

INCUBATION | MENTORING | INVESTMENT



ACCOUNTABILITY REPORT
2008/2009

www.innovacorp.ca

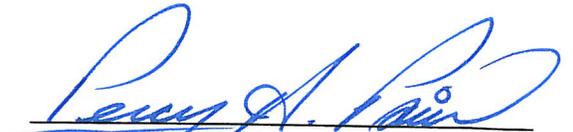
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Accountability Statement

The accountability report for InNOVAcorp for the year ended March 31, 2009, 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 2008-2009. The reporting of InNOVAcorp's outcomes necessarily includes estimates, judgments and opinions by InNOVAcorp management.

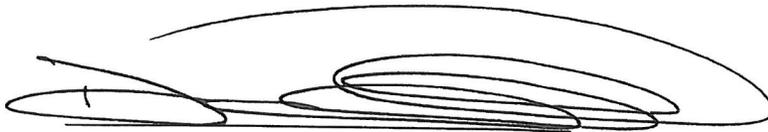
We acknowledge that this accountability report is the responsibility of InNOVAcorp management. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in InNOVAcorp's business plan for the year.



Honourable Percy Paris
Minister, Economic and Rural Development



Dr. Jacquelyn Thayer Scott
Chair, InNOVAcorp Board of Directors



Dan MacDonald
President & CEO, InNOVAcorp

Introduction

This accountability report covers the InNOVAcorp business plan for 2008-2009 and therefore should be read in conjunction with that plan. Visit <http://innovacorp.ca/about-us/corporate-publications> to download a copy of the plan. The report reviews the goals and priorities set in the spring of 2008 and reports on the accomplishments and progress achieved during the period ending March 31, 2009. Financial results are provided with an explanation for any significant budget variances.

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

InNOVAcorp helps high potential Nova Scotia-based early stage companies commercialize their technologies and succeed in the global marketplace. Every day, we provide hands-on business guidance, tailored to meet the unique and evolving needs of high potential early stage technology companies. InNOVAcorp's internationally recognized High Performance Incubation (HPi)TM business model incorporates incubation infrastructure, business mentoring and seed and venture capital investment.

More than ever before, InNOVAcorp's work is benefiting knowledge-based companies from all over Nova Scotia. In 2008-2009, InNOVAcorp provided advisory services and relationship management support to more than 198 Nova Scotia early stage companies, and reviewed and advised 32 university research-level projects.

In early fall 2008, InNOVAcorp clients began to experience what has become a global recession. InNOVAcorp has helped, and will continue to help, our clients navigate the current economic climate and position themselves for the medium and long term.

During fiscal year 2008-2009, InNOVAcorp further intensified its role in driving the knowledge economy and innovation capital markets in Nova Scotia. The Nova Scotia knowledge-based companies that have benefited from InNOVAcorp's High Performance Incubation (HPi)TM business model generated over \$278 million in export revenues and directly employed 1447 people, resulting in a payroll of \$62 million.

At fiscal year end, InNOVAcorp's incubation facilities, including the Technology Innovation Centre in Dartmouth and the BioScience Enterprise Centre in Halifax, stood at 90 per cent occupancy. InNOVAcorp's annual client satisfaction survey, conducted in February 2008, demonstrated that 96 per cent of clients are satisfied with InNOVAcorp's services.

We are proud of our 2008-2009 results; however we continuously strive to increase the value we add to client companies. In 2009-2010, InNOVAcorp will continue to use its daily interactions with entrepreneurs, private industry, angel investors and venture capitalists, academia, industry associations and public sector agencies to fuel sustainable economic growth in Nova Scotia.

During the coming fiscal year, which by all accounts will be one of the most challenging and unpredictable times for the economy in over 50 years, InNOVAcorp will adapt to ensure it can deliver the highest value services to our clients and play a key role in ensuring Nova Scotia knowledge-based companies are positioned for the economic recovery.

InNOVAcorp Progress and Accomplishments 2008-2009

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

As stated in our 2008-2009 business plan, our performance for that year can be measured against two goals and five priorities.

