

INCUBATION

MENTORING

INVESTMENT

annual

accountability report

2004/2005

InNOVAcorp

Accountability Report for Fiscal Year
2004 – 2005

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Accountability Statement

The accountability report of InNOVAcorp for the year ended March 31, 2005, 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 2004-05. 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.

Honorable Ernest Fage
Minister, Economic Development

Colin Latham
Chair, InNOVAcorp Board of Directors

Dan MacDonald
President & CEO

Introduction

This accountability report covers the InNOVAcorp business plan for 2004-05 and therefore should be read in conjunction with that plan. The report reviews the goals and priorities stated in the spring of 2004 and reports on the accomplishments and progress achieved during the period ending March 31, 2005. Financial results are provided with an explanation for any significant budget variances.

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

For the last decade, InNOVAcorp has been helping early stage Nova Scotia companies to accelerate the commercialization of their technologies and increase competitiveness in export markets. In 2004-05, we strengthened the support we provide to entrepreneurs. Our positive impact on the companies and on the economy is clear.

We deliver critical support to companies through a model we call High Performance Incubation (HPi). This model is comprised of three interwoven resources – incubation facilities, mentoring and investment – to help entrepreneurs overcome traditional hurdles to business growth.

Typically InNOVAcorp focuses its resources on helping technology companies that are at the early stages 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).

Every company faces its own distinct challenges and opportunities. These issues change as the company grows. InNOVAcorp tailors its business assistance to address specific needs of each business.

The power of InNOVAcorp's HPi model comes from the integration of three critical resources:

- ▶ 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.
- ▶ InNOVAcorp takes a hands-on approach in developing new and growing existing business ventures through business advisory services. A regional network of advisors, mentors and service providers complements our in-house business expertise.
- ▶ Through its incubation facilities, InNOVAcorp provides the environment needed to help emerging technology companies mature. These facilities deliver more than office, lab and industrial space; they also offer a comprehensive blend of business services, resources and synergies that result in entrepreneurial success.

In addition to working one-on-one with clients, InNOVAcorp collaborates with public and private partners to further develop the climate – whether it is through policies, programs or infrastructure – necessary to foster innovation and entrepreneurship.

The Province of Nova Scotia recognizes innovation drives individual and regional prosperity, and therefore has made stimulating innovation a province-wide priority. The Province also understands innovation means much more than research and development; it is also about increased commercialization – successfully taking products and services to market. By accelerating companies through the commercialization continuum and helping create a climate of entrepreneurship, InNOVAcorp is an integral part of Nova Scotia's innovation system.

InNOVAcorp's Progress and Accomplishments

InNOVAcorp's core business, as stated in our 2004-05 business plan, is High Performance Incubation (HPi). We are measuring our progress for that year using the following two expected outcomes:

Accelerate Technology-Based Companies through the Early Stages of Growth – InNOVAcorp will work with technology companies in the early stages of 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 outcomes can be achieved through three goals and six priorities, against which performance is measured.

GOAL 1. *Work collaboratively with public and private partners to champion and implement Nova Scotia's innovation strategy by providing leadership on matters related to technology commercialization.*

Innovation drives wealth for a region. To have true value, innovation must go beyond research and development and the invention of new ideas, products and processes. The innovations must be *commercialized* – turned into successful products and services in the marketplace.

The Government of Nova Scotia is vigorously trying to maximize the impact of innovation across the province. In its 2000 economic growth strategy, Opportunities for Prosperity, the provincial government named innovation as a fundamental pillar of our overall economic framework. In June 2003, the Premier reinforced the commitment to innovation by unveiling a new policy, *Innovative Nova Scotia – An Innovation Policy for the Nova Scotia Economy*. Concurrently, a 16-member council was formed to provide government with independent advice on how to stimulate the best conditions for innovation in Nova Scotia and how to implement the innovation policy.

InNOVAcorp is an integral part of Nova Scotia's innovation system.

