

ACCOUNTABILITY REPORT

2017-2018

innovacorp

EARLY STAGE VENTURE CAPITAL

We get invested.



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Accountability Statement

Innovacorp's accountability report for the fiscal year ending March 31, 2018, is prepared pursuant to the Finance Act and government policies and guidelines.

These authorities require the reporting of outcomes against Innovacorp's business plan for 2017-2018. Such reporting necessarily includes estimates, judgments and opinions by Innovacorp management and may embody risks and uncertainties that could materially impact actual results.

We acknowledge 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.



Rodney F. Bugar
Chair, Innovacorp Board of Directors



Malcolm Fraser
President & CEO, Innovacorp

Message from the Board Chair, President and CEO

Innovacorp continues to be a vital partner in Nova Scotia's strategy for economic growth. A robust start-up ecosystem is key to achieving a strong economic future for Nova Scotia and Atlantic Canada – and Innovacorp is helping build that ecosystem.

Innovacorp is Nova Scotia's early stage venture capital organization. We work to find, fund and foster innovative Nova Scotia start-ups that strive to change the world.

Early stage investment is at the core of our business model. We also give entrepreneurs access to world-class incubation facilities, expert advice, and other support to help accelerate their companies. Target industries include information technology, life sciences, clean technology and ocean technology.

The following pages provide details about Innovacorp's activities and accomplishments in 2017-2018. We are proud of our work, but there is always more that needs to be done. We look forward to 2018-2019 and further increasing innovation, commercialization and entrepreneurship success stories in Nova Scotia.

2017-2018 Financial Results

Summary By Section	Budget 2017-2018 (\$ millions)	Actual 2017-2018 (\$ millions)	Variance 2017-2018 (\$ millions)
Revenue – Nova Scotia funding and operating revenue	\$10.0	\$12.3	\$2.3
Operating Expenses – Incubation and Investment	7.5	9.4	1.9
Corporate Expenses – corporate services and administration	1.6	1.6	-
Net Non-Operating Revenue (Expenses) – interest expense on long-term debt, post-retirement benefits, amortization, and investment income/expense	(1.0)	2.9	3.9
Plus – statutory capital advances re NSFF investments	-	6.9	6.9
Net (Deficit) Surplus	\$(0.1)	\$11.1	\$11.2

Explanation of Variances

Revenue

Innovacorp's revenue was \$2.3 million higher than budget. Highlights of the changes are summarized in the following table:

Millions of dollars

Budget 2017-2018	\$10.0
Additional funding (federal, private sector, etc.) for various sponsored activities and events	1.1
Additional Nova Scotia funding for various sponsored activities and events	0.8
Funding for Momentum	0.3
Additional revenue at incubation facilities	0.1
Actual 2017-2018	\$12.3

Operating Expenses

Innovacorp's operating expenses were \$1.9 million higher than budget. Highlights of the changes are summarized in the following table:

Millions of dollars

Budget 2017-2018	\$7.5
Various sponsored activities, events, and awards	1.9
Unbudgeted Momentum expenses	0.3
Other – various savings	(0.3)
Actual 2017-2018	\$9.4

Corporate Expenses

Innovacorp's corporate expenses were on budget.

Net Non-Operating Revenue (Expenses)

Innovacorp's net non-operating revenue (expenses) were \$3.9 million higher than budget. Highlights of the changes are summarized in the following table:

Millions of dollars

Budget 2017-2018	\$(1.0)
Investment and loan impairments in excess of budget	(1.5)
Gains on disposition of NSFF investments	4.8
NSFF portfolio dividends and interest revenue in excess of budget	0.6
Actual 2017-2018	\$2.9

Statutory Capital Advances

Statutory capital advances are unbudgeted and are recognized as revenue at the later of the date on which the funds are received from the Province of Nova Scotia and the date on which an eligible investment is made.

Net Surplus (Deficit)

Innovacorp's surplus was \$11.2 million higher than budget.

