



incubation



mentoring



investment

annual

accountability report

2003/2004

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Accountability Statement

The accountability report of the Nova Scotia Innovation Corporation (“InNOVAcorp”), a crown corporation, for the year ended March 31, 2004, is prepared pursuant to the *Provincial Financial Act* and government policy and guidelines. These authorities require the reporting of outcomes against InNOVAcorp’s business plan for the fiscal year 2003-04. The reporting of InNOVAcorp’s outcomes necessarily includes estimates, judgments and opinions by management.

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

Ben Forcier
Acting Chief Executive Officer, InNOVAcorp

Colin Latham
Chair, InNOVAcorp Board of Directors

Honorable Ernest Fage
Minister, Economic Development

Introduction

This accountability report covers the InNOVAcorp business plan for 2003-04 and therefore should be read in conjunction with that plan. The report reviews the goals and priorities stated in the spring of 2003 and reports on the accomplishments and progress achieved during the period ending March 31, 2004. Financial results are provided with an explanation for any significant budget variances.

This is InNOVAcorp's third accountability report since the Government of Nova Scotia extended its requirement of annual accountability reports to include crown corporations.

Since it was established in 1994, InNOVAcorp has been helping Nova Scotia technology-based companies accelerate through the early stages of the commercialization process and succeed in the global marketplace. In recent years, we have developed the High Performance Incubation (HPi) model, which is comprised of tangible and intangible elements that foster innovation and entrepreneurial success. We have become an integral part of Nova Scotia's innovation system.

New and innovative ideas drive individual and regional wealth. By increasing productivity, innovation enhances a region's economic growth and employment. Stimulating innovation is a province-wide priority for the Nova Scotia government. InNOVAcorp is helping to build a culture of innovation and maximize its impact in Nova Scotia. To us, innovation goes beyond researching and developing new or improved products, services, practices and processes. Rather, the value of innovation comes from commercialization – taking a product, service or process to market.

In the context of economic development, InNOVAcorp plays a significant role in the commercialization of new products and the startup of new companies. Typically InNOVAcorp focuses its resources on helping entrepreneurial companies that are at Stage 2 or Stage 3 of the business growth continuum. These companies are in the process of setting up an operation (startup stage) and developing processes, products and services (developmental stage).

InNOVAcorp is the only provincial public sector supported entity in Nova Scotia working closely with emerging entrepreneurs and providing flexible, imaginative and cost effective services to help them through the growth phases. Each startup faces its own challenges and issues. InNOVAcorp is able to tailor its services to address these matters. We do not develop and deliver "programs"; we provide customized solutions to meet the immediate needs of the early stage business community.

InNOVAcorp uses three critical tools to address its clients' needs:

- ▶ The corporation is an active venture capitalist, managing the Nova Scotia First Fund (NSFF). InNOVAcorp remains committed to finding innovative ways to leverage the NSFF and to secure additional investment capital necessary to increase early stage commercialization funds. This capital is a critical piece of the infrastructure necessary for High Performance Incubation activities.

- ▶ InNOVAcorp takes a hands-on approach in developing new and growing existing profitable business ventures through business advisory services including mentoring and a relationship management network.
- ▶ Through its incubation facilities, the corporation provides the environment needed to help emerging technology companies grow. These facilities deliver more than office, lab and industrial space; they also offer a comprehensive blend of business opportunities, resources and synergies that foster entrepreneurial success.

InNOVAcorp's Progress and Accomplishments

InNOVAcorp's core business function, as stated in our business plan for 2003-04, is technology commercialization. We define technology commercialization as adding business know-how to the results of scientific and technical discovery to yield a return on investment. InNOVAcorp is measuring its progress through the following two expected outcomes for the 2003-04 fiscal year:

Accelerate Technology-Based Companies through the Early Stages of Growth – InNOVAcorp will work with technology-based companies through the 2nd and 3rd stages of growth (known as the startup and developmental stages) in the commercialization process to maximize their chances of success.

Maximize Shareholder Value – Using financial, human and capital resources allocated by the Province of Nova Scotia, InNOVAcorp will maximize the return on investment for the province's taxpayers.

