Avvaa World Health Care Products, Inc.
(a Development Stage Company)
Management's Discussion and Analysis ("MD&A")
For the Year Ended May 31, 2009

1.1 DATE

This Management's Discussion and Analysis (MD&A) provides a review of the Company's operations and financial performance for the year ending May 31, 2009, compared to the year ended May 31, 2008. It should be read in conjunction with the Company's audited consolidated financial statements for the year ending May 31, 2009, which have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP).

We are considered a development stage company in accordance with Statement of Financial Accounting Standards (SFAS) No. 7. Our consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles, on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company has yet to achieve a level of revenue adequate to achieve profitability. The application of a going concern assumption is dependent on management's ability to successfully execute its business plan, to secure sufficient financing, and to develop profitable operations. Management of the Company believes it will succeed in meeting those objectives, allowing the continued operations of the Company. Adequate equity or debt based financing is required to continue the Company's operations and pursue successful marketing of its products.

This document contains forward-looking statements, which are qualified by reference to, and should be read together with the "Forward-Looking Statements" cautionary notice, which can be found at the end of this MD&A. All currency figures reported in this document, including comparative figures, are reported in US dollars, unless otherwise specified. This MD&A was prepared by Management with information available as at **July 5, 2010**.

1.2 OVERALL PERFORMANCE

The Company is in the process of installing a new management team. The Company is also in the process of finalizing arrangements with certain former directors and officers. The new management team is in process of developing a plan for the future operations of the Company. In particular, the new management is undertaking to complete the Company's filings with regulatory agencies, evaluate the Company's various products and obtain financing to successfully market the products. The Company is currently subject to a Cease Trade Order issued by the British Columbia Securities Commission on October 1, 2009, as discussed below.

As of May 31, 2009, we have a working capital deficit of $21,721,583 and have accumulated operating losses of $35,354,089 since our inception. Our continuation is dependent upon the continuing financial support of creditors and stockholders, obtaining long-term financing, generating significant revenue, and achieving profitability. On October 1, 2009 the British Columbia Securities Commission (BCSC) issued a Cease Trade Order as a result of the Company's failure to file its annual comparative financial statements for the financial year 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 Cease Trade Order. While the Cease Trade Order is in place it is unlikely that the Company can obtain the necessary financing to maintain its operations. These conditions raise substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might arise from this uncertainty. The Company does not currently have sufficient financial resources to implement its current business strategy.

At May 31, 2009, the Company had defaulted on all of its outstanding loans. At May 31, 2009, the Company recorded $9,453,045 (May 31, 2008 - $9,453,045) in accrued liabilities representing the penalties relating to convertible notes described. The actual penalties payable as calculated based on

the formula included in the convertible debt agreements amount to approximately $400,000,000. The Company is disputing this amount and pursuant to FAS 157 “Fair Value Measurements” has recorded $9,453,045 as the amount it believes will ultimately be incurred in respect of these penalties. Refer to Note 5 of the financial statements for further details. On October 5, 2009, several private equity funds managed by The N.I.R. Group, LLC, filed a lawsuit against the Company in the Supreme Court of New York, County of New York, seeking a preliminary and permanent injunction, as well as other remedies, for alleged breaches of the convertible debt agreements between the Company and the funds. The action is entitled New Millennium Partners III, LLC, et al. v. AVVAA World Heath Care Products, Inc, Index Number 603048/09. On October 23, 2009, the Court issued an order including certain injunctive relief relating to the convertible debt agreements and directing the delivery of 35,000,000 shares of the Company’s common stock. The Company subsequently filed a motion to vacate the order. As noted in the subsequent events note 18 (g), the Company is in the process of finalizing the terms of a settlement arrangement with the funds in respect of these legal proceedings.

Distribution agreements with the German inventor of the patented Neuroskin line

On December 30, 2005, the Company and its subsidiary entered into a distribution agreement with the German inventor of the patented Neuroskin line of skin care products, the inventor’s company and two related German companies. The German companies have guaranteed and assumed the obligations of the German inventor to meet product supply demands. This agreement supersedes the Company’s License Agreements made with the German inventor and his company dated September 1, 1999 and February 1, 2002.

