

INCUBATION

MENTORING

INVESTMENT

Business Plan

2007/2008



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Message from the President and CEO

In February 2007, InNOVAcorp's High Performance Incubation (HPi)TM business model was formally recognized as a best practice technology commercialization approach by the National Business Incubation Association (NBIA). Based in the United States, NBIA is the world's leading organization advancing business incubation and entrepreneurship, and represents over 1600 members from 40 countries. This recognition is another important step towards realizing our vision of becoming "the most effective technology commercialization practice in North America."

The HPi business model comprises three interwoven resources – *incubation* infrastructure, business *mentoring* and seed/venture capital *investment* – designed to move at the speed of business to help high growth Nova Scotia-based knowledge companies overcome traditional hurdles to business growth. The numbers show the HPi business model is working.

In 2006-2007, InNOVAcorp's mentoring services advanced the efforts of more than 106 Nova Scotia-based early stage companies and 30 university research-level projects. At fiscal year end, our incubation facilities topped 91 per cent occupancy. InNOVAcorp's annual client survey, conducted in February 2007, demonstrated that 91 per cent of clients are satisfied with InNOVAcorp's services and that 91 per cent would recommend our services.

Nova Scotia-based companies raised \$7 million in venture capital financing in 2004. In 2005, they raised \$17 million, and in 2006 that number further increased by more than 40 per cent to reach \$24 million.¹ InNOVAcorp continues to play a key role in this "access to capital" turnaround. Through the management of the Nova Scotia First Fund (NSFF), InNOVAcorp operates as an active and effective venture capitalist. Since the fund was recapitalized in 2003-2004, InNOVAcorp has approved and invested more than \$5.5 million in promising early stage companies based in Nova Scotia. Over the last four years, the corporation helped attract more than \$20 million from angel and strategic investors, financial institutions, and other seed and venture capital funds. Ten million dollars of this investment capital originated outside Atlantic Canada.

For 2006-2007, InNOVAcorp is on track to successfully complete over 95 per cent of its organizational objectives, many of which were stretch goals. These objectives, which were set during the Q4 2005-2006 business planning period and outlined in last year's business plan, were designed to fuel sustainable economic growth.

Beyond delivering on our organizational objectives, three achievements stand out because they clearly demonstrate the power and potential of InNOVAcorp's HPi business model.

1. The highly successful Canadian Association of Business Incubation (CABI) conference hosted by InNOVAcorp, which led to NBIA recognizing HPi as a best practice technology commercialization approach.
2. The I-3 technology start-up competition, which led to the discovery of seven new high potential companies based in Cape Breton.
3. The \$4-million venture capital financing raised by our client Medusa Medical Technologies Inc., which demonstrated InNOVAcorp's ability to leverage its investment dollar, in this case at a ratio of 1:7.

While we are proud of our achievements, which we believe clearly illustrate the high value our clients obtain from our services, InNOVAcorp strives to continuously strengthen the value it adds to client companies and to the economy of Nova Scotia.

In 2007-2008, InNOVAcorp will further strengthen its products and services to fuel sustainable economic growth. We will achieve this in part by: enhancing and expanding HPi business model services, stimulating innovation in rural Nova Scotia, monetizing university research and entrepreneurial activities, maximizing the economic impact of the Nova Scotia First Fund, and ensuring continuity of the BioScience Enterprise Centre.

Dan MacDonald, President and CEO

¹ Source: Thomson Financial, 2007

Mission and Vision

MISSION

To fuel sustainable economic growth by enabling Nova Scotia-based knowledge 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 Nova Scotia-based knowledge companies. These high growth companies positively affect the province's prosperity more than any other sector of the economy.



VISION

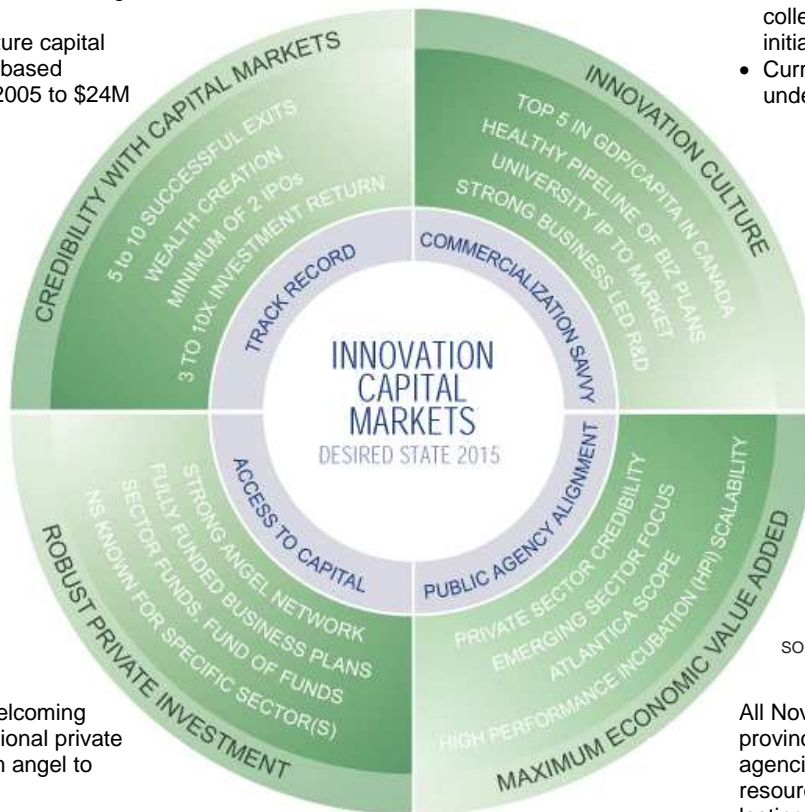
InNOVAcorp strives to deliver the most effective technology commercialization practice in North America as it moves towards a bold vision of the desired state of the Nova Scotia Innovation Capital Markets by 2015.