These stated outcomes can be achieved through four goals and seven priorities, against which performance is measured.

GOAL 1. Increase contribution to the economic growth of Nova Scotia by helping technology-based businesses succeed.

InNOVAcorp plays a hands-on role in developing new and growing existing profitable business ventures through an alignment of its critical business resources, including incubation, investment and mentoring.

We work one-on-one with early stage Nova Scotia companies, following a proven commercialization process that helps prepare companies for export markets. Our comprehensive range of functions allows us to address the specific requirements of individual companies.

Small players, with innovative business ideas, need access to intellectual and physical infrastructure. They require support systems comparable with those of much larger organizations, delivered in an atmosphere that feeds and drives the entrepreneurial spirit. InNOVAcorp provides the environment that meets those needs.

Specifically, InNOVAcorp supports promising entrepreneurs by delivering on the following strategic goals:

- Build and foster a dynamic and stable entrepreneurial climate.
- Provide an environment where entrepreneurs can prosper through shared experiences and the development of strategic relationships.
- Provide tailored feedback, information and advice that helps entrepreneurs reach specific business goals.
- Provide support through innovative financing, from startup to first-stage expansion.

Since the 1987 inception of the corporation's first incubator, more than 70 businesses have graduated from our facilities. Further, more than 84 per cent of our clients remain operational in Nova Scotia after graduating from our incubation programs, resulting in an ongoing positive economic impact on the region. In 2003-04, we incubated about 79 companies, both resident and affiliate (non-resident), at our three sites in Dartmouth and Halifax. These firms hired 92 new employees.

As a respected partner in growing Nova Scotia's strategic industries such as life sciences and information technology, we have collaborated with a number of private and public organizations to develop the region's knowledge sectors and ensure Nova Scotia companies are globally competitive.

Throughout 2003-04, InNOVAcorp chaired a Voluntary Planning Sector Committee, a community-based task force that set out to examine and assess Nova Scotia's economic performance, productivity and competitiveness, and to identify opportunities for improvement. A key finding of this work highlighted the importance of expanding the province's export capacity. This finding, and InNOVAcorp's role in the provincial innovation agenda, implies that InNOVAcorp should actively help entrepreneurs with strong export potential to aggressively exploit that opportunity.

In June 2003, we hosted the announcement of the Premier's Advisory Council on Innovation, a council of independent experts advising government on how to stimulate the best conditions for innovation in Nova Scotia. The event included a mini trade show highlighting some of the province's existing innovative companies, and the public launch of *Innovative Nova Scotia*, a policy to increase the use of knowledge-based innovation to levels that match or exceed those found in the nation's leading regions. InNOVAcorp's CEO, Dr. Ross McCurdy, contributed to the new Council in an ex-officio capacity.

In October 2003, Tim Edmonds, manager of InNOVAcorp's product engineering unit, was one of four recipients of Canada's prestigious Manning Innovation Awards for his work on a crabmeat-extracting automated processing machine. The Air Chamber Crab Processor replaces the traditional process that often led to a dangerous respiratory condition.

We played a lead role in the development of several major initiatives in the life sciences industry, including working with the province's bioscience industry association, BioNova, on an industry conference, BioPort 2003. We also worked with the Nova Scotia

BioIndustries Team to ensure a strong presence at BIO 2003 in Washington, DC, the world's largest biotechnology conference and exhibition. As well, we led the creation of Atlantic Innovation Day, an event honouring and encouraging innovation in Atlantic Canada, focusing on the 2003 Manning Award winners.

The corporation's CEO presented Nova Scotia's innovation agenda at the 28th Annual Conference of New England Governors and Eastern Canadian Premiers in Connecticut, and at the 1st APEC Incubator Forum in Taipei. The corporation and region were also well represented at last year's UK Business Incubator conference.

InNOVAcorp continued to collaborate with the Life Sciences Development Association (LSDA), which strives to bring together those involved in life sciences throughout Atlantic Canada to create a world-class life sciences industry in the region. LSDA's major initiative is the development of the Life Sciences Research Village, a virtual and actual community designed to foster new research and commercialization activities in Nova Scotia. For this initiative, InNOVAcorp has been sharing its technology commercialization and incubation expertise. In much the same manner, we worked with other groups in Nova Scotia, such as Acadia University, that stand to benefit from the corporation's experiences in order to more effectively establish and grow their incubation facilities.