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

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

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

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

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

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

Priorities

1. Enhance the Scalability of the HPi™ Business Model

The InNOVAcorp HPi™ business model is recognized nationally and internationally as a best practice technology commercialization approach. It comprises three interwoven resources – incubation infrastructure, business mentoring, and seed and venture capital investment. In 2008-2009, a major priority was to enhance the scalability of the HPi business model to efficiently handle the increased number of clients and to achieve maximum benefit for clients and return on investment for Nova Scotia. In 2008-2009, InNOVAcorp focused on further enhancing the expertise delivered to clients, thereby maximizing its value add and scaling the HPi business model to fuel sustainable economic growth.

- To improve management of the existing client pipeline, InNOVAcorp's management team established bi-weekly meetings focused on client pipeline management. The regular reviews ensure the most effective management of InNOVAcorp's client pipeline, enabling InNOVAcorp to provide clients with timely, high value feedback, and dedicate 80 per cent of its resources to its highest potential client companies.
- To optimize pipeline management, detailed categorizations were added to the existing management client pipeline file.
- In April 2008, InNOVAcorp introduced an updated version of its official client agreement. The client agreement must be understood and thoroughly discussed before a new client engagement begins. It enables InNOVAcorp to successfully work one-on-one with clients, establish and prioritize their business needs, and work with them to evolve their start-up ventures.
- InNOVAcorp continues to improve the industry expertise of its in-house team. Early in the 2008-2009 fiscal year, InNOVAcorp added an additional senior venture advisor to the mentoring team to work one-on-one clients.
- During 2008-2009, InNOVAcorp built the foundation of a clean technology practice which will be fully operationalized in 2009-2010. Innovations that look to decrease the amount of energy required, improve sources for renewable energies, and produce more environmentally-friendly materials are examples of types of Nova Scotia clean technology opportunities. The declining state of the world's environment is driving innovation across virtually every industry. Every organization must do its part to reduce greenhouse gases, operationally as well as in the products and services it delivers. Consumers no longer tolerate or purchase products and services offered by companies that do not demonstrate efforts to establish green best practices. Clean technology has quickly become the leading venture investment category globally, with billions of venture capital already invested in clean technology companies.
- InNOVAcorp expanded its network of third-party private sector advisors across the province, the region, the country and beyond, as a result, increasing the depth of services provided to

clients. InNOVAcorp engaged online marketing, angel investment and go-to-market experts to assist clients with business development.

- To highlight InNOVAcorp's comprehensive suite of services available at the incubation facilities, InNOVAcorp designed a detailed InNOVAcorp branded "spec/product sheet" reflecting all parts of the HPi business model, but specifically drilling down into the amenities and services offered at the incubation facilities.
- InNOVAcorp proactively monitors and measures the health of its HPi business model from multiple internal and external dimensions. To clearly understand the value we bring to and the satisfaction of our clients, we combine the feedback gathered from day-to-day informal and formal client interactions, our annual client satisfaction survey, observing the business success of our clients, and collecting economic leading indicator metrics. In winter 2008, InNOVAcorp conducted its third annual client satisfaction survey. The anonymous survey was conducted over the phone by an objective third party, who also assisted with the analysis the results. As was the case in previous years, in fiscal year 2008-2009, InNOVAcorp considered and acted upon much of what it learned in the survey. More specifically InNOVAcorp worked to operationalize the top two recommended outputs of the survey – (i) improvements in professional development and networking events and (ii) improvements in IT infrastructure and services,. In winter 2009, InNOVAcorp conducted its fourth annual client satisfaction survey. Results were extremely positive, with excellent feedback in several areas, including InNOVAcorp's networking opportunities and Business Over Breakfast series, and business advisory services. Further, InNOVAcorp is in the midst of implementing phase II of its IT Infrastructure and Services plan which is intended to further enable our clients and as a result increase client satisfaction.
- InNOVAcorp's Business Over Breakfast series was strengthened in 2008-2009, with highly relevant topics and subject matter experts featured at the monthly breakfast sessions. Held at InNOVAcorp's Technology Innovation and BioScience Enterprise Centres, the events bring together resident and non-resident clients from across Nova Scotia, business professionals, industry representatives, university students and other key stakeholders. The highly successful and well-rated sessions in 2008-2009 featured topics including investment, online marketing, and attracting and retaining talent. To further maximize the benefits of the series, InNOVAcorp committed to audio recording all Business Over Breakfast sessions and posting the recordings on the InNOVAcorp website to share with clients and others who may be unable to attend in person. The Business Over Breakfast series continues to receive extremely positive feedback from clients in InNOVAcorp's annual client survey.
- InNOVAcorp committed to working with companies from the 2008 I-3 Technology Start-Up Competition to support those with the most potential. As part of the follow-on support, several I-3 participants took part in a focused two-day marketing course titled "*How to Develop a Winning Market Strategy for Breakthrough Innovations,*" presented in Halifax, Yarmouth and Sydney. Participants were provided with an overview of relevant business concepts to help their products and services succeed. Experts from KEYSTEP Growth and Finance shared their knowledge and experience, and taught attendees how to analyze their products or services in the new high-tech marketplace, and develop strong strategic go-to-market plans.