Priority

Support the implementation of Nova Scotia's innovation strategy by providing advice to the Premier's Advisory Council on Innovation and other federal and provincial initiatives.

In 2004-05, InNOVAcorp continued its support of the Province's commitment to innovation by helping individual companies commercialize their innovative products and services. Further, the corporation drew on its 10-year history of working with technology entrepreneurs to provide strategic advice to provincial policy makers and the Premier's

Advisory Council on Innovation about how to cultivate innovation, entrepreneurship and technology commercialization, whether it is through policies, physical infrastructure or special programs.

Moreover, as an active partner in activities and initiatives that boost technology sector growth, InNOVAcorp improved collaboration among existing commercialization-focused programs and agencies. For example, in 2004-05, we worked with BioNova, the Nova Scotia Biotechnology and Life Sciences Industry Association, in support of its strategy to grow the life sciences industry in the province.

We also collaborated with the various entities, including Dalhousie University, the Capital District Health Authority and the IWK Health Centre, working towards creating a research facility in Halifax. In much the same manner, we shared our technology commercialization and incubation expertise with Acadia University in Wolfville as it planned the development of a new facility, The LINK, dedicated to commercializing innovations with an environmental focus. In addition, we provided similar knowledge to the Nova Scotia Community College campus in Lawrencetown.

In addition, we worked with the Nova Scotia Co-operative Council to create the Nova Scotia Co-operative Innovation Fund, an investment fund to seed innovative ideas from rural Nova Scotia at the proof-of-concept stage. InNOVAcorp also committed to working one-on-one with some of the most promising projects from the Council's membership, bringing business guidance to the table in the early stages of the commercialization process.

GOAL 2. *Enhance the growth of knowledge-based industry sectors by accelerating technology-based companies through the start-up and development stages of the commercialization process.*

Innovation extends beyond researching and developing new or improved products, services and processes. Rather, the innovations must be leveraged to create companies, products and profits.

InNOVAcorp's High Performance Incubation (HPi) model enables early stage Nova Scotia technology companies to accelerate through the commercialization process. Focusing on companies with unique service offerings and/or proprietary technology in the knowledge-based sectors, the corporation uses a network of critical business resources – incubation facilities, mentoring and investment – to assist entrepreneurs. In today's increasingly competitive global market, InNOVAcorp's role is more important and relevant than ever before.

Priority

Provide tailored advice that will help promising entrepreneurs meet their specific business goals.

Every company has its own distinct needs for business assistance, and these needs change as the company proceeds along the commercialization continuum. InNOVAcorp's

business advisory services help companies identify and overcome hurdles to business success. A regional network of advisors, mentors and service providers complements our in-house business expertise.

The help we provide is often hands-on, addressing specific matters unique to each client. In 2004-05, InNOVAcorp's mentoring group reviewed and/or advised on more than 60 companies. For example, we helped several entrepreneurs better position their companies for potential investors and fine-tune their business plans and marketing and sales strategies. For others, we assisted with patent searches and licensing agreements. We also guided a software development company through beta trials of its new product. The result is a faster and less expensive path to commercial success for these companies.

Priority

Continue to develop a pool of mentors and business advisors to support InNOVAcorp's high performance incubation activities.

InNOVAcorp's business advisory services are delivered by our own staff and our network of advisors and mentors in the region. These seasoned professionals have the experience, expertise and perspective to help entrepreneurs identify and tackle the issues they face. Sometimes the advisors are subject-matter experts who give clients feedback on a specific facet of the business. Sometimes they are experienced entrepreneurs or senior business people willing to give back to the community by mentoring entrepreneurs. Sometimes they simply refer clients to a trusted contact who has more answers or can better open a needed door. Collectively, this extended group offers the layer of analysis and input clients require. InNOVAcorp's management team frequently reviews a client's progress to determine the advisory services required and the service providers that should be enlisted. At InNOVAcorp's discretion, the advisor is introduced to a client, and deliverables are defined.

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.

