

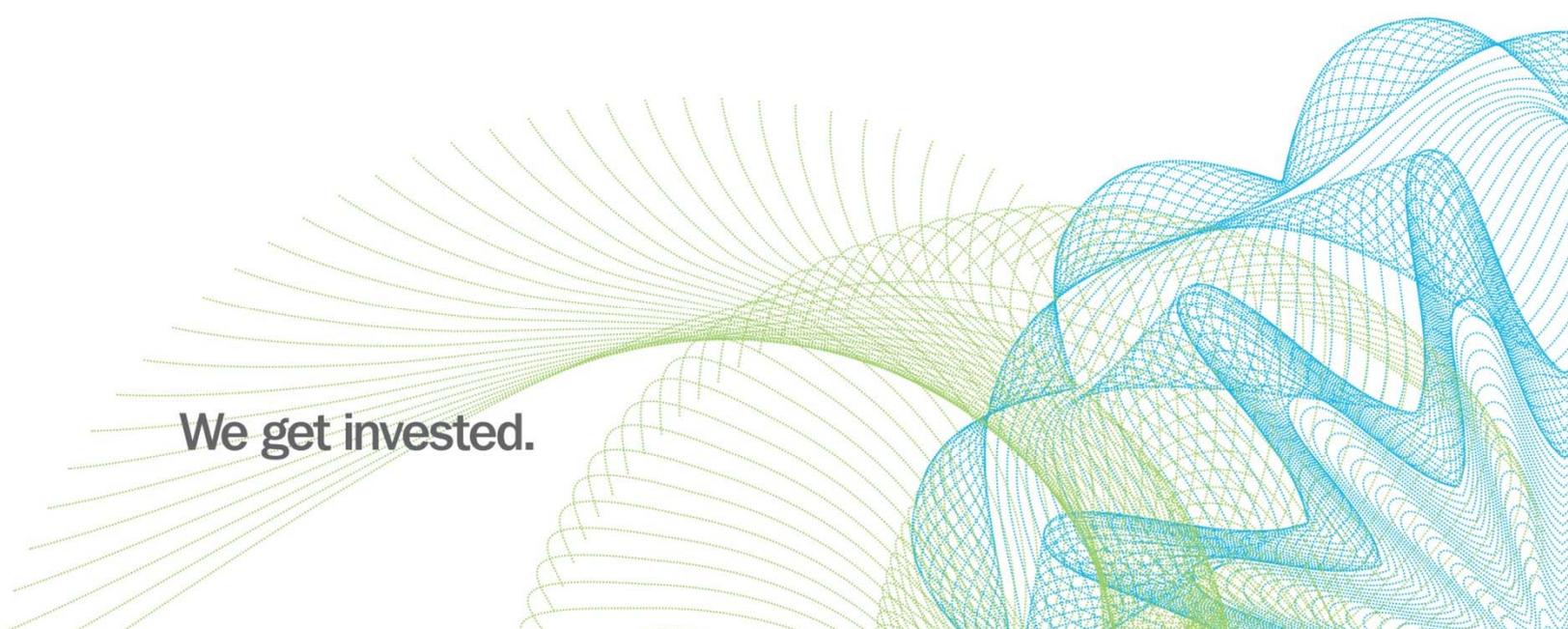
# ACCOUNTABILITY REPORT

2018-2019

**innovacorp**

EARLY STAGE VENTURE CAPITAL

**We get invested.**



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## Accountability Statement

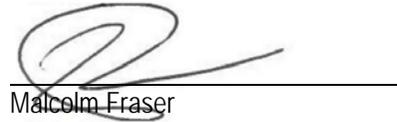
Innovacorp's accountability report for the fiscal year ending March 31, 2019, is prepared pursuant to the Finance Act and government policies and guidelines.

These authorities require the reporting of outcomes against Innovacorp's business plan for 2018-2019. 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. Burgar  
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 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 2018-2019. We are proud of our work, but there is always more that needs to be done. We look forward to 2019-2020 and further increasing innovation, commercialization and entrepreneurship success stories in Nova Scotia.