- InNOVAcorp focused on educating non-resident clients about the incubation services available to all clients. The goal was to ensure these companies are better aware of the incubation business services they can access both remotely and when they are in the Halifax area; services available over and above the business guidance they benefit from as they work one-on-one with our mentoring team.
- Early in the 2008-2009 fiscal year, InNOVAcorp completed the redesign of its new and improved website. The new site has a refreshed look and feel with a more modern and user-friendly interface, and clearly reflects the InNOVAcorp brand and priorities. The new website was designed to be more client focused, featuring several client spotlights and a running flash show of client logos on the homepage. The client focus is designed to inform potential clients and co-investors about InNOVAcorp's service offerings and value add. The website redesign also included the addition of a Business Community Outreach section, to highlight InNOVAcorp's regular involvement in business community initiatives.
- To complement InNOVAcorp's updated web presence, we updated marketing materials to further strengthen the visual consistency of our brand.
- Online marketing and social media have become key to doing business globally. Social media has become an integral part of InNOVAcorp's outreach strategy. For example, InNOVAcorp maintains an active group on Facebook with over 165 members from around the globe. InNOVAcorp staff maximize the leverage of Web 2.0 techniques to engage existing and prospect clients. InNOVAcorp encourages its clients to explore the potential business benefits of social media and Web 2.0.
- InNOVAcorp focused on expanding coverage in south western Nova Scotia by entering into an agreement with the South West Shore Development Authority (SWSDA) based in Yarmouth. The agreement was a pilot project intended to help InNOVAcorp better extend its reach into that part of Nova Scotia. InNOVAcorp created a direct liaison with a business development officer with SWSDA, who was charged with watching for promising early stage entrepreneurs who fit with and can benefit from InNOVAcorp's HPI business model, particularly from the hands-on venture guidance of our mentoring team.
- InNOVAcorp's Cape Breton-based TecSocial series, a monthly social gathering of people with a common interest in technology, was spun out across the province, with events happening in Yarmouth, Kentville and Cape Breton.
- The Technology Innovation Centre, home to InNOVAcorp's technology focused clients, was refurbished in 2008-2009. The facility was given an updated fresh and professional look, with renovations to the main lobby, reception area, meeting rooms and washrooms.
- While InNOVAcorp's performance metrics clearly demonstrate success, it is important to benchmark ourselves against "best in class" organizations around the world. In February 2009, InNOVAcorp was informed its HPI business model was one of two finalists in the National Business Incubation Association (NBIA) "Incubation Program of the Year - 2009" competition. Based in the United States, NBIA represents more than 1900 members across

60 nations. Past award winners include business incubation programs from Silicon Valley, California (2008), and Paris, France (2007). InNOVAcorp was the runner-up in the competition. It was a great honour for the InNOVAcorp team to be one of two international finalists, especially up against the prestigious San Jose BioCenter from San Jose, California.

