

ACCOUNTABILITY REPORT 2015-2016

innovacorp

EARLY STAGE VENTURE CAPITAL

We get invested.



Table of Contents

ACCOUNTABILITY STATEMENT	1
INTRODUCTION	2
INNOVACORP PROGRESS AND ACCOMPLISHMENTS	4
FINANCIAL RESULTS	11
PERFORMANCE MEASURES	13
APPENDIX A: KEY PERFORMANCE MEASURES FOR 2016-2017	17

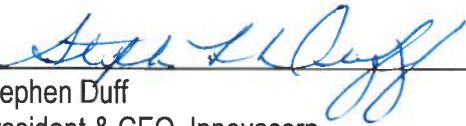
Accountability Statement

Innovacorp's accountability report for the fiscal year ending March 31, 2016, 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 2015-2016. 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.



Rodney F. Bugar
Chair, Innovacorp Board of Directors



Stephen Duff
President & CEO, Innovacorp

Introduction

This accountability report covers the Innovacorp business plan for 2015-2016 and therefore should be read in conjunction with that plan, which you can download at www.innovacorp.ca/publications. The report reviews the goals and priorities set in March 2015 and describes the accomplishments and progress achieved during the year ending March 31, 2016. Financial results are provided with an explanation for any significant budget variances.

At Innovacorp, we believe in Nova Scotia entrepreneurs. Our mission is to find, fund and foster innovative Nova Scotia start-ups that strive to change the world, and our vision is that this region will one day be among the top 10 start-up ecosystems in the world. Governed by a private sector-led board of directors, we are an accountable, fiscally responsible Nova Scotia crown corporation that helps high potential early-stage Nova Scotia companies commercialize their technologies and succeed in the global marketplace.

Early-stage investment is at the core of our business model, and we provide hands-on business advisory services, tailored to meet the unique and evolving needs of each of the promising technology companies in our portfolio. We also deliver value by giving entrepreneurs access to world-class incubation facilities and leveraging strategic partnerships to introduce our clients to an international network of expert advisors and investors.

In our last two accountability reports, we referenced published surveys by Entrevestor that highlight the robust growth of the regions start-up economy. This year's survey results showed continued evolution and growth of our innovation ecosystem.¹ The 2016 report documented 363 start-ups in Atlantic Canada, 194 of which were Nova Scotia-based, representing a year-over-year increase of 27 per cent. Survey responses from 142 start-ups indicated employment in Atlantic Canada start-ups increased 41 per cent year-over-year and this is expected to grow by 45 per cent in 2017. These respondents also reported revenues were up 60 per cent, and are expected to grow by almost 200 per cent in 2017. Within the Nova Scotia survey cohort, jobs grew by 59 per cent and are expected to grow by 44 per cent in 2017, while revenues grew by 87 per cent and were expected to grow by 300 per cent in 2017.

According to the Canadian Venture Capital Association, Atlantic Canada attracted \$66 million in venture capital in 2015, \$51 million of which was invested in 27 Nova Scotia companies. This represents a year-over-year reduction of \$33 million, or 39 per cent. In the category of government-backed venture capital, Innovacorp ranked fourth nationally in the number of investments made in 2015-2016. We made 18 investments in 17 companies, advancing \$6.7 million. Eleven of these companies were new to our portfolio. Innovacorp's investments leveraged an additional \$8.3 million in investment, the majority from sources outside Nova Scotia. In addition, in 2015-2016, our portfolio companies generated about \$34 million in revenues (an increase of 31 per cent) and directly employed 491 people (an increase of 20 per cent), resulting in a payroll of \$37.4 million (an increase of 31 per cent), most of which was in the form of high-value jobs.

Along with capital investment, Innovacorp provided hands-on business guidance to the companies it invested in. We also delivered world-class incubation services and facilities – places Nova Scotia's technology entrepreneurs can call home. On average in 2015-2016, 25 promising companies were resident in Innovacorp's incubation facilities – the Technology Innovation Centre (TIC) in Dartmouth and the Innovacorp Enterprise Centre (IEC) in Halifax – representing a 90 per cent overall annual occupancy rate.

¹ [Entrevestor Intelligence – "The Deal That Changed Everything" April 2016 • Volume 5, Issue 2](#)

During the year, Innovacorp worked in parallel with the newly created Department of Business to ensure alignment with the provincial government's priority of innovation and to establish Nova Scotia as a strong and globally competitive economy. Moving forward, this work will help create a climate for private sector and social enterprise economic growth by concentrating our efforts on the following priorities in government's Framework for Private Sector Growth:

- Increasing Entrepreneurship and Start-ups
- Supporting Innovation and Commercialization
- Striving for Global Competitiveness, Trade and Investment
- Building Capacity in High Potential Clusters

The following pages provide details about Innovacorp's activities and accomplishments in 2015-2016 – accomplishments that are a reflection of our clients' success. We continue to support Nova Scotia entrepreneurs and remain confident that each start-up milestone achieved takes us a step along the path to realizing the oneNS Commission's vision for a prosperous Nova Scotia.