In 2004-05, we increased the number of consultants in the business community on which we can rely to help our clients. We also expanded our geographic reach throughout the province. The 2004 addition of a senior advisor of business ventures at InNOVAcorp's satellite office within the National Research Council facility on the University College of Cape Breton campus in Sydney enabled us to improve the assistance we provide companies in that region.

We also extended our reach into other areas, particularly rural communities, in part through partnerships with universities and colleges, with private sector groups such as the Nova Scotia Co-Operative Council and with federal agencies such as ACOA.

In addition to InNOVAcorp's mentoring activities for clients, in 2004-05 our employees played an active role on numerous boards of directors and committees, including: Entrepreneurs' Forum, Canadian Association of Business Incubators, NovaKnowledge,

Voluntary Planning, Canadian Foundation for Innovation, Dalhousie University, Greater Halifax Partnership, Acadia - The LINK Steering Committee, Swedish Canadian Chamber of Commerce, Navitrak Inc., IronSentry Inc., Kytogenics Ltd., NovaLis Technologies, Medusa Medical Technologies Inc., Virtual Media Productions Ltd., MailWorkZ Inc., Diaphonics Inc., and Coemergence Inc.

Priority

Identify new opportunities for equity investments in life sciences and knowledge-based companies in Nova Scotia and make follow-on investments in existing venture portfolio companies to preserve and grow the value of our investments.

Venture capital is the lifeblood of all commercial enterprises. InNOVAcorp is an active investor, managing seed and early stage investments in promising Nova Scotia technology companies. In 1996, we assumed the management of the Nova Scotia First Fund (NSFF), which the Nova Scotia government formed in 1989. This venture capital fund supports promising entrepreneurs from startup through to early stage expansion. InNOVAcorp considers investments that typically range from \$100,000 to \$1,000,000.

As in years past, in 2004-05 the fund was leveraged through alliances with other venture capital investors and financial institutions. In addition to providing access to larger capital markets and leveraging investment capital, the other investors enable us to take a more diversified approach to investment risk and to access augmented intellectual resources required during the due diligence process. By using alliances, the NSFF was able to maintain tight control over expenses, thus maximizing financial return. Last year, InNOVAcorp's network of co-investors included Business Development Bank of Canada (BDC) Venture Capital, Covington Capital Corporation, and Nova Scotia Business Inc.

Since its creation, the NSFF has made cash investments totaling \$16.3 million in 30 Nova Scotia companies. As of March 31, 2005, there were 15 active investments and more than \$11.8 million in liquidity for new and follow-on investments. We made four new and two follow-on investments in 2004-05, totaling \$1.16 million. In addition, \$2.82 million was leveraged from other investors, including \$2.19 million from investors outside the region.

In August 2004, we launched a new venture capital fund, the HPi Micro-Fund, a sub-fund of the NSFF to better address the funding gap that impedes progress of today's promising early stage technology companies. Micro-Fund investments are smaller than NSFF investments and are intended to support the companies with which our venture advisors work more closely. These features make the Micro-Fund relatively flexible, allowing our investment team to spot growth early and act quickly; investing where it believes growth is going to happen. The investments are tied to a company's achievement of specific performance milestones. As a result, the investment becomes the first step in the due diligence process for the investees as they prepare to seek additional investment dollars from private and institutional investors in the future.

The Micro-Fund positions InNOVAcorp as a natural co-investor with other existing seed and early stage funds. It also helps supplement funds from private sector investors, who have become increasingly risk averse in recent years, moving their investments further

downstream in a company's continuum of development. In 2004-05, we invested \$315,000 through our Micro-Fund investments.

GOAL 3. *Build and foster a dynamic and stable entrepreneurial culture by providing the environment where entrepreneurs can grow and prosper through shared experience and strategic relationships.*

The term “*environment*” can be considered on at least two levels. First, there is Nova Scotia, the region as a whole. Second, there are the micro-environments that exist within a physical structure or a community of business contacts. InNOVAcorp contributes to the development of both environments. As described earlier, the corporation builds an entrepreneurial culture across the province by being an active partner and consultant on activities and initiatives that boost technology sector growth. As well, InNOVAcorp's network of business incubators provides an innovative, flexible and supportive environment needed to cultivate client growth.