Pursuant to the new distribution agreement the Company maintains its 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 (the “Territory”). The Neuroskin line of products is a patented, European line of skin care products used for the symptomatic treatment of diseases of the skin including eczema, psoriasis and acne. The patents and trademarks are owned by the German inventor and/or the German companies and are registered in various jurisdictions. The most recent agreement is for 15 years with an option to the Company to extend the term for a further 15 years. The prices for the supply of the Neuroskin products have been agreed to. There are no minimum purchase requirements, no sales targets and no royalties are payable. Management is currently negotiating a new supply agreement with the German inventor.

Company’s marketing plans and FDA compliance for Neuroskin Lines

The Company is a biotechnology company specializing in providing all-natural, therapeutic skin care products. The Company intends to manage the manufacturing, distribution, marketing and sale of health-care products to the countries specified in its distribution agreement. The Company’s mission is to provide to the public medically safe, natural, non-toxic health-care products and specifically products that treat skin conditions as well as enhance the natural clarity and texture of healthy skin. The Company is in the process of renegotiating the exclusive distribution rights in the Territory for patented European skin care products which are scientifically developed to treat the symptoms of skin diseases including eczema, psoriasis and acne. The Company intends to manufacture and market the Neuroskin line of products initially in the United States over-the-counter through (i) mass marketing; and (ii) food and drug channels**.** The three flagship core products of the Neuroskin lines are FDA compliant. The Company has developed a business plan and conducted research with respect to marketing the products.

Manufacturing operations and consumer web site

Manufacturing operations commenced at the end of November 30, 2004 and a consumer web site was launched in December 2004, to enable the commencement of sales through the Internet, and through fax and mail orders. An animal care product line was launched in May 2005. No merchandise was manufactured during the year ended May 31, 2009 and sales totaling $2,078.00 were achieved through existing inventory.

Primary and Secondary Target Markets

The Company’s management has set its sights on the following Markets:

Primary

- o Individuals suffering with psoriasis, eczema and acne and various other skin diseases;
- o Pharmacy retail outlets;
- o Mainstream and specialty drug and food chain outlets; and Institutions - hospitals, clinics, prisons.

Secondary

- o Private brand companies;
- o Cosmetics companies; and
- o Health and natural food store market.

1.3 SELECTED ANNUAL INFORMATION

	May 31, 2009 $	May 31, 2008 $	May 31, 2007 $
Total Assets	31,645	139,031	637,196
Total Current Liabilities	21,729,638	26,669,575	14,552,010
Total Liabilities	21,796,016	26,768,946	14,552,010
Sales	2,078	62,286	95,577
Income (loss) before other items	(635,337)	(893,742)	(3,164,268)
Net income (loss) for the year	860,647	(13,120,307)	(4,470,747)
Net Income (Loss) Per Share – Basic	0.00	(1.82)	(0.03)
Net Income (Loss) Per Share –Diluted	0.00	(1.82)	(0.03)

The fluctuation in net loss and net income, loss per share is mainly attributable to the change in fair value of derivative liabilities and provisions for liquidated damages. For the year ended May 31, 2008 the Company provided for liquidated damages of up to $4,493,045. The Company also made a provision for a loss on the fair value of its derivatives totaling $6,755,258. In the year ended May 31, 2009, the Company did not make an additional provision for liquidated damages. As described in the Capital Resources section of the MD &A, the Company is disputing the amount payable under the convertible debt agreements and did not make additional provisions in the year ended May 31, 2009. The results for May 31, 2009 were favorably affected by gain on the fair value of derivatives of $2,744,640. The Company has prepared financial data in accordance with generally accepted accounting principles in the United States (US) and financial data is reported in US dollars.