Innovacorp Progress and Accomplishments

Nova Scotia's start-up ecosystem made significant advancements in 2015-2016 and Innovacorp focused on strategically aligning our efforts to help fuel this progress. Informed and inspired by the work of the ONE Nova Scotia Coalition on Building Our New Economy, themes such as innovation, competitiveness and entrepreneurship cut across our activities – all designed to find, fund and foster innovative Nova Scotia start-ups.

Specifically, we marked progress:

- helping start-ups access risk capital
- supporting start-ups through our incubation practice
- accelerating client success
- providing client access to expertise through new strategic partnerships
- facilitating growth in the regions start-up ecosystem

The Nova Scotia First Fund (NSFF), Innovacorp's early-stage venture capital fund, enjoyed its most active year ever investing in start-ups while leveraging new private sector co-investors. Promising new start-ups entered our incubators while others marked successful milestone-based exits. We accelerated start-up activity through competitions such as the I-3 Technology Start-Up Competition, Spark Cape Breton, and the Early Stage Commercialization Fund, and engagements with sector-specific accelerators like Cycle Capital's clean technology-focused EcoFuel. Our Productivity and Innovation Voucher Program created new commercial partnerships between small and medium sized companies and university researchers. We bolstered our network of expert advisors while playing an important role in hosting ecosystem-building events to support and inspire an entrepreneurial culture in our province.

Underpinning Innovacorp's operation is the fiduciary oversight of our private sector-led board of directors, which brings deep expertise and experience in business strategy, investment, finance and corporate governance. The board has been instrumental in helping shape Innovacorp's strategy to align with the ONE Nova Scotia Coalition and the government's Framework for Private Sector Growth. Together, we made progress toward delivering on the province's strategy to support the winning conditions for private sector companies to create good jobs and grow the economy.

Reflecting on the 2015-2016 business plan, we measured our performance against five strategic priorities outlined in the plan:

Priorities for 2015-2016

1. Early-stage, high potential companies gain access to risk capital

2015-2016 was the most active year in the history of Innovacorp's Nova Scotia First Fund (NSFF), a testament to the progress of our start-up ecosystem. NSFF, managed efficiently by a relatively small team of experienced investment professionals, was the fourth most active government-backed venture capital fund in Canada over the 2015 calendar year. The fund 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 Nova Scotia within the broader investment community, thereby

driving the attraction of more risk capital to the region. A priority in 2015-2016 was to sustain our investment pace by making 8-16 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 and to syndicate with venture capital partners from outside Nova Scotia and increase the pool of risk capital in the province.

- In 2015-2016, Innovacorp made 18 investments in 17 companies, advancing \$6.7 million. Of this, \$2.6 million was for follow-on investments in seven existing portfolio companies and roughly \$200,000 of protective disbursements were made in four portfolio companies. The \$6.7 million total investment leveraged an additional \$8.4 million in venture capital and private equity, the majority from sources outside Nova Scotia. This represents a leverage ratio of 1.25:1, which equals our weighted portfolio target ratio. Innovacorp maintained a high level of due diligence for each of its investments while remaining within budget.
- Innovacorp made investments in information technology companies, including Ubique Networks (\$500,000), Vendeve (\$105,000), PACTA (\$100,000), Clean Simple (\$100,000), Shout (\$50,000), aioTV (\$680,000) and Marcato Digital Solutions (\$500,000).
- Innovacorp made investments in life sciences companies including Appili Therapeutics (\$500,000), Densitas (\$250,000), Health QR (\$250,000; in two tranches of \$100,000 and \$150,000), ABK Biomedical (\$753,000), Performance Genomics (\$50,000) and DeCell Technologies (\$250,000).
- Innovacorp made investments in clean technology (including ocean technology) companies Metamaterial Technologies (\$1.5 million), SkySquirrel Technologies (\$500,000), Ocean Executive (\$150,000) and Island Water Technologies (\$100,000).
- Innovacorp invested \$3.09 million as a limited partner in three funds: Build Ventures (\$2.94 million), the Atlantic Canada venture capital fund, and clean technology investor Cycle Capital's Funds I & II (\$145,000).
- In January 2016, Innovacorp sold its equity interest in Livelenz to Arizona-based Mobivity Holdings Corp in an all-share transaction where Mobivity paid \$CAD 1.032 million for 100 per cent of the equity of Livelenz.
- In March 2016, Innovacorp sold its equity interest in InNetwork in an all-share transaction with gShift Labs of Barrie, ON.
- As of March 31, 2016, of the roughly \$49.6 million under NSFF management, \$24.6 million (50%) has been advanced to 44 companies, \$6.9 million (14%) has been advanced to Build Ventures and Cycle Capital L.P. I & II, and \$13.6 million (27%) has been committed to funds, venture investments and the most promising graduates of Propel ICT's regional accelerator program. This leaves \$5.5 million undrawn and available for follow-on and new investment.