InNOVAcorp's vision comes not from focusing on what is wrong. Rather, it comes from playing a key role in creating "the winning conditions" by focusing on "what it will take" to move Nova Scotia's innovation and capital markets forward.

Nova Scotia must build and maintain credibility with North American capital markets. This will be achieved only through successful return on investment, building strong businesses, and demonstrable wealth creation at both the company and sector levels.

2006~2007 Progress:

- Larger venture capital rounds occurring in region
- Significant increase in venture capital investment in Nova Scotia-based companies, from \$17M in 2005 to \$24M in 2006



SOURCE: InNOVAcorp 2005

Nova Scotia must create a welcoming environment for local and regional private sector investors, ranging from angel to institutional investors.

2006~2007 Progress:

- Increased awareness of First Angel Network
- “Fully-funded (fundable) business plan” thinking becoming pervasive

Nova Scotia must develop a strong innovative culture as well as significantly improve its ability to commercialize in order to build sustainable businesses.

2006~2007 Progress:

- Pipeline of credible business plans has increased
- Early Stage Commercialization Fund has strengthened links with university and college research and entrepreneurial initiatives
- Current state of industry-led R&D understood

All Nova Scotia-focused (federal and provincial) economic development agencies must align their efforts and resources to maximize added value and lasting impact.

2006~2007 Progress:

- Private sector engagement and collaboration flourishing
- Numerous initiatives underway that are Atlantica in scope
- Clean technology and aerospace and defence sectors being scoped
- HPI™ business model has been refined to enable scalability

To this end, InNOVAcorp has used its daily interactions with entrepreneurs, private industry, angel investors and venture capitalists, academia, industry associations and public sector agencies to fuel sustainable economic growth.

Planning Context

The rapid pace of globalization is both an opportunity for and a threat to Nova Scotia. Nova Scotia-based companies have every opportunity to compete for and serve global markets. At the same time, companies from literally around the world have that same opportunity.

Nova Scotia-based export-oriented companies must embrace new and emerging business models to compete globally. These new business models will continue to challenge companies to maximize their value add, diversify, and look for opportunities to differentiate their offering from the inevitable commoditization of virtually every product and service.

Nova Scotia's unemployment rate is the lowest it has been in decades. In certain high growth areas such as information technology and life sciences, human capital is scarce and growing scarcer. To reverse this trend, Nova Scotia must do more to create an environment of challenging opportunities and welcoming communities to retain employees and repatriate those who would return to join established companies or build their own start-up opportunities in the province. To this end, through daily interaction with early stage entrepreneurs, researchers and high growth potential companies, InNOVAcorp will use its High Performance Incubation (HPi)TM business model to continue to play a leadership role in sourcing the right talent with domain or management expertise to build and grow innovative business models in the knowledge-based sector of the economy.

The population and economic prosperity of rural Nova Scotia continues to decline as younger citizens migrate to urban centres within Nova Scotia and beyond. While this phenomenon has been occurring for generations, many feel that the pace of outward migration from Nova Scotia is at an all time high. While many parts of Nova Scotia offer an excellent quality of life and relatively low cost real estate, the lack of infrastructure, including access to broadband connectivity, professional services and sustainable challenging career opportunities, fuels the pace of outward migration.

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. Approximately \$120 million in research is conducted at these institutions each year. While the local economy certainly benefits through 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 specifically from the applied research are relatively low. Over the past three years, both the provincial and federal governments have invested in infrastructure designed to increase the commercialization of university research. The real world “business building” component of university and college curriculum is lacking, and there are few formal ties between university research and the innovation capital markets. In this context, InNOVAcorp must increase its efforts by partnering further with entrepreneurs that are active within these post-secondary institutions.

Access to capital continues to be a much discussed economic “issue.” While significant progress has been made, there is a long way to go. Nova Scotia-based companies raised \$7 million in venture capital financing in 2004. In 2005, they raised \$17 million, and in 2006 that number further increased by more than 40 per cent to reach \$24 million.² InNOVAcorp continues to play a key role in this “access to capital” turnaround.

InNOVAcorp's role will be critical in enabling innovative early stage Nova Scotia companies to attract even more private investment and successfully enter global markets.

² Source: Thomson Financial, 2007

InNOVAcorp SWOT Analysis

In keeping with its culture of continuous improvement, InNOVAcorp first performed an objective SWOT analysis in the 2005-2006 fiscal year. That analysis has been updated for 2007-2008.

