lance Loose BC, Canada	Chief Executive Officer	May-10	May-11	Nil
Ruth Brennan <sup>(1)</sup> BC, Canada	Chief Financial Officer, Director	Apr-10	Apr-11	131,375,000
RJ Busch BC, Canada	President , Chief Operations Officer	May-10	May-11	Nil
Paul Ryan <sup>(1)</sup> BC, Canada	Director	May-10	May-11	Nil
Dr. Mark Alden <sup>(1)</sup> PA, USA	Director	Jun-02 June-10	Apr-07 June-11	2,995

(1) member of the audit committee

See Schedule "A" for the Company's Audit Committee Disclosure and Schedule "B" for the Company's Corporate Governance Disclosure.

Set forth below is certain biographical information regarding our executive officers and directors during the past five years.

During the fiscal year ended May 31, 2010, the Company had one director and two officers, their respective principal occupations during the preceding five years follows.

#### JOHN FARLEY (Director & CEO)

John Farley had been the Chief Executive Officer and a member of the board of directors from June 28, 2002 to April 2010. Mr. Farley also held the position of President of the Company until January 17, 2006. From November 1995 to April 2010, he was the President of Mind Your Own Skin Products, Inc. (a wholly-owned subsidiary of the Company) also located in British Columbia, Canada. Since such time he has also been President and Chief Executive Officer of Shield- Tech Products Inc., an environmental products company which Mr. Farley founded. In December 2000, he resigned as officer of Shield-Tech Products, Inc. to work full-time for Mind Your Own Skin Products, Inc. Mr. Farley has undertaken training courses in public speaking skills, financial analysis, marketing, negotiating, management and labour relations.

**LORIE CAMPBELL-FARLEY (Acting President & COO)**

Lorie Campbell-Farley has 25 years of management, sales and marketing experience in the trade show and fashion industries. Mrs. Campbell-Farley was the acting President and Chief Operating Officer of the Company from April 2007 until April 2010 and also held the position of Executive Vice-President and Vice-President of Animal Care Division of the Company from 2002 until April 17, 2007. Mrs. Campbell-Farley developed the product branding of the Company's products for sales and marketing and specialized in consumer product development and creating the Company's business models.

As at the date of this AIF, the Company's board of directors consists of three members, and the Company currently has three officers. The respective principal occupation during the preceding five years for the current directors and management of the Company follows.

**RUTH BRENNAN (CFO & Director)**

Mrs. Brennan has acted as the Company's Controller since 2003 and brings 35 years of experience gained through various positions held in sales, marketing, accounting and general management. Mrs. Brennan educational achievements include diplomas in accounting, management and sales and marketing and an apprenticeship as a graphic arts designer. Mrs. Brennan has been the founder of several profitable companies, including Worldwide Wood Products Sales Inc., Breline Cabinet Inc., Atelier Sign Design LTD, and RC Executive Business Service Inc. Mrs. Brennan has acted as a consultant for the Business Development Bank of Canada, COBBS Bread (Vernon, BC), The Rise (Vernon, BC) and Bonita's Winery where she was able to assist the clients in obtaining several million dollars in financing. Mrs. Brennan has a natural talent for networking and a strong ability to establish and build long-term relationships.

**LANCE LOOSE (CEO)**

Mr. Loose has 19 years experience in international sales and marketing with prominent industry leader, Tolko Industries Inc., based in Vernon, BC. His experience with production, market research and sales has enhanced his understanding and execution of new products being introduced to the market place. Mr. Loose is instrumental in targeting strategic customers, enhancing sales and maintaining a consistent high volume in sales and maximizing margin. Mr. Loose used his technical skills to develop a detailed usage Vendor Managed Inventory (VMI) program that was used to meet the vigorous time constraints and volume demands on Tolko, and to create reporting measurements for one of the largest homebuilders in North America. Most recently Mr. Loose has acted as one of Tolko Industries' liaisons to China where he has been successful in marketing Tolko's products and building business relationships resulting in new clients and increasing the volume of lumber sales for Tolko.

**RJ BUSCH (President)**

RJ Busch has diversified experience which includes 14 years in the hospitality and management industry plus 20 years of service in the Canadian Military where he managed several supply warehouses, private clubs and housing facilities. Mr. Busch's background includes management, customer service, sales, marketing and fiscal responsibilities. His successful team leadership abilities derive from his emphasis on strong attention to detail and his outgoing personality. Mr. Busch uses his highly motivated personality to maintain a strong work ethic and commitment to professional customer service. Mr. Busch's accomplishments during the past five years include the following:

- During 2009, as an MLA Candidate for the Refederation Party of British Columbia, Mr. Busch presented a new provincial political party's policies to the constituents of the Vernon-Monashee riding.
- During 2008 - 2009, Mr. Busch founded Hygeia Harmony Health Corporation, a startup company with three partners that was based on outsourced marketing and distribution for major pet manufacturers and human products.
- During 2006 - 2007, Mr. Busch was engaged as the Assistant General Manager of Silver Star Club Resort Hotel and Conference Centre. In this position he reorganized the administration system, resulting in a reduced, highly effective and accountable administration which reduced expenses and staffing requirements by approx 20%.
- From 1985 – 2006, Mr. Busch was an active member of the Canadian Department of National Defense, whereby his service focused on the hospitality sector.