2. Clients achieve business objectives as a result of our incubation practice

In 2015-2016, Innovacorp continued to evolve our incubation practice and the incubation client experience at the Innovacorp Enterprise Centre (IEC) on the Dalhousie University campus, the Technology Innovation

Centre (TIC) in Dartmouth, and the Innovacorp Demonstration Centre (IDC) on the former Bowater site in Brooklyn.

- In 2015-2016, Innovacorp delivered world-class incubation services and facilities to 25 technology companies. At fiscal year end, Innovacorp's incubation facilities, the Technology Innovation Centre (TIC) in Dartmouth and the Innovacorp Enterprise Centre (IEC) in Halifax, stood at 92 per cent and 94 per cent occupancy, respectively. The average monthly occupancy rate across both facilities for the full year was 90 per cent, higher than our target of 85 per cent. Best practice recommends 15 per cent of incubation space be kept available to accommodate existing client expansion and new client entry.
- Innovacorp Demonstration Centre saw the growth of resident client Cellufuel, which is developing a process to create synthetic, renewable diesel fuel from woody biomass. Cellufuel expanded its team in 2015-2016 while investing in equipment and capital infrastructure to validate its technology at commercial scale. Also, after careful consideration of the IDC site for its first commercial plant, Innovacorp I-3 Technology Start-Up Competition winner Sustane Technologies opted to build at an alternate site in the Municipality of Chester, citing municipal waste supply logistics benefits.
- This year Innovacorp secured \$430,000 in funding from ACOA, leveraging internal capital to fit-up 1,735 square feet of space at IEC, which focuses on promising early-stage life sciences companies. Specifically, we built two new labs on the second floor which have been subsequently leased. At the end of March 2016, the entire 40,000 square foot space at IEC was fit up, marking the culmination of a seven-plus year undertaking made possible through the support of our federal partners at ACOA.
- Innovacorp amended entry and exit criteria with incubation clients in 2015-2016 to better identify business milestones, address gaps and issues, and improve Innovacorp's client support through regularly scheduled milestone review meetings.
- In 2015-2016, Innovacorp targeted an optimal co-location mix of start-ups and support organizations in our incubation facilities. Strategically selected, support organizations bring an important dimension to our incubators, providing start-ups with guidance on funding sources and intellectual property and industry connections, among other things. This year the annual average mix was 90 per cent start-ups and 10 per cent support organizations, based on the percentage of square feet occupied.
- In collaboration with industry, government, and post-secondary institutions, Innovacorp worked towards the redevelopment of the former Dartmouth Coast Guard facility into the Centre for Ocean Ventures and Entrepreneurship (COVE), the future anchor site for Nova Scotia's ocean technology cluster.
- This year Innovacorp sought to monetize non-strategic land assets in Woodside to redeploy capital for value-added initiatives. Due to unanticipated rezoning requirements with Halifax Municipal Planning, this initiative remains in progress and is expected to conclude in 2016-2017.
- In October 2013, Innovacorp was named one of five designated Canadian business incubators under the federal Start-Up Visa Program. The program is intended to attract foreign entrepreneurs who wish to establish new, high-growth businesses in Canada that will support innovation and job creation. Innovacorp can recommend entrepreneurs to receive a start-up visa from Citizenship and Immigration Canada (CIC) under the program's business incubation stream. To be eligible to receive a start-up visa, prospective immigrant entrepreneurs must prove their business venture is supported by a

designated organization; meet Canadian language requirements; meet the education requirements; and have a sufficient settlement fund. In 2015-2016, Innovacorp welcomed start-up visa recipient companies Shout (Portugal), Skyline (formerly Orgrimmar Technology – China), Aptonomy (Costa Rica) and MouseStats (Iran) to Nova Scotia.