Strengths

Resources and/or capabilities that can be used as a basis to create value and/or competitive advantage

- Collaborative culture, leveraged to maximize synergies between private and public sectors
- Global commercialization expertise and industry contacts
- High level of client satisfaction
- Highly relevant private sector ICT and life sciences business and technical expertise
- Incubation infrastructure assets
- Internationally recognized best practice HPI™ business model
- Investment fund liquidity
- Organizational adaptability and continuous improvement culture
- State-of-the-art integrated voice and data network and services
- Strong client referral network
- Supportive network of professional services suppliers
- Supportive, diversified and balanced board of directors
- Venture and seed capital investment expertise, and credibility with national investment community

Weaknesses

Absence of specific required strengths

- Awareness and impact of InNOVAcorp within rural Nova Scotia
- Depth of state-of-the-art "go-to-market" strategies and techniques
- Greater efficiency is required to proactively engage new clients given the increasing opportunity pipeline

Opportunities

New opportunities to add value, grow, become more efficient, etc.

- Continually strengthen and renew the InNOVAcorp brand to increase opportunity pipeline
- Continue to collaborate with private sector financial and professional services firms to more effectively refer clients
- Deliver advanced information technology services to resident and remote clients and affiliate members
- Expand network of subject matter experts and mentors by establishing an independent advisory board that can be called upon to support clients
- Further leverage online marketing to attract and pre-qualify new clients, as well as strengthen relationships with existing clients
- Increase InNOVAcorp's role as a national/international advocate for Nova Scotia innovation
- Leverage corporate and client buying power to deliver enhanced services and benefits
- Maximize the leverage of the Nova Scotia First Fund
- Partner with regional development agencies to extend reach in rural areas
- Partner with universities to deliver/strengthen entrepreneurial curriculum
- Partner with universities to establish a targeted commercialization fund

Threats

Potential threats to the organization's ability to deliver on its charter that weaken core strengths or pre-empt the successful pursuit of opportunities

- Relatively low level of management expertise/experience within client companies relative to what is required to build high growth companies impedes commercialization

- Low number of venture-grade opportunities results in out-of-region investors losing already modest interest in Atlantic Canada
- Proposed future development plans for the Halifax waterfront could potentially displace the BioScience Enterprise Centre
- Requirement for InNOVAcorp to continually step in to assist clients impacts HPI™ business model scalability
- Relatively low level of industry-led R&D activities limits commercialization opportunities
- Unplanned requirement for capital investment (eg. to repair incubation infrastructure) causes InNOVAcorp to use operational funding

Link to Corporate Path

As a Crown corporation, InNOVAcorp's objectives and initiatives are designed within the context of fiscal responsibility and align with the following Government of Nova Scotia priorities:

Creating Winning Conditions

InNOVAcorp is all about “creating winning conditions.”

Hand in hand with our clients and partners we set out to create an environment in which high potential early stage companies become “fit for the fight,” attract world-class employees, establish state-of-the-art “go-to-market” strategies, and take on global markets. We leverage our international network of advisors and investors to assist in raising seed and venture capital.

Seizing New Economic Opportunities

InNOVAcorp has built a strong information technology and life sciences practice. Both these critical sectors leverage information technology to reduce time to market and increase competitiveness. Information technology is absolutely key to building high growth Nova Scotia-based companies.

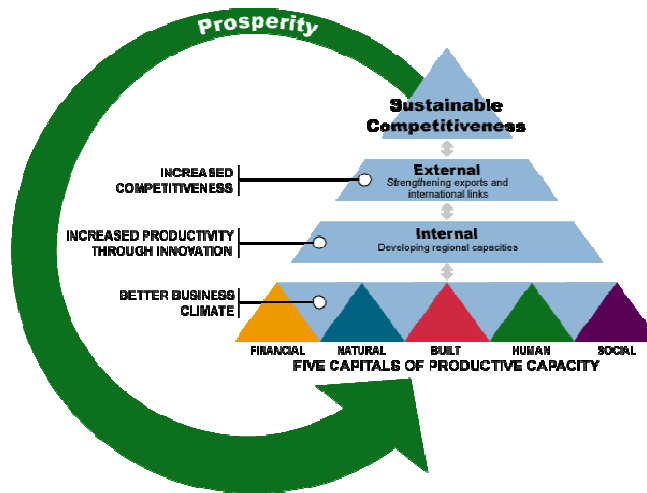
InNOVAcorp clients conduct R&D to both enter and remain competitive in their chosen markets.

Building for Individuals, Families and Communities

InNOVAcorp continues to work diligently to extend its reach across Nova Scotia. We are stimulating innovation in rural Nova Scotia and sparking the development of Nova Scotia-based companies.

InNOVAcorp continues to co-lead the “Broadband for Rural Nova Scotia” initiative, which will deliver both social and economic benefits. Further, broadband is an essential utility for any early stage company to be able to grow and prosper.

InNOVAcorp continues to play a key role in the implementation of the province’s economic strategy “Opportunities for Sustainable Prosperity 2006,” which is designed to create “sustainable economic growth.”



Source: Opportunities for Sustainable Prosperity 2006

Financial capital, and more specifically “access to capital-capacity building,” is a key element of InNOVAcorp’s charter. Nova Scotia-based companies raised \$7 million in venture capital financing in 2004. In 2005, they raised \$17 million, and in 2006 that number further increased by more than 40 per cent to reach \$24 million.³ InNOVAcorp continues to play a key role in this “access to capital” turnaround. Through the management of the Nova Scotia First Fund (NSFF), InNOVAcorp operates as an active and effective venture capitalist. Since the fund was recapitalized in 2003-2004, InNOVAcorp has approved and invested more than \$5.5 million in promising early stage companies based in Nova Scotia. Over the last four years, the corporation helped attract more than \$20 million from angel and strategic investors, financial institutions, and other seed and venture capital funds. Ten million dollars of this investment capital originated outside Atlantic Canada.

