

INCUBATION | MENTORING | INVESTMENT



innovacorp

ACCOUNTABILITY REPORT
2009/2010

www.innovacorp.ca

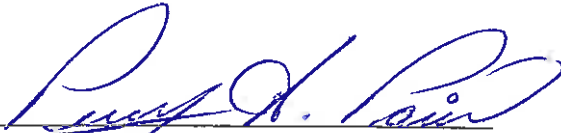
Table of Contents

| | |
|--|-----------|
| ACCOUNTABILITY STATEMENT..... | 3 |
| INTRODUCTION..... | 4 |
| INNOVACORP PROGRESS AND ACCOMPLISHMENTS | 5 |
| FINANCIAL RESULTS..... | 15 |
| PERFORMANCE MEASURES | 16 |

Accountability Statement

The accountability report for Innovacorp for the year ended March 31, 2010, is prepared pursuant to the Provincial Finance Act and government policies and guidelines. These authorities require the reporting of outcomes against Innovacorp's business plan for the fiscal year 2009-2010. The reporting of Innovacorp's outcomes necessarily includes estimates, judgments and opinions by Innovacorp management.

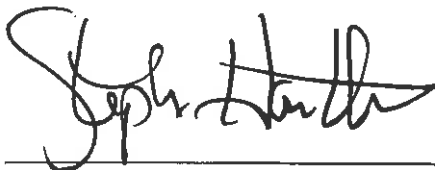
We acknowledge that this accountability report is the responsibility of Innovacorp management. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in Innovacorp's business plan for the year.



Honourable Percy Paris
Minister, Economic and Rural Development



Dr. Jacquelyn Thayer Scott
Chair, Innovacorp Board of Directors



Stephen Hartlen
Interim President & CEO, Innovacorp

Introduction

This accountability report covers the Innovacorp business plan for 2009-2010 and therefore should be read in conjunction with that plan. Visit <http://Innovacorp.ca/about-us/corporate-publications> to download a copy of the plan. The report reviews the goals and priorities set in the spring of 2009 and reports on the accomplishments and progress achieved during the period ending March 31, 2010. Financial results are provided with an explanation for any significant budget variances.

Innovacorp helps high potential early stage Nova Scotia companies commercialize their technologies and succeed in the global marketplace. Our High Performance Incubation (HPi)[™] business model incorporates incubation infrastructure, business mentoring, and seed and venture capital investment. HPi is recognized internationally as a best practice technology commercialization approach. Every day, the Innovacorp team provides hands-on business guidance, tailored to meet the unique and evolving needs of our clients. A network of advisors, mentors and service providers complements our in-house business expertise.

During fiscal year 2009-2010, Innovacorp further intensified its role in driving the knowledge economy and innovation capital markets in Nova Scotia. The Nova Scotia knowledge-based companies that have benefited from Innovacorp's HPi business model generated approximately \$279 million in export revenues and directly employed about 1,467 people, resulting in a payroll of over \$64 million, most of which was in the form of high value jobs.

More than ever before, Innovacorp's work is benefiting knowledge-based companies from all over Nova Scotia. Innovacorp's I-3 Technology Start-Up Competition, which was launched in September 2009 and completed in February 2010, attracted 133 submissions from across Nova Scotia, 58 per cent of which were from outside the Halifax Regional Municipality.

At fiscal year end, Innovacorp's incubation facilities, including the Technology Innovation Centre in Dartmouth and the BioScience Enterprise Centre in Halifax, stood at 88 per cent occupancy. Innovacorp's annual client satisfaction survey, conducted in February 2010, demonstrated that 96 per cent of clients are satisfied with Innovacorp's services.

Throughout 2009, Innovacorp clients experienced what had become the most severe global recession in decades. Early stage knowledge-based companies that were looking to bring products and services to export markets in 2009 faced customers and partners who became more risk averse. Where possible, Innovacorp assisted client companies in navigating the economic climate and positioning themselves for the medium and long term.

We are proud of our 2009-2010 results; however we continuously strive to increase the value we add to client companies. In 2010-2011, Innovacorp will continue to adapt to ensure it can deliver the highest value services to our clients and play a key role in ensuring Nova Scotia knowledge-based companies are positioned for the economic recovery.