3. Client success is accelerated

Innovation and entrepreneurship are essential to Nova Scotia's future economic prosperity. History teaches that most start-ups fail and that failure is an integral part of the life cycle of the entrepreneur. Many founders are inexperienced in important aspects of starting and building successful companies, so finding ways to access the right mix of start-up capital, strategic advice and mentoring helps improve their chances of success.

- The 2015-2016, our I-3 Technology Start-Up Competition set a target of 150 submissions and attracted 188 submissions from five zones across the province. In total, \$900,000 in cash, seed investment, and in-kind services was awarded. A \$100,000 prize was extended to the provincial winner, while first-place zone winners each received \$100,000 in cash and in-kind services, and second-place winners earned a \$40,000 package. Also, there were six \$25,000 awards for the best submission in information technology, life sciences, clean technology, ocean technology, agricultural technology and waste diversion technology. Sustane Technologies, a waste diversion technology start-up, was this year's provincial winner.
- The third cohort of Spark Cape Breton launched in June 2015. Entrants must be a start-up based in Cape Breton or the Mulgrave area with a new knowledge-based product and/or service and zero sales revenue since inception. The competition attracted 28 submissions and the shortlisted companies then participated in several start-up training sessions, including workshops on how to make a pitch, the lean-canvas approach for building a business plan, as well as financial accounting specific to their business. In August, a total of \$200,000 in cash was awarded to six companies. Spark Cape Breton is delivered by Innovacorp with funding assistance from ACOA.
- In 2015-2016, Innovacorp ran three cohorts of the Early Stage Commercialization Fund (ESCF) awarding a total of \$500,000. The purpose of ESCF is to provide funding and go-to-market support for university and college research projects that demonstrate potential to advance a technology to a prototype or proof-of-concept stage and market readiness. The third cohort, branded as the Life Science Pre-Investment Program (LSPI), focused exclusively on emerging medical technologies. Twenty-nine submissions were received for the first two ESCF cohorts, with a total of \$400,000 committed to 11 projects from three institutions. Seven LSPI submissions were received and a total of \$100,000 was awarded to three projects.
- Innovacorp offered several intensive workshops in 2015-2016, some of which were integrated with the I-3 Technology Start-Up Competition. We hosted 18 Expert Office Hours sessions on topics such as intellectual property management, finance, legal considerations and governance. We also launched Feedback Fridays, where investment and incubation clients are invited to pitch their start-up value proposition to our team of experts for feedback on how to further shape their business plans and strategies.

- In February 2015, Innovacorp and the Canada-Israel Industrial R&D Foundation (CIIRDF) launched a new initiative, the Nova Scotia-Israel Innovation Program (NSIIP), to connect Nova Scotia technology companies with their counterparts in Israel. The goal is for Nova Scotia companies to accelerate their growth through improved access to technology, markets, business expertise and investment. With support from NSBI and ACOA, Innovacorp reached out to 55 Nova Scotia companies and received 15 completed expressions of interest which were relayed to CIIRDF for Israeli partner identification. As of March 31, 2016, nine companies are engaged with Israeli candidate partners. At this early stage, no formal business-to-business partnership agreements have been established.
- In December 2014, Innovacorp announced a partnership with Disruption Corporation in Crystal City, VA, one of the fastest growing technology hubs in the US. High potential companies in Nova Scotia and elsewhere in Canada are able to accelerate customer acquisition, meet new investors, discover strategic partners and access prime start-up office space on a short-term basis in the "Canada Corner" at Disruption Corporation. Investment portfolio company QRA Corp was the first Innovacorp client to be hosted at Canada Corner in 2015 and returned with very positive feedback. However, Disruption Corporation was subsequently acquired by 1776, a global start-up accelerator, and Innovacorp is currently re-evaluating this partnership.
- Through our financial support and partnerships, Innovacorp helped clients secure placement at sector-specific accelerators, short-term intensive programs designed to quickly move start-ups closer to an investor-ready position. For example, in December 2015 Innovacorp portfolio company Island Water Technologies graduated from EcoFuel, Quebec-based Cycle Capital's clean technology accelerator. Also in 2015, Innovacorp entered into a two-year partnership agreement with Bioenterprise Corporation to launch a Halifax office. Headquartered in Guelph, ON, Bioenterprise is a non-profit business accelerator, offering commercialization services to help promote the creation, growth and expansion of businesses in the agricultural technology sector. Dedicated to transforming cutting-edge ideas into commercial success, Bioenterprise provides business services, scientific and technical expertise, industry knowledge and global connections. As a result, 36 new agricultural technology relationships have been established, producing 12 client engagement contracts, three of which are considered venture investment grade opportunities.
- In 2015-2016, Innovacorp assumed responsibility to deliver the Productivity and Innovation Voucher Program (PIVP), which is intended to help small and medium-sized businesses become more productive and innovative while building stronger linkages between businesses and Nova Scotia universities and colleges. We received 164 applications, with 59 companies receiving vouchers for nine universities and community colleges. The competing companies ran the gamut – from seafood processing to niche foods to medical technologies. The PIVP has two tiers – Tier 1 offers vouchers, or credit notes, of up to \$15,000 for eligible applicants that have not previously been awarded a voucher, or are applying with a new project. Tier 2 offers vouchers of up to \$25,000 to build on work done through a previously awarded Tier 1 voucher. This year, 47 companies received Tier 1 vouchers and 12 received Tier 2 vouchers. The total value of the support was just over \$1 million. Eligible services included applied research, engineering services, prototyping, product design, market advice and field testing.