1.4 RESULTS OF OPERATIONS

Revenue for the year ending May 31, 2009, decreased to $2,078 from $62,286 during the year ending May 31, 2008 and cost of sales decreased to $1,852 from $7,263. This decrease in sales volume and cost of sales is mainly attributable to lack of television and magazine advertising. Operating expenses decreased to $635,563 during the year ending May 31, 2009 from $948,765 during the year ending May 31, 2008. This decrease in operating expenses is mainly due to reducing staff and other office expenses. The Company had net income of $860,647 during the year ending May 31, 2009 as opposed to a net loss of $13,120,307 for the same period ending May 31, 2008. The Company's net income in 2009 was primarily due its net loss on operations of $635,337, interest expense of $1,134,407 offset by a decrease in the fair value of derivative liabilities of $2,744,640. A large portion of the Company's net loss during the year ending May 31, 2008, related to liquidated damages on convertible debt of $4,493,045 and an increase in the fair value of its derivative liabilities of $6,755,258. During the year ending May 31, 2009, the Company did not record any additional provision for liquidated damages as it is disputing the amount owing. Please refer to the Liquidity and Capital Resources portions of the MD&A for further discussion on these liquidated damages.

The Company's operating results can be affected by variations in currency exchange. The Company's sales are primarily in Canadian and U.S. dollars, while the majority of the product costs are in European Euros and Canadian dollars. The Company does not have a program in place to limit currency exchange risk. During the year ended May 31, 2009, the Company had an unrealized translation gain of $162,980 compared to a loss of $119,892 in 2008.

As described in the subsequent events notes to the May 31, 2009 financial statements the Company is in the process of finalizing the terms of a settlement arrangement with the holders of a majority of its convertible debt. This could have a substantial effect on the Company's financial performance with the adjustments to the Company's substantial provision for liquidated damages. In addition, this could also have an effect on the unrealized loss on the fair value of its derivative liabilities.

1.5 SUMMARY OF QUARTERLY RESULTS

Description	May 31, 2009 $	February 28, 2009 $	November 30, 2008 $	August 31, 2008 $	May 31, 2008 $	February 28, 2008 $	November 30, 2007 $	August 31, 2007 $
Net Sales	1,349	--	--	729	53,066	3,500	2,363	3,357
Income (loss) before other items	(266,459)	(89,792)	(74,521)	(204,565)	(175,167)	(131,704)	(278,708)	(308,163)
Net income (loss) for the period	(2,590,739)	3,296,638	(2,241,918)	2,396,666	(1,619,408)	(5,559,414)	11,486,740	(17,428,225)
Net Income (Loss) Per Share – Basic	(0.00)	0.12	(0.08)	0.13	(0.23)	(0.74)	1.54	(3.00)
Net Income (Loss) Per Share –Diluted	(0.00)	0.00	(0.08)	0.00	(0.0)	(0.74)	0.00	(3.00)

The variations in quarterly results are primarily related to the provision for liquidated damages in the quarter ended August 31, 2007 of $4,560,000 and changes in the Unrealized Gain (Loss) on fair value of derivatives which affected the following quarters: a loss of $1,986,374 during the quarter ended May 31, 2009; a gain of $3,739,072 during the quarter ended February 28, 2009; a loss of $1,891,198 during the quarter ended November 30, 2008; a gain of $2,883,140 during the quarter ended August 31, 2008; a loss of $1,284,961 during the quarter ended May 31, 2008; a loss of $5,145,197 during the quarter ended February 28, 2008; a gain of $11,940,953 during the quarter November 30, 2007; and a loss of $12,266,053 during the quarter August 31, 2007.

The Company has been able to meet sales orders for its products based on its available inventory. The Company did not have any backorders which had not been processed at May 31, 2009. Should the Company be successful in increasing its volume of sales through the efforts of its new management team, it will be necessary to purchase additional raw material inventory and manufacture finish product inventory. Purchase prices are set based on the agreements with the German supplier. Purchase prices are in European Euros and the Company is subject to the risks of exchange variations between the Euro and the Canadian dollar. In addition, the Company is intending to sell its products throughout North America and is subject to the risk of fluctuations in the Canadian and U.S. dollars.

Competitors in the markets in which the Company competes are for the most part larger and better financed than the Company.

1.6 LIQUIDITY AND GOING CONCERN RISK

For the year ending May 31, 2009, operations were primarily financed by advances from related parties of $3,780. As of May 31, 2009 we had a cash of $4,269 and had a working capital deficit of $21,721,583.