Innovacorp Progress and Accomplishments 2009-2010

Innovacorp's core business offering is its High Performance Incubation (HPi)TM business model. Recognized internationally as a best practice approach to technology commercialization, HPi incorporates three interwoven resources – incubation infrastructure, business mentoring, and seed and venture capital investment – to help entrepreneurs overcome traditional hurdles to business growth.

As stated in our 2009-2010 business plan, our performance for that year can be measured against two goals and five priorities.

Goal 1. To fuel sustainable economic growth by enabling Nova Scotia knowledge-based companies to accelerate the commercialization of their technologies and increase competitiveness in export markets.

Nova Scotia's ability to compete – regionally and globally – is increasingly reliant on the success of its knowledge companies. These high growth companies have the potential to positively affect the province's prosperity more than any other sector of the economy.

The rapid pace of globalization is both an opportunity for and a threat to Nova Scotia. Nova Scotia companies have every opportunity to compete and serve global markets. Innovacorp's HPi business model enables Nova Scotia technology companies to move swiftly through the commercialization process. Every day, Innovacorp staff engages high potential early stage technology companies to provide hands-on business guidance, customized to address specific business challenges.

Goal 2. To collaborate with private and public partners to build a dynamic high-growth entrepreneurial culture in Nova Scotia.

Innovacorp continually collaborates with entrepreneurs, private sector organizations, professional services firms (i.e. legal, accounting, marketing and human resource services), angel and venture capital investors, academia, industry associations and public sector agencies to help create a dynamic high growth entrepreneurial culture in Nova Scotia.

By leveraging Innovacorp's corporate knowledge base and expanding the network of private sector advisors, and through partnerships with organizations across the province, the region, the country and beyond, we continue to help clients commercialize their products and services.

Priorities

1. Increase the Capacity of the HPI™ Business Model

The Innovacorp HPI™ business model is recognized as a best practice technology commercialization approach. The model comprises three interwoven resources – incubation infrastructure, business mentoring and seed/venture capital investment. To maintain the client engagement quality of the 2009-2010 client pipeline, Innovacorp focused on increasing its capacity and enhancing the expertise delivered to clients, especially in the area of globally competitive go-to-market capabilities. In 2009-2010, Innovacorp focused on further enhancing the expertise delivered to clients, thereby maximizing its value add and scaling the HPI business model to fuel sustainable economic growth.

- To further improve management of the existing client pipeline and continue to dedicate 80 per cent of its resources to its highest potential clients, Innovacorp operationalized the ClearService Client Relationship Management (CRM) system, a valuable tracking tool intended to keep client plans up-to-date. Monthly client plan reviews were established in 2009-2010, to ensure client plans are current and moving forward. The management team also continues its bi-weekly client pipeline meetings to help provide clients with timely, high value feedback.
- In-house and mentoring network go-to-market expertise was strengthened in 2009-2010, specifically in the areas of business development and channel marketing. Innovacorp's mentoring staff participated in several external mentoring engagements and shadowing opportunities focused on go-to-market expertise.
- The Innovacorp mentoring team worked with clients to establish solid distribution and partner agreements. The team also created materials to guide clients in the areas of direct vs. indirect channel models and distribution channel deliverables.
- In 2009-2010, Innovacorp held its second provincial I-3 Technology Start-Up Competition to identify and support high potential early stage Nova Scotia companies, and help fuel entrepreneurial activity across the province. Building upon learnings from the 2007-2008 competition, the 2009-2010 competition took place simultaneously in five geographic zones and attracted 133 formal submissions, with an increase in submissions in four of the five zones. During the planning stages of the competition, Innovacorp developed strong partnerships with more than 25 professional service firms from across Nova Scotia to deliver in-kind business building services to I-3 first and second place zone winners. Eligibility rules and judging criteria were refined for the 2009-2010 competition, and outreach in communities across Nova Scotia was increased.
- Innovacorp engaged the financial industry across Nova Scotia to maximize service offering synergies. As part of the outreach initiative, Innovacorp directly contacted all

individuals at financial institutions working with entrepreneurs across Nova Scotia with a short letter and flyer introducing Innovacorp. These representatives also participated in a webinar in which Innovacorp shared examples of innovative Nova Scotia companies it is working with, and talked about how Innovacorp and the banking industry can collaborate to bring value to banks' existing and future customers.