## 2018-2019 Financial Results

Summary By Section	Budget 2018-2019 (\$ millions)	Actual 2018-2019 (\$ millions)	Variance 2018-2019 (\$ millions)
<i>Revenue</i> – Nova Scotia funding and operating revenue	\$11.0	\$13.4	\$2.4
<i>Operating Expenses</i> – Incubation and Investment	9.0	9.9	0.9
<i>Corporate Expenses</i> – corporate services and administration	1.8	1.9	0.1
<i>Net Non-Operating Revenue (Expenses)</i> – investment impairment, gains (losses) on portfolio investments and gains (losses) on the disposal of property and equipment	(0.3)	0.6	0.9
<i>Plus</i> – statutory capital advances re NSFF investments	-	12.2	12.2
<b>Net (Deficit) Surplus</b>	<b>\$(0.1)</b>	<b>\$14.4</b>	<b>\$14.5</b>

### Explanation of Variances

#### Revenue

Innovacorp's revenue was \$2.4 million higher than budget. Highlights of the changes are summarized in the following table:

Millions of dollars

<b>Budget 2018-2019</b>	<b>\$11.0</b>
Additional funding (federal, private sector, etc.) for various sponsored activities and events	1.3
Interest and dividends earned on NSFF investments	0.6
Funding for Momentum	0.5
<b>Actual 2018-2019</b>	<b>\$13.4</b>

#### Operating Expenses

Innovacorp's operating expenses were \$0.9 million higher than budget. Highlights of the changes are summarized in the following table:

Millions of dollars

<b>Budget 2018-2019</b>	<b>\$9.0</b>
Various sponsored activities, events and awards	1.3
Momentum expenses	0.5
Other – various savings	(0.9)
<b>Actual 2018-2019</b>	<b>\$9.9</b>

### Corporate Expenses

Innovacorp's corporate expenses were \$0.1 million higher than budget.

### Net Non-Operating Revenue (Expenses)

Innovacorp's net non-operating revenue was \$0.9 million higher than budget. Highlights of the changes are summarized in the following table:

Millions of dollars

<b>Budget 2018-2019</b>	<b>\$(0.3)</b>
Gains on disposition of NSFF investments in excess of budget	0.7
Investment and loan impairments less than budget	0.2
<b>Actual 2018-2019</b>	<b>\$0.6</b>

### Statutory Capital Advances

Statutory capital advances are unbudgeted funds from the Province of Nova Scotia for Innovacorp to invest in companies. These advances are recognized as revenue at the later of the date on which the funds are received from the Province and the date on which an investment is made.

### Net Surplus (Deficit)

Innovacorp's surplus was \$14.5 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.

Venture capital-backed start-ups typically have a greater economic impact than their non-backed peers, demonstrating stronger growth in revenue, employment and assets. The province's venture capital community is maturing, and Innovacorp plays an important part in the ONE Nova Scotia goal for per capita venture capital investment in Nova Scotia to reach the five-year national average by 2024.

A priority in 2018-2019 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 and related expertise in the province. Ultimately of course, as always, Innovacorp was driven by generating financial returns on its fund.

Here are highlights of Innovacorp's 2018-2019 venture capital activity:

- Innovacorp made investments in 17 companies, advancing \$6.3 million as follows:
  - \$2.93 million was invested as follow-on investments in existing portfolio companies: Spring Loaded Technology (\$430,000), Ubique Networks (\$2 million) and VineView (\$500,000)
  - \$2.35 million was invested in companies new to the portfolio: BlueLight Analytics (\$1 million); BoomersPlus (\$350,000), GSTS - Global Spatial Technology Solutions (\$500,000) and Rimot (\$500,000)
  - \$1.0 million was invested in 10 emerging start-ups (investments were typically about \$100,000 each): Axem Neurotechnology, Bereda Training, BioPolyNet, B-Line Analytics, Cribcut, Emagix, Graphite Innovation & Technologies (GIT), Nexus Robotics, Salient Energy and Trip Ninja
- Innovacorp's investments leveraged an additional \$10.3 million in venture capital and private equity, the majority from sources outside Nova Scotia. This is a leverage ratio of 1:1.62, which exceeds Innovacorp's weighted portfolio target ratio of 1:1.24.
- About \$2.3 million in distributions were generated by NSFF in 2018-2019. Overall, the value of the portfolio grew to \$62.4 million, a net increase of \$9.8 million (excluding the additional \$6.3 million invested during the year), driven by distributions received and the net impact of unrealized valuation changes in portfolio investments.
- Revenue and employment generated by portfolio companies in 2018-2019 was \$35.5 million and 688 jobs. The decrease in revenue since the previous year was anticipated due to exits and portfolio companies ceasing operations, partially offset by growth in the remaining companies.
- 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 in Halifax. The initiative is expected to lead to new investment opportunities for Innovacorp as the participating ventures mature.