Measuring Our Performance

Early Stage Venture Capital

Innovacorp's Nova Scotia First Fund (NSFF) targets emerging venture-grade technology companies with high-growth potential and attractive risk-return prospects. A priority in 2017-2018 was to sustain Innovacorp's investment pace by making 8-12 investments in early stage Nova Scotia companies in the information technology, life sciences, clean technology and ocean technology sectors. Further, Innovacorp sought co-investors to leverage NSFF investments, with an emphasis on venture capital partners from outside Nova Scotia, to increase the pool of risk capital in the province.

Here are highlights of Innovacorp's 2017-2018 venture capital activity:

- In 2017-2018, Innovacorp made 17 investments in 16 companies, advancing \$7.93 million. Of this, \$6.68 million was for follow-on investments in seven existing portfolio companies, which reflects the maturing nature of Innovacorp's portfolio. Further, investment commitments of about \$1.3 million were made to nine pre-seed or seed-stage companies, eight of which are new to the portfolio.
- Innovacorp's \$7.93 million in investment leveraged an additional \$31.85 million in venture capital and private equity, the majority from sources outside Nova Scotia. This represents a leverage ratio of 1:4.01, which exceeds Innovacorp's weighted portfolio target ratio of 1:1.8.
- Innovacorp made investments in information technology companies: Ubique Networks (\$300,000); Proposify (\$1.2 million); Dash Hudson (\$1.26 million); Swept (\$400,000). Through its fund allocation that targets acceleration program graduates, Innovacorp made \$400,000 in investments in the following six start-ups: Swell Advantage, Side Door, Dugo, Guild, Harbr and Securicy.
- Innovacorp made investments in life sciences companies: Appili Therapeutics (\$2 million over two transactions); Spring Loaded Technology (\$510,000); Alentic Microscience (\$252,000); Covina Biomedical (\$500,000).
- Innovacorp made investments in clean and advanced technology (including ocean technology) companies: NeoThermal Energy Storage (\$100,000) and SkySquirrel Technologies (\$999,000).
- In February 2017, Innovacorp portfolio company Kivuto Solutions was acquired by Legado Capital. Innovacorp's total investment in Kivuto Solutions was \$601,950 and its total return from investment was \$7.4 million, representing 12.4X cash-on-cash and an IRR of 16.5 per cent.
- About \$6 million in distributions were generated by NSFF in 2017-2018, primarily from proceeds from the Kivuto exit. Overall, the value of the portfolio increased by \$8.8 million, driven by distributions received and the net impact of unrealized valuation changes in portfolio investments.
- Since 2011-2012, Innovacorp has invested \$42.4 million in 50 early stage companies. It has also advanced \$13.1 million to Build Ventures and Cycle Capital's Funds I & III – with an additional \$4.9 million committed to them. Commitments for venture capital investments and funds set aside to invest in the promising graduates of accelerator programs total \$900,000. As of March 31, 2018, NSFF had about \$59.7 million undrawn and available for new investments and follow-on investments in portfolio companies, plus an additional \$25 million for the creation of two new venture capital funds.
- Revenue and employment generated by portfolio companies in 2017-2018 was \$50 million and 606 jobs, representing 25 per cent and 13 per cent year-over-year increases, respectively.