**PAUL RYAN (Director)**

Paul Ryan has over 40 years of experience in marketing consultation, market research and related fields in North America. For the past 31 years, Mr. Ryan has managed Sunray Media Inc., for qualitative and quantitative research studies, and SR Consulting, a business and marketing consulting service. Mr. Ryan has wide ranging experience, including business consultation to the design of formal market research studies. Mr. Ryan is past-President of the Broadcast Research Council, past member of the CCAB Subcommittee on advertising research standards, and a current member of the Professional Market Research Society. Mr. Ryan's educational achievements include graduating from Ryerson University with a communications degree and the University of Toronto with a graduate degree in English. As a graduate of Ryerson, he was the winner of the HS Stovin award given each year for the top student thesis for marketing and market research. As an avid master athlete, Mr. Ryan has twice competed at the World Championships in the sport of triathlon.

**DR. MARK ALDEN M.D., FACRO (Director)**

Mark Alden was a member of our board of directors from June 2002 to April 2007 and was re-appointed to the board in June 2010. From September 2000 through May 2009 Dr. Alden was a clinical associate professor in the Department of Radiation Oncology for Drexel University College of Medicine, Philadelphia, PA. From 2005 through 2009, Dr. Alden held the position of Vice Chairman for the department, except for the period August 2007 through February 2008 when he held the position of interim Chair. During this time, Dr. Alden was on staff at the Graduate Hospital, Hahnemann University Hospital and at Cancer Treatment Centers of America, in Philadelphia. Since June 2009, Dr. Alden has been the Director of Radiation Oncology for the USLV Radiation and Imaging Center in Allentown, PA. Dr. Alden's duties have been largely focused on clinical patient care, but have also included some research, teaching and administration.

Collectively, the current directors and officers of the Company beneficially own, directly or indirectly, or exercise control or direction over an aggregate of 131,377,995 Common Shares, representing approximately 0.079% of the outstanding Common Shares of the Company.

Other than as noted below, no director, executive officer or controlling shareholder of the Company is, as at the date of this AIF, or has been within the past ten years, a director or executive officer of any company (including the Company) that, while acting in such capacity, (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days (the "order"); or (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer in the company being the subject of an order or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

On October 1, 2009, while Jack Farley and Lorie Campbell-Farley were acting in the capacity of director and officers, but prior to the appointment of the current management and board of the Company, the Company became the subject of a Cease Trade Order ("CTO") issued by the British Columbia Securities Commission ("BCSC"). The CTO was issued by the BCSC for failure by the Company to file its annual financial statements for the fiscal year ended May 31, 2010 and related management discussion and analysis and this AIF. The CTO remains in effect as at the date of this AIF. However, upon filing this AIF, the Company intends to apply for a revocation of the CTO.

To the best knowledge of the Company, no current director, executive officer or controlling shareholder of the Company has, within the past ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver-manager or trustee appointed to hold the assets of the director or executive officer.

**CONFLICTS OF INTEREST**

During the fiscal year ended May 31, 2010, the Company entered into the following transactions with John Farley and Lorie Campbell-Farley at a time when John Farley was the sole director of the Company and John Farley and Lorie Campbell-Farley were the sole officers:

- In 1999, the Company engaged Shield-Tech Products Inc., a company controlled by John Farley, to conduct research;
- On March 23, 2009, the Company entered into a stock option agreement with John Farley whereby Mr. Farley was issued 15,200,000 options at an exercise price of \$0.0005 per share, and with Lorie Campbell-Farley whereby Ms. Campbell-Farley was issued 10,000,000 options at an exercise price of \$0.0005 per share;
- On June 5, 2008, the Company entered into a stock option agreement with John Farley whereby Mr. Farley was issued 170,000 options at an exercise price of \$0.30 per share, and with Lorie Campbell-Farley whereby Ms. Campbell-Farley was issued 115,000 options at an exercise price of \$0.30 per share; and
- In 2009, the Company entered into \$100,000 debt wrap agreements with each of John Farley and Lorie Campbell-Farley. See particulars of the debt wrap agreement under "Material Contracts".

### **PROMOTERS**

The Company entered into an Investor Awareness Campaign agreement with AllPennyStock.com Media Inc. on March 5, 2009 for a six month period. The awareness program included: AllPennyStock website participation, mobile coverage, special reporting, stock of the month with company logo exposure, conference coverage, company advertisement, press release dissemination and six months on past stock profiles page on AllPennyStock.com.

The Company agreed to compensate AllPenny for this awareness campaign by issuing 68,000,000 common shares valued at the time of signing this agreement in the amount of \$13,600.00 USD, and being subject to certain restrictions for a period of one year.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

On May 9, 2007, the former CFO of the Company commenced legal proceedings against the Company seeking judgement for unpaid services totalling \$73,312 plus costs and on May 25, 2007 filed an application for summary judgement.

On October 1, 2009 the BCSC issued a CTO as a result of the Company's failure to file annual comparative financial statements for the period ended May 31, 2009, along with the required Management Discussion and Analysis and Annual Information Form within the prescribed period. The order prohibits all trading in the securities of the Company until the Company has filed the required documents and the BCSC has revoked the CTO. While the CTO is in place, it is unlikely that the Company can obtain the necessary financing to maintain its operations.

On October 5, 2009, several private equity funds managed by the NIR Group, LLC, filed suit against the Company in the Supreme Court of New York, County of New York, seeking preliminary and permanent injunctions, as well as other remedies, for alleged breaches of various investment agreements between the Company and the funds. The Company is in the process of finalizing the terms of a settlement arrangement with the funds in respect of these legal proceedings.