- Building upon momentum created over the past two years, InNOVAcorp further increased its role as a national/international advocate for Nova Scotia innovation through significant direct coverage in regional, national and international publications, including the Globe and Mail, Progress, Nova Scotia Open to the World, and CBC; and speaking engagements at notable national and international events, including the MIT Enterprise Forum in Chicago, and the National Business Incubation Association's national conference in Kansas City.
- InNOVAcorp continued to deliver enhanced information and communications technology (ICT) support to resident client and affiliate members, increasing the quality and availability of infrastructure and services offered. The construction of a server hosting facility for InNOVAcorp clients, located at the Technology Innovation Centre has been completed.
- InNOVAcorp created a detailed brochure outlining the specific information and communications technology services available to clients.
- The organization continued to collaborate with industry partners, including BioNova, Nova Scotia's biotechnology and life sciences industry association, and ITANS, the information technology industry alliance of Nova Scotia, to help strengthen these industries in the province. InNOVAcorp also continued to work with other significant industry organizations such as Entrepreneurs' Forum, the provincial Industry Liaison Office (ILO) Network, the provincial network of Regional Development Authorities (RDAs), and Springboard Atlantic, to help strengthen entrepreneurship in Nova Scotia and help further the commercialization of knowledge-based products and services at the university and community levels.
- InNOVAcorp supported the early stage technology commercialization efforts in rural Nova Scotia and in post-secondary research institutions through the Nova Scotia Proof-of-Concept Fund and the Early Stage Commercialization Fund.
- InNOVAcorp's pipeline of high potential clients increased. Staff worked with more than 198 Nova Scotia-based early stage companies and helped advance the efforts of 32 university research-level projects.
- InNOVAcorp's incubation facilities, including the Technology Innovation Centre in Dartmouth and the BioScience Enterprise Centre in Halifax, reached 90 per cent occupancy.
- InNOVAcorp's annual client satisfaction survey, conducted in February 2008, indicated that 96 per cent of clients are satisfied with InNOVAcorp's services overall. Further, 96 per cent of clients indicated that they would recommend InNOVAcorp services to a colleague.
- InNOVAcorp's activities in 2008-2009 resulted in an increase in overall client satisfaction, the number of clients assisted, and in InNOVAcorp's ability to develop and manage a sustainable client pipeline.

2. Operationalize our Clean Technology Practice

In 2008-2009, InNOVAcorp set out to formally operationalize its clean technology practice, enabling early stage companies in this field to tap InNOVAcorp's business building services and expertise. The declining state of the world's environment is driving innovation across virtually every industry. Every organization must do its part to reduce greenhouse gases, operationally as well as in the products and services it delivers. Related to the focus and momentum of all things green, a new sector has emerged. Clean technology has quickly become the leading venture investment category globally, with billions of venture capital already invested in clean technology companies.

- InNOVAcorp reviewed over 30 clean technology opportunities (pitches) from across North America, to better understand the scope, scale, business models and funding requirements of clean technology opportunities.
- InNOVAcorp is actively working with two Nova Scotia-based clean technology opportunities, with several others in the pipeline.
- InNOVAcorp, through the Nova Scotia First Fund, became a Limited Partner in the Cycle Capital Fund to increase the probability of Nova Scotia Clean technology companies accessing capital. Cycle Capital Management is a venture capital fund manager dedicated to the clean technology industry. See page 11 for more information on InNOVAcorp's Cycle Capital investment.
- Emphasis was placed on identifying and fostering clean technology specific partners, including the San Jose-based Environmental Business Cluster, a clean energy and environmental technology commercialization centre that assists emerging clean energy and environmental technology companies in reaching the market, EnerTech Capital, a firm that has invested in energy and clean energy technology companies since 1996, and various other partners including the abovementioned Cycle Capital Management, the Resource Recovery Fund Board Inc., the Nova Scotia Department of Energy, Conserve Nova Scotia, and NSCC.
- To gain a better understanding of the investment landscape for the clean technology industry, InNOVAcorp focused on monitoring the activities of several clean technology investment funds across Canada, the US, and beyond.
- In 2008-2009, InNOVAcorp set out to develop relationships with several clean technology investment funds, including Cycle Capital Management and EnerTech Capital. InNOVAcorp continues to actively track Jeffries Broadview and PWC CleanTech global reviews.
- To scope the global clean technology industry to identify market sectors, InNOVAcorp representatives attended the AlwaysOn Going Green conference in Boston and gained valuable insight into pitch strategies for clean technology focused companies. The conference focused on clean technology and the investment community, featuring presentations from CEOs of promising new clean technology companies with discussions about entrepreneurial opportunities.