- Similar to the partnership with Volta and BDC, in January 2019 Innovacorp and the New Brunswick Innovation Foundation (NBIF) collaborated to invest \$1 million in companies participating in the second phase of Propel's Incite accelerator. Innovacorp and NBIF each earmarked \$500,000 to make investments in select accelerator grads over the next few years. The companies will receive an investment of up to \$50,000 in total from Innovacorp and NBIF. Companies from all four Atlantic provinces are eligible.
- From April 2011 to March 2019, Innovacorp invested \$48.7 million in 64 early stage companies. It has also advanced \$13.8 million to Build Ventures Fund I and Cycle Capital's Funds I & III in that period – with an additional \$30 million committed to Build Ventures Fund II and Concrete Ventures, a new private-sector-managed pre-seed fund. Commitments for venture capital investments and funds set aside to invest in the promising graduates of accelerator programs total \$2.8 million. As of March 31, 2019, NSFF had about \$34.2 million undrawn and available for new investments and follow-on investments in portfolio companies.
- As noted above, 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 ratio<sup>1</sup>). At the end of 2018-2019, NSFF's TVPI was 0.98:1, representing an 8 per cent year-over-year increase. The TVPI for investments made since 2011, when Innovacorp implemented its current investment thesis, is 1.11:1.

## Incubation

Innovacorp's three incubation facilities are home to more than two dozen of Nova Scotia's most promising start-ups that together employ hundreds of entrepreneurs and skilled professionals.

The Technology Innovation Centre (TIC) in Dartmouth targets companies in clean technology and a variety of other knowledge-based sectors, while the Innovacorp Enterprise Centre (IEC) on the Dalhousie University campus in Halifax focuses on companies in the life sciences sectors. Start-Up Yard at COVE (Centre for Ocean Ventures and Entrepreneurship) on the Dartmouth waterfront is for ocean technology ventures.

In early 2018-2019, Innovacorp worked with COVE's many partners to get the site up and running, a tremendous new asset to build on one of Nova Scotia's competitive advantages – the ocean. Subsequently, Innovacorp hosted two cohorts of Start-Up Yard at COVE residents. These 13 early stage ocean technology companies benefited from Innovacorp's acceleration programs, incubation space and services, funding, shared equipment, expertise and mentoring.

In 2018-2019, Innovacorp delivered world-class incubation services and facilities to 45 technology companies (including the 13 referenced above), which together employed more than 475 people.

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<sup>1</sup> 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.

Below are highlights of Innovacorp's 2018-2019 acceleration activities. Innovacorp gathered feedback (e.g., interviews, focus groups and written evaluations) from participants in all the initiatives and tracked the milestones the companies achieved.

- **Early Stage Commercialization Fund (ESCF)**

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 2018-2019, Innovacorp ran two cohorts of ESCF. Thirty-eight submissions were received, with a total of \$450,000 dispersed to 11 projects from four institutions. Committed to ESCF's objectives and criteria, the evaluation committee opted not to award the full \$500,000 budgeted for this initiative.

Following up on ESCF projects from past years, Innovacorp identified nine spin-out companies had been created over the last two years. Further, some of the spin-outs went on to participate in acceleration programs and/or secure investment.

- **Spark**

Innovacorp has been running Spark competitions since 2013-2014, providing funding and mentoring to help new technology companies in Nova Scotia develop their products. To enter, start-ups needed to have a new knowledge-based product or service and zero sales revenue since inception. Funds awarded were used to support the completion of prototypes or preparation for taking the product or service to market.

After several years of smaller, regional competitions, Spark 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.

In 2018-2019, there were 122 Spark submissions from across Nova Scotia, with a total of \$590,000 in non-dilutive, non-repayable funding shared among the 15 winners.

The number of submissions (i.e., 122) significantly exceeded the target of 48 submissions set out in the business plan for the year because Innovacorp originally had not planned to include the Halifax region in the competition. Adding Halifax led to a much higher number of submissions, with 67 per cent of submissions coming from that area.

In addition to getting access to a boot camp on business fundamentals, Spark participants worked with an Innovacorp coach who helped them set and track business milestones. By year's end, more than 60 per cent of the participants had met at least 75 per cent of their milestones, which was impressive performance given the early stage of the companies.