As noted under "General Development of the Business", on October 31, 2007, the Company sold its Lumby, BC property and leased it back pursuant to a five (5) year contract. In December 2009 the Company vacated these premises and moved its business to a location in Vernon, BC. As the term of the lease had not yet expired, the vacating of the premises by the Company has resulted in a breach of the lease. The owner of the property is currently seeking to recuperate his loss of income resulting from the Company's breach of lease. Negotiations are currently ongoing and to date no legal proceedings have commenced.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

In the normal course of operations, the Company has entered into certain related party transactions which have been measured at the respective exchange amounts, being the consideration established and agreed by the related parties.

Shield-Tech Products Inc., a company on which the then CEO of the Company had a significant influence, conducted research and incurred development expenditures of \$535,980 on the Company's behalf. The advances are without interest, unsecured and due on demand.

The Company owes \$197,150 to Mark Alden, a current Director, \$190,400 to Jim Haney, a former Director, \$95,048 to Lorie Campbell-Farley, a former President/COO, \$147,503 to John Farley, a former CEO/Chairman, \$141,146 to Chuck Austin, a former Director, \$131,458 to Barb Smith, a former Officer and \$88,225 to George Roadman, a former President. The sums due to these individuals are without interest, unsecured, and due on demand.

The remaining amount of \$59,575 (2009 - \$56,914) owing to a former officer in connection with the failed acquisition of 5943609 B.C. Ltd. in fiscal 2004 are secured by promissory notes, are non-interest bearing and are due on demand. The parties decided to terminate the acquisition agreement in fiscal 2004 but have not yet settled the terms of that termination.

Three directors/officers were paid/accrued an aggregate of \$ 247,547 for the year ended May 31, 2010 (2009 – \$155,550) for consulting services rendered.

During the year ended May 31, 2010, the Company entered into three debt wrap agreements with the then CEO of the Company and the then acting President of the Company and a shareholder who subsequently became a director and officer of the Company.

#### **TRANSFER AGENTS AND REGISTRARS**

The Company's transfer agent and registrar is Signature Stock Transfer Agent, located in Plano, TX USA.

#### **MATERIAL CONTRACTS**

Other than contracts entered into in the ordinary course of business, the Company entered into or remained a party to, the following material contracts during the fiscal year ended May 31, 2010:

##### **Distribution Agreement**

On December 30, 2005, the Company entered into a Distribution Agreement (the "Distribution Agreement") with the inventor of the patented Neuroskin® line of skin care products, the inventor's company and two manufacturing companies (the "Manufacturers"). The Distribution Agreement terminated the exclusive licensing rights which the Company had, pursuant to a License Agreement entered into on February 1, 2002 with the inventor's company, to the patents and trade-marks associated with the inventor's Neuroskin® line of skin care products and associated pet coat and skin care products. Pursuant to the Distribution Agreement, the Company had the exclusive distribution rights to distribute the Neuroskin® line of products in North America, Central America, South America, India, South East Asia, West Indies, Greater Antilles, Australia, Africa, China and Great Britain; however the Company was obligated to obtain its supply of products from the Manufacturers. The Distribution Agreement has been superceded by a verbal agreement, which is anticipated to be formalized by a written agreement by December 31, 2010, as more particularly described below.

##### **Summit Laboratories, Inc.**

This agreement was executed in February 2005. This agreement is for Summit to manufacture the Neuroskin® Spray for Psoriasis/Eczema and Neuroskin® Spray for Acne Relief product for us. The term of the agreement is for two years and will automatically renew for additional two year period unless either party provides notice of termination at least 30 days prior to termination of the term.

Subsequent to the fiscal year ended May 31, 2010, the Company entered into the following additional material contracts:

##### **Debt Wrap Agreements**

As of September 27, the Company had entered into seven debt wrap agreements of \$50,000 each and one debt wrap agreement of \$12,500 for a total of \$362,500 (May 31, 2010 - five debt wrap agreements for a total of \$212,500). Pursuant to the agreements, the then CEO of the Company, the then acting

President of the Company and the Chief Financial Officer of the Company each assigned \$300,000 of amounts owing to them to third parties. Two shareholders also assigned a total of \$62,500 of amounts owing to them to a third party. These amounts were then secured by the Company issuing convertible notes to the third parties.

These notes were converted by the third parties into 252,691,246 Common Shares on the date of issuance. The third parties will sell the Common Shares on the open market. Of the proceeds received from the sale of the shares \$280,000 (May 31, 2009 - \$120,000) will be loaned back to the Company, \$25,625 (May 31, 2009 - \$7,500) will be used for legal fees and \$56,875 (May 31, 2009 - \$22,500) will be kept by the original debt holder. As at May 31, 2010, \$237,600 (May 31, 2009 - \$10,483) of proceeds has been loaned back to the Company.

The Company recorded the excess value of the Common Shares issued over the note settled as interest expense. The fair value of the Common Shares was determined based upon the closing market price of the Company's Common Shares on the date of conversion. During the year ended May 31, 2010, the Company recorded interest expense of \$404,976 (2009 - \$183,567).