- Other key clean technologies activities during 2008-2009 included regular participation in Clean Tech Group's webinars, attendance at the Clean Tech Group conference and quarterly Clean Tech market calls.
- InNOVAcorp partnered with Ocean Nutrition Canada to quantify the environmental footprint of the 1 and 101 Research Drive facilities, with the goal of identifying and quantifying opportunities to reduce energy consumption and costs over a 10-year period.
- InNOVAcorp converted its facilities at 101 Research Drive to natural gas.

3. Maximize the Sustainability and Economic Impact of the NSFF

InNOVAcorp plays a key role in improving Nova Scotia's innovation capital markets. One of InNOVAcorp's key assets is the Nova Scotia First Fund (NSFF) combined with seed and venture capital investment expertise. The fund's investment strategy targets emerging venture-grade technology companies with high growth potential and attractive risk-return prospects. InNOVAcorp's strategy has been to strengthen the goodwill and credibility for the region and to build the return track record of the asset class, thereby driving and supporting the attraction of more capital to the region and Nova Scotia. A priority in 2008-2009 was to maximize the sustainability and economic impact of the NSFF and play a key role in improving the province's innovation capital markets.

- In 2008-2009, InNOVAcorp focused on fostering an environment that will enable Nova Scotia to further gain and maintain private sector credibility in global early stage and venture capital markets, and will help create the necessary conditions for efficient private sector risk capital markets in Nova Scotia and Atlantic Canada. With keynote speaking engagements at national and international investment oriented events, including the National Angel Summit, the Canadian Venture Capital and Private Equity Association's annual conference, and the Canadian IT Law Association national conference, InNOVAcorp continues to make inroads to position Nova Scotia as a burgeoning hub of R&D and market-driven innovation.
- The NSFF provides early stage high growth potential companies with timely venture investments of between \$100,000 and \$1.5 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 \$101.3 million in risk and venture capital. Since its recapitalization in 2003-2004, the fund has leveraged \$32 million of investment (\$13 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.
- InNOVAcorp continued to build relationships with targeted firms from Montreal, Toronto, Boston, California and other jurisdictions to further broaden private and institutional syndicate pools.
- The NSFF's positive impact on Nova Scotia's innovation capital markets is significant. As an active seed and venture capital player, InNOVAcorp has played an important part in

significantly increasing the amount of capital invested in Nova Scotia high growth companies. Nova Scotia companies raised \$7 million in venture capital financing in 2004. In 2005, they raised \$18.7 million. In 2006 that number further increased by more than 40 per cent to reach \$24 million, and it leveled off in 2007 to \$18 million and in 2008 to \$17 million.¹ The average venture capital deal size in Atlantic Canada has increased more than 25 per cent since 2004, surpassing the growth of deal size nationally. InNOVAcorp continues to play a key role in this “access to capital” turnaround.

- InNOVAcorp, through the Nova Scotia First Fund, became a Limited Partner in the Cycle Capital Fund by making a \$2 million capital commitment, to be released upon receipt of capital calls over the 10-year life of the fund. The expected return on investment from the province’s \$2 million will include a unique level of access to the Cycle Capital fund decision makers with whom to position Nova Scotia clean technology opportunities; clean technology sector knowledge and access to global subject matter experts; and the potential of syndicated investments in Nova Scotia by the fund. Cycle Capital Management (CCM) is a venture capital fund manager dedicated to the clean technology industry. Cycle targets its investment in companies developing and commercializing clean technologies and projects of renewable energy generation focused on reducing greenhouse gas emissions, optimizing resources use, and decreasing impacts over their entire life cycle.
- InNOVAcorp continues to actively seek investment opportunities that offer the best potential for commercial success and financial sustainability. To this end, InNOVAcorp strives 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 worked to increase the size of venture rounds in Nova Scotia on a deal-by-deal basis by leveraging our capital, despite the effects of the economic downturn.
- Investments are designed to provide return on investment and cash-on-cash monetization on exits. Investee companies benefit from InNOVAcorp’s overall due diligence and mentoring services, and are therefore well prepared to approach other investors. InNOVAcorp aims to maximize the leverage of its investment by helping to secure investments from other institutional investors.
- InNOVAcorp met with investment firms from outside Atlantic Canada that were interested in learning about the highest potential investment opportunities in the region.
- An investment valuation policy was implemented for the NSFF and Microfund.