- Innovacorp secured a partnership with the Colchester Regional Development Agency (CORDA) and renewed its employee partnership memorandum of understanding with the Southwest Regional Development Agency (SRDA) to improve visibility and capacity in rural areas. Both organizations will assist Innovacorp with improving its reach across Nova Scotia. The primary intent of the relationships with both Regional Development Authorities is to watch for promising early stage entrepreneurs who fit with and can benefit from the Innovacorp HPi business model.
- The quality of Innovacorp's Business Over Breakfast series was increased in 2009-2010. Held at Innovacorp's Technology Innovation and BioScience Enterprise Centres, the events bring together resident and non-resident clients from across Nova Scotia, business professionals, industry representatives, university students and other key stakeholders. The sessions in 2009-2010 featured topics including social media, marketing, and pricing and packaging strategies. To increase reach to students and entrepreneurs in other parts of the province, sessions were also held off-site at the NSCC Dartmouth Waterfront campus, and in Yarmouth at the NSCC Burrige campus. Innovacorp continues to audio record all Business Over Breakfast sessions and post them on the Innovacorp website to share with clients and others who may be unable to attend in person. The Business Over Breakfast series continues to receive extremely positive feedback from clients.
- Innovacorp further increased its knowledge and expertise around BRIC (Brazil, Russia, India, and China) go-to-market strategies through participation in the India Business Mission to Halifax, providing assistance to clients looking to export to BRIC countries, and hosting a successful Business Over Breakfast session on the India opportunity.
- Innovacorp continues to expand its network of third-party private sector advisors across the province, the region, the country and beyond, as a result, increasing the depth of services provided to clients. Innovacorp engaged online marketing, angel investment and go-to-market experts to assist clients with business development in 2009-2010.
- Innovacorp proactively monitors and measures the health of its HPi business model from multiple internal and external dimensions. To clearly understand the value we bring to and the satisfaction of our clients, we combine the feedback gathered from day-to-day informal and formal client interactions, our annual client satisfaction survey, observing the business success of our clients, and collecting economic leading indicator metrics. In winter 2010, Innovacorp conducted its fourth annual client

satisfaction survey. The anonymous survey was conducted over the phone by an objective third party, who also assisted with the analysis of the results. As was the case in previous years, in fiscal year 2009-2010, Innovacorp considered and acted upon much of what it learned in the survey.

- Online marketing and social media have become key to doing business globally. Social media continues to be an integral part of Innovacorp's outreach strategy. Innovacorp maintains an active Facebook fan page with over 330 members from around the globe, and a Twitter account which is updated multiple times a day. Innovacorp staff maximizes the leverage of Web 2.0 techniques to engage existing and prospective clients. Innovacorp encourages its clients to explore the potential business benefits of social media.
- While Innovacorp's performance metrics clearly demonstrate success, it is important to benchmark ourselves against "best in class" organizations around the world. In February 2010, Innovacorp was informed its HPI business model was once again one of two finalists in the National Business Incubation Association (NBIA) "Incubation Program of the Year - 2010" competition. Based in the United States, NBIA represents more than 1900 members across 66 nations. Past award winners include business incubation programs from Silicon Valley, California (2008), and Paris, France (2007).
- Innovacorp continued to increase its role as a national/international advocate for Nova Scotia innovation through significant direct coverage in regional, national and international publications, including the Globe and Mail, Progress, Nova Scotia Open to the World, and CBC; and speaking engagements at notable national and international events, including the Power of Green Conference, the Organizing Transatlantic Innovation Conference, and the National Business Incubation Association's national conference.
- Innovacorp continued to deliver enhanced information technology support to resident client and affiliate members, increasing the quality and availability of infrastructure and services offered. The construction of a server hosting facility for Innovacorp clients, located at the Technology Innovation Centre has been completed and Innovacorp is currently marketing its IT services to clients.
- Innovacorp continues to collaborate with industry partners, including BioNova, Nova Scotia's biotechnology and life sciences industry association, and ITANS, the information technology industry alliance of Nova Scotia, to help strengthen these industries in the province. Innovacorp also continues to work with other significant industry organizations such as Entrepreneurs' Forum, the provincial Industry Liaison Office (ILO) Network, the provincial network of Regional Development Authorities (RDAs), and Springboard Atlantic, to help strengthen entrepreneurship in Nova Scotia and help further the commercialization of knowledge-based products and services at the university and community levels.