4. Clients gain access to world-class technical, investment, and business expertise through new strategic partnerships

To compete successfully in global markets, Nova Scotia companies need to be able to access the best advice the world has to offer. Whether in technology, business strategy, sectors, or markets, Innovacorp will partner with the world's best rather than incur increased overhead costs by recruiting new staff. We will not reinvent the wheel in a world that is increasingly open, virtual, and blind to the existence of borders.

- In 2015-2016, Innovacorp set out to create a new strategic partnership that leverages private, not-for-profit and/or corporate resources to benefit the clean technology sector. The forestry sector represents a significant portion of the Nova Scotia economy and is an abundant and ongoing source of material wealth. The so called bioeconomy is projected to play an ever-increasing role in the fundamental supply of energy, food, chemicals, and new innovative materials. The partnering initiative has resulted in the launch of a forestry innovation hub, established with provincial, federal and private partners. The key deliverables for the first year of the multi-year initiative included an assessment of the current state and cost of provincial fibre supply, as well as identifying and qualifying target markets for biorefinery products with the objective of commencing the process to establish off-take agreements.
- In 2015-2016, Innovacorp secured federal funding through the Canadian Incubation and Accelerator Program (CAIP). CAIP helped support our two-year partnership agreement with Bioenterprise Corporation (previously mentioned) for the creation, growth and expansion of businesses in the agricultural technology sector through technical expertise, industry knowledge and global connections. As a result, 36 new agricultural technology relationships have been established, producing 11 client engagement contracts, three of which are considered venture investment-grade opportunities. These engagements have produced \$2.9 million in new investment, increased revenues of \$423,000, created 37 new jobs and resulted in nine companies developing new intellectual property. Finally, two new start-ups were created during this reporting period.
- An important aspect of Innovacorp's network of strategic partnerships is our growing list of private sector co-investors, and in 2015-2016 we set out to add to that network. Innovacorp established new relationships with angel investors, corporate venture capital arms, and private venture capital outfits. Several of these new relationships resulted in co-investments in Innovacorp portfolio companies.
- In 2015-2016, Innovacorp helped in the work towards the creation of a new fund we consider strategically aligned with our mission. Through the year, we supported the Department of Business in helping shape a strategy and plan for the launch of a new, private sector-managed venture capital fund, originally announced in July 2014.
- Technical expertise is in high demand in the start-up ecosystem, and to better support our clients, Innovacorp has assembled a group of sector-specific, world-class experts. In 2015-2016, we added two experts to our Science & Technology Advisory Council (STAC) to support life sciences as well as information technology companies.

5. The regional start-up ecosystem grows and matures

The development of a vibrant, dynamic regional start-up ecosystem will be an important determinant of future socio-economic prosperity in Nova Scotia. At Innovacorp, every investment made, every incubation client engaged and every competition award granted contributes to the step-by-step maturing of the Atlantic Canadian ecosystem.