#### **Verbal Distribution Agreement**

The Company has been verbally granted the right to distribute the Neuroskin® and derma™ products, by the inventor of the products, throughout the entire world with the exception of Germany, Switzerland, Austria, The Netherlands, Belgium, Luxembourg and Lithuania. The Company has been advised by the inventor, Gerd Thone that the patents for these products are in the process of being or have been transferred to a company controlled by him, Nano GM BH Limited Company. It is the understanding of the involved parties that a written Distribution Agreement will be entered into between the Company, Nano GM BH Limited Company and Gerd Thone, (as applicable), to clarify and formalize the distribution rights of the Company, namely the fact that the Company will be provided with exclusive distribution rights of the products in the approved territory.

#### **NAMES AND INTERESTS OF EXPERTS**

The Company's auditors are Davidson & Company, Chartered Accountants, who have prepared an independent auditors' report dated September 27, 2010 in respect of the Company's financial statements as at May 31, 2010 and May 31, 2009. Davidson & Company has advised that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia. Davidson & Company does not hold any registered or beneficial interests, direct or indirect, in any securities of the Company or the Company's subsidiaries.

#### **ADDITIONAL INFORMATION**

Additional financial information relating to the Company is included in the Company's audited financial statements for the years ended May 31, 2010 and May 31, 2009 and the accompanying auditor's report and management's discussion and analysis.

The Company's most current annual and interim financial statements and related management discussion and analysis, a copy of this AIF, as well as additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **ADDITIONAL DISCLOSURE FOR COMPANIES NOT SENDING INFORMATION CIRCULARS**

##### **Voting Securities and Principal Holders of Voting Securities**

Authorized Capital:	4,000,000,000 Common Shares with a par value of \$0.001 400,000,000 Preferred Shares with a par value of \$0.001
Issued and Outstanding:	1,672,178,559 <sup>(1)</sup> Common Shares with a par value of \$0.001 1,250,000 Preferred Shares with a par value of \$0.001

<sup>(1)</sup> As at September 27, 2010

The Common Shares are entitled to one vote per Common Share at meetings of the shareholders and the Preferred Shares are entitled to five votes per Preferred Share at meetings of the shareholders.

The following persons beneficially own, directly or indirectly, voting securities carrying 10% or more of the voting rights of the Company:

<b>Name</b>	<b>Number of Shares Held</b>	<b>% of Issued Share Capital</b>
John S. Farley	341,000,000	20
Lorie Campbell-Farley	341,000,000	20

#### **Election of Directors**

It is anticipated that Ms. Brennan and Messrs. Ryan and Alden will stand for re-election as directors of the Company. It is also anticipated that management of the Company will be able to locate qualified independent directors to add to the Company's board. Information about the current board members, including their shareholdings in the Company can be located under "Directors and Officers".

#### **Indebtedness of Directors and Executive Officers**

At no time during the fiscal year ended May 31, 2010 was any director, executive officer, employee, or any former director, executive officer or employee of the Company or any of its subsidiaries, indebted to the Company or any of its subsidiaries or is or has been indebted to another entity where such indebtedness is or has been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries.

#### **Statement of Executive Compensation**

"Named Executive Officers" (each an "NEO") means:

- each individual who serves as the Chief Executive Officer ("CEO") or the Chief Financial Officer ("CFO") of the Company, or an individual who acted in a similar capacity during the fiscal year ended May 31, 2010, regardless of the amount of compensation of that individual;
- each of the Company's three most highly compensated executive officers, other than the CEO and CFO, who were serving as executive officers, or acting in a similar capacity, at the end of May 31, 2010 and whose total compensation amounted to \$150,000 or more; and
- any additional individuals who would have been included under (ii) except that the individual was not serving as an officer, or acting in a similar capacity, of the Company as at May 31, 2010.

The Company had two NEO's during the fiscal year ended May 31, 2010, those being John Farley, the Chief Executive Officer and Lorie Campbell-Farley the acting President and Chief Operations Officer.

### **COMPENSATION DISCUSSION & ANALYSIS**

#### **Objectives of Compensation Strategy**

The objectives of the Company's compensation strategy are:

- to attract, retain and motivate executives with the requisite skills, experience and commitment necessary to achieve the Company's goals and objectives for the development of its skin care products;
- to align the interests of management with those of the shareholders;
- to provide rewards for outstanding corporate and individual performance.

#### **What the Compensation Strategy is Designed to Reward**

The Company's compensation strategy is used to compensate, motivate and reward senior management of the Company on the basis of individual and corporate performance, both short term and long term, while keeping in mind the duty that the Company owes to its shareholders. Due to the early stage of development of the Company, and the need for the Company to maintain its cash flow for the manufacturing and development of its products, the base salaries of senior management of the Company are set at levels which are somewhat lower than the base salaries paid by companies of comparable or similar size within the bio-technology industry. In order to compensate for the lower salary, the Company may recommend the issuance of options to such senior management.

### How the Company Determines the Amount for Each Element

When determining compensation policies and individual compensation levels for any NEO, the board takes into consideration a variety of factors. These factors include the overall financial and operating performance of the Company and the Board's overall assessment of the executive's individual performance and his contribution towards meeting corporate objectives, levels of responsibility, length of service and industry comparables.

**Salary:** The salary of an NEO is primarily determined having regard to his position, responsibilities, the assessment of such individual's performance and overall corporate performance as presented by management to the board. The base salaries of executive officers are reviewed annually and adjusted when considered appropriate. Base salary, with earned bonuses, is intended to provide an NEO with a compensation level competitive with base salaries within the bio-technology industry.