- Innovacorp supports the early stage technology commercialization efforts in rural Nova Scotia and in post-secondary research institutions through the Nova Scotia Proof-of-Concept Fund and the Early Stage Commercialization Fund.
- Innovacorp's pipeline of high potential clients increased in 2009-2010. Staff worked with more than 184 Nova Scotia early stage companies and helped advance the efforts of 68 university research-level projects.
- Innovacorp's incubation facilities, including the Technology Innovation Centre in Dartmouth and the BioScience Enterprise Centre in Halifax, reached 88 per cent occupancy.
- Innovacorp's annual client satisfaction survey, conducted in February 2010, indicated that 96 per cent of clients are satisfied with Innovacorp's services overall, and 89 per cent of clients indicated that they would recommend Innovacorp services to a colleague.
- Innovacorp continues to plan for the seamless transition of existing BioScience Enterprise Centre clients and the recruitment of new clients for the new facility by engaging in ongoing proactive client communications, completing architectural and client functional needs analysis, and continuing to recruit prospective clients for the new facility.

2. Maximize the Sustainability and Economic Impact of the Nova Scotia First Fund

Innovacorp plays a key role in improving Nova Scotia's innovation capital markets. One of Innovacorp's key assets is the Nova Scotia First Fund (NSFF) combined with seed and venture capital investment expertise. The fund's investment strategy targets emerging venture-grade technology companies with high growth potential and attractive risk-return prospects. Innovacorp's strategy has been to strengthen the goodwill and credibility for the region and to build the return track record of the asset class, thereby driving and supporting the attraction of more capital to the region and Nova Scotia. A priority in 2009-2010 was to maximize the sustainability and economic impact of the NSFF and play a key role in improving the province's innovation capital markets.

- The Province of Nova Scotia made a long-term commitment to the Nova Scotia First Fund (NSFF). With the goal to further leverage the impact and capitalize on the performance of the fund, the Province committed an additional \$30 million over 10 years to the NSFF.
- The NSFF provides early stage high growth potential companies with timely venture investments that range from \$100,000 up to \$3 million over the life cycle of the investment. Its objective is to maximize return on investment for Nova Scotia while contributing to the growth of the province's economy. Managed by Innovacorp, the

fund has leveraged more than \$105 million in risk and venture capital. Since its recapitalization in 2003-2004, the fund has leveraged \$33.6 million of investment (\$13.2 million from outside Atlantic Canada) from financial institutions, strategic and angel investors, and other seed and venture capital funds for early stage high growth companies.

- The investment strategy of the NSFF was expanded in 2009-2010 to increase the amount invested in the highest potential companies over the life of the investment, while remaining within the early stage investment scope. The existing investment portfolio and investment pipeline is being managed to increase the likelihood of initial and follow-on funding.
- Innovacorp worked to increase the size of venture capital rounds in Nova Scotia on a deal-by-deal basis by leveraging its capital and maximizing syndicate partner networking and proactively identifying partners for pending investments.
- A new investment manager with highly relevant investment and entrepreneurial experience joined the Innovacorp team on a full-time basis in November 2009. The investment manager is responsible for the full cycle of venture capital investment, including opportunity sourcing, due diligence, deal structure, recommendation, closing and governance.
- Innovacorp continues to proactively look to invest in opportunities that offer the best odds of commercial success and financial sustainability. The organization is currently tracking and strengthening numerous high potential companies, helping them become investment-ready.
- The NSFF's positive impact on Nova Scotia's innovation capital markets is significant. As an active seed and venture capital player, Innovacorp has played an important part in significantly increasing the amount of capital invested in Nova Scotia high growth companies. Nova Scotia companies raised \$7 million in venture capital financing in 2004. In 2005, they raised \$18.7 million. In 2006, that number further increased by more than 40 per cent to reach \$24 million. While the amount raised by Nova Scotia companies leveled off in 2007 to \$18 million and in 2008 to \$17 million, the amount increased to close to \$25 million in 2009.
- Innovacorp is proactively investigating, modeling, and sharing fully-fundable business planning advice with client companies.
- Innovacorp continues to scope out global clean technology business incubation and seed/venture capital best practices, with a specific focus on best practices from California and Israel.
- In 2009-2010, emphasis was placed on identifying and fostering clean technology specific partners.