InNOVAcorp manages two incubators, which currently host 45 resident and 24 affiliate (non-resident) 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.

A third site, the former Nova Scotia Research Foundation at 101 Research Drive in Dartmouth, was recently transformed into a grow-out facility for companies that have progressed beyond early stage incubation but are still progressing towards commercial sustainability.

Since the 1987 inception of the corporation's first incubator, more than 87 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 2004-05, we incubated about 72 companies, both resident and affiliate (non-resident), at our three sites in Dartmouth and Halifax. These firms hired 126 new employees during the year.

Priority

Complete the transformation of 101 Research Drive into a grow-out business incubation facility.

In 2004-05, we finished the renovations for converting 101 Research Drive in Dartmouth, a formerly out-of-date and underutilized space, into a grow-out facility. The facility was created to serve companies that have advanced beyond early stage incubation but are still progressing towards commercial sustainability. The site will help bridge the commercialization gap for the region's most promising life sciences companies, ensuring they get the support they need in the initial years of growth. In late 2004, the facility

welcomed its first major tenant, Ocean Nutrition Canada (ONC), which signed a 10-year lease agreement 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 allows ONC to consolidate its production pilot plant employees, lab-based researchers, and management and administrative team under one roof; instead of operating from three locations in the Halifax area as it once did. Furthermore, the land adjacent to 101 gives ONC the room to further expand, including property on which to build its proposed new production facility within the next few years. In 2004-05, ONC hired 17 new employees.

Building a strong “anchor” company like ONC in the province will attract others to the region and encourage local startups, leading to the formation of a solid cluster of technology companies. As well, having ONC move its research and development activity from the BioScience Enterprise Centre to 101 alleviated the space crunch at the Centre, freeing up space so InNOVAcorp can assist additional emerging life sciences companies.

Priority

Maintain current occupancy rates at the Technology Innovation Centre and the BioScience Enterprise Centre.

Incubation facility clients pay market rates for the services we provide and the space they lease from us. The more space leased in the incubation facilities, the higher our revenues are, resulting in a larger return on the Province of Nova Scotia's allocation of resources to InNOVAcorp. Of course, revenue generation is not the sole motivation for maintaining a high occupancy rate at our facilities. A high occupancy rate also means we are assisting as many clients as possible, providing them with the environment, services and other opportunities necessary to accelerate them through the commercialization process.

In 2004-05, InNOVAcorp maintained an average occupancy rate of 82 per cent at the Technology Innovation Centre and 80 per cent at the BioScience Enterprise Centre.

Seven clients graduated from our incubators, which means they reached business development milestones that made them ready to move out of our premises. Many of these graduates continue to fuel the creation of new jobs, innovative products and services, sales, and exports.

But the value of InNOVAcorp's incubation facilities goes far beyond the space and other tangible infrastructure they provide. The sites help entrepreneurs avoid the failure that sometimes results from being isolated from other entrepreneurs and professionals who could provide valuable advice to the management team. The facilities offer an atmosphere where entrepreneurs can share experiences, knowledge, concerns, successes and contacts with others who face similar challenges. It is also an environment that encourages collaboration and partnerships among entrepreneurs and with universities, public institutions and prominent firms. InNOVAcorp proactively fosters collaborations, partnerships, information sharing, and contact building through the many events it holds

for its clients each year. Ranging from informal social holiday events, to formal professional development seminars and information sessions, to meetings with visiting trade delegations, in 2004-05 we held more than 57 gatherings. These opportunities for face-to-face idea exchange and relationship building are vital for entrepreneurship to flourish.

In addition, last fiscal year 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.