- Through a variety of initiatives in 2015-2016, Innovacorp continued to help clients address the challenges of launching and growing a start-up. We delivered eight Business Over Breakfast sessions on topics such as start-up accelerators, the art of the pitch, start-ups in the life sciences, and successful entrepreneurs who have built great companies. The sessions were attended by nearly 450 people and, on average, attendees rated the sessions 4.6 on a scale of one to five. Each event was live-streamed to the start-up community in Sydney as well as recorded and made available for viewing on the Innovacorp YouTube channel.
- Since 2004, Innovacorp has been a founding member of and active participant in TecSocial, a monthly meeting in Sydney for those with an interest in technology and entrepreneurship. The meetings, which typically consist of a presentation from a start-up or ecosystem member followed by networking, are live-streamed and posted to the TecSocialCB YouTube channel. In 2015-2016, Innovacorp held nine TecSocial gatherings, which included presentations from Navigate Startup Hous the Island SandBox, an expert panel discussion on Smart Cities, and advice on start-up media and communications with journalist Peter Moreira.
- Innovacorp partnered with ecosystem support organizations to deliver high-impact programs and events in 2015-2016. Notable initiatives included a Smart Energy App Challenge at ShiftKey Labs, a Smart Energy Demo Challenge, a Running Lean workshop with subject matter expert and author Ash Maurya, a presentation by founder and venture capital investor Paul Singh at Start-Up Grind, hosting several Ladies Learning Code training workshops and a sales training workshop with Sandler Training.
- In 2015-2016, Innovacorp delivered the CleanTech Pre-Investment (CPI) program, which offers companies up to \$50,000 in non-repayable and non-dilutive funding. Supported through our clean technology fund, in its fifth and final year, eligible companies must secure matching funds from other sources, such as its own company funds, third-party investors, lenders, granting agencies, or strategic partners. CPI funds are used to address investment-readiness gaps, covering work such as assessment of market potential; development of go-to-market strategies, business plans and strategic plans; development of intellectual property protection strategies; and proof-of-concept or prototype development. Six companies benefited from the CPI program in 2015-2016.

2015-2016 Financial Results

Summary By Section	Budget 2015-2016 (\$ thousands)	Actual 2015-2016 (\$ thousands)	Variance 2015-2016 (\$ thousands)
Revenue – Nova Scotia funding and operating revenue	\$10,976	\$12,674	\$1,698
Operating Expenses – Incubation and Investment	8,597	9,674	1,077
Corporate Expenses – corporate services and administration	1,555	1,583	28
Minus Net Non-Operating Expenses – interest expense on long-term debt, post-retirement benefits, amortization, less investment income/expense and gain on sale of property and equipment	(965)	(3,935)	(2,970)
Plus – statutory capital advances re NSFF and clean technology fund investments	-	9,271	9,271
Net (Deficit) Surplus	\$(141)	\$6,753	\$6,894

Explanation of Variances

Revenue

Innovacorp's revenue was \$1,698 thousand higher than budget. Highlights of the changes are summarized in the following table:

Thousands of dollars

Budget 2015-2016	\$10,976
Additional funding for various sponsored activities and events	1,309
Additional Nova Scotia funding for Innovacorp Demonstration Centre	402
Increase in operational revenue at incubation facilities due to increased occupancy	53
Clean technology funding not required as awards were not granted	(94)
Other	28
Actual 2015-2016	\$12,674

Operating Expenses

Innovacorp's operating expenses were \$1,077 thousand higher than budget. Highlights of the changes are summarized in the following table:

Thousands of dollars

Budget 2015-2016	\$8,597
Various sponsored activities and events	1,309
Unbudgeted Innovacorp Demonstration Centre costs	402
Reduction in investment expenses, primarily due diligence activities	(140)
Vacant incubation positions	(137)
Reduction in programming activities as staff focused on I-3 competition	(96)
Clean technology awards not granted	(94)
Reduction in accounts receivable allowance	(67)
Other	(100)
Actual 2015-2016	\$9,674

Net Non-Operating Expenses

Innovacorp's net non-operating expenses were \$2,970 thousand higher than budget. Highlights of the changes are summarized in the following table:

Thousands of dollars

Budget 2015-2016	\$965
Investment impairments in excess of budget	2,901
Loss on disposition of NSFF investments	254
NSFF portfolio dividends and interest revenue in excess of budget	(63)
Decrease in long-term disability expense	(51)

Other	(71)
Actual 2015-2016	\$3,935

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 \$6,894 thousand higher than budget.

Measuring Our Performance

Below is an assessment of Innovacorp's progress toward the performance measures outlined in our 2015-2016 business plan. These measures and targets are presented in five categories representing Innovacorp's priority areas.

Key Performance Indicator Summary²

	Base Year and Annual Trends					
	Base Year 2011-12	Actual 2012-13	Actual 2013-14	Actual 2014-15	Target 2015-16	Actual 2015-16
Start-ups gain access to risk capital						
Total investment (\$CAD) by Nova Scotia First Fund (NSFF)	\$5.85M	\$5.17M	\$5.1M	\$8.4M	\$6M	\$6.7M
Amount of investment leveraged by NSFF (cumulative from February 1996)	\$115M	\$127M	\$141M	\$155M	\$164M	\$162M
New value is added for clients through incubation						
Average incubation client tenure (months)				54.4	60	62.2
Per cent of incubation client milestones achieved				N/A	50%	85%
Per cent of incubation clients receiving venture capital				19.2%	25%	32%
Client success is accelerated						
Export revenue generated by investment portfolio companies	\$26.2M	\$22.1M	\$25.2M	\$26.3M	\$30.0M	\$34.0M
Number of people employed by investment portfolio companies	220	312	347	376	400	491
Total employment payroll of investment portfolio companies	\$9.7M	\$22.8M	\$25.7M	\$27.4M	\$30.0M	\$37.4M
New partnerships strengthened our support						
Number of new strategic partnerships				2	2	2
Number of clients benefiting from new partnerships				1	10	14
The start-up ecosystem grows and matures						
Number of early stage Nova Scotia companies, researchers or entrepreneurs engaged during the year (excluding competitions) ³	108	130	163	188	170	306