¹ Source: Thomson Financial, 2009

4. Complete Planning for the Development of a New BioScience Enterprise Centre

The BioScience Enterprise Centre provides specialized facilities, infrastructure and services that are critical to the growth and success of its resident life sciences clients. Waterfront development plans require the BioScience Enterprise Centre to relocate. InNOVAcorp has partnered with the Province of Nova Scotia and Dalhousie University to build a world-class life sciences focused incubation facility on the Dalhousie campus, with a target completion date of April 2011. The infrastructure will build on the strong track record of InNOVAcorp's BioScience Enterprise Centre.

- InNOVAcorp developed and began the execution of a proactive communications plan for the new BioScience Enterprise Centre, which included relevant key messages and communications vehicles to announce the new building.
- On October 28, at an event hosted by InNOVAcorp at the Kenneth C. Rowe Management Building on Dalhousie University campus, InNOVAcorp, in partnership with Dalhousie and the Province of Nova Scotia, announced that the BioScience Centre will relocate to Dalhousie University campus, adjacent the planned LSRI building, in 2011. The Province will invest \$1.6 million per year for 20 years to fund the operating lease. The Premier, along with key representatives from industry, academia and the research community, took part in the official announcement. Approximately 70 stakeholders representing industry, academia, and health care were in attendance for the significant announcement, which was very well received by all and received notably positive media coverage.
- InNOVAcorp developed a draft name/brand and visual identity for the new facility.
- InNOVAcorp collaborated with Dalhousie University stakeholders to ensure satisfactory operational plans are established for all administration, maintenance, and security functions.
- InNOVAcorp will ensure a seamless, on budget, one-move transition into the new building that allows for expansion and minimum inconvenience for existing tenants, attracts new high potential early stage companies, and maximizes synergies with industry, academic, and institutional life sciences research activities.
- In collaboration with Dalhousie University, architects, engineering firms, and other key stakeholders, InNOVAcorp refined the layout and functionality of the new BioScience Enterprise Centre to maximum efficiency, flexibility and energy conservation of the infrastructure within budget.
- InNOVAcorp continues to work to identify and secure financial partnerships with federal partners to fund specific elements of the new BioScience Enterprise Centre.

5. Monetize University Research and Entrepreneurial Activities

Nova Scotia is home to 11 universities and a strong community college system with 13 campuses across the province. Approximately \$130 million in research is conducted at these institutions each year. The long-term goal is for Nova Scotia universities and colleges to be known nationally for their innovative engagement of the business community, “business building” curriculum, and the flow of applied research towards commercial products. InNOVAcorp must continue to increase its efforts by effectively partnering further with entrepreneurs who are active in Nova Scotia’s post-secondary institutions.

- InNOVAcorp has been involved with planning Dalhousie University’s new Corporate Residency MBA program from the outset, influencing its approach and curriculum. InNOVAcorp will also be one of the program’s employer partners, taking our first intern in 2010. As Canada’s only corporate residency MBA opportunity, the 22-month program at Dalhousie integrates Canada’s top employers into the academic process, providing students with exceptional work experience, innovative curriculum, and leadership development skills to launch their careers. With numerous residency positions available from top private and public sector organizations and a maximum enrolment of 50 of the country’s best and brightest students, successful applicants will have fantastic career options.
- InNOVAcorp partnered with several Nova Scotia universities and the community college system to help deliver a strengthened post-secondary entrepreneurial curriculum.
- In conjunction with Nova Scotia Economic and Rural Development, InNOVAcorp continues 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. In 2008-2009, the ESCF was revamped; funding amounts were increased, reporting requirements changed, and two separate rounds were established. The purpose of the ESCF is to provide funding 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 revenue stream must be apparent. Since its establishment in 2005, ESCF has funded 45 projects in nine Nova Scotia post-secondary institutions.
- InNOVAcorp played a key advisory role over with the management of the new Centre of Geomatics Sciences incubation facility at NSCC’s Annapolis Valley Campus.
- A co-operative education student from Mount Saint Vincent University joined the InNOVAcorp team for 4 months to assist the marketing and communications team with various corporate and client initiatives.