- **Sprint**

Innovacorp's Sprint competition was piloted in late 2018-2019. Similar to Spark, Sprint offers early stage technology companies in Nova Scotia access to acceleration programming and non-dilutive funding to address technical and/or business milestones.

The 2018-2019 Sprint was held on a province-wide basis, without the geographic funding allocations used in Spark. Innovacorp received 46 submissions in the two-week competition call. Four software companies were awarded a total of \$100,000. Winners also benefited from workshops on product management, sales and pitching.

- **Accelerate Program**

For the third consecutive year, in 2018-2019 Innovacorp ran a sophisticated cohort-based accelerator to help early stage companies hit milestones and get investment ready. The program targeted start-ups in the fields of medical technology, clean technology, ocean technology, and agricultural technology. In addition, for the first time, Innovacorp piloted a global stream, inviting international applicants to participate in the program remotely alongside Nova Scotia-based start-ups.

Nova Scotia-based participants received \$50,000-\$67,000 in non-dilutive, non-repayable funding to address key technical and business milestones, as well as access to a series of acceleration activities and resources along with incubation space at Innovacorp's facilities. International participants received remote access to the program's acceleration activities and resources, and were earmarked for \$25,000, to be awarded to them upon moving to Nova Scotia.

The Accelerate Program was launched with a call for submissions in August 2018. Forty-one Nova Scotia submissions and 83 international submissions were received and evaluated by several sector-specific selection committees. Eight Nova Scotia companies and four international companies were selected for the six-month cohort. By year's end, five of the eight Nova Scotia companies had met at least 70 per cent of their milestones.

Follow up with participants in Innovacorp's acceleration programs from the previous year showed that 75 per cent of the companies had secured early stage equity investment from Innovacorp or another source.

- **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 2018-2019, Innovacorp received 293 program applications (including 83 under the above-mentioned Accelerate Program global stream) from 44 countries. Innovacorp provided letters of support for five companies from the United States, South Korea, Vietnam, Pakistan/United States and Brazil, and one founder Innovacorp previously recommended under the program received her permanent residency status.

- **Momentum Initiatives in Cape Breton**

In 2018-2019, Innovacorp continued to deliver its Momentum initiatives in Cape Breton, to help that region's start-ups grow stronger, faster. Momentum includes an entrepreneur-in-residence, acceleration programs, training opportunities, a makerspace, mentorship and networking events.

Most of Momentum's activities take place at the New Dawn Centre in the former Holy Angels High School in downtown Sydney, however the initiative includes other venues and 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.

One of Momentum's highlights for the year was the official opening of the Nova Scotia Power Makerspace in late March 2019. The makerspace offers Cape Breton start-ups, entrepreneurs, students and other creative minds the space, equipment, materials and education to let them design and build innovative products.

Further, in 2018-2019 the Innovacorp team in Cape Breton held 116 Momentum events, workshops and networking opportunities, with a total of 1,840 attendees. In addition, Momentum's entrepreneur-in-residence held 56 mentoring sessions with companies.

In addition to those that participated in Innovacorp's other competitions and acceleration initiatives, 12 new companies accessed Momentum activities in 2018-2019.

- **Venture Services**

Innovacorp introduced its Venture Services program in 2018-2019. The goal is to help accelerate the growth of its high-potential portfolio companies, thereby maximizing returns for its investment fund.

The Venture Services offering can be broken down into two main categories of opportunities: funding for travel to meet customers, investors, partners or key influencers or to attend other strategic meetings and events; and funding to hire a consulting service or expert to quickly reach a major business milestone.

In 2018-2019, 35 portfolio companies benefited from Innovacorp's Venture Services, with funding totalling about \$500,000.

- **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. After a successful pilot initiative the previous year, in 2018-2019 Innovacorp's MentorFirst efforts involved nine companies (including six new to the program), 33 mentors and 21 mentor meetings.

- **MaRS Market Intelligence**

In 2018-2019, Innovacorp was one of four Atlantic Canadian organizations to partner with Toronto-based MaRS and gain access to the MaRS Market Intelligence database offering. The service provides access to premium databases and advisory support, providing Innovacorp clients with the ability to gain market, technical and competitive intelligence. Twenty-three Innovacorp client companies took advantage of this service in 2018-2019, benefiting from a valuable resource that would be well beyond the budget of most start-ups. The total value of the market research provided to the companies throughout the year was almost \$908,000.