As of the year ending May 31, 2008, we had a working capital deficit of $26,667,280. The reduction in working capital deficit of 4,945,697 was related to a reduction in derivative liabilities during the year ending May 31, 2009.

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 5 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. Subsequent to May 31, 2009, the Company vacated the leased premises and changed its operating location to rental premises in Vernon, British Columbia. The settlement of its obligations under the lease is currently being negotiated.

To date the Company has financed its operations primarily through offerings of common shares, private placement issuances of convertible notes, advances from related parties, as well as the sale-leaseback transaction and product sales through internet transactions. The future profitability of the Company is dependent upon the ability of the Company to successfully market, sell and distribute products, including its natural health products, and the ability of the Company to obtain the necessary financing to complete its projects.

The Company has incurred significant operating losses and negative cash outflows from operations since inception and has an accumulated deficit of $35,354,089 as at May 31, 2009. As at that date, the Company's committed cash obligations and expected level of expenses for the ensuing twelve months exceeded the committed source of funds, and the Company's cash on hand. This continues to be the case as at the date of this Management Discussion and Analysis. As at May 31, 2009, the Company had defaulted on all of its outstanding loans. The Company is in the process of finalizing the terms of a settlement arrangement with the holders of a majority of its convertible debt. The ability of the Company to continue as a going concern is dependent upon raising additional financing through borrowings, share issuances, distribution agreements or product licensing, and ultimately, from obtaining regulatory approval in various jurisdictions to market and sell its products, thus achieving future profitable operations. The outcome of these matters is dependent on a number of factors outside of the Company's control. These factors raise significant doubt about the Company's ability to continue as a going concern. Management continues to actively explore additional sources of working capital.

The consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue its operations in the foreseeable future and achieve sales through its existing inventory and discharge its liabilities and commitments in the ordinary course of business. These financial statements do not include any adjustments to the carrying value and classification of assets and liabilities and reported revenues and expenses that may be necessary should the Company not be successful in its efforts to obtain additional financing or to make significant product sales.

As described in the subsequent events notes to the financial statements, the Company is in the process of finalizing the settlement of its obligations with the holders of a majority of its convertible debt. The Company will require working capital financing in order to be successful in the future. Funds have been provided on favorable terms by the new management to assist the Company in bringing its regulatory filings up to date. As referred to in the section on "Overall Performance", the new management team is developing a plan for the future operations of the Company. It is likely that new financing will be required. While management is currently exploring additional sources of working capital, these efforts are not complete, no financing commitments have been obtained and there can be no assurance that these efforts will be successful or sufficient to maintain the Company's operations.

On October 1, 2009 the British Columbia Securities Commission (BCSC) issued a Cease Trade Order 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 Cease Trade Order. While the Cease Trade Order is in place it is unlikely that the company can obtain the necessary financing to maintain its operations.

1.7 CAPITAL RESOURCES

The following table summarizes the Company's contractual obligations.

Contractual Obligations	Total	Less Than 1 Year	1 to 3 Years
Convertible Debt	2,870,488	2,870,488	-
Liquidated Damages and Accrued Interest	9,453,045	9,453,045	-
Operating Leases	87,174	36,072	51,102

At May 31, 2009, the Company had defaulted on all of its outstanding loans. At May 31, 2009, the Company recorded $9,453,045 (May 31, 2008 - $9,453,045) in accrued liabilities representing the penalties relating to convertible notes described. The actual penalties payable as calculated based on the formula included in the convertible debt agreements amount to approximately $400,000,000. The Company is disputing this amount and pursuant to FAS 157 "Fair Value Measurements" has recorded $9,453,045 as the amount it believes will ultimately be incurred in respect of these penalties. Refer to Note 5 of the financial statements for further details. In addition refer to section 1.2 of this MD & A and to the subsequent events note 18 (g) which indicates the Company is in the process of finalizing the terms of a settlement arrangement with the funds in respect of these legal proceedings.