2008-2009 Financial Results

(Combined results for InNOVAcorp and the BioScience Enterprise Centre*)

Summary By Section	Budget 2008-2009 (\$ thousands)	Actual 2008-2009 (\$ thousands)	Variance 2008-2009 (\$ thousands)
<i>Revenue</i> – NS Funding, Operating Revenue, and consolidated venture investment	\$7,319	\$7,579	(260) ¹
<i>Operating Expenses</i> – Investment, Incubation, Mentoring, Product Engineering and consolidated venture investment	4,225	3,866	(359) ²
<i>Corporate Expenses</i> - corporate services, administration, facilities management	1,843	1,966	123 ³
<i>Minus Net Non Operating Items</i> – investment income, interest on long-term debt, post-retirement benefits, amortization,	1,526	2,344	818 ⁴
Net Income (Loss)	(\$275)	(\$597)	(322) ⁵

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

Explanation of Variance

1. Revenues were greater than budget due to:

- Recognition of deferred 2007-2008 government funding related to I-3 Technology Start-up Competition items paid in 2008-2009 (\$178 K)
- Revenue from consolidated investee exceeded plan (\$154K)
- The increased revenue from the above sources was offset by reduced revenue in Incubation \$51 K and Product Engineering \$26 K

2. Actual Operating Expenses were less than plan due to:

- Across the board, the organization looked for opportunities for expenditure control in response to budgetary challenges, while maintaining its commitment to delivering its mandate.
- Mentoring spent less than budgeted (\$462 K). Expenses related to both the I-3 Technology Start up Competition and other new clients were less than anticipated.
- Investment expenses were less than budget (\$93 K) primarily due to delays in recruiting a planned hire.
- These under-expenditures were mitigated by higher than planned costs at the consolidated investee \$81K due to the success of its new product offering and in our Incubation area \$88K.

3. Actual Corporate Expenses were higher than plan due to:

- Higher than anticipated costs in the area of outside services \$69K primarily for assistance with organizational risk assessment, implementation of new accounting standards and website re-design.
- Addition of a new position in IT that did not recover costs through chargebacks to operations to the extent anticipated \$23K.
- Corporate marketing expenses were \$22K higher due to a decision to consolidate this expenditure in one cost centre. In prior years, individual operating budgets were charged marketing costs.

4. Actual net non-operating expenses had a negative variance due to:

- Investment write downs were more than budgeted \$948K.
- Income on the NSFF liquid portfolio was less than budgeted due to the downturn in financial markets \$165K

Mitigated by:

- NSFF Venture fund income and realized gains (\$272K)

5. The net loss is primarily attributable to non-cash items such as write downs, amortization and post retirement benefits.

Performance Measures

Below is an assessment of InNOVAcorp's progress towards the performance measures outlined in our 2008-2009 business plan. Our metrics focus on the areas of economic impact, client satisfaction and leading indicators of client-related statistics.

Performance Measure: Client company revenue growth

What does this measure tell us?

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

Where are we now?

In 2008-2009, InNOVAcorp's current and graduate companies generated \$278 million in revenues; 15 per cent more than the \$240 million target. The vast majority of these revenues (98 per cent +) were created through exports of products and services outside Atlantic Canada.

Where do we want to go in the future?

As a result of the global recession, we forecast that client generated revenue will decline slightly to \$275 million during the 2009-2010 fiscal year.

Performance Measure: Employment generated by client companies

What does this measure tell us?

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

Where are we now?