- In fall 2017, Innovacorp co-founded a new program and micro-fund with BDC Capital and Volta. Innovacorp committed \$125,000 a year for two years to Volta Cohort to help early stage, high calibre founders attract venture capital sooner. Through a competitive process, Volta Cohort companies receive a \$25,000 investment as well as space and support at Volta Labs in Halifax. The initiative is expected to lead to new investment opportunities for Innovacorp as the participating ventures mature.
- Following an Innovacorp-managed public request for submissions (RFS) for a manager of a new private-sector-led venture capital fund, the selection committee determined the best way to supplement venture capital activity in the region was to allocate the Province's \$25 million commitment to two funds – \$15 million for a second fund for Build Ventures (BVII) and \$10 million for a new private-sector-managed fund. The \$10 million fund was subsequently increased by \$5 million from Innovacorp's NSFF. A manager for the new fund will be selected in spring 2018. Both funds will be actively investing in 2018-2019. Innovacorp, Build Ventures and the new fund, along with the co-investors they engage, will help fill funding gaps in the start-up ecosystem and advance the Province toward its 2024 per capita venture capital target.
- NSFF's objective is to generate a return for Nova Scotia. This is measured by the total value of the portfolio (i.e., realized distributions and unrealized changes in value) to the total amount contributed by the Province (Modified TVPI ratio¹). At the end of 2017-2018, NSFF's TVPI was 0.91:1, representing a 27 per cent year-over-year increase. The TVPI for investments made since 2011, when Innovacorp implemented its current investment thesis, is 1.03:1. Innovacorp's objective is to generate returns at least sufficient to recover the Province's contributions to NSFF and the cost of capital for those funds (i.e., approx. 1.2:1).

Incubation

Innovacorp manages three incubation sites which host more than two dozen companies employing over 300 entrepreneurs and skilled professionals. The Technology Innovation Centre (TIC) in Dartmouth targets companies in the clean technology sectors, while the Innovacorp Enterprise Centre (IEC) on the Dalhousie University campus in Halifax focuses on companies in the life sciences sectors. The Innovacorp Demonstration Centre in Brooklyn is an industrial demonstration facility where cutting-edge bioresource innovators and researchers can test their products before bringing them to full market scale.

Innovacorp will soon also manage Start-Up Yard, a 6,300 sq.ft. business incubator at the Centre for Ocean Ventures and Entrepreneurship (COVE) in Dartmouth. Innovacorp has been working with COVE's many partners to get the site up and running, and made a competitive call in March 2018 to find the first six Start-Up Yard residents for when the facility opens in July 2018. These early stage ocean technology companies will benefit from Innovacorp's acceleration programs, incubation space and services, funding, shared equipment, expertise and mentoring.

In 2017-2018, Innovacorp delivered world-class incubation services and facilities to 27 technology companies, which together employed just under 400 skilled professionals. Upgrades to TIC and IEC services enhanced the client experience.

¹ The TVPI ratio typically includes in Paid In capital the amount of management fees paid to the fund manager. NSFF capital funds are 100 per cent used to make investments, and investment management costs are included in Innovacorp's operating budget. The measure is noted as modified to indicate it is not directly comparable to TVPI statistics.

Acceleration Programs

Innovacorp's business acceleration activities are significant components of the overall value it provides to Nova Scotia's entrepreneurs. The programs, events and other initiatives augment the organization's venture capital activity and incubation facilities and services to help start-ups achieve business milestones. Often competitive in nature, the initiatives target companies in the life sciences, clean technology, information technology and ocean technology sectors. The Atlantic Canada Opportunities Agency co-funded several of the acceleration programs in 2017-2018.

Here are highlights of Innovacorp's 2017-2018 acceleration activities:

- **ESCF**

The Early Stage Commercialization Fund (ESCF) helps move Nova Scotia university and college research to market. It provides support for projects that demonstrate commercial readiness or are close to achieving a prototype or proof-of-concept stage with a possibility of attracting industry partners and investment. The prospect of generating a new revenue stream must also be apparent.

In 2017-2018, Innovacorp ran two cohorts of the Early Stage Commercialization Fund (ESCF). Thirty-five submissions were received, with a total of \$500,000 committed to 13 projects from four institutions.

- **Spark**

Innovacorp's Spark competitions began in 2013-2014 when Spark Cape Breton was piloted to offer funding and mentoring to help new technology companies in Cape Breton develop their products. To enter, start-ups need to have a new knowledge-based product or service and zero sales revenue since inception. Funds awarded are used to support the completion of prototypes or preparation for taking the product or service to market.