The Company is committed to paying the costs connected with completing its regulatory filings. Funds for this purpose have been advanced by the new management. As mentioned, while the Company is exploring additional sources of working capital, these discussions are not complete and no commitments have been obtained for additional financing. While new management is hopeful that the Company will be able to obtain additional financing for the operation of the business, if this is not achieved, the Company will not be able to continue as a going concern.

The Company's operating leases relate to lease commitments for its former offices in Lumby British Columbia. The Company is currently in negotiation with the lessor to settle its lease obligations. The Company is currently occupying rental premises in Vernon, British Columbia on a month-to-month basis.

1.8 OFF-BALANCE SHEET TRANSACTIONS

There were no off-balance sheet arrangements made by the Company during the year ended May 31, 2009.

1.9 TRANSACTIONS WITH RELATED PARTIES

Shield-Tech Products Inc., a company on which the then President of the Company had a significant influence, conducted research and incurred development expenditures of $ 512,042 on the Company's behalf. The advances are without interest, unsecured and due on demand.

The Company owed $197,150 to Mark Alden, a former Director, $190,400 to Jim Haney, a former Director, $95,048 to Lorie Campbell-Farley, a former President/COO, $147,503 to Jack Farley, the 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 $56,914 (2008 - $62,602) owing to a former officer in connection with the failed acquisition of 5943609 B.C. Ltd. (dba Mystic Mountain Body and Spa Products) ("Mystic") in fiscal 2004 are secured by promissory notes, non-interest bearing and due on demand. The Company and Mystic 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 $155,550 for the year ended May 31, 2009 (2008 – $240,090) for consulting services rendered.

During the year ended May 31, 2009, the Company granted 15,200,000 stock options to the then President of the Company, 10,000,000 stock options to the wife of the then President of the Company, and 10,000,000 stock options to a shareholder who subsequently became an officer. The options are exercisable at $0.0005 per share and expire on March 23, 2014. The Company also issued 170,000 stock options to the then President of the Company, 115,000 stock options to the wife of the then President of the Company and 60,000 stock options to a consultant to the Company who subsequently became a director and officer of the Company. The options are exercisable at $0.30 per share and expire on June 5, 2013.

During the year ended May 31, 2009, the Company entered into three debt wrap agreements with the then President of the Company and the wife of the then President of the Company and a shareholder as described in Note 6.

During the year ended May 31, 2009, the Company issued 140,000,000 shares of preferred stock with a fair value of $154,000 to each of the then President of the Company and the wife of the then President of the Company to settle an aggregate of $77,000 of debt. The Company recorded deemed dividends on the preferred shares of $77,000.

During the year ended May 31, 2009, the Company issued 55,000,000 shares of preferred stock to shareholders with a fair value of $66,000 for $15,000 worth of consulting services and the settlement $33,000 of debt. The Company recorded deemed dividends on the preferred shares of $18,000.

During the year ended May 31, 2009, the Company issued 1,375,000 shares of common stock with a fair value of $26,313 to settle related party debt of $26,313 and 400,000,000 shares of common stock with a fair value of $200,000 to the then President of the Company and the wife of the then President of the Company to settle debt.

During the year ended May 31, 2009, the Company issued a total of 5,000,000 shares of preferred stock with a fair value of $2,500 to shareholders of the Company to settle $2,500 of debt.

1.10 FOURTH QUARTER

The three months ended May 31, 2009 the Company's results can be summarized as follows: Revenue for the fourth quarter totaled $2,078. Losses from operations totaled $356,116 which many related interest expense on financing. Net losses for the fourth quarter totaled $2,689,901 of primarily related to a decrease in the fair value of derivative liabilities. During the fourth quarter ended May 31, 2009, the Company did not record any additional liquidated damages as it is disputing the amount owing. Please refer to the Liquidity and Capital Resources portions of the MD&A for further discussion on these liquidated damages.

1.11 PROPOSED TRANSACTIONS

The Company is proposing to finance the requirements for operating expenses including the cost of bringing its regulatory filings up to date through advances from new management. The funds have been advanced without interest or terms of repayment.