- Innovacorp continues its investment strategy of favouring fully-fundable business plans and making investments that target financial return.

3. Operationalize our Clean Technology Practice

Innovacorp, through its HPI business model, has observed significant growth in the number of Nova Scotia knowledge-based companies whose core value proposition is derived from clean technology. Innovations that look to decrease the amount of energy required, improve sources for renewable energies, and produce more environmentally-friendly materials are examples of types of Nova Scotia clean technology opportunities. Innovacorp has been working in the clean technology sector at a modest level for more than three years.

- Innovacorp continues to scope out global clean technology business incubation and seed/venture capital best practices, with a specific focus on best practices from California and Israel.
- In April 2009, board approval and provincial government support was obtained for a Limited Partnership position in the Cycle Capital Fund. Innovacorp, through the Nova Scotia First Fund, became a Limited Partner in the Quebec-based fund by making a \$2 million capital commitment, to be released upon receipt of capital calls over the 10-year life of the fund. The expected return on investment from the province's \$2 million will include a unique level of access to the Cycle Capital fund decision makers with whom to position Nova Scotia clean technology opportunities; clean technology sector knowledge and access to global subject matter experts; and the potential of syndicated investments in Nova Scotia by the fund. Cycle Capital Management (CCM) is a venture capital fund manager dedicated to the clean technology industry. Cycle targets investments in companies developing and commercializing clean technologies and projects of renewable energy generation focused on reducing greenhouse gas emissions, optimizing resources use, and decreasing impacts over their entire life cycle. Innovacorp has positioned two prospective clients for potential Cycle Capital Fund investment. Both companies are being groomed for potential investment.
- Innovacorp continues to monitor the global clean technology industry to identify market sectors, business models, and valuation comparables.
- The quantification of the environmental footprint of Innovacorp's 1 and 101 Research Drive facilities was completed in 2009-2010. Through consultations with subject matter experts, it was determined that Innovacorp's activities have low carbon intensity. Innovacorp continues to look for opportunities to reduce its greenhouse gas emissions.
- Innovacorp's finance department began an improvement project with the objective of eliminating paper cheques as a form of payment. The project was successfully piloted

internally for cash reimbursements for employee expense claims and is now being rolled out to various Innovacorp suppliers.

- Innovacorp added sustainable procurement as a selection criterion for the RFP for audit services. In future procurement activities, sustainability will be a vendor choice criterion.
- Innovacorp is working to secure the required resources to identify and support high potential clean technology clients.
- Innovacorp has proactively identified and is helping strengthen several clean technology clients.

4. Facilitate the Strengthening of Global Go-to-Market Expertise

Knowledge-based companies seeking to compete globally require globally competitive expertise. The required expertise ranges from technical, operations and finance, to business development, sales and marketing. While Atlantic Canada is home to several globally competitive companies, there is a shortage of relevant, proven state-of-the-art business building skills available for early stage knowledge-based companies. The vast majority of local early stage knowledge-based companies possess relevant technical expertise. Most also have at least a high level of industry expertise, but few have the required relevant business building capabilities. The result is that start-up companies are unable to successfully commercialize their products and services.

- Innovacorp collaborated with local executive recruiting firms to explore the skills gaps among Innovacorp clients and share client profiles and talent leads.
- Innovacorp increased its involvement in initiatives such as East Coast Connected (ECC) and Fusion Halifax to ensure Atlantic Canadian expatriates have a connection back to Nova Scotia's business community. Innovacorp is a member of the ECC advisory board member and actively participated at the ECC Atlantic Business Conference in Toronto in 2009. Innovacorp is an advisor to Fusion Halifax, a group for young Halifax residents who are inspired to make their city a better place to live, work and play.
- Innovacorp continues to encourage and assist its clients in obtaining expert advice on business building issues, and thinking strategically and practically about recruitment and retention. In 2009-2010, Innovacorp played an active role in assisting several clients with securing senior business development and marketing and sales talent.
- Innovacorp has been deeply involved in the development of the Dalhousie Corporate Residency MBA program. In January 2009, Innovacorp welcomed a student from the program for an eight-month placement. The student continues to work closely with

the mentoring and investment teams to help Innovacorp's early stage clients overcome hurdles to business growth.