**Options:** Options are granted to compensate for the lower base salary of senior management and to reward excellent individual performance and/or meeting the Company's goals and objectives. The exercise price of the options is determined by the board.

**Bonuses:** The Board will consider whether it is appropriate and in the best interests of the Company to award a discretionary cash and/or share bonus to an NEO and if so, in what amount. A cash or share bonus may be awarded to reward extraordinary performance that led to increased value for the shareholders through property acquisitions or divestitures, capital raising efforts, joint venture relationships and such other predetermined and agreed upon performance criteria. Demonstrations of extraordinary personal commitment to the Company's interests, the community and the industry may also be rewarded through a cash or share bonus.

### SUMMARY COMPENSATION TABLE

The following table is a summary of compensation paid, payable, awarded or granted to the NEOs for the financial year ended May 31, 2010. The NEO did not receive any non-equity long term incentive plan pay grants for 2010. The Company does not have a pension plan.

Name & Principal Position	Year	Salary (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation (\$)	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
John Farley former CEO	2010	\$75,500	Nil	\$Nil	Nil	Nil	Nil	Nil	\$75,500
Lorie Campbell-Farley former Acting President & COO	2010	\$58,500	Nil	\$Nil	Nil	Nil	Nil	Nil	\$58,500
Lance Loose now CEO	2010	Nil	Nil	\$Nil	Nil	Nil	Nil	Nil	\$Nil
Ruth Brennan now CFO	2010	\$78,000	Nil	\$Nil	Nil	Nil	Nil	Nil	\$78,000
RJ Busch now President /COO	2010	Nil	Nil	\$Nil	Nil	Nil	Nil	Nil	\$Nil

### Outstanding Share-Based and Option-Based Awards

The following table discloses particulars of all awards for each NEO outstanding at the end of the Company's financial year ended May 31, 2010, including awards granted before this most recently completed financial year.

Name	Option-Based Awards <sup>(2)</sup>				Share-Based Awards	
	# of Securities underlying unexercised options <sup>(2)</sup>	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options <sup>(1)</sup> (\$)	# of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)
John Farley former CEO	15,200,000	\$0.0005	03/23/2014	\$22,800	Nil	Nil
	170,000	\$0.30	06/05/2013	Nil		
	20,000	\$3.20	07/26/2011	Nil		
	2,500	\$15.00	03/05/2010	Nil		
	10,000	\$31.00	06/24/2009	Nil		
Lorie Campbell- Farley former Acting President & COO	10,000,000	\$0.0005	03/23/2014	\$15,000	Nil	Nil
	115,000	\$0.30	06/05/2013	Nil		
	5,000	\$3.20	07/26/2011	Nil		
	2,000	\$31.00	06/24/2009	Nil		
Ruth Brennan now CFO	10,000,000	\$0.0005	03/23/2014	\$15,000	Nil	Nil

- (1) "In-the-money options" means the difference between the market value of the Company's shares as at the financial year end of May 31, 2010 and the exercise price of the options. The last trading price of the Company's shares on the OTC BB on May 31, 2010 was \$0.002.
- (2) Option grants were made pursuant to both shareholder approved stock option plans and individual stock option grants outside of a stock option plan.

### Director Compensation

The sole director of the Company was John Farley until he resigned on April 2010 during the balance of the fiscal year ended May 31, 2010 was Ruth Brennan, Paul Ryan and Mark Alden. All director compensation is noted in the above NEO compensation and option tables.

### Equity Compensation Plan Information for the Year Ended May 31, 2010

Plan Category	# of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	# of securities remaining available for future issuances under equity compensation plans
Equity compensation plans approved by securityholders & registered	41,000	\$ 21.50	9,000
Equity compensation plans approved by securityholders and not registered	89,000	\$ 3.20	11,000
Individual option grants outside of plans	76,850,000	\$ 0.015	Nil
Total:	76,980,000		20,000

### Appointment of Auditor

Davidson & Company was appointed as the Company's auditor in May 2006.

**SCHEDULE "A"****AUDIT COMMITTEE DISCLOSURE BY VENTURE ISSUERS**

The Company's board of directors consisted of one member from April 2007 to June 2010, after which time the board increased to three members. Due to the size of the board, the audit committee for the Company has been comprised of the full board since April 2007. As at the date of this AIF, the audit committee consists of the current board of directors, namely Ruth Brennan, Paul Ryan and Dr. Mark Alden. All members of the audit committee are independent, except Ms. Ruth Brennan who is an executive officer of the Company, and are financially literate for the purposes of National Instrument 52-110 – Audit Committees. In addition to each member's general business experience, the education and experience of each Director that is relevant to the performance of responsibilities as an Independent Director are as follows:

**Ruth Brennan**

As the previous controller for the Company over the last seven years, and acting CFO since 2007, Mrs. Brennan has been involved with filing the annual audits for the Company and working alongside the previous audit committees. Although Mrs. Brennan does not hold a Chartered Accountant designation, she has operated her own accounting/bookkeeping firm, RCExecutive, for the last eight years and has a very strong knowledge of financial statements and has the ability to answer inquiries provided by management and the Company's accounting advisors for complex accounting matters.

**Paul Ryan**

Mr. Ryan's consulting services and position as President of the Broadcast Research Council required an understanding of financials to complete budgets and business/marketing plans.

**Dr. Mark Aden**

Dr. Alden's various director and officer positions have required fiduciary responsibilities and reviews of all budgets and yearly financial reports for the departments and research programs.