Approximately 80 per cent of all university research in Atlantic Canada is carried out in Nova Scotia. Last year, InNOVAcorp continued to identify new business ventures to incubate and invest in. We worked closely with industry and the university community to develop the infrastructure and processes necessary for creating spin-off companies that will contribute to Nova Scotia's economic growth.

In 2003-04, InNOVAcorp developed a number of strategic partnerships to create focused innovation systems that link strengths and capabilities in research, teaching, incubation, commercialization and industry. The desired results are to target and exploit new high growth business opportunities, and create an environment where local companies can thrive and be more competitive. Some of the partner organizations include: Greater Halifax Partnership, BioNova, Information Technology Association of Nova Scotia (ITANS), Telecom Applications Research Alliance (TARA), NovaKnowledge, Business Development Bank of Canada (BDC), Nova Scotia Business Inc. (NSBI), Life Sciences Development Association (LSDA), Atlantic Canada Opportunities Agency (ACOA), Industry Canada, Waterfront Development Corporation, World Trade and Convention Centre, Nova Scotia Film Development Corporation, Nova Scotia BioIndustries Team, Atlantic Canada BioIndustries Alliance (ACBA), Dalhousie University, Acadia University, University College of Cape Breton (UCCB), National Research Council and CANARIE.

GOAL 2. Establish an environment where business leaders have the option to stay and commercialize their products and services in Nova Scotia.

In 2003-04, InNOVAcorp continued to provide an innovative, flexible and supportive environment needed to cultivate client growth. Our new mentoring activities, delivered in

concert with the traditional incubation and investment capabilities, enhanced our service offering and augmented our operating environment. This environment has the momentum required for successful application of the High Performance Incubation (HPI) model.

A significant component of InNOVAcorp's High Performance Incubation model is its network of business incubators. InNOVAcorp manages two incubators, which currently host more than 50 early stage technology companies. The Technology Innovation Centre in Dartmouth targets companies in the information and telecommunications technology and engineering industries. The BioScience Enterprise Centre in downtown Halifax focuses on companies in the life sciences industry. Both facilities offer entrepreneurs a comprehensive mix of business resources, including flexible leasing of lab, industrial and office space as well as shared administrative support.

Priority 1.

Convert 101 Research Drive into a grow-out business incubation facility, including completing the necessary building renovations and developing a business services program, increasing the facility's occupancy rate from 40 per cent to 70 per cent.

The former Nova Scotia Research Foundation at 101 Research Drive in Dartmouth is being transformed into a grow-out business incubator. It will serve companies that have advanced beyond early stage incubation but are still progressing towards commercial sustainability. The facility will help bridge the commercialization gap for the region's most promising life sciences companies, ensuring they get the support they need in the early stages of growth.

In 2003-04, InNOVAcorp made tremendous progress on the conversion of this facility. We completed the renovations for some parts of the building and finalized the mechanical, electrical and architectural design plans for the remaining portions. In January 2003, we signed a 10-year lease agreement with Ocean Nutrition Canada (ONC) for space at this facility. Leading the world in supplying marine-based natural ingredients to global dietary supplements and functional food markets, ONC is one of the province's most successful and most promising life sciences firms. In addition to being able to offer much-needed research and development space, 101 will allow ONC to consolidate its production pilot plant employees, lab-based researchers, and management and administrative team under one roof; instead of continuing to operate from three locations in the Halifax area. Further, the land adjacent to 101 will give ONC the room to further expand, including property on which to build its proposed new production facility within the next two years.

Having ONC move its research and development activity from the BioScience Enterprise Centre to 101 will also alleviate the space crunch at the Centre, freeing up space so InNOVAcorp can assist additional emerging life sciences companies. Furthermore, building a strong "anchor" company like ONC in our province will attract others to the region and encourage local startups, leading to the formation of a solid cluster of life sciences companies.