² Key performance indicators for 2016-2017 have been amended to better align with the government's Framework for Private Sector Growth Plan – See Appendix A

³ Original 2015-2016 goal included companies only – adapted here since much of Innovacorp's work involves pre-company formation activities with entrepreneurs and researchers

Performance Measure: Start-ups gain access to risk capital

What does this measure tell us?

This performance measure category tracks the amount of capital invested by the NSFF as well as the amount of private sector capital the NSFF investments were able to leverage. Early-stage risk capital is important to start-ups since most of these companies are pre-revenue. Further, equity investment of this nature is essential to enable start-ups to access other forms of non-dilutive financing.

Where are we now?

Innovacorp made 18 investments in 17 companies, committing \$6.7 million. This leveraged \$8.4 million in venture capital and private equity, primarily from sources outside Nova Scotia. On a cumulative basis, the NSFF has leveraged \$162 million from private sector investors since 1996. In addition, most of these companies secured other sources of non-dilutive financing.

Where do we want to go in the future?

We expect to deploy \$11.7 million in up to 12 investments in 2016-2017 and a portion of these will be follow-on investments in existing portfolio companies. These investments will leverage a further \$19.2 million from private sector investors and venture capital investors.

Performance Measure: New value is added for clients through incubation

What does this measure tell us?

This performance measure category tracks the progress of Innovacorp's business incubation clients, including their incubation tenure, their progress toward business milestones and their ability to raise venture capital. Each of these measures is a predictor of start-up success.

Where are we now?

The average incubation client tenure for 2015-2016 was 62.2 months compared to the targeted tenure of 60 months. Innovacorp's incubators focus on life sciences and clean technology companies, which tend to have longer and more capital-intensive development cycles than information technology companies, for example. Eighty-five per cent of incubation client milestones were achieved in 2015-2016 and 33 per cent of incubation clients had attracted venture capital investment.

Where do we want to go in the future?

In 2016-2017, we target having 25 companies under incubation employing a total of 200 employees. We strive to help incubation clients achieve 100 per cent of their development milestones and successfully graduate from our incubators within 60 months of occupancy. Our target occupancy rate is 85 per cent, which is considered to be the best-practice rate for incubation facilities in order to have space available for new clients and existing clients that are ready to expand.

Performance Measure: Client success is accelerated

What does this measure tell us?

This performance measure category tracks the annual export revenue generated by Innovacorp's investment portfolio companies and their total employment and aggregate payrolls. These measures are important indicators of client impact on Nova Scotia's economy.

Where are we now?

In 2015-2016, Innovacorp's portfolio companies generated \$34 million in revenues through export of products and services outside Atlantic Canada, exceeding the target of \$30 million. Total employment in portfolio companies was 491, which exceeded the annual target of 400 employees by over 20 per cent. Finally, aggregate payroll of portfolio companies was \$37.4 million, which exceeded the target of \$30 million by 25 per cent.

Where do we want to go in the future?

In 2016-2017, as the portfolio matures, we expect export sales to rise to \$40 million. Due to a combination of company exits from the portfolio and company wind-downs, employment will fall to 420 employees and aggregate payroll is expected to be \$31.5 million.

Performance Measure: New partnerships strengthened our support

What does this measure tell us?

This performance measure category speaks to the number of new strategic partnerships Innovacorp has developed and the extent to which these new relationships have benefited our clients. In a resource-constrained environment, it is increasingly necessary for Innovacorp to establish new linkages with strategic partners to deliver the support needed for our clients to achieve success.

Where are we now?

In 2015-2016, Innovacorp entered into a two-year pilot partnership with Bioenterprise Corporation, a Guelph, ON-based agricultural technology accelerator. This resulted in 11 client engagement contracts, \$2.9 million in new investment, increased revenues of \$423,000 and the creation of two new start-ups. Further, 37 new jobs were created and nine companies developed new intellectual property. Innovacorp also formalized a commitment to Propel ICT, the regional information and communications technology accelerator. Specifically, Innovacorp has committed up to \$1.8 million of venture capital over a three-year period to invest in promising Nova Scotia-based Propel ICT graduates. In 2015-2016, Innovacorp invested a total of \$305,000 in Propel ICT graduates Vendeve, PACTA and Clean Simple. Overall, we counted 14 companies benefiting from our new partnerships, exceeding our target of 10.