Innovacorp delivered Spark West in 2016-2017 to find and support entrepreneurial activity in western Nova Scotia, and then in 2017-2018, the Spark Innovation Challenge was expanded to reach entrepreneurs across the province. Nova Scotia was divided into four competition regions (Spark Halifax, Spark West, Spark North and Spark Cape Breton) to encourage community involvement and submissions.

There were 136 Spark submissions from across the province, with a total of \$800,000 in non-dilutive, non-repayable funding shared among the 18 winners. Winners also received guidance from seasoned business professionals.

- **CleanTech Accelerate Program**

Launched as a three-month pilot program in September 2016, the CleanTech Accelerate Program (CTAP) is an accelerator designed to help early stage blue and green technology companies hit milestones and fast-track their businesses.

In 2017-2018, CTAP was expanded to a six-month program offering. Twenty-seven submissions were received and evaluated by a selection committee. Six companies were selected for the cohort and a total of \$212,500 was awarded. A seventh company was not awarded funding, but was invited to access the program's acceleration workshops, market intelligence resources and incubation facilities at the Technology Innovation Centre.

- **MedTech Accelerate Program**

In 2017-2018, Innovacorp launched the inaugural edition of its MedTech Accelerate Program to help Nova Scotia life sciences companies developing medical technologies get investment ready.

Four high potential medical technology companies were selected to participate in the cohort. Each company received \$52,500 in non-dilutive, non-repayable funding and business guidance to address key technical and

business milestones. In addition to financial support, program participants received one-on-one mentoring, access to incubation space at the Innovacorp Enterprise Centre, and sector-specific workshops.

- **CleanTech Development Program**

Innovacorp's CleanTech Development helps Nova Scotia clean technology companies address key technical and business milestones. Funds can be used to address gaps related to investment or commercial readiness such as management expertise, business and financial planning, go-to-market strategies, intellectual property protection, and technology development.

In 2017-2018, 10 submissions were received and evaluated by a selection committee. Innovacorp distributed \$165,000 in awards to five clean technology start-ups.

- **Demo at Sea Program**

Inspired by our mandate at the Start-Up Yard at COVE, the Demo at Sea Program lets promising Nova Scotia ocean technology companies demonstrate and test their pre-commercial prototypes in a real-life setting (i.e., the ocean). The program provides access to LeeWay Marine vessels and their skilled marine operators, the Fast Advanced Sensor Technology (FAST) Platform at FORCE, and flume tanks.

The Demo at Sea Program supported two ocean technology companies in 2017-2018, each receiving \$20,000.

- **Early Adopter Program**

To further support client pipeline development for Start-Up Yard at COVE, the OceanTech Early Adopter Program was launched to provide Nova Scotia ocean technology companies with up to \$20,000 each towards the first deployment and testing of a product with an early adopter customer. Potential customers included government entities, academic institutions and private companies anywhere in the world. Customers had to agree to provide test data and feedback.

Four Nova Scotia companies each received \$20,000 in 2017-2018 towards the first deployment and testing of a product with an early adopter customer.

- **OceanTech Development Program**

The OceanTech Development Program provides Nova Scotia companies with up to \$20,000 each to address short-term milestones in their technology development plan. Nine companies were selected to participate in the 2017-2018 OceanTech Development Program, receiving funding, acceleration workshops and guidance from seasoned business people. Funds are used to build the product and operate it during testing, engage academic and industry expertise and perform other technology validation activities (i.e., prototypes, pilot tests and certification).

- **Blue Solutions Start-Up Challenge**

New in 2017-2018, the Blue Solutions Start-Up Challenge was created to find innovative solutions to problems in the ocean sector. The program aims to build on the increasing ocean technology development across the region and ignite the start-up community in Nova Scotia. Entrants were required to have a new knowledge-based product or service with annual sales revenue of less than \$1 million. Funds awarded were intended to support the completion of prototypes or preparation for taking the product or service to market.

The Blue Solutions Start-Up Challenge received 47 entries after the call for submissions in September 2017. Ten round one winners were selected in October 2017 and received \$10,000 and guidance from seasoned business professionals. The two round two winners each received \$50,000.