- An MBA student from Saint Mary's University joined the Innovacorp team for four months to assist the mentoring team with updating Innovacorp's database of commercializable university research projects. Working directly with a mentoring team member, the student also worked closely with several Innovacorp clients.
- Innovacorp continues to proactively assist in matching co-op students from across all disciplines with its clients, bringing value to the client and the student. In late 2009-2010, Innovacorp engaged the Nova Scotia Community College's Human Resource Management program in a pilot project to provide students with practical, hands-on work experience, while identifying and addressing the immediate HR needs of select Innovacorp clients. The pilot was successful and will continue in the future.
- Innovacorp continues to provide assistance to clients on structuring competitive and innovative yet affordable compensation packages.
- To identify clients' most common lacking areas of expertise, Innovacorp profiled 12 existing and former clients, tracking their go-to-market status and related skills gaps over a five-year period.
- Innovacorp continues to explore ways for clients to effectively share talent with each other without conflict of interest. Talent sharing in the areas of finance, business modeling and online marketing were successfully implemented across several clients.
- Innovacorp continues to investigate the feasibility of coordinating and co-funding an initiative to secure business building talent, some of which may be located outside Nova Scotia, and leverage the talent over multiple clients, with the potential for a client to hire the talent full-time.

5. Strengthen University Research Commercialization Capacity and Entrepreneurial Activities

Among our most cherished assets are our universities and colleges. Nova Scotia is home to 11 universities and a strong community college system with 13 campuses across the province. More than \$130 million in research is conducted at these institutions each year. While the local economy certainly benefits from the education of our young people, the attraction of world-class researchers, and the direct and indirect employment generated by post-secondary institutions, the economic benefits derived directly from applied research are relatively low. Both the provincial and federal governments have invested in infrastructure designed to increase the commercialization of university research. The business building component of university and college curriculum in most cases is lacking, and there are few formal ties between university research and the innovation capital markets. In this context, Innovacorp must continue to increase its

efforts by effectively partnering with entrepreneurs who are active in Nova Scotia's post-secondary institutions.

- Innovacorp continues to be actively involved with Dalhousie University's new Corporate Residency MBA program. Innovacorp is one of the program's employer partners, with an intern on site from January 2010 – August 2010. As Canada's only corporate residency MBA opportunity, the 22-month program at Dalhousie integrates Canada's top employers into the academic process, providing students with exceptional work experience, innovative curriculum, and leadership development skills to launch their careers. With numerous residency positions available from top private and public sector organizations and a maximum enrolment of 50 of the country's best and brightest students, successful applicants will have fantastic career options.
- Innovacorp secured guest speaker opportunities to share with students the stories of innovative Nova Scotia knowledge-based businesses and to discuss support infrastructure. Several Innovacorp team members presented at a variety of post-secondary institutions, including Saint Mary's University, Acadia University, NSCC, Kings, Dalhousie University, and Cape Breton University.
- Innovacorp continues to partner with several Nova Scotia universities and the community college system to help deliver a strengthened post-secondary entrepreneurial curriculum.
- The database of research projects in post-secondary institutions was updated in 2009-2010, and Innovacorp proactively reached out to those involved in highly commercializable projects.
- Innovacorp published four Atlantic Canada-oriented business case studies and positioned them in university and college entrepreneurship courses.
- Innovacorp continues to work with existing and two new university-based clients.
- Innovacorp continues to play a key advisory role with the management of the new Centre of Geomatics Sciences incubation facility at NSCC's Annapolis Valley Campus.

2009-2010 Financial Results (Combined results for Innovacorp and the BioScience Enterprise Centre*)

| Summary By Section | Budget 2009-2010 (\$ thousands) | Actual 2009-2010 (\$ thousands) | Variance 2009-2010 (\$ thousands) |
|---|---------------------------------------|---------------------------------------|---|
| <i>Revenue</i> – NS Funding, Operating Revenue, and consolidated venture investment | \$7,169 | \$7,190 | 21 ¹ |
| <i>Operating Expenses</i> – Investment, Incubation, Mentoring, Product Engineering and consolidated venture investment | 4,401 | 4,431 | (30) ² |
| <i>Corporate Expenses</i> - corporate services, administration, facilities management | 1,809 | 1,930 | (121) ³ |
| <i>Minus Net Non Operating Items</i> – investment income, interest on long-term debt, post-retirement benefits, amortization, | 1,234 | 2,311 | (1,107) ⁴ |
| Net Income (Loss) | (\$275) | (\$1,483) | (1,208)⁵ |

* Innovacorp combines the results of its operations with those of a sister corporation, the BioScience Enterprise Centre, for planning and reporting purposes. Innovacorp manages the BioScience Centre and operationally that entity's activities are considered an integral part of Innovacorp's incubation activity.