In 2008-2009, employment generated by InNOVAcorp client companies very slightly decreased from 1500 in 2007, to 1447; resulting in \$62 million in payroll which is unchanged since last year. It is important to note that those jobs within our client companies are considered high-quality with strong salaries; and although employment has slightly decreased, pay-per-person has increased. Because InNOVAcorp clients are Nova Scotia-based and owned, the prosperity created by employment is reinvested back into the local economy.

Where do we want to go in the future?

In 2009-2010 we expect that employment from existing and new clients will result in InNOVAcorp clients employing 1600 people with a \$70 million payroll.

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

What does this measure tell us?

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

Where are we now?

Since its recapitalization in 2003-2004, InNOVAcorp has leveraged \$32 million in investment (\$13 million from outside of Atlantic Canada) from angel and strategic investors, financial institutions, and other seed and venture capital funds for early stage high potential companies. The cumulative amount of investment from NSFF investee companies since 1996 is \$101.3 million. In 2008-2009 InNOVAcorp achieved a leverage ratio of 1:3, meaning that for every \$1 invested by the NSFF, \$3 was invested by syndicated investors.

Where do we want to go in the future?

In 2009-2010, the target amount of cumulative investment in client companies in which investments were made by the NSFF is \$106 million. Our goal is to maintain a leverage ratio of 1:3; and of this additional capital InNOVAcorp aims to attract a significant amount from outside Nova Scotia.

Performance Measure: Client satisfaction

What does this measure tell us?

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

Where are we now?

In the client satisfaction survey conducted in spring 2009, 96 per cent of clients indicated they were satisfied with InNOVAcorp's overall services, and again, 96 per cent said they would recommend InNOVAcorp to a friend or colleague. This represents an improvement over 2007-2008, in which 92 per cent indicated their satisfaction with services and 88 per cent that said they would recommend InNOVAcorp.

Where do we want to go?

In our 2009-2010 client satisfaction survey, our goal is for 91 per cent of clients to be

satisfied with InNOVAcorp's services overall and 91 per cent to be willing to recommend our services to others.

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

What does this measure tell us?

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

Where are we now?

In 2008-2009, InNOVAcorp provided advisory and relationship management support services to 198 early stage companies; 40 more than last year, representing an increase of more than 25 per cent. Of the above referenced engagements, InNOVAcorp has formal agreements and ongoing relationships with 45 active HPI clients.

Where do we want to go in the future?

In 2009-2010, we forecast having 50 active HPI clients and expect 175 new engagements with Nova Scotia-based companies. When reviewing this performance measure, it should be remembered that each year it is natural for some clients to leave the InNOVAcorp business model and new ones to take their place.

Performance Measure: Number of new clients

What does this measure tell us?

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

Where are we now?

In 2008-2009, InNOVAcorp welcomed nine new client companies. This number does not meet the target range of 15 new clients, and so this year InNOVAcorp will closely examine our pipeline and how to improve for 2009-2010.

Where do we want to go in the future?

In 2009-2010, we expect to have an additional 15 new companies added to our roster.

Performance Measure: Incubation occupancy levels

What does this measure tell us?

InNOVAcorp's business incubation clients pay market rates for the services we provide

and the space they lease in our facilities. Increased occupancy in our incubation facilities results in a larger return on the Province of Nova Scotia's allocation of resources to InNOVAcorp. However, at any given time, space will be available in our facilities as we achieve our goal of graduating clients into commercial space. While we strive to maintain a high occupancy rate, the turnover of our clients is a significant measure of our performance.

Where are we now?

In 2008-2009, InNOVAcorp reached its target and maintained an occupancy rate of 90 per cent. This is considered to be the "best practice" rate for incubation facilities in order to have space available for new clients and existing companies that are ready to expand.

Where do we want to go in the future?

Our goal is to maintain our current occupancy rate at 90 per cent in 2009-2010.

Performance Measure: Number of clients exporting products/services internationally

What does this measure tell us?

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

Where are we now?

In 2008-2009, 51 of InNOVAcorp's clients were exporting their products and services. This is six more than our target, and five more companies than 2007-2008.

Where do we want to go in the future?

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