Where do we want to go in the future?

In 2016-2017, Innovacorp will strive to enter new strategic partnerships based on the evolving needs of our clients. We expect to continue our work with both Bioenterprise Corporation and Propel ICT and meet or exceed our 2015-2016 results.

Performance Measure: The start-up ecosystem grows and matures

What does this measure tell us?

Innovacorp's portfolio clients reflect the effectiveness and success of our business model. Continually looking to attract high-potential Nova Scotia companies, we strive to strengthen our service offerings and enhance client growth. It is therefore imperative that we engage with prospective new clients at the very early stage in their entrepreneurial pursuits, often before start-up creation – in their labs, basements and garages.

Where are we now?

In 2014-2015, Innovacorp engaged with and provided business guidance to 306 companies, researchers and entrepreneurs – excluding those that were separately engaged through our I-3 Technology Start-Up Competition and Spark Cape Breton competition.

Where do we want to go in the future?

Innovacorp's performance measures have been amended for 2016-2017 (see Appendix A) to better align with the government's Framework for Private Sector Growth Plan. Although we have not set specific engagement targets for 2016-2017, we will continue to track the number of engagements as an internal management tool.

Appendix A: Key Performance Measures for 2016-2017

During 2015-2016, Innovacorp's management team and board of directors worked in collaboration with the newly created Department of Business to ensure alignment with the provincial government's priorities of innovation and to establish Nova Scotia as a strong and globally competitive economy. Moving forward, we will help create a climate for private sector and social enterprise economic growth by concentrating our efforts on the following priorities in government's Framework for Private Sector Growth:

- Increasing Entrepreneurship and Start-ups
- Supporting Innovation and Commercialization
- Striving for Global Competitiveness, Trade, and Investment
- Building Capacity in High Potential Clusters

As a result, several new performance measures have been introduced. The following represents the performance measure framework presented in Innovacorp's 2016-2017 business plan.

	Actual 2013-14	Actual 2014-15	Actual 2015-16	Target 2016-17
Entrepreneurship and Start-ups				
<i>Total investment (\$CAD) by Nova Scotia First Fund (NSFF) (\$ million)</i>	\$5.1	\$8.4	\$6.7	\$11.7
<i>Amount of investment leveraged by NSFF (\$ millions) (cumulative from February 1996)</i>	\$141	\$155	\$162	\$181
<i>Average leverage on seed investments</i>				1:1
<i>Average leverage on Series A investments</i>				1:2
<i>Number of NSFF investments</i>	11	12	18	12
<i>Number of Spark Cape Breton submissions</i>	25	28	28	25
<i>Number of Spark Cape Breton awards</i>	6	8	6	6
<i>Value of Spark Cape Breton awards (\$ thousands)</i>	\$200	\$200	\$200	\$200
Support Innovation and Commercialization				
<i>Number of Productivity & Innovation Vouchers issued</i>	51	52	59	50
<i>Number of new business-to-university linkages</i>	32	24	44	40
<i>Total value of vouchers issued (\$ thousands)</i>	\$865	\$940	\$1,050	\$1,000
<i>Number of Early Stage Commercialization Fund (ESCF) projects</i>	15	13	14	15
<i>Number of licensing deals</i>	6	5	2	4
<i>Number of spin-outs</i>	0	1	1	2
<i>Total value of ESCF projects (\$ thousands)</i>	\$586	\$640	\$500	\$500
<i>Number of start-ups under incubation</i>	25	27	28	25
<i>Number of employees in companies under incubation</i>	196	253	304	200

	Actual 2013-14	Actual 2014-15	Actual 2015-16	Target 2016-17
Strive for Global Competitiveness, Trade and Investment				
<i>Portfolio company export sales (\$ millions)</i>	\$25.2	\$26.3	\$34.0	\$40.0
<i>Total payroll of portfolio companies (\$ millions)</i>	\$25.7	\$27.4	\$37.4	\$31.5
<i>Total employment of portfolio companies</i>	347	376	491	420
Build Capacity in High Potential Clusters				
<i>Number of CleanTech Pre-Investment Program companies supported</i>			5	5
<i>Number of Life Sciences Pre-Investment Program companies supported</i>			3	5
<i>Number of start-ups supported through Bioenterprise partnership</i>			11	10