In May 2007, Nova Scotia will host the annual Canadian Venture Capital Association (CVCA) conference. InNOVAcorp and other active seed and venture capital players intend to ensure the attendees are left with a very positive impression of the opportunity to invest in Nova Scotia-based high growth companies.

Built capital, and more specifically “broadband and wireless connectivity,” is an initiative being co-led by InNOVAcorp to deliver 100 per cent broadband connectivity across the province by the end of 2009. Further, InNOVAcorp is implementing a fully-integrated voice and data IP network at its facilities. This addition will enable early stage companies to access high end IT infrastructure and therefore speed time to market and facilitate integrated communications/transactions with customers and suppliers.

Human capital, and more specifically building specific skill sets in the areas of global “go-to-market” strategies and knowledge among company senior management, is critical to helping Nova Scotia-based companies prosper. Further, InNOVAcorp continues to be deeply involved in initiatives designed to retain and retrain human resources in Nova Scotia and repatriate and recruit talent from outside the province.

Social capital – regional capacity, and more specifically “entrepreneurship and increased productivity through innovation,” is in fact InNOVAcorp’s mission: To fuel sustainable economic growth by enabling Nova Scotia-based knowledge companies to accelerate the commercialization of their technologies and increase competitiveness in export markets.

³ Source: Thomson Financial, 2007

Strategic Goals

2007-2008 Strategic Goals

Two broad strategic goals drive InNOVAcorp's activities:

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

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



Core Business

The High Performance Incubation (HPI)[™] business model represents InNOVAcorp's core business offering.

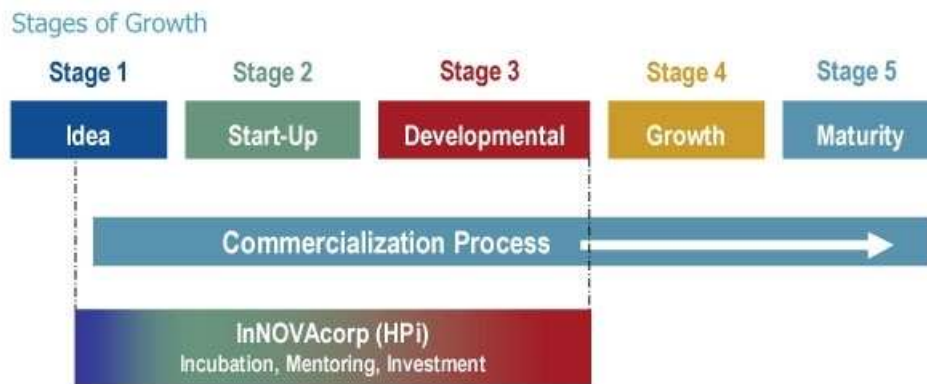
Recognized internationally as a best practice approach to technology commercialization, HPI comprises three interwoven resources – incubation infrastructure, business mentoring and seed/venture capital investment – to help entrepreneurs overcome traditional hurdles to business growth.



InNOVAcorp focuses on high potential opportunities that most closely meet the following criteria:

1. Nova Scotia-based early stage company
2. Business plan credibility, management experience, and entrepreneurial track record
3. Unique proprietary technology (product, system, and/or service), with defensible intellectual property and/or a high barrier to competitive entry
4. Large national/international addressable market
5. High probability of obtaining a fully-funded business plan

Commercialization:
A sequence of strategic and tactical actions intended to achieve market entry and sustained competitiveness of new innovative technologies, products, and/or services.



Incubation

As an active member of both the Canadian Association of Business Incubation (CABI) and the National Business Incubation Association (NBIA), InNOVAcorp manages three incubation facilities:

- the Technology Innovation Centre in Dartmouth, which targets companies in the information technology (IT) and engineering industries;
- the BioScience Enterprise Centre in downtown Halifax, which focuses on companies in the life sciences industry; and
- the grow-out facility at 101 Research Drive, Dartmouth (currently occupied by Ocean Nutrition Canada).

With an ideal blend of business services, professional development and networking opportunities, and relevant resources, these centres offer the infrastructure and environment that emerging technology companies need to grow.

Clients located across Nova Scotia, while not all physically located in our incubation facilities, can benefit from InNOVAcorp's business services and can be candidates for mentoring and investment.

In 2006-2007, InNOVAcorp completed Phase I of the Woodside Knowledge Park by accommodating the Ocean Nutrition Canada (ONC) micro-encapsulation facility. In 2007-2008, InNOVAcorp will continue to facilitate the development of the Mount Hope extension in Dartmouth. The completion of this valuable link will allow InNOVAcorp to recruit additional businesses to the Knowledge Park, maximizing cluster synergies.

Going forward, we will look to optimize the facilities managed by InNOVAcorp to provide a critical mass of incubation infrastructure and further extend our reach by expanding our affiliate incubator network.