But the value of InNOVAcorp's incubators goes far beyond the space and other tangible infrastructure they provide. The intangibles we offer are also necessary ingredients for creating a sustainable culture of innovation and entrepreneurial success in Nova Scotia.

InNOVAcorp helps entrepreneurs avoid the failure that sometimes results from being isolated from other entrepreneurs and professionals who could provide valuable advice to the management team. In fact, InNOVAcorp creates an environment that encourages collaboration and partnerships among entrepreneurs and with universities, public institutions and prominent firms.

Last year, for example, an InNOVAcorp incubation resident client focusing on wireless information security teamed up with one of Atlantic Canada's largest law firms to form a new company that assists businesses, professionals and industry associations in following information privacy best practices and legislation. Another notable partnership blossomed between two resident client companies at the Technology Innovation Centre. These clients discovered the other offered products and services they needed. Engineers at one client company design the control systems for industrial automation and data management in food, pulp and paper, and other manufacturing plants. The other client builds the required electrical panel boxes. Since the partnership began, the pair has worked together on a steady stream of contracts, including one for a major oil company.

InNOVAcorp proactively fosters such partnerships and collaborations. Some relationships happen simply because clients are housed under one roof in one of our incubators. Other relationships are established when InNOVAcorp staff learn about a client company's business and requirements and then introduce the entrepreneur to the ideal contact in the business or research community. Still other synergies are created during the many events InNOVAcorp holds for its clients each year. Ranging from informal social and holiday events, to formal professional development seminars and information sessions, to meetings with visiting trade delegations, last fiscal year we held more than 75 gatherings. Participants tell and hear stories of entrepreneurship, they garner information about programs and opportunities they can access, they brainstorm with their peers, and they meet people with influence and people with advice. These opportunities for face-to-face, verbal idea exchange are vital for entrepreneurship to flourish.

In 2003-04, we maintained our partnership with a local commercial training company that offered specially structured and priced professional development sessions to our clients. With sessions happening on site at our incubators, clients benefited from expertise in areas such as prospecting for new clients, high-performance leadership, negotiation selling, and effective communications skills. In addition, we extended our partnership with the Entrepreneurs' Forum, a local organization that fosters the growth and development of knowledge-based companies by providing ongoing support, educational opportunities and business advice. We also attracted two technology patent agents as InNOVAcorp affiliate (non-resident) clients to serve Atlantic Canadian innovators.

On the national level, we continued to play a leading role in the Canadian Association of Business Incubators (CABI), serving on the association's board of directors, chairing the international relations committee, and managing the CABI newsletter.

A review of the activities and outcomes of InNOVAcorp and its clients during the 2003-04 fiscal year demonstrates the necessity of combining tangible and intangible infrastructure to stimulate and support innovation and entrepreneurship.

GOAL 3. Become the leaders in technology commercialization.

In 2003-04, InNOVAcorp continued to examine its business practices to identify ways to provide a more integrated service offering tailored to its clients' needs. We created the effective High Performance Incubation (HPi) model that gives entrepreneurs access to critical business resources to overcome their challenges.

Priority 2.

Incubation, investment and mentoring will use the online business guidance tool, The Decision Point, to enhance service offerings so InNOVAcorp clients can benefit from the integrated approach in growing their businesses.

Over the past year, InNOVAcorp has gone through an evolution with respect to its relationship with The Decision Point (TDP), an online business guidance website developed largely through InNOVAcorp's financial support and input. It became apparent that the go-forward business model for TDP and InNOVAcorp's requirements for a support mechanism for its client base and employees were not fully aligned. As a result, InNOVAcorp developed an agreement with TDP shareholders to repurpose – specifically for InNOVAcorp's own needs – the in-depth online resources, self-assessment tools, private secure file sharing capabilities, and mentoring platform.

InNOVAcorp has seized the opportunity to migrate previously created content, processes and procedures into the existing corporate website (www.innovacorp.ns.ca). That site will be reformatted so its content becomes the heart of InNOVAcorp's presence on the internet.