Explanation of Variance

1. Revenues were greater than budget due to:
 - The revenue increase was due to increased revenue in Investment \$52 K, Mentoring, \$43 K, Product Engineering \$23 K and the consolidated venture investee \$21 K.
 - Incubation revenue was \$101 K less than plan.
 - Net funding recognized re capital assets was \$17K less than plan.
2. Actual Operating Expenses were slightly higher than plan due to:
 - Consolidated venture investee spending was \$112 K higher than plan due to the cost of pursuing its growth strategy. Although revenues are budgeted for the year, the investee was de-consolidated in September when it completed a financing round. In spite of only a half year's results being included in actuals, both revenues and costs were higher than plan.
 - Incubation expenses were \$102 K higher than plan.
 - This was offset by Investment expenses being lower than plan by \$141 K primarily due to vacant positions throughout the year in this area and Mentoring costs being \$42 K lower than plan .
3. Actual Corporate Expenses were higher than plan due to:
 - The budget was prepared net of interdivisional recoveries which are eliminated in the consolidated actual resulting in \$60 K in increased costs.
 - Restructuring costs of \$53 K.
 - Professional services costs associated with the recruitment of two key positions \$46 K, partially offset by a \$23 K in savings due to a vacant position (the other position recruited was not in the Corporate budget).
4. Actual net non-operating expenses had a negative variance due to:
 - Investment write downs were more than budgeted \$1,187
5. The net loss is primarily attributable to non-cash items such as write downs, amortization and post retirement benefits.

Performance Measures

Below is an assessment of Innovacorp's progress towards the performance measures outlined in our 2009-2010 business plan. Our metrics focus on the areas of economic impact, client satisfaction and leading indicators of client-related statistics.

Performance Measure: Client company revenue growth

What does this measure tell us?

This measure tracks the annual revenue generated by Innovacorp's client companies. An increase in revenue is a key indicator of a company's productivity and overall health.

Where are we now?

In 2009-2010, Innovacorp's current and graduate companies generated \$279 million in revenues; slightly more than the \$275 million target. The vast majority of these revenues (98 per cent +) were created through exports of products and services outside Atlantic Canada.

Where do we want to go in the future?

As the world emerges from the global recession, we forecast that client generated revenue will increase to \$300 million during the 2010-2011 fiscal year.

Performance Measure: Employment generated by client companies

What does this measure tell us?

This measure follows the annual employment generated by Innovacorp's client companies – a standard measure in the economic impact of a business. The ability of Innovacorp's clients to create sustainable employment (and the resulting payroll) is a contributor to Nova Scotia's economy and an indication of a company's progress along the commercialization continuum.

Where are we now?

In 2009-2010, employment generated by Innovacorp client companies increased from 1447 in 2008-2009, to 1467 in 2009-2010; resulting in \$64 million in payroll. Because Innovacorp clients are Nova Scotia-based and owned, the prosperity created by employment is reinvested back into the local economy.

Where do we want to go in the future?

In 2010-2011, we expect that existing and new Innovacorp clients will employ 1600 people with a \$70 million payroll.

Performance Measure: Amount of Nova Scotia First Fund (NSFF) leveraged investments

What does this measure tell us?

Innovacorp invests in promising early stage knowledge-based companies through management of the Nova Scotia First Fund to ensure new businesses have the required capital to achieve their full potential. The leverage metric provides an overall evaluation of Innovacorp's investment strategy by assessing the magnitude by which the corporation's investment capital is leveraged with other investors. Innovacorp tracks the cumulative amount of investment made by the NSFF investees, calculating it both as a ratio and in millions of Canadian dollars.

Where are we now?