Financial Results

(Combined results for InNOVAcorp and the BioScience Enterprise Centre)

Summary By Section	Budget	Actual	Explanation of Variance
<i>Revenue</i> – NS Funding, Contracted Services, Operating Revenue	\$4,577,000	\$4,438,566	Actual revenues were less than plan due to: <ul style="list-style-type: none"> • Provincial Funding \$47 K less than plan primarily due to deferral of the portion of the grant related to capital expenditures incurred being higher than planned; • \$132 K in planned external program funding in support of mentoring (\$100 K) and fourth pillar (\$32 K) activities did not materialize; and • Revenue from Product Engineering was \$23 K less than plan Mitigated by: <ul style="list-style-type: none"> • \$40 K in in-kind revenue received from a HPI client; and • Secondment (\$12 K) and investment due diligence (\$8 K) recoveries higher than plan
<i>Operating Expenses</i> – Investment, Incubation, Mentoring, Contracted services, technical services	3,209,400	3,024,290	Actual Expenses were less than plan due to: <ul style="list-style-type: none"> • Expenditures on fourth pillar activities were \$155 K under budget due to the position of Director, Corporate Development being vacant for eight months in the year and the resultant significant curtailing of this area of activity; • Product Engineering expenditures were \$60 K less than plan in part due to activity being lower than plan and in part due to operational economies; and • Venture Investment expenses were \$10 K less than plan Mitigated by <ul style="list-style-type: none"> • Incubation expenditures exceeded plan by \$43 K primarily due to repairs and maintenance at the Technology Innovation Centre and the BioScience Enterprises Centre.
<i>Corporate Expenses</i> - corporate services, administration, facilities management	1,153,000	1,413,819	Actual Expenses were more than plan due to: <ul style="list-style-type: none"> • Bad debts (\$110 K) • Accrual of 2.9% retroactive COLA (\$52 K) • Unexpected shortfall in restructuring costs (\$43 K) • Loss on transfer of animal care assets to NSAC (\$35 K)
<i>Non Operating Items</i> – investment income, interest on long term debt, post retirement benefits, amortization, restructuring, discontinued operations	721,200	804,740	Actual non-operating expenses had a negative variance due to: <ul style="list-style-type: none"> • Restructuring Costs (\$134 K) • PNS implementation of a Supplementary Employee Retirement Plan (\$86 K) • Increased expense accrual for the cost of post-retirement health benefits (\$72 K) Mitigated by <ul style="list-style-type: none"> • Amortization less than plan (\$110 K) • Income from Discontinued operations (\$62 K) • Net interest dividends and capital gains income \$38 K ahead of plan due to later than anticipated borrowing of construction loan resulting in reduced interest expense, mitigated by exchange loss on NSFF liquid portfolio.
Net Loss	\$506,000	\$804,283	The net loss is primarily attributable to non-cash items such as amortization and post retirement benefits.

Performance Measures

InNOVAcorp is measuring its progress towards two expected outcomes for the 2004-05 fiscal year:

Accelerate Technology-Based Companies through the Early Stages of Growth – InNOVAcorp will work with technology companies in the early stages of 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.

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 in our incubation facilities is a measure of how they are maturing along the commercialization continuum and how they are positively impacting the provincial economy.

Where are we now?

During 2004-05, we provided a suite of services to about 72 companies, both resident and affiliate (non-resident), at our three sites in Dartmouth and Halifax. Combined, these firms added about 126 new employees (includes 17 new jobs at ONC) during the year. This growth is an increase of 34 jobs over the number created last fiscal year.

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

While specific job creation 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 early stage technology companies have the capital needed to grow. While financial returns are important, another measure of business growth is job creation.

Where are we now?

As of March 31, 2005, the number of jobs in the companies in which InNOVAcorp has invested was about 200. This is an increase from last year.