With ongoing input from InNOVAcorp employees and our clients, the existing intellectual property will continue to evolve and develop in a direction that positively impacts the corporation's core business activity. The new website will become a content tool for InNOVAcorp's mentoring network and help deliver ongoing service and support to clients.

Priority 3.

Graduate clients that outgrow the business incubation program, and maintain current occupancy rates at the Technology Innovation Centre and the BioScience Enterprise Centre.

In 2003-04, InNOVAcorp maintained an average occupancy rate of 79 per cent at the Technology Innovation Centre and 82 per cent at the BioScience Enterprise Centre.

Six clients graduated from our incubators, which means they reached business development milestones that made them ready to move from our premises into commercial real estate and other locations. From their new sites, these graduates continue to fuel the creation of new jobs, innovative products and services, sales, and exports.

Priority 4.

Align business processes to support the organizational structure and effectively deliver High Performance Incubation.

In 2003-04, InNOVAcorp began the process of formalizing its mentoring service offering with the creation and filling of a new position: vice president of mentoring. This position carries a two-fold responsibility: to execute the development and deployment of mentoring services, and to help create the momentum to deliver on the corporation's core business by working seamlessly with its incubation and investment arms.

InNOVAcorp's core business function is technology commercialization. We deliver on this goal through High Performance Incubation. While the various resources and opportunities InNOVAcorp offers have value when they stand alone, the true power of the HPI model emerges when the network of critical business resources – incubation, investment and mentoring – are closely aligned and working in concert.

Priority 5.

Develop a pool of mentors to support InNOVAcorp's High Performance Incubation activities.

Over the years, InNOVAcorp has evolved beyond meeting entrepreneurs' basic requirements for office space and rudimentary business support services. In 2003-04, the corporation went a step further still when it formalized its mentoring opportunities for clients.

Every company has its own distinct needs for business assistance. These needs change as the company grows. InNOVAcorp's mentoring function helps entrepreneurs progress through the early stages of growth. The suite of services, which can be tailored and continuously delivered, helps identify and remove obstacles and bottlenecks, and allows entrepreneurs to maintain their focus and move forward.

Beyond existing traditional incubation services, the mentoring activities deliver an additional layer of analysis and input benefiting clients in the form of customized professional services. Frequent reviews of a client's progress by InNOVAcorp's management team determine the specific mentoring services required.

A critical component of the mentoring opportunities InNOVAcorp offers comes through support from IRAP-CTN (Industrial Research Assistance Program – Canadian Technology Network), which agreed to fund some of our mentoring activities during the past fiscal year.

InNOVAcorp has established, and continues to grow, a pool of business resources that are strategically engaged in specific client opportunities. These resources include:

- *Advisors:* Subject-matter experts available to meet with InNOVAcorp and/or the client to offer point-in-time feedback on a specific facet of the client's business.
- *Consultants:* Subject-matter experts engaged by InNOVAcorp to assist a client with a critical element of the business. Such elements range from business planning to strategy execution. This extended team of value-added service providers is enlisted and introduced to clients at InNOVAcorp's discretion, with deliverables defined as a result of a case study process and with the corporation's management team consensus.
- *Mentors:* Experienced entrepreneurs or senior business people who, when approached by InNOVAcorp, are willing to give back to the community by advising entrepreneurs in our client base. Mentors are proactively matched with High Performance Incubation clients.

In addition to InNOVAcorp's mentoring activities for clients, in 2003-04 the corporation's employees played an active role on numerous boards of directors and committees, including: Halifax Regional Development Agency, American Society for Quality, Canadian Association of Business Incubators, NovaKnowledge, Voluntary Planning, ACF Equity Atlantic, National Research Council (NRC), Canadian Foundation for Innovation, Dalhousie University, Greater Halifax Partnership, Information Technology Association of Nova Scotia (ITANS), Natural Sciences and Engineering Research Council of Canada (NSERC), NRC-Institute for Information Technology, NRC-Institute for Marine Biology, Navitrak Inc., Kytogenics Ltd., Amirix Inc., Acadia University Business School, NovaLis Technologies, Medusa Medical Technologies Inc., Virtual Media Productions Ltd., E-Academy, and MailWorkZ Inc.