- **Momentum**

To augment its long-established work in Cape Breton, in 2017-2018 Innovacorp launched a new initiative, Momentum, to help that region's start-ups grow stronger, faster. Momentum includes an entrepreneur-in-residence, acceleration programs, training opportunities, mentorship and networking events, with a makerspace coming in the year ahead.

Most of Momentum's activities take place at the former Holy Angels High School in downtown Sydney, however the initiative includes other interested communities across the region. Many partners were behind the creation of Momentum, and the Atlantic Canada Opportunities Agency has provided three years of funding towards the work.

In 2017-2018, the Innovacorp team in Cape Breton held 51 Momentum events, workshops and networking events, with a total of 816 attendees. In addition, Momentum's entrepreneur-in-residence held 50 mentoring sessions with companies.

Sixteen new entrepreneurs accessed Momentum activities in 2017-2018.

- **Training Funds for IT Start-Ups**

In 2017-2018, Innovacorp provided funds to assist IT start-ups in its network with costs associated with training activities. Eligible costs included airfare, accommodations, ground transportation and program fees for training in key areas such as technical expertise, sales and marketing. Participants received up to \$5,000 in non-dilutive, non-repayable funding. Eight awards were distributed totalling about \$30,600.

- **MentorFirst**

MentorFirst connects entrepreneurs with teams of experienced volunteer mentors for objective, unbiased business guidance. The program is based on the MIT Venture Mentoring Service, which has become the basis for more than 80 entrepreneur-mentoring programs worldwide. Innovacorp representatives were trained on how to adopt and deliver the program in spring 2017 and launched the pilot in the fall. After a successful trial run involving 10 companies, 30 mentors and 16 mentor meetings, Innovacorp is ready to roll out MentorFirst as a full-time program in the year ahead.

- **Shift Challenge**

Innovacorp and the Nova Scotia Department of Seniors teamed up in early 2018 to offer support for innovations that address challenges facing our aging population. The competition, Shift Challenge, resulted in 26 submissions. Two winners were selected to receive cash (total \$25,000) and business guidance to put their ideas into action.

- **MaRS**

In 2017-2018, Innovacorp was one of four Atlantic Canadian organizations to partner with the Toronto-based MaRS Innovation Hub and gain access to the MaRS Market Intelligence database offering. The service provides access to premium databases, providing Innovacorp clients with the ability to gain market, technical and competitive intelligence. Sixteen client companies took advantage of this service in 2017-2018 and the total value of the market research provided to start-ups was \$552,690

- **Partnership with Bioenterprise Corporation**

Strategic partnerships have become increasingly important in supporting Nova Scotia's promising entrepreneurs. Innovacorp's partnership with Bioenterprise Corporation continues to ignite an emerging agricultural technology sector in Nova Scotia. Combining the scientific and technical expertise, industry knowledge and global connections of the Guelph-based accelerator with Innovacorp's start-up know-how, the partnership has provided the necessary support to create solutions for the global food industry. In 2017-2018, the partners analyzed 18 new agricultural technology companies, which resulted in 14 client engagement contracts, most of which were

with start-ups. Since the partnership began in 2014, support has been provided to 44 companies, resulting in 125 jobs and more than \$28 million of investment in the sector.

- **Start-Up Visa Program**

New Innovacorp clients are also attracted through the Start-Up Visa Program, a federal initiative for immigrant technology entrepreneurs who wish to establish new, high-growth businesses in Canada that will support innovation and job creation. Innovacorp is a designated organization under the program and able to recommend entrepreneurs to receive a start-up visa from Immigration, Refugees and Citizenship Canada (IRCC). In 2017-2018, Innovacorp welcomed Moe Kabbara (NeoThermal Energy Storage) from Lebanon and Gene Sobolev (Halifax Data Labs, formerly Inboundli) from Germany under the program, and filed an application with IRCC for a third company.