- **Partnership with Bioenterprise Corporation**

In March 2019, Innovacorp's five-year partnership with Bioenterprise Corporation ended as scheduled. The partnership's final year led to further growth in Nova Scotia's emerging agricultural technology sector. 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 provided the necessary support to create solutions for the global food industry.

In 2018-2019, the partners analyzed 22 new agricultural technology companies, which resulted in 16 Bioenterprise client engagements. Since the partnership began in 2014, support has been provided to 63 companies, most of which were start-ups, resulting in 342 jobs and more than \$53 million of investment in the sector.

- **Cannabis Technology Initiatives**

In 2018-2019, Innovacorp worked with partners to help Nova Scotia start-ups make the most of global opportunities related to the budding cannabis industry. A call for submissions for the inaugural Cannabis Technology Program was made in December 2018, searching for emerging companies with technology serving the cannabis industry in downstream or upstream markets.

The competition attracted 19 submissions, with two winners each getting \$50,000 in non-dilutive, non-repayable funding to address key technical and business milestones. The start-ups also received access to one-on-one advice from an Innovacorp advisor and a team of mentors from program partners, including Sindica, Leaf Forward and Green Acre Capital.

To further encourage growth in this sector, Innovacorp helped organize and host the first Leaf Forward meet-up. The packed gathering featured guest speaker Myrna Gillis, CEO and co-founder of cannabis aquaponics innovator Aqualitas, for a discussion about Nova Scotia's opportunities in Canada's emerging cannabis industry.

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

In 2018-2019, 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.

## Appendix A: Key Performance Indicators

	Actual 2017-2018	Target 2018-2019	Actual 2018-2019
<i>Investment</i>			
<i>Total investment by Nova Scotia First Fund – NSFF (\$ millions)</i>	\$7.9	\$4-8	\$6.3
<i>Amount of investment leveraged by NSFF (\$ millions) – cumulative from February 1996</i>	\$231	\$239	\$241
<i>Investment leverage (blended - 1:1 for pre-seed; 1:2 for seed and post-seed)</i>	1:4.01	1:1.24	1:1.62
<i>Number of NSFF investments</i>	17	8-12	17
<i>Portfolio company export sales (\$ millions)</i>	\$50.2	\$35	\$35.5
<i>Total payroll of portfolio companies (\$ millions)</i>	\$47.9	\$35	\$51.4
<i>Total employment of portfolio companies</i>	606	500	688
<i>TVPI</i>	0.91:1	0.98:1	0.98:1
<i>Incubation</i>			
<i>Number of start-ups under incubation<sup>2</sup></i>	27	25	45
<i>Number of employees at companies under incubation</i>	383	325	475
<i>Acceleration</i>			
<i>Number of Spark submissions from across the province</i>	136	48	122
<i>Number of Spark awards</i>	18	10	15
<i>Value of Spark awards (\$ thousands)</i>	\$800	\$600	\$590
<i>Number of ESCF projects</i>	13	10	11
<i>Number of new spin-outs and licensing deals from ESCF projects in previous two years</i>		5	9
<i>Value of ESCF projects (\$ thousands)</i>	\$500	\$500	\$450

<sup>2</sup> Starting in 2018-2019, this measure includes permanent residents as well as those accessing space for six months as part of an acceleration program cohort, at the Technology Innovation Centre, Innovacorp Enterprise Centre and Start-Up Yard at COVE.

	Actual 2017-2018	Target 2018-2019	Actual 2018-2019
<i>Number of start-ups supported through Bioenterprise partnership (new engagements this year)</i>	14	10	16
<i>Number of new companies accessing Momentum activities</i>	16	5	12
<i>Number of participants in Momentum activities (e.g., events, entrepreneur-in-residence sessions, workshops)</i>	866	-	1,840
<i>Number of awards for acceleration program participants<sup>3</sup></i>	43	25	84 (awards for 43 companies)
<i>Total value of acceleration program awards (\$ thousands)</i>	\$1,106	\$750	\$1.213
<i>Percentage of acceleration program participants achieving targeted development milestones</i>	93	85	93

<sup>3</sup> Innovacorp delivers a variety of acceleration awards and initiatives. This measure includes awards through Innovacorp's Acceleration Program (excluding the global stream), two Start-Up Yard at COVE cohorts and Venture Services (i.e., travel support, consulting services).

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