Since its recapitalization in 2003-2004, the fund has leveraged \$33.6 million of investment (\$13.2 million from outside Atlantic Canada) from financial institutions, strategic and angel investors, and other seed and venture capital funds for early stage high growth companies. The cumulative amount of investment from NSFF investee companies since 1996 is \$105 million.

Where do we want to go in the future?

In 2010-2011, the target amount of cumulative investment in client companies in which investments were made by the NSFF is \$110 million. Our goal is to maintain a leverage ratio of 1:3; and of this additional capital Innovacorp aims to attract a significant amount from outside Nova Scotia.

Performance Measure: Client satisfaction

What does this measure tell us?

Innovacorp seeks continuous feedback from clients about performance and value added through its annual client survey, conducted by an objective third party. The satisfaction of our clients is a very important measure of the High Performance Incubation (HPi)TM business model's success. Clients are asked to indicate their satisfaction level with Innovacorp's services and if they would recommend Innovacorp to a friend or colleague. These two metrics are considered key indicators of Innovacorp's value add.

Where are we now?

In the client satisfaction survey conducted in spring 2010, 96 per cent of clients indicated they were satisfied with Innovacorp's overall services, and 88 per cent said they would recommend Innovacorp to a friend or colleague.

Where do we want to go?

In our 2010-2011 client satisfaction survey, our goal is for 91 per cent of clients to be satisfied with Innovacorp's services overall and 91 per cent to be willing to recommend our services to others.

Performance Measure: Number of active and new engagements with Nova Scotia-based companies

What does this measure tell us?

Innovacorp's clients reflect the success and effectiveness High Performance Incubation HPi™ business model. Continually looking to attract high potential Nova Scotia companies, we strive to strengthen our service offerings and encourage client growth through supporting improved productivity and competitiveness in global markets.

Where are we now?

In 2009-2010, Innovacorp provided advisory and relationship management support services to 184 early stage companies. Of these engagements, Innovacorp has formal agreements and ongoing relationships with 48 active HPi clients. In addition to the 184 companies assisted, Innovacorp provided value added guidance to the 133 companies that made submissions to the provincial I-3 competition.

Where do we want to go in the future?

In 2010-2011, we forecast having 55 active HPi clients and expect 175 new engagements with Nova Scotia-based companies. When reviewing this performance measure, it should be remembered that each year it is natural for some clients to leave the Innovacorp business model and new ones to take their place.

Performance Measure: Number of new clients

What does this measure tell us?

As described above, our client base tells us about the effectiveness of our services and business model. The number of new clients that we form formal relationships with indicates how many early stage companies we are advancing towards commercial success.

Where are we now?

In 2009-2010, Innovacorp welcomed 11 new client companies. This number does not meet the target range of 15 new clients, and so this year Innovacorp will closely examine our pipeline and how to improve for 2010-2011.

Where do we want to go in the future?

In 2010-2011, we expect to have 13 new companies added to our roster.

Performance Measure: Incubation occupancy levels

What does this measure tell us?

Innovacorp's business incubation clients pay market rates for the services we provide and the space they lease in our facilities. Increased occupancy in our incubation facilities results in a larger return on the Province of Nova Scotia's allocation of resources to

Innovacorp. However, at any given time, space will be available in our facilities as we achieve our goal of graduating clients into commercial space. While we strive to maintain a high occupancy rate, the turnover of our clients is a significant measure of our performance.

Where are we now?

In 2009-2010, Innovacorp's occupancy rate was 88 per cent. This is very slightly below 90 per cent, which is considered to be the "best practice" rate for incubation facilities in order to have space available for new clients and existing companies that are ready to expand.

Where do we want to go in the future?

Our goal is to increase our occupancy rate to 90 per cent in 2010-2011. This is considered to be the "best practice" rate for incubation facilities in order to have space available for new clients and existing companies that are ready to expand.

Performance Measure: Number of clients exporting products/services internationally

What does this measure tell us?

In a fairly small economy such as Nova Scotia's, the ability of the private sector to produce and export quality products and services is vital and heavily influences Nova Scotia's economic success.

Where are we now?

In 2009-2010, 51 of Innovacorp's clients were exporting their products and services.

Where do we want to go in the future?

Next year, our target is to have 51 current and graduate client companies exporting their products and services.