GOAL 4. Build a financially viable organization.

InNOVAcorp works to ensure accountability, value for money, and an equitable long-term business relationship with the provincial government – satisfying clients' needs and providing a fair return on investment.

The corporation continues to solidify its position in the marketplace as leader in technology commercialization in Nova Scotia. We aim to expand our client base, extend the services offered within our incubation facilities, and develop new revenue sources within our existing programs.

Priority 6.

Identify new opportunities for equity investments in technology, life sciences and other knowledge-based companies in Nova Scotia, and make follow-on investments in existing venture portfolio companies in the early stages of commercialization.

InNOVAcorp manages the Nova Scotia First Fund (NSFF), an early stage source of capital for Nova Scotia businesses. The Nova Scotia government formed the NSFF in 1989 and InNOVAcorp assumed its management in 1996. This venture capital fund supports promising entrepreneurs from startup through to early stage expansion. InNOVAcorp considers investments that generally range from \$100,000 to \$1,000,000.

As in previous years, in 2003-04 the fund was leveraged through alliances with other organizations, financial institutions and venture capital investors. In addition to providing access to larger capital markets and leveraging investment capital, the other venture capital firms provided InNOVAcorp with access to intellectual resources required during the due diligence process. By effectively using alliances, the NSFF was able to maintain tight control over expenses, thus maximizing financial return.

Since its creation in 1989, the NSFF has made cash investments totaling \$15.71 million in 28 Nova Scotia companies. As of March 31, 2004, there were 10 active investments with over \$12 million in liquidity for new and follow-on investments.

Priority 7.

Increase venture investment activities by raising an additional \$8 million for investing in companies in the early stages of commercialization.

In 2003-04, the Province of Nova Scotia invested a further \$8 million in the NSFF to support the investment activities of InNOVAcorp's High Performance Incubation strategy. This investment makes available the capital required to invest in companies at or near the commercialization stage in the information technology, life sciences and other knowledge-related sectors of the province's economy. InNOVAcorp has the experience and relationships necessary to use these additional investment funds to substantially increase its venture investment activities in the commercialization process.

InNOVAcorp has developed a strong network of venture capital companies to create multi-investor-syndicated deals. For example, we have participated in syndicated investment transactions with venture capital investors such as the Business Development Bank of Canada (BDC), ACF Equity Atlantic, Working Ventures Canadian Fund Inc., the Telecommunications Applications Research Alliance (TARA), MDS Capital Corp., Canadian Science and Technology Growth Fund, and Altamira Investment Fund. We continue to expand our network of venture capital companies. The result is the ability to leverage our investment, participate in larger and later stage transactions, and take a more diversified approach to investment risk.

Financial Results

(Combined results for InNOVAcorp and the BioScience Enterprise Centre)

Summary By Section	Budget	Actual	Explanation of Variance
Revenue – NS Funding, Contracted Services, Operating Revenue	\$4,260,000	\$4,531,633	\$283 K in Supplementary Provincial Funding was received and Incubation revenues exceeded plan by \$214 K. These positive variances were partially offset Mentoring revenues of \$230 K less than plan.
Operating Expenses – Investment, Incubation, Mentoring, Contracted services, technical services	(\$2,261,000)	(\$2,722,581)	Incubation expenses exceeded plan by \$328K due to costs associated with the increased revenue and unrecoverable operating costs associated with vacant space at 101 Research Drive. Mentoring costs exceeded plan by \$92K due to the implementation of a formalized in-house mentoring activity. Investment costs were \$49K higher than planned due to the scale-up of resources to manage the \$8-million in additional capital invested in the NSFF.
Corporate Expenses – corporate services, administration, facilities management	(\$1,393,000)	(\$1,423,393)	Cost reductions achieved more than offset by restructuring costs in this area.
Non Operating Items – investment income, interest on long-term debt, discontinued operations, amortization	(\$393,000)	(\$310,471)	Net investment income and gains were \$475K ahead of plan due to: a gain on the reorganization of online mentoring activities; planned interest on renovation loans not being incurred; and NSFF liquid portfolio returns exceeding plan. These gains more than offset \$435K in combined write downs of NSFF venture investments and a long-term receivable from Philip due to bankruptcy. In addition, amortization expense was \$52K less than plan due to commencement of facilities upgrades later than planned and losses on discontinued operations were \$11K higher than plan.
Online mentoring tool development costs	(\$600,000)	(\$1,021,014)	Variance due to shortfall in expected revenue. Expenses were curtailed but not by enough to offset the revenue shortfall. This activity was re-organized as described in GOAL 3 - <i>Priority 2</i> above.
Net Loss	(\$387,000)	(\$945,826)	