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

While specific job creation objectives cannot be set for our investee companies, 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 companies require tailored 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 completed the renovations to convert the former Nova Scotia Research Foundation at 101 Research Drive in Dartmouth into a grow-out business incubator. In late 2004, the facility welcomed its first major tenant, Ocean Nutrition Canada (ONC), which signed a 10-year lease agreement with us. ONC was previously a major tenant at the BioScience Enterprise Centre. Its move to 101 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 2005-06 will be to evaluate the provincial incubation capacity, identifying existing gaps and future opportunities. On a related matter, we will also complete a feasibility study for possible expansion of InNOVAcorp's campus in Dartmouth, the Knowledge Park.

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 moves out of our premises. Many of 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?

Seven graduated from our resident incubation program in 2004-05.

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

We aim to graduate three 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: Occupancy Rates – The percentage of spaced 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 2004-05, we maintained an average occupancy rate of 82 per cent at the Technology Innovation Centre and 80 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 the occupancy rate at the Technology Innovation Centre and increase the rate at the BioScience Enterprise Centre and 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, because 101's first major tenant moved its research and development labs out of the BioScience Centre, the occupancy rate dropped at that facility and will remain somewhat low until we can complete leaseholds in that 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?

A common metric for calculating the success of conventional venture capital investments is return on investment (ROI). Rarely are returns realized quickly; more often, especially in the technology sectors, they are realized only after several years. Not only does

InNOVAcorp focus its venture investments on the technology sectors, but 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 \$16.28 million in 30 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, 2005, there were 15 active investments with \$11.8 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 venture investment activity in the future. The goal for 2005-06 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 offers an overall measure 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 \$56 million, plus other investments of \$45 million, for a total estimated capital investment of \$112 million. This is a leverage ratio of 10.2. In 2004-05 alone, we leveraged \$2.82 million from other investors, including \$2.19 million from investors outside the region.

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

We would like to maintain the leverage ratio in the future through attracting additional capital to existing investments and through syndication with venture capitalists on new investments. Of this additional capital, InNOVAcorp aims to attract a significant portion from outside the province.

Performance Measure: Access to Business Advice – The level and quality of tailored venture guidance we offer technology entrepreneurs.

What does the measure tell us?

InNOVAcorp's hands-on business advisory services help companies navigate through the commercialization continuum. A regional network of advisors, mentors and service providers complements our in-house business expertise.

Where are we now?

In 2004-05, InNOVAcorp's mentoring group reviewed and/or advised on more than 60 companies and business plans. To meet client demand, we added two venture advisors to our in-house mentoring team, and we continued to increase the number of consultants in the business community on which we can rely to help our clients.

In addition to InNOVAcorp's mentoring activities for clients, in 2004-05 our employees played an active role on numerous client companies' boards of directors and committees, including Navitrak Inc., IronSentry Inc., Kytogenics Ltd., NovaLis Technologies, Medusa Medical Technologies Inc., Virtual Media Productions Ltd., MailWorkZ Inc., Diaphonics Inc., and Coemergence Inc.

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

In 2005-06, we would like to enhance our delivery of tailored business advisory services. To do so, we intend to add a new life sciences venture advisor to our in-house mentoring team, as well as continue to expand our pool of external consultants we can call upon to help our clients.

Performance Measure: Companies served outside Halifax Metro – Extending reach outside the metro area.

What does the measure tell us?

While InNOVAcorp's primary operation is located in the metro area, the organization serves all of Nova Scotia. There are commercialization prospects across the province, and our business advisors can play an important role in realizing the potential of these opportunities outside the city.

Where are we now?

InNOVAcorp's business advisory services are delivered by our own staff and our network of advisors and mentors throughout the region. In August 2004, we added a senior advisor of business ventures at our satellite office within the National Research Council facility on the University College of Cape Breton campus in Sydney. This addition enabled us to improve the assistance we provide companies in that region.

We also extended our reach into other areas, particularly rural communities, in part through partnerships with universities and colleges, with private sector groups such as the Nova Scotia Co-Operative Council and with federal agencies such as ACOA.

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

In the future, we will further extend our reach into rural Nova Scotia through the work of our in-house team and through partnerships with other like-minded organizations across the province.