As discussed in the subsequent events note, the Company is in the process of finalizing the terms of settlement with the majority of its convertible debt holders. Subsequent to the year end, the Company completed the transactions in connection with five debt wraps and received proceeds totaling $200,000. The Company does not anticipate future debt wrap transactions.

1.12 CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management's best estimates as additional information becomes available in the future.

The Company regularly makes estimates relating to the fair value of stock-based compensation, the fair value of derivative liabilities and liquidated damages owing. The fair value of stock-based compensation and derivative liabilities is based on the Binomial model and Black-Scholes model, which incorporates, the Company's share price, the estimated volatility of the Company's common stock and the risk free rate. The fair value of liquidated damages is based on the amount the Company will repay to debt holders.

We have chosen accounting policies that we believe are appropriate to accurately and fairly report our operating results and financial position, and apply those accounting policies in a consistent manner.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates and assumptions. Assets, liabilities, revenue and expenses, and disclosure of contingent liabilities are affected by such estimates and assumptions. The most significant assumptions are employed in estimates used in determining values of inventories and intangible assets, as well as estimates used in applying the revenue recognition policy and in accounting for the convertible notes, related detachable warrants and stock based compensation. We are subject to risks and uncertainties that may cause actual results to differ from those estimates, such as changes in the industry environment and competition.

Long-lived Assets
In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets", the carrying value of intangible assets and other long-lived assets is reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. The Company recognizes impairment losses when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

Foreign Currency Translation
The Company's functional and reporting currency is the U.S. dollar. The functional currency of one of the Company's wholly owned Canadian subsidiaries is the Canadian dollar. Foreign currency transactions and balances are translated in accordance with SFAS, No. 52 "Foreign Currency Translation". Transactions undertaken in a currency other than the U.S. dollar are remeasured into U.S. dollars using exchange rates at the date of the transaction. Gains and losses arising on remeasurement or settlement of foreign currency denominated transactions or balances are included in the determination of income. Assets and liabilities of the Company's wholly owned subsidiaries are translated into U.S. dollars using the period end exchange rate. Revenue and expenses are translated using average exchange rates. Translation gains (losses) are recorded in accumulated other comprehensive income (loss) as a component of stockholders' equity (deficit). Foreign currency transaction gains and losses are included in current operations. The Company has not, to the date of these financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

Deferred Financing Costs
In accordance with the Accounting Principles Board Opinion 21 "Interest on Receivables and Payables", the Company recognizes debt issue costs on the balance sheet as deferred charges, and amortizes the balance over the term of the related debt. The Company follows the guidance in the EITF 95-13 "Classification of Debt Issue Costs in the Statement of Cash Flows" and classifies cash payments for debt issue costs as a financing activity.

Revenue Recognition
Revenue is derived from the sale of personal care products sold directly to retailers and directly to consumers through the company's internet site or indirectly through distributors The Company follows the provisions of the SEC Staff Accounting Bulletin No. 104, "Revenue Recognition". Revenue from the sale

of products is only recognized upon delivery of the product, when persuasive evidence of an arrangement exists, the price is fixed or determinable and collection is probable. If collection is not considered probable, revenue will be recognized when the fee is collected. Until the Company can establish a history of returns, recognition of revenue will be deferred on sales to distributors having right of return privileges until the return period expires. Once a reliable return history is established, such returns will be estimated using historical return rates. We have only recently begun selling products to retail customers through the Internet and have not developed a history of returns. Our retail customers are permitted to return our products for a refund. We have not to date, had any of our products returned. Once historical patterns are established, this will allow us to develop sales return allowances. At this time it will be necessary to reduce gross revenue for projected returns. To date we have not made any sales to distributors.

In accordance with EITF No. 00-10, “Accounting for Shipping and Handling Fees and Costs”, freight and handling charges billed to customers are recorded as revenue while the corresponding freight and handling costs are recorded as cost of sales.