- **Business Over Breakfast, TecSocial and Other Gatherings**

In 2017-2018, Innovacorp continued to help foster the development of the entrepreneurial ecosystem and deliver monthly events such as TecSocial in Cape Breton and the popular Business Over Breakfast series.

Innovacorp gathered feedback (e.g., interviews, focus groups and written evaluations) from participants in all the above initiatives and tracked the milestones the companies achieved.

Appendix A: Key Performance Indicators

	Actual 2013-14	Actual 2014-15	Actual 2015-16	Actual 2016-17	Target 2017-18	Actual 2017-18
Investment						
<i>Total investment by Nova Scotia First Fund – NSFF (\$ millions)</i>	\$5.1	\$8.4	\$6.7	\$5.6	\$4 - 8	\$7.9
<i>Amount of investment leveraged by NSFF (\$ millions) (cumulative from February 1996)</i>	\$141	\$155	\$162	\$199	\$214	\$231
<i>Investment leverage (blended 1:1 pre-seed/seed; 1:2 post-seed)</i>	1:1.5	1:2.1	1:1.2	1:3.3	1:1.84	1:4.01
<i>Number of NSFF investments</i>	11	12	18	13	8 - 12	17
<i>Portfolio company export sales (\$ millions)</i>	\$25.2	\$26.3	\$34.0	\$40.5	\$50.0	\$50.2
<i>Total payroll of portfolio companies (\$ millions)</i>	\$25.7	\$27.4	\$37.4	\$42.3	NA	\$47.9
<i>Total employment of portfolio companies</i>	347	376	491	534	NA	606
<i>TVPI</i>					NA	0.91:1
Incubation						
<i>Number of start-ups under incubation</i>	25	27	28	29	25	27
<i>Number of employees at companies under incubation</i>	196	253	304	350	300	383
Acceleration						
<i>Number of Spark* Cape Breton submissions</i>	25	28	28	25	NA	NA
<i>Number of Spark Cape Breton awards</i>	6	8	6	7	NA	NA
<i>Value of Spark Cape Breton awards (\$ thousands)</i>	\$200	\$200	\$200	\$225	NA	NA
<i>Number of Spark West submissions</i>				32	NA	NA
<i>Number of Spark West awards</i>				6	NA	NA
<i>Value of Spark West awards (\$ thousands)</i>				\$200	NA	NA
<i>Number of province-wide Spark submissions</i>					55	136
<i>Number of province-wide Spark awards</i>					12	18
<i>Value of province-wide Spark awards (\$ thousands)</i>					\$600	\$800

	Actual 2013-14	Actual 2014-15	Actual 2015-16	Actual 2016-17	Target 2017-18	Actual 2017-18
<i>Number of ESCF projects</i>	15	13	14	16	10	13
<i>Number of new spin-outs and licensing deals from ESCF projects in previous two years</i>		12		12	5	NA
<i>Value of ESCF projects (\$ thousands)</i>	\$586	\$640	\$500	\$670	\$500	\$500
<i>Number of start-ups supported through Bioenterprise partnership (new engagements this year)</i>			11	19	10	14
<i>Number of new entrepreneurs accessing Momentum activities</i>					10	16
<i>Number of participants in Momentum activities (e.g., events, entrepreneur-in-residence sessions, workshops)</i>					NA	866
<i>Number of sector-specific acceleration* programs</i>					4	8
<i>Number of awards for acceleration program participants</i>					29	43
<i>Total value of acceleration program awards (\$ thousands)</i>					\$850	\$1,106
<i>Number of acceleration program participants achieving targeted development milestones</i>					18	40
<i>Number of residents selected for Start-Up Yard at COVE</i>					5	6

* Sector-specific acceleration programs include: Training Funds for IT Start-Ups; CleanTech Development Program; CleanTech Accelerate; MedTech Accelerate; Blue Solutions Start-Up Challenge; Demo at Sea Program, Early Adopter Program; and OceanTech Development Program. (Excludes Innovacorp's other support programs, such as Expert Advice, Accelerator Support and Start-Up Yard at COVE cohort.)

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