**Audit Committee Oversight**

Since the commencement of the Company's most recently completed financial year, there has not been a recommendation of the Audit Committee to nominate or compensate an external auditor which was not adopted by the Board.

**Pre-Approval Policies and Procedures**

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services as described in Section II (4) of the Audit Committee Charter under "External Audits – Appointment and Authorization of Services".

**Reliance on Certain Exemptions**

At no time since the commencement of the Company's most recently completed financial year has the Company relied on the exemption in Section 2.4 of NI 52-110 (*De Minimis Non-audit Services*), or an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110 (*Discretionary Exemptions*).

**External Auditor Service Fees (By Category)**

The following table discloses the fees billed to the Company by its external auditor during the last two financial years.

<b>Financial Year Ending</b>	<b>Audit Fees <sup>(1)</sup></b>	<b>Audit Related Fees <sup>(2)</sup></b>	<b>Tax Fees <sup>(3)</sup></b>	<b>All Other Fees <sup>(4)</sup></b>
2010	45,000	21,500	0	40,150
2009	45,750	27,500	0	14,370

## NOTES:

- (1) The aggregate audit fees billed.
- (2) The aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not included under the heading "Audit Fees".
- (3) The aggregate fees billed for professional services rendered for tax compliance and preparation of corporate income tax returns.

- (4) The aggregate fees billed for products and services other than as set out under the headings "Audit Fees", "Audit Related Fees" and "Tax Fees".

### **Reliance on Exemption in Section 6.1 of NI 52-110**

The Company is currently a "venture issuer", as defined in Section 1.1 of NI 52-110. Accordingly, in providing the disclosure contained herein, the Company is relying upon the exemption in Section 6.1 of NI 52-110 (which is available to all venture issuers) whereby the Company's audit committee members are not required to be either "independent" or "financially literate".

### **Audit Committee Charter**

On September 21, 2010, the Company's Board approved the Company's current Audit Committee Charter which is based on the rules and standards of the British Columbia Securities Commission and sets out the Audit Committee's mandate, organization, powers and responsibilities. The complete Charter follows:

#### **I. PURPOSE**

The Board of Directors of avVaa World Health Care Products Inc. (the "Company") has established an Audit Committee (the "Committee") to augment and improve financial disclosure and ensure legal compliance by the Company with respect to financial reporting and related matters. The Committee shall assist the Board of Directors in fulfilling its financial oversight responsibilities including with respect to accounting and financial reporting processes, internal financial controls, financial risk management systems and internal and external audit functions. In general, the Committee will:

- a. review quarterly and annual financial statements, prior to their review and approval by the Board of Directors, and satisfy itself with the fairness and consistency of the auditing practices used;
- b. recommend to the Board of Directors the selection of the Company's external auditors (which must be in good standing with the Canadian Public Accountability Board) to be nominated for appointment by the shareholders, as well as any external auditor required to perform other audit, review or attest services, and the compensation of all such auditors;
- c. ensure the integrity of the audit process, including monitoring audits to ensure sufficient managerial independence and reporting as well as the external auditor's qualifications and independence;
- d. pre-approve all audit services and permitted non-audit services to be provided to the Company by its external auditors;
- e. serve as liaison between the external auditors and the Company;
- f. obtain assurances from management with respect to relationships with regulators, and the accuracy and timeliness of filings with regulatory authorities; and
- g. perform any other duty as may be assigned by the Board of Directors from time to time or as may be required by the laws of the State of Nevada, the *Securities Act* (British Columbia) and all regulations, policies, rules and instruments under applicable securities laws, and any other applicable legislation.

#### **II. RESPONSIBILITIES**

The Committee has the following specific responsibilities:

##### **1. Financial Reporting - General**

The Committee shall periodically review and discuss with management and the external auditor, as appropriate and/or applicable, the following:

- a. the Company's financial disclosure control policies and procedures as well as any impact these may have on the internal control over financial reporting;

- b. the Company's internal financial control system at least annually to ensure that it is current and effective;
- c. significant financial reporting issues;
- d. any correspondence with regulators or published reports which raise material issues that may have a significant effect on the Company's financial statements;
- e. any reports prepared by the external auditors and provided to the Committee relating to significant financial reporting issues including the Company's selection, application and disclosure of accounting principles and the effects, if any, on the Company's financial statements;
- f. any recommendation made by the external auditors in the course of reviewing the Company's financial reporting or accounting processes;
- g. changes in accounting policies, audit plan and control systems;
- h. practices and procedures adopted by management to ensure continuing compliance with financial disclosure, audit and filing requirements; and
- i. any other matter pertaining to auditing standards, laws or regulations the Committee determines necessary for discussion or review.