Performance Measures

InNOVAcorp is measuring its progress towards two expected outcomes for the 2003-04 fiscal year:

Accelerate Technology-Based Companies through the Early Stages of Growth – InNOVAcorp will work with technology-based companies through the 2nd and 3rd stages of growth (known as the startup and developmental stages) in the commercialization process to maximize their chances of success.

Maximize Shareholder Value – Using the financial, human and capital resources allocated by the Province of Nova Scotia, InNOVAcorp will maximize the return on investment for the province's taxpayers.

Performance Measure: Economic Impact – The number of new jobs created by our current incubation clients.

What does the measure tell us?

Job creation has long been an index used to measure economic impact. It is a reasonable assumption that if a company is hiring new employees, it must be growing. The number of new jobs created by clients residing in our incubation facilities is a measure of how they are maturing along the commercialization continuum.

Where are we now?

During 2003-04, we provided a suite of services to about 79 companies, both resident and affiliate (non-resident), at our three sites in Dartmouth and Halifax. Combined, these firms added about 92 new employees during the year. This growth is an increase of 28 jobs over the number created last fiscal year.

Where do we want to go/be in the future?

While specific objectives cannot be set for our clients, InNOVAcorp's performance will continue to be measured in terms of our clients' success and their level of job creation.

Performance Measure: Economic Impact – The number of jobs created within the companies in which we invested.

What does the measure tell us?

We can measure InNOVAcorp's return on investment by tracking the number of new jobs created within the companies in which we invested. The purpose of the Nova Scotia First Fund (NSFF) is to ensure promising startup technology companies have the capital needed to grow. While financial returns are important, one measure of business growth is job creation.

Where are we now?

As of March 31, 2004, the number of jobs in the companies in which InNOVAcorp has invested was about 170. This is a slight increase from last year.

Where do we want to go/be in the future?

InNOVAcorp will continue to focus the NSFF investments in high growth potential companies.

Performance Measure: Specialty Incubation Space – Providing customized services and facilities to existing clients so they have the tailored resources they need to be successful.

What does the measure tell us?

Early stage technology firms require customized solutions to meet their unique business development challenges. For some of our clients, the customized solutions include specialty incubation space outside the typical laboratory, office and light industrial space we traditionally provide. These special facilities are often ones companies cannot otherwise access on their own without our help, and yet are necessary for their progress in the commercialization process.

Where are we now?

Last fiscal year, we made significant progress on the conversion of the former Nova Scotia Research Foundation at 101 Research Drive in Dartmouth into a grow-out business incubator. We completed some of the necessary land and building improvements and commenced renovations of the remaining portions of the facility. The goal is to have a site that serves companies that have advanced beyond early stage incubation but are still progressing towards commercial sustainability.

The facility's anchor tenant will be a company that will move its research and development activity from InNOVAcorp's BioScience Enterprise Centre in Halifax to 101. This move will free up lab space at the BioScience Centre, enabling us to assist additional emerging life sciences companies.

Where do we want to go/be in the future?

Our goal for 2004-05 is to complete renovations at 101 and move our major tenant into the building. We will also continue to work with an existing client towards its goal of developing a food product development kitchen on site at the facility.

Performance Measure: Number of Companies Graduated – The number of clients that graduate from the programs at our business incubators, the Technology Innovation Centre and the BioScience Enterprise Centre.

What does the measure tell us?