Affiliate incubators are defined as Nova Scotia incubation facilities that are owned and/or managed by a third party and that meet InNOVAcorp best practice criteria. InNOVAcorp incubation experts will provide start-up as well as ongoing management consulting. Further, InNOVAcorp will develop an incubation community that has access to best practices, annual meetings, etc.

At the end of 2006-2007, InNOVAcorp's incubation facilities stood at 91 per cent occupancy. Since tenants typically "graduate" from the incubation facility as they progress through the third stage of the business development cycle, in 2007-2008 InNOVAcorp will strive to maintain occupancy of its incubation facilities at approximately 91 per cent, thus enabling the corporation to offer incubation services to new clients and allowing the tactical expansion of existing tenants.

Mentoring

Through its business advisory services, InNOVAcorp offers high potential early stage technology businesses the hands-on support they need to grow. By leveraging InNOVAcorp's corporate knowledge base and our expanding network of private sector advisors, our mentoring program helps clients find more direct and cost-effective paths to success.

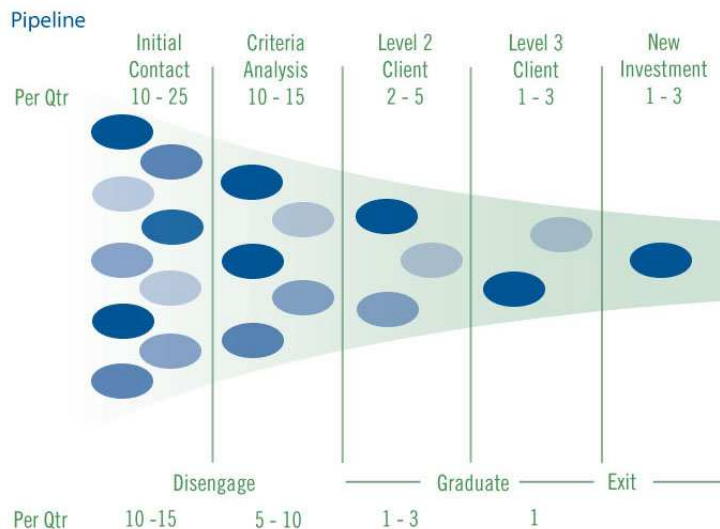
InNOVAcorp uses a tailored approach to assisting entrepreneurs, meeting the unique requirements of each client during each stage of the business growth cycle. Its comprehensive suite of services includes: fundamental business planning, intellectual property identification and protection strategies, access to specialized infrastructure, implementing product development best practices, financial and accounting management, cash flow management, value proposition development, pricing strategies, competitive analysis, state-of-the-art marketing techniques, sales and distribution channel strategies, obtaining seed and venture capital, and human resource management strategies.



HPI Pipeline

In 2006-2007, InNOVAcorp provided advisory services and relationship management support to more than 106 Nova Scotia-based early stage companies and reviewed and advised 30 university research-level projects.

The illustration below depicts InNOVAcorp's typical pipeline flow. During 2006-2007, InNOVAcorp refined its approach to engaging new clients to achieve higher scalability. With this refined approach came the introduction of a client classification analysis which was designed to efficiently identify high potential clients as well as pinpoint business areas where clients need assistance.



To meet the needs of clients, in 2007-2008 InNOVAcorp will continue to strengthen its “go-to-market” expertise in key sectors, such as information and communications technology (ICT) and life sciences, and actively monitor emerging sectors. InNOVAcorp will leverage newly created internal processes and tools to maximize efficiencies and strategically expand the in-house team, based on the support requirements of our clients. Business expertise in the community and abroad will continue to be accessed to efficiently and effectively build and maintain a robust external mentoring network.

Early Stage Commercialization Fund

In conjunction with the Office of Economic Development, InNOVAcorp will continue to manage the Early Stage Commercialization Fund (ESCF) to review, advise and support the early stage technology commercialization of the best post-secondary institution research.



Working closely with the province's Industry Liaison Offices, the purpose of ESCF is to provide funding and “go-to-market” support for projects demonstrating readiness to advance a technology that has achieved, or is close to achieving, a prototype/proof-of-concept stage and is approaching market readiness with a possibility of attracting industrial partners and/or investment. The prospect of generating a new revenue stream must be apparent.

The objectives of ESCF are to:

- promote and accelerate technology transfer activities in academic institutions in Nova Scotia
- provide the opportunity to assess the commercial potential of intellectual property
- narrow the gap that exists at the very beginning of the commercialization process to enable the projects to move closer to industry collaboration and/or technology spin-off

InNOVAcorp will also use its experience and expertise to positively influence post-secondary curriculum development in the areas of business planning and commercialization strategies. The corporation will continue to further post-secondary innovation programs by forging and maintaining mutually beneficial relationships with Nova Scotia's universities and colleges.

I-3 ~ Idea, Innovation, Implementation

InNOVAcorp will continue to support rural innovation through co-management of the Nova Scotia Co-operative Council's Proof-of-Concept Fund and by working closely with the regional development authorities throughout the province.



energy innovations.

Created and managed by InNOVAcorp, the first I-3 technology start-up competition, which targeted Cape Breton innovators, was launched on March 2, 2006. This initiative was designed to encourage and support Nova Scotia entrepreneurs. The competition generated more than 75 inquiries and 18 formal submissions. Entries came from across Cape Breton and ranged from medical devices, to information and communications technologies, to industrial and

In 2007-2008, InNOVAcorp plans to launch I-3 competitions that will involve additional regions of Nova Scotia, to support and foster the entrepreneurial spirit among business communities and encourage the formation of new technology start-up companies.