Derivative instruments and Convertible Debt
In the case of non-conventional convertible debt, the Company bifurcates its embedded derivative instruments and records them under the provisions of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”), as amended, and EITF Issue No. 00-19, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock” (“EITF 00-19”). The Company’s derivative financial instruments consist of warrant derivatives and embedded derivatives related to the non-conventional notes described in Note 5. The accounting treatment of derivative financial instruments requires that the Company record the derivatives at their fair values on the date of the agreement and at each subsequent balance sheet date. Any change in fair value will be recorded as non-operating, non-cash income or expense at each reporting date.

Stock-based Compensation
The Company records stock based compensation in accordance with SFAS 123(R), “Share-Based Payments,” which requires the measurement and recognition of compensation expense, based on estimated fair values, for all share-based awards, made to employees and directors, including stock options.

SFAS 123(R) requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model. The Company uses the Black-Scholes option-pricing model as its method of determining fair value. This model is affected by the Company’s stock price as well as assumptions regarding a number of subjective variables. These subjective variables include, but are not limited to the Company’s expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The value of the portion of the award that is ultimately expected to vest is recognized as an expense in the consolidated statement of operations over the requisite service period.

Shares issued for non-cash consideration were valued (1) based on the fair value of the services and/or goods provided when these amounts were more readily determinable than the value of the shares at the date of issue; and (2) based on the fair market value of the shares at the date of issue when their value was more readily determinable than the value of the services provided.

No tax benefits were attributed to stock-based compensation expense because a full valuation allowance was maintained for all net deferred tax assets.

1.13 CHANGES IN ACCOUNTING POLICIES

On April 13, 2009, the Securities and Exchange Commission’s (“SEC”) Office of the Chief Accountant and Division of Corporation Finance issued SEC Staff Accounting Bulletin 111 (“SAB 111”). SAB 111 amends and replaces SAB Topic 5M, “Miscellaneous Accounting—Other Than Temporary Impairment of Certain Investments in Equity Securities” to reflect FSP FAS 115-2 and FAS 124-2. This FSP provides guidance for assessing whether an impairment of a debt security is other than temporary, as well as how such impairments are presented and disclosed in the financial statements. The amended SAB Topic 5M maintains the prior staff views related to equity securities but has been amended to exclude debt

securities from its scope. SAB 111 is effective upon the adoption of FSP FAS 115-2 and FAS 124-2. The Company is currently evaluating the impact, if any, that the adoption of SAB 111 will have on the consolidated financial statements of the Company.

On April 9, 2009, the FASB issued three FSPs intended to provide additional application guidance and enhanced disclosures regarding fair value measurements and other-than-temporary impairments of securities.

FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," provides guidelines for making fair value measurements more consistent with the principles presented in FASB Statement No. 157, "Fair Value Measurements." FSP FAS 157-4 must be applied prospectively and retrospective application is not permitted. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 157-4 must also early adopt FSP FAS 115-2 and FAS 124-2.

FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on debt securities. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may early adopt this FSP only if it also elects to early adopt FSP FAS 157-4.

FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FSP 107-1 and APB 28-1 are effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. However, an entity may early adopt these interim fair value disclosure requirements only if it also elects to early adopt FSP FAS 157-4 and FSP FAS 115-2 and FAS 124-2.

The Company is currently evaluating the impact, if any, that the adoption of these FSPs will have on its consolidated financial statements.

In June 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities". FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the computation of earnings per share under the two-class method as described in FASB Statement of Financial Accounting Standards No. 128, "Earnings per Share." FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 and earlier adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. It is effective November 15, 2008, being 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment to FASB Statement No. 133". SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. It is effective for financial

statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company is currently evaluating the impact of SFAS No. 161 on its financial statements, and the adoption of this statement is not expected to have a material effect on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements Liabilities –an Amendment of ARB No. 51". This statement amends ARB 51 to establish accounting and reporting standards for the Noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115". This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, "Fair Value Measurements". The adoption of this statement did not have a material effect on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". The objective of SFAS 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. The adoption of this statement did not have a material effect on the Company's financial statements.