A client graduates from our incubation program when it reaches targeted business development milestones and has moved far enough along in the commercialization process that it is ready to move from our premises into commercial real estate or other sites. From their new locations, these graduates continue to fuel the creation of new jobs, innovative products and services, sales, and exports. The number of incubation graduates,

then, reflects the number of companies we helped move to a definitive advanced stage in the business development process.

Where are we now?

Six clients graduated from our resident incubation program in 2003-04.

Where do we want to go/be in the future?

We aim to graduate 3-4 incubation clients each year in the future. This goal will be achieved by continuing to offer a comprehensive and integrated mix of business development resources to our clients within an environment that fosters company growth.

Performance Measure: Leased Space – Occupancy rates, or the percentage of space leased, at our business incubation facilities.

What does the measure tell us?

InNOVAcorp's business incubation clients pay market rates for the services we provide them and the space they lease from us. The more space leased in our existing incubation facilities, the higher our revenues are, resulting in a larger return on the Province of Nova Scotia's allocation of resources to InNOVAcorp. However, InNOVAcorp's goal of graduating clients into commercial space means that at any one time, space will be available in our facilities. While we aim to achieve the highest possible occupancy rate, the turnover of clients in our facilities is also an important measure of our performance.

Where are we now?

In 2003-04, we maintained an average occupancy rate of 79 per cent at the Technology Innovation Centre and 82 per cent at the BioScience Enterprise Centre. Also, we secured an anchor tenant for the grow-out facility we are creating at 101 Research Drive.

Where do we want to go/be in the future?

Our goal is to maintain occupancy rates at the Technology Innovation Centre and the BioScience Enterprise Centre, and increase the rate at 101 Research Drive. We will achieve these targets by having an active communications, marketing and client recruitment campaign, and by offering services and facilities proven to help technology firms succeed.

Increasing the available space at 101 will allow us to optimize occupancy at the Technology Innovation Centre and the BioScience Enterprise Centre. However, when 101's first major tenant moves its research and development labs out of the BioScience Centre, occupancy rates will drop at the facility until we can complete leaseholds at the space and backfill it with new clients.

Performance Measure: New or Follow-on Investments – Investments made in early stage technology companies.

What does the measure tell us?

In the conventional venture capital industry, performance is measured by the return on investment (ROI), which in turn reflects the quality of the investment. In rare instances returns may be realized quickly; generally they are realized only after several years. InNOVAcorp, like all venture capitalists, has to be selective when making investments even though its investments are often made at an earlier stage of a company's growth than those made by traditional investors.

There are both short-term and long-term measurements that can be used to determine accountability and assess the effectiveness of a venture capitalist. InNOVAcorp has developed a performance model database by which outcomes can be analyzed to determine the corporation's efficiency and economic impact. We can assess whether InNOVAcorp is maximizing the value to the shareholder in part by providing an overview of the value of the investment portfolio, summarizing the total capital invested, capital available for future and follow-on investments, current valuation, and number of jobs created. These measures allow for comparison of the portfolio's ROI on a year-to-year basis.

Where are we now?

The Nova Scotia First Fund (NSFF) has made cash investments totaling \$15.71 million in 28 companies located in Nova Scotia since its creation in 1989. The management and assets of the fund were transferred to InNOVAcorp in 1996. As of March 31, 2004, there were 10 active investments with over \$12 million in liquidity for new and follow-on investments.

Where do we want to go/be in the future?

We would like to maintain or exceed this level of activity in the future. The goal is to increase the value of the NSFF portfolio by making strategic follow-on investments in existing companies where appropriate and by making new investments in promising business opportunities.

Performance Measure: Average Leverage Ratio – Leveraging investment with other investors.

What does the measure tell us?

The average leverage ratio provides an overview of InNOVAcorp's investment strategy. The ratio summarizes the magnitude by which the corporation's investment capital is leveraged with other investors.

Where are we now?

InNOVAcorp's investment leveraged an additional venture capital investment of \$58.6 million, plus other investments of \$42.6 million, for a total estimated capital investment of \$101.2 million. This is a leverage ratio of 13.7.

Where do we want to go/be in the future?

We would like to increase the leverage ratio in the future through attracting additional capital to existing investments and through syndication with venture capitalists on new investments.