I-3 competitions will be held in several regions of the province, with the winning businesses awarded a combination of cash and in-kind contributions. Each region's judging panel will be made up of local public and private sector individuals, along with an InNOVAcorp representative.

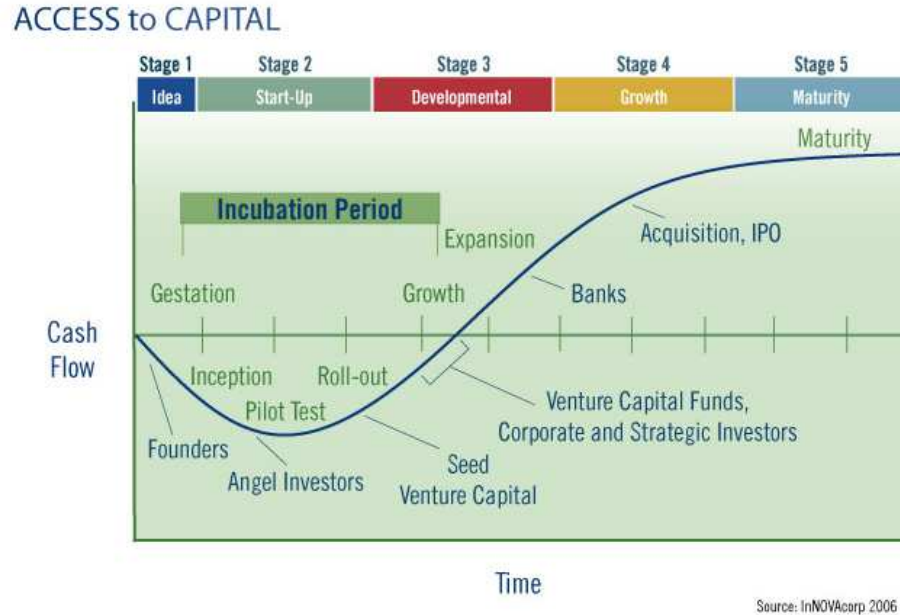
The intent of the I-3 competition is that business plans developed for the initiative will be implemented. As such, the prizes awarded will be put towards implementation of the winning plan. Further, the goal is that the cash award will be used as leverage to attract additional potential funds that may be available through sources such as angel investors and/or federal government programs.

Scientific Research and Experimental Development (SR&ED) Assistance Program

In 2007-2008, InNOVAcorp will establish a SR&ED Technical Assistance Program. The program will contract several experienced third party corporate financial advisors to work with Nova Scotia-based SMEs to ensure companies are using best practices when filing for SR&ED tax credits, and also to encourage those who may be first time filers of the credits.

Investment

The Nova Scotia First Fund (NSFF) provides early stage high growth potential companies with timely venture investments of between \$100,000 and \$1 million. 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 \$92 million in risk and venture capital. Since its recapitalization in 2003-2004, the fund has leveraged more than \$20 million of investment (\$10 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 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-based companies raised \$7 million in venture capital financing in 2004. In 2005, they raised \$17 million, and in 2006 that number further increased by more than 40 per cent to reach \$24 million.⁴ InNOVAcorp continues to play a key role in this "access to capital" turnaround.

InNOVAcorp will continue to actively seek investment opportunities that offer the best potential for commercial success and financial sustainability. To this end, the corporation will strive to align Nova Scotia's risk capital environment and expectations with those of other jurisdictions, leading the way in capitalizing fully-funded business plans, encouraging investment in stellar seed and growth stage venture-grade opportunities, securing private sector capital, and fostering conditions that position entrepreneurs for financing in future stages of company growth.

InNOVAcorp will foster an environment that will enable Nova Scotia to further gain and maintain private sector credibility in global early stage and venture capital markets, and help create the necessary conditions for efficient private sector risk capital markets in Nova Scotia and Atlantic Canada.

⁴ Source: Thomson Financial, 2007

Priorities for 2007-2008

In 2005-2006, InNOVAcorp re-emerged as the "go to" organization for technology commercialization. Through effectively scaling our services, and by increasing the value we bring to collaborations with academic institutions and the private and public sectors, in 2007-2008 InNOVAcorp will increase its positive impact on the Nova Scotia economy through five priorities:

1. Enhance and Expand HPI™ Business Model Services
2. I-3 ~ Stimulate Innovation in Rural Nova Scotia
3. Monetize University Research and Entrepreneurial Activities
4. Maximize the Economic Impact of the Nova Scotia First Fund
5. Ensure Continuity of the BioScience Enterprise Centre

1. Enhance and Expand HPI™ Business Model Services

Current State: 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. In order to maintain the client engagement quality of the current and anticipated 2007-2008 client pipeline, InNOVAcorp will focus on maximizing its value add while scaling up its recently refined HPI business model to fuel sustainable economic growth.

Desired State: Optimal scale achieved to maximize benefit for clients and return on investment for InNOVAcorp. The InNOVAcorp HPI business model is the most effective technology commercialization practice in North America.