## **2. Preparation and Release of Financial Information**

With respect to preparing and releasing financial information, the specific responsibilities of the Committee include:

- a. reviewing the selection of accounting policies and audit plan for effectiveness;
- b. reviewing and understanding the results of the external, independent audit;
- c. satisfying itself as to the fairness, consistency and timeliness of the annual and periodic financial statements;
- d. reviewing, from time to time, with the Company's Chief Executive Officer and Chief Financial Officer, or the acting Chief Executive Officer and/or acting Chief Financial Officer, as applicable, their certificates under National Instrument 52-109 or any other applicable regulatory requirement;
- e. presenting the approved financial statements to the Board of Directors for final approval;
- f. reviewing and recommending to the Board of Directors for approval prior to public disclosure: the Company's annual and quarterly financial statements (whether stand alone or included in a prospectus or other offering document); any related management's discussion and analysis (MD&A); and all earnings press releases;
- g. reviewing portions of the Company's annual information form (AIF) and, when applicable, management information circular for any annual or special meeting of shareholders containing information within the Committee's mandate;
- h. ensuring that procedures are in place for the review of all of the Company's public disclosure of financial information extracted or derived from the Company's financial statements and periodically assessing the adequacy of such procedures;
- i. reviewing all other press releases and public disclosures that contain material financial information or future earnings guidance regarding the Company, including the type and presentation of information to be included in such press releases or other disclosures; and

- j. reviewing all material forward-looking financial information and future-oriented financial information publicly disclosed by the Company in filings with regulatory authorities, and the Company's policy for updating such information.

### **3. Internal Audit**

The Committee, in consultation with the Company's management, has the authority to engage, or shall delegate the authority to management to engage, the services of an accountant or accounting firm, other than the Company's external auditors, to perform supplemental reviews, special projects or other internal audit functions as necessary from time to time.

### **4. External Audits - Appointment and Authorization of Services**

The Committee has the authority to retain, and the Committee shall oversee, the activities of the external auditors, including the resolution of disagreements between the Company's management and the external auditor with respect to financial reporting. The Committee is authorized to determine the compensation, fees and all other terms of the external auditor's engagement, and to terminate the services of the external auditors, as the Committee may deem necessary or appropriate.

All external auditors shall report directly to the Committee.

At least annually, the Committee shall review and pre-approve the performance of all audit and lawfully permitted non-audit services, as well as the fees for such services. The Committee may delegate this function to the Committee's Chair so that, in the event of an issue arising between meetings of the Committee, such issues may be handled appropriately; provided, however, that the Chair shall fully report all action taken pursuant to this delegated authority at the next ensuing Committee meeting. The Committee need not approve in advance any non-audit services where:

- a. the aggregate amount of all such non-audit services provided to the Company constitutes not more than 5% of the total amount of revenues paid by the Company to the external auditor during the fiscal year in which the non-audit services are provided;
- b. such services were not recognized by the Company at the time of the engagement to be non-audit services; and
- c. such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or by one or more members of the Committee to whom authority to grant such approvals has been delegated by the Committee.
- d. the Committee shall meet with external auditors prior to the audit to confirm the planning and staffing of the audit.

### **5. Oversight of Independence and Qualifications of External Auditors**

In order to ensure the independence of the external auditors, at least annually the Committee shall review the relationship between the auditors and the Company. Additionally, the Committee shall review all professional services provided by the external auditors to the Company for propriety. The Committee shall provide a report of its findings to the Board of Directors, including recommendations for action to ensure the continued independence of the external auditors. As part of the review process, the Committee shall obtain a report by the external auditors describing:

- a. the firm's internal quality control procedures; and
- b. any material issues raised by the most recent internal quality-control review or the audit firm or by any other governmental or professional authorities or any private sector regulatory board within the preceding five years.

The Committee is responsible for ensuring compliance by the external auditors with independence requirements and shall obtain, at least annually, from the external auditors their certificate as to their independence from the Company.

### **III. OTHER POWERS AND RESPONSIBILITIES**

#### **1. Complaint Procedures**

The Committee is responsible for establishing and administering adequate procedures by which any concerns or complaints about any accounting, internal accounting controls, or any internal or external auditing matters, issues or disagreements are received and resolved. These procedures must allow for confidential and anonymous submissions by employees of the Company of concerns regarding questionable auditing or accounting matters. The Committee shall ensure that all documents and records related to any complaint and investigation (where applicable) are retained for a period of five years, and that no person shall destroy any corporate or audit related records that may be subject to or related to an investigation by the Company or any federal, provincial or other regulatory body. The Committee shall annually assess the adequacy of these procedures.

#### **2. Charter and Committee Review**

The Committee shall review and assess the adequacy of the Committee Charter annually and report to the Board of Directors the results of such assessment. Any recommendations are to be put before the Board of Directors for approval. The Committee shall also perform an annual review of the Committee's performance and report to the Board of Directors on the results of such evaluation.

#### **3. Examinations and Investigations**

The Committee may conduct such examinations, investigations or inquiries, and/or engage special accounting, legal or other advisors the Committee deems necessary.

#### **4. Access**

In discharging its responsibilities, the Committee shall have full and direct access to all books, records, facilities and personnel of the Company.

### **IV. MEMBERSHIP AND ORGANIZATION OF COMMITTEE**

#### **1. Qualifications**

The Committee is to be comprised of not less than three members, each of whom must be a director of the Company and:

- a. independent; and
- b. financially literate (meaning having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements of the Company), in each case as determined in accordance with, and subject to available exemptions under, applicable laws, unless the Company is a "venture issuer" (as defined in National Instrument 52-110 – Audit Committees), in which case a majority of the members of the Committee must be independent.

#### **2. Chair**

The Board of Directors shall appoint one Committee member to serve as the Chair of the Committee.

#### **3. Appointment and Removal**

Members of the Committee shall be appointed by the Board of Directors and shall serve until such member's successor is duly elected and qualified or until such member's earlier resignation or removal. Any member of the Committee may be removed, with or without cause, by a majority vote of the Board of Directors.

