Consolidated Financial Statements of

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA INNOVATION CORPORATION

March 31, 2011

Deloitte.

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Auditor's Report

To the Board of Directors of
Nova Scotia Innovation Corporation

We have audited the accompanying consolidated financial statements of Nova Scotia Innovation Corporation ("Innovacorp"), which comprise the consolidated balance sheet as at March 31, 2011, and the consolidated statements of loss and deficit, comprehensive loss and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Innovacorp as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Halifax, Nova Scotia
June 29, 2011

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NOVA SCOTIA INNOVATION CORPORATION
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PROVINCE OF NOVA SCOTIA
NOVA SCOTIA INNOVATION CORPORATION
Consolidated Balance Sheet
As at March 31, 2011

	2011	2010
ASSETS		
Current		
Cash	$ 1,815,732	$ 739,931
Receivables	1,735,571	1,101,634
Prepaid expenses	74,787	10,158
Inventories	-	38,014
Current portion of landlord leasehold improvements and inducements (Note 7)	136,704	140,241
	3,762,794	2,029,978
Receivables (Note 5)	106,218	151,761
Prepaid rent	-	50,000
Property and equipment (Note 6)	7,301,210	6,863,690
Landlord leasehold improvements and inducements (Note 7)	367,768	504,470
Investments and funds		
Nova Scotia First Fund (Note 8)	14,130,585	14,112,508
Research Endowment Fund (Note 9)	295,173	292,710
Other investments (Note 10)	350,869	500,869
Land held for future development	262,083	266,388
Assets-discontinued operations (Note 4)	9,900	8,285
	$ 26,586,600	$ 24,780,659
LIABILITIES		
Current		
Payables and accruals	$ 2,179,787	$ 562,607
Current portion of tenant leasehold improvements and inducements	4,020	45,191
Current portion of long term debt (Note 12)	113,408	107,273
	2,297,215	715,071
Employee future benefits (Note 11)	1,325,060	1,221,055
Long-term debt (Note 12)	11,723,516	11,576,523
Deferred revenue	60,000	60,000
Tenant leasehold improvements and inducements	-	8,041
Deferred capital contributions	2,379,197	1,783,675
	17,784,988	15,364,365
NET ASSETS		
Capital stock and contributed surplus (Note 14)	19,110,755	19,110,755
Deficit	(10,998,290)	(10,216,016)
Accumulated other comprehensive income	689,147	521,555
	8,801,612	9,416,294
	$ 26,586,600	$ 24,780,659

Commitments (Notes 8 and 16)

ON BEHALF OF THE BOARD

.... Chair

.... Chief Executive Officer

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA INNOVATION CORPORATION
Consolidated Statement of Loss and Deficit
Year ended March 31, 2011

	2011	2010
Revenues		
Government contributions (Note 13)	$ 5,118,007	$ 4,614,499
Incubation	1,118,185	1,122,068
Mentoring	225,000	167,961
Investment	72,500	52,250
Software sales and services	-	550,763
	6,533,692	6,507,541
Expenses		
Incubation	1,948,961	1,255,746
Mentoring	913,418	1,321,430
Investment	628,192	482,491
Software sales and services	-	568,680
Corporate services	1,946,738	1,930,466
	5,437,309	5,558,813
Operating income	1,096,383	948,728
Amortization expense	(435,189)	(446,562)
Interest expense	(330,792)	(337,290)
Employee benefits expense	(208,816)	(219,183)
Investments income (loss)		
Nova Scotia First Fund	(143,319)	(1,408,759)
Other	9,464	55,633
Impairment of related party receivable (Note 15)	(741,798)	-
Dilution gain	-	145,437
Goodwill write-off	-	(93,555)
	(1,850,450)	(2,304,279)
Loss from continuing operations	(754,067)	(1,355,551)
Loss from discontinued operations (Note 4)	(28,207)	52,948
Net loss	(782,274)	(1,302,603)
Deficit, beginning of year	(10,216,016)	(8,913,413)
Deficit, end of year	$ (10,998,290)	$ (10,216,016)

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA INNOVATION CORPORATION
Consolidated Statement of Cash Flows
Year ended March 31, 2011