1. Deliver advanced information technology services to resident clients and affiliate members.
2. Collaborate with private sector financial and professional services firms to effectively refer clients.
3. Expand subject matter expert and mentoring network by establishing an independent advisory board which can be called upon to support clients.
4. Further leverage online marketing to attract and pre-qualify new clients, as well as strengthen relationships with existing clients.
5. Increase InNOVAcorp's role as a national/international advocate for Nova Scotia innovation.
6. Leverage corporate and client buying power to deliver enhanced services and benefits.
7. Partner with regional development agencies to extend reach in rural areas.

2. I-3 ~ Stimulate Innovation in Rural Nova Scotia

Current State: With the exception of the urban portion of the Halifax Regional Municipality (HRM), the population and economic prosperity of Nova Scotia continues to decline as younger citizens migrate to urban centres within Nova Scotia and beyond. While this phenomenon has been occurring for generations, many feel that the pace of outward migration from Nova Scotia is at an all time high. While many parts of Nova Scotia offer an excellent quality of life and relatively low cost real estate, the lack of infrastructure, including access to broadband connectivity, professional services and sustainable challenging career opportunities, fuels the pace of outward migration.

Desired State: Improve the economic prosperity of Nova Scotia and help turn the tide of outward migration by leveraging information technology and uncovering and supporting innovation to enable rural communities to participate in the global knowledge-based economy. Play a key role in developing one to three knowledge companies in rural Nova Scotia.

1. Expand the I-3 technology start-up competition in other regions of Nova Scotia.
2. “Broadband for Rural Nova Scotia” – 100 per cent coverage by 2009.
3. Maximize synergies between InNOVAcorp and rural-based business groups as well as economic development resources.
4. Further increase collaboration with the Nova Scotia Co-operative Council.
5. Manage the implementation of the Early Stage Commercialization Fund.
6. Enhance remote client service offerings.
7. Maximize collaboration with community college stakeholders in rural Nova Scotia.

3. Monetize University Research and Entrepreneurial Activities

Current State: Nova Scotia is home to 11 universities and a strong community college system with 13 campuses across the province. Approximately \$120 million in research is conducted at these institutions each year. While the local economy certainly benefits through 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 specifically from the applied research are relatively low. Over the past three years, both the provincial and federal governments have invested in infrastructure designed to increase the commercialization of university research. The real world “business building” component of university and college curriculum is lacking, and there are few formal ties between university research and the innovation capital markets.

Desired State: Nova Scotia universities and colleges are known nationally for their innovative engagement of the business community, “business building” curriculum, and the flow of applied research towards commercial products.

1. Partner with universities to deliver/strengthen entrepreneurial curriculum.
2. Manage the implementation of the Early Stage Commercialization Fund, advancing technologies/business opportunities that are approaching market readiness.
3. Partner with universities to establish a targeted commercialization seed capital venture fund.
4. Challenge MBA students to propose tailored solutions to InNOVAcorp clients in commercialization.
5. Maximize co-op and work term assignments with university students from rural Nova Scotia.

4. Maximize the Economic Impact of the NSFF

Current State: One of InNOVAcorp’s key assets is the Nova Scotia First Fund (NSFF) combined with seed and venture capital investment expertise. The fund is being managed so that investee companies benefit from operational and financial due diligence and mentoring, and are better prepared to approach other investors. Investments are designed to provide return on investment and cash-on-cash monetization on exits.

Desired State: The NSFF is managed in a manner which provides maximum benefit to the Nova Scotia economy and fully capitalizes on available operational expert advice. InNOVAcorp plays a key role in improving Nova Scotia’s Innovation Capital Markets. The NSFF is engaged with partner funds to increase the venture capital pool necessary to build and monetize competitively capitalized venture-grade opportunities.

1. Maximize leverage of the NSFF by actively supporting the creation of new stage or sector focused public/private venture capital funds.
2. Optimize leverage of the NSFF on a company-by-company basis.
3. Continue to build relationships to further broaden private and institutional syndicate pool.
4. Secure and increase size of funding commitments from private sector and institutional venture capital investors.
5. Monetize university research by partnering with Dalhousie University and/or other universities to create a commercialization fund with multi-year follow-on investment capacity.

5. Ensure Continuity of the BioScience Enterprise Centre

Current State: The BioScience Enterprise Centre provides special facilities, infrastructure and services that are critical to the growth and success of its resident life sciences clients. InNOVAcorp has successfully recruited new life sciences clients to achieve 85 per cent occupancy in March 2007, while maintaining breakeven operational funding status. Waterfront development plans require the BioScience Centre to relocate. Relocation scenarios are being considered and require long-term provincial funding commitments.

Desired State: Create a seamless, fundable, one-move transition into a new building that allows for expansion and minimum inconvenience for existing tenants.

1. Obtain approval to conduct negotiations to secure a new location for the BioScience Centre.
2. Co-develop detailed architectural plans.
3. Develop detailed client location transition plan.
4. Ensure existing and new clients are comfortable with the go-forward strategy.
5. Continue to recruit high potential life sciences companies to the BioScience Centre.
6. If required, extend the current BioScience Centre lease to ensure continuity between the existing and new locations.

Performance Measures

This section outlines the performance measures InNOVAcorp will track in 2007-2008. Using 2005-2006 as a baseline, these economic impact, client satisfaction, and leading indicator metrics will provide an indication of how well the strategic goals are being met. The priorities and the operational plan to achieve them are presented in this document under the section titled *Priorities for 2006-2007*.