#### **4. Remuneration of Committee Members**

Members of the Committee and the Chair shall receive such remuneration for their service on the Committee as the Board of Directors may determine from time to time and which shall be consistent with the Company's approved fee policy as it applies to non-executive directors. Unless approved by the Board of Directors and specifically disclosed in the annual information form of the Company,

- a. no independent member of the Committee may earn fees from the Company or any of its subsidiaries other than fees (which fees may include cash and/or securities or options or other in-kind consideration ordinarily available to Directors of the Company, as well as all of the regular benefits that Directors of the Company are entitled to receive, in accordance with the Company's applicable policy as it applies to non-executive Directors) for acting as members of the Board of Directors and members of committees of the Board of Directors; and
- b. no independent member of the Committee shall accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Company or any of its subsidiaries.

## **V. CONDUCT OF MEETINGS**

### **1. Frequency**

The Committee shall meet at least four times per year, and at least once per calendar quarter. Additional meetings shall be scheduled as required or as requested by the Company.

### **2. Quorum**

A majority of the Committee members, present in person or by video or telephone conference facilities, shall constitute quorum for the transaction of business.

### **3. Notice**

The auditors are entitled to receive notice of every meeting of the Committee and submit agenda items as well as attend any meeting should they so choose.

### **4. Non Committee Member Attendees**

The Committee may request that any director, officer or employee of the Company, or any other person from whom the Committee would like advice or counsel, attend any meeting to provide such information or guidance.

### **5. Minutes**

A Committee member or the Corporate Secretary of the Company shall keep written minutes of the Committee meetings. The minutes are to be maintained with the books and records of the Company.

### **6. Delegation of Authority**

The Committee has the authority to delegate to one or more of its members where appropriate except where otherwise prohibited by law or regulation.

### **7. Meetings with Management and Auditors**

As part of its goal to foster open communication, the Committee may periodically meet separately with each of management and the Company's auditors to discuss any matters that the Committee or any of these groups believes would be appropriate to discuss privately.

**SCHEDULE "B"****STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

Corporate governance relates to the activities of the board of directors of the Company (the "Board"), the members of which are elected by and are accountable to the shareholders, and takes into account the role of the individual members of management who are appointed by the Board and who are charged with the day to day management of the Company. The Board is committed to sound corporate governance practices which are both in the interest of its shareholders and contribute to effective and efficient decision making.

National Policy 58-201 *Corporate Governance Guidelines* establishes corporate governance guidelines which apply to all public companies. The Company has reviewed its own corporate governance practices in light of these guidelines. In certain cases, the Company's practices comply with the guidelines, however, the Board considers that some of the guidelines are not suitable for the Company at its current stage of development and therefore these guidelines have not been adopted. National Instrument 58-101 - *Disclosure of Corporate Governance Practices* ("NI 58-101") mandates disclosure of corporate governance practices for Venture Issuers in Form 58-101 F2, which disclosure is set out below.

**Board of Directors***Structure and Compensation*

The Board is currently composed of three (3) directors.

NI 58-101 suggests that the board of directors of every listed company should be constituted with a majority of individuals who qualify as "independent" directors as defined under NI 52-110 – Audit Committees, which provides that a director is independent if he or she has no direct or indirect "material relationship" with the company. "Material relationship" is defined as a relationship which could, in the view of the Company's board of directors, be reasonably expected to interfere with the exercise of a director's independent judgment. Of the board members, one (1) Ruth Brennan, CFO, is a management director and accordingly is not considered "independent". The two (2) remaining nominees are considered by the Board to be "independent", within the meaning of NI 52-110.

The Board regularly assesses and monitors management's performance with respect to the goals and objectives set by the Board for such management personnel. The Board is integral in the formulation of long term strategies for the Company's business. The Board is responsible for engaging management personnel, determining the compensation payable to such management personnel and ensuring that Ruth Brennan, the only non-independent director, abstains from voting on any resolutions to approve compensation payable to her as the Chief Financial Officer.

**Other Directorships**

None of the directors of the Company are directors of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction as applicable.

**Orientation and Continuing Education**

When new directors are appointed, they receive orientation, at a level which is appropriate for their previous experiences, on the Company's products, operating history and on the responsibilities of directors. Board meetings may also include presentations by Company's management and employees to give directors additional insight into the Company's business.

**Ethical Business Conduct**

The Board has found that the fiduciary duties placed on individual directors by the Company's governing corporate legislation and the common law and the restrictions placed by applicable corporate legislation on an individual director's participation in decisions of the Board in which the director has an interest have been sufficient to ensure that the Board operates independently of management and in the best interests of the Company. Should the Board increase substantially in size, the Company may determine that the development of a code of ethics is necessary to ensure that parallel values are upheld by all Board members.

**Nomination of Directors**

The Board considers its size each year, taking into account the number required to carry out the Board's duties effectively and to maintain a diversity of views and experience.

The Board does not have a nominating committee. Rather these functions are currently performed by the Board as a whole.

**Compensation Committee**

Compensation of the directors and management of the Company is considered by the Board as a whole and is based on reviews of the compensation payable to boards and senior management of companies parallel to the Company with respect to size, short and long term goals and production level.

**Other Board Committees**

Until the Board increases in number from the current three directors the Board will continue to act as the audit, compensation and nomination committee. The Board is considering the development of charters for these functions.

**Assessments**

The Board annually sets aside a portion of a Board meeting for directors to conduct and discuss their self-assessment of performance with fellow Board members.