	2011	2010
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Operating		
Net loss from continuing operations	$ (754,067)	$ (1,355,551)
Items not affecting cash		
Amortization	435,189	482,578
Deferred capital assistance recognized	(164,029)	(184,352)
Employee future benefits expense (Note 11)	200,042	206,405
Nova Scotia First Fund income (Note 8)	(417,068)	(278,520)
Tenant lease inducements amortized	(19,441)	(49,211)
Landlord lease inducements amortized	29,070	29,069
Accrued interest on Province of Nova Scotia - NSFF loan (Note 12)	260,400	261,183
Minority interest	-	(4,996)
Investment impairments	580,387	1,681,598
Impairment of related party receivable (Note 15)	741,798	-
Dilution gain	-	(145,437)
Goodwill write-off	-	93,555
	892,281	736,321
Changes in non-cash operating working capital	233,662	(923,593)
Employee future benefits payments (Note 11)	(96,037)	(139,148)
	1,029,906	(326,420)
Investing		
Withdrawals from Research Endowment Fund	-	120,293
Acquisition of other investments	(20,000)	-
Proceeds on redemption of other investments (Note 10)	150,000	-
Proceeds from NSFF portfolio investments (Note 8)	935,696	846,024
Acquisitions of NSFF investments (Note 8)	(932,696)	(865,645)
Repayments of long-term receivables	54,479	30,577
Property and equipment purchases	(792,363)	(217,834)
De-consolidation of former subsidiary	-	(43,319)
	(604,884)	(129,904)
Financing		
Long-term debt repayments (Note 12)	(107,273)	(101,471)
Deferred capital contributions	759,552	116,249
	652,279	14,778
Cash provided by (used in) continuing operations	1,077,301	(441,546)
Cash (used in) provided by discontinued operations (Note 4)	(1,500)	133,703
	1,075,801	(307,843)
INCREASE (DECREASE) IN CASH	1,075,801	(307,843)
CASH, BEGINNING OF YEAR	739,931	1,047,774
CASH, END OF YEAR	$ 1,815,732	$ 739,931
Supplemental information:		
Interest paid	$ 70,392	$ 76,107

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA INNOVATION CORPORATION
Consolidated Statement of Comprehensive Loss
Year ended March 31, 2011

	2011	2010
Net loss	**$ (782,274)**	$ (1,302,603)
Other comprehensive income		
Unrealized gain on available-for-sale financial assets	**142,908**	243,789
Reclassification of net realized loss to net loss	**24,684**	2,495
	167,592	246,284
Comprehensive income (loss)	**$ (614,681)**	$ (1,056,319)
Accumulated other comprehensive income, beginning of year	**$ 521,555**	$ 275,271
Other comprehensive income	**167,592**	246,284
Accumulated other comprehensive income, end of year	**$ 689,147**	$ 521,555

1. NATURE OF OPERATIONS

The Nova Scotia Innovation Corporation ("Innovacorp") was established on February 6, 1995 by the Innovation Corporation Act and is wholly owned by the Province of Nova Scotia. Its purpose is to build relationships that enable technology based Nova Scotia firms to compete successfully for global business. Innovacorp is exempt from income tax under Section 149 of the *Income Tax Act*.

2. FUTURE ACCOUNTING CHANGES

New accounting framework

In December 2009, the Public Sector Accounting Board (PSAB) issued an amendment to the Introduction to Public Sector Accounting Standards of the PSA Handbook. This amendment eliminated the Government Business Type Organizations (GBTO) classification and entities currently classified as a GBTO are required to re-assess their classification.

Under the revised introduction, Innovacorp is classified as an Other Government Organization (OGO). Effective for fiscal years beginning January 1, 2011, OGO's had to choose between International Financial Reporting Standards and standards issued by the PSAB. Innovacorp determined the most appropriate basis of accounting to meet the needs of the users of its consolidated financial statements to be the standards issued by the PSAB. Innovacorp will adopt the standards issued by the PSAB for its fiscal year beginning April 1, 2011, and is currently in the process of assessing the impact upon transition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Innovacorp's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which reflect the following significant accounting policies:

Principles of consolidation

The consolidated financial statements include the accounts of Innovacorp and its wholly owned subsidiaries, 1402998 Nova Scotia Limited and 3087532 Nova Scotia Limited.

Use of estimates

In preparing Innovacorp's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the period. Significant estimates in these financial statements include the allowance for doubtful accounts, employee future benefits, amortization rates for property and equipment, amortization rates for leasehold improvements and inducements, valuation of fund investments and accrued liabilities. Actual results could differ from these estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Government contributions for operating expenses are recognized in the period the expenses are incurred.

Mentoring revenue includes consulting services and is recorded as the services are provided.

Incubation revenue is recorded as earned and includes monthly rent and recoveries from tenants for utilities, photocopies, and other administration services.

Investment revenue includes interest on cash balances, short-term investments and bonds receivable, including imputed interest on zero coupon bonds and residuals, dividends and capital gains and losses. Interest income is accrued daily, dividend income is recorded