Measure	Base Year 2005-2006	Forecast 2006-2007	Target 2007-2008
<i>Economic Impact Metrics</i>			
<p><i>Revenue generated by client companies:</i> While most of InNOVAcorp's clients are early stage companies, this measure tracks the annual revenue, measured in millions of Canadian dollars, generated by current and graduate client companies.</p>	\$120M	\$174M	\$200M
<p><i>Employment generated by client companies:</i> This measure tracks the annual employment generated by current and graduate client companies.</p>	860	1183	1300
<p>Total employment payroll of current and graduate client companies.</p>	\$40M	\$52M	\$60M
<p><i>Amount of Nova Scotia First Fund (NSFF) leveraged investments:</i> From February 1996, the cumulative amount of investment made in client companies in which investments were made by the NSFF, measured both in ratio and in millions of Canadian dollars. InNOVAcorp's stated goal is to achieve a ratio of 1:3, meaning that for every \$1 invested by the NSFF, \$3 would be invested by syndicated investors.</p>	\$83.8M	\$93.0M	\$100.0M
<i>Client Satisfaction Metrics</i>			
<p><i>Percentage of clients satisfied with InNOVAcorp services overall:</i> Measured annually through a survey conducted by an objective third party, clients are asked for their feedback on InNOVAcorp's performance and value add. At the end of the survey, clients are asked to rate their overall satisfaction with the services provided by InNOVAcorp. This metric is considered a key indicator of InNOVAcorp's value add.</p>	89%	92%	91%

Measure	Base Year 2005-2006	Forecast 2006-2007	Target 2007-2008
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Percentage of clients that would recommend InNOVAcorp to a business colleague:

90%	93%	91%
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Measured annually through a survey conducted by an objective third party, clients are asked for their feedback on InNOVAcorp's performance and value add. At the end of the survey, clients are asked whether they would recommend the services of InNOVAcorp to a friend or colleague. This metric is considered a key indicator of InNOVAcorp's value add.

Leading Indicator Metrics

Number of engagements with Nova Scotia-based companies	85	106	116
Number of new clients	12	15	18
Number of active HPi™ clients	30	38	45
Incubation occupancy levels	85%	91%	91%
Number of clients exporting products/services internationally	42	47	52

* *The metrics provided are based on information and estimates gathered from InNOVAcorp client companies.*

Budget Context

Financial Management

InNOVAcorp is strongly committed to achieving its financial targets. To this end, the organization works with the Province of Nova Scotia and partner agencies to strategically leverage its assets in support of economic development initiatives.

	2006-2007 Budget	2006-2007 Forecast	2007-2008 Budget
Revenues and Grants			
Operating and Capital Funding	\$ 3,057,000	\$ 3,057,000	\$ 5,057,000
Provincial Funding re Knowledge Park Development	-	334,000	600,000
NS Funding Recognized (deferred) re capital assets acquired	334,000	232,000	(172,000)
Mentoring	229,000	234,000	63,000
Incubation	1,690,000	1,657,000	1,716,000
Product Engineering	341,000	272,000	237,000
Software Sales and Services	-	374,000	400,000
	<u>5,651,000</u>	<u>6,160,000</u>	<u>7,901,000</u>
Expenses			
Mentoring	648,000	719,000	1,947,000
Incubation	1,606,000	1,654,000	1,676,000
Investment	406,000	426,000	483,000
Product Engineering	323,000	257,000	222,000
Software Sales and Services	-	374,000	400,000
Corporate Services	1,637,000	1,716,000	1,814,000
	<u>4,620,000</u>	<u>5,146,000</u>	<u>6,542,000</u>
EBITDA			
Provincial Funding	3,057,000	3,057,000	5,057,000
Provincial Funding re Knowledge Park Development	-	334,000	600,000
NS Funding Recognized (deferred) re capital assets acquired	334,000	232,000	(172,000)
Mentoring	(419,000)	(485,000)	(1,884,000)
Incubation	84,000	3,000	40,000
Investment	(406,000)	(426,000)	(483,000)
Product Engineering	18,000	15,000	15,000
Software Sales and Services	-	-	-
Corporate Services	(1,637,000)	(1,716,000)	(1,814,000)
EBITDA	<u>1,031,000</u>	<u>1,014,000</u>	<u>1,359,000</u>
Non Operating Items			
NSFF Total Return	(650,000)	(722,000)	(551,000)
Post Retirement Benefits & Long Service Award	(217,000)	(212,000)	(231,000)
Amortization	(807,000)	(774,000)	(782,000)
Interest Income (expense) dividends & capital gains (losses)	(114,000)	(111,000)	(70,000)
Unusual Item	482,000	530,000	-
	<u>(1,306,000)</u>	<u>(1,289,000)</u>	<u>(1,634,000)</u>
	<u>\$ (275,000)</u>	<u>\$ (275,000)</u>	<u>\$ (275,000)</u>

*Helping early stage Nova Scotia companies
commercialize their technologies
and succeed in the global marketplace.*

1801 Hollis Street, Suite 1400
Halifax, Nova Scotia B3J 3N4

T 902.424.8670

F 902.424.4679

info@innovacorp.ca

www.innovacorp.ca