1.14 FINANCIAL INSTRUMENTS

The Statement of Financial Accounting Standards ("SFAS") No. 157 "Fair Value Measurements" requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS No. 157 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. SFAS No. 157 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1
Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2
Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3
Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Financial instruments consist principally of cash, accounts receivable, accounts payable, accrued liabilities, convertible notes, derivative liabilities, due to related parties and other advances. Pursuant to SFAS No. 157, the fair value of cash equivalents is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. Pursuant to SFAS No. 157 the fair value of derivative liabilities is determined based on "Level 2" inputs, which consist of model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data. The recorded values of all of other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

The Company uses a binomial valuation model for calculation of the fair value of the conversion feature and the Black Scholes valuation model for calculation of stock option and warrant derivative liabilities. The Company uses volatility rates based upon the closing stock price of its common stock. The Company uses a risk free interest rate which is the U.S. Treasury bill rate for securities with a maturity that approximates the estimated expected life of a derivative. The Company uses the closing market price of the common stock on the date of issuance of a derivative or at the end of a quarter when a derivative is valued at fair value. The volatility has ranged from 520% to 210% during the years ending May 31, 2009 and 2008. During the year ended May 31, 2009, the Company recorded a gain on derivatives of $2,744,640 (2008 – loss of $6,755,258) equal to the difference in the fair value of the derivatives at May 31, 2009 (2008) and the previous year end.

The Company's operations are in Canada and virtually all of its assets and liabilities are giving rise to significant exposure to market risks from changes in foreign currency rates. The financial risk is the risk to the Company's operations that arise from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

ADDITIONAL INFORMATION FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The Company has not been able to generate significant revenue and provides the following additional disclosure with respect to the fiscal years ended May 31, 2009 at May 31, 2008.

a) Research and development costs incurred in the year ended May 31, 2009 totaling $37,329 have been expensed as incurred. Research and development expenditures for the year ended May 31, 2008 were nil.

b) General administrative expenses incurred and expensed totaled $593,372 in the year ended May 31, 2009 and $934,527 in the year ended May 31, 2008.

c) For the years ended May 31, 2009 and 2008 no significant expenses were deferred.

d) For year ended May 31, 2009 in addition to the expenses disclosed above, the Company incurred debt issue costs of $136,591, and incurred interest expense of $1,134,407. These expenditures were partially offset by a gain on the fair value of derivatives totaling $2,744,640. For the year ended May 31, 2008 in addition to the expenses referred to above the Company provided $4,493,045 for liquidated damages (details are provided in the Capital Resources section of the MD&A), provided for interest expenses of $1,024,068 and provided for a loss on the fair value of derivatives totaling $6,755,258.

The following table provides disclosure regarding the Company's outstanding share data as at July 5, 2010:

Description of security	Number authorized to be issued	Number outstanding as at July 5, 2010
Common Shares	1,750,000,000	1,672,178,559
Preferred Shares	200,000,000	196,875,000
Options to Purchase Common Shares	76,992,500	76,992,500 with average exercise price of $0.02
Warrants to Purchase Common Shares	1,061,183	1,061,183 with a weighted average exercise price of $13.00
Convertible Debt convertible into Common Shares	1,306,071,130	3,636,483,000

FORWARD LOOKING STATEMENTS

Certain statements included in this Management's Discussion and Analysis may constitute "forward-looking statements" within the meaning of the US Private Securities Litigation Reform Act of 1995 and Canadian security legislation and regulations, and are subject to important risk, uncertainties and assumption. This forward-looking information includes among other things, information with respect to the Company's beliefs, plans, expectations, anticipations, estimates and intentions. Such risks include, but are not limited to: the ability to obtain financing in the current markets, the impact of general economic conditions, general conditions in the pharmaceutical and/or natural health products industries, changes in the regulatory environment in the jurisdictions in which the Company does business, stock market volatility, fluctuations in costs, and changes to the competitive environment, and that actual results may vary once the final and quality –controlled verification of data and analyses has been completed. The results or events predicted in forward-looking information may differ materially from actual results or events. The Company believes that expectations represented by forward-looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

OTHER

The Company operates its office in Vernon, British Columbia, Canada and is listed on the Pink Sheets under the ticker symbol AVVH. Public company information is available on SEDAR at www.sedar.com or at the Company's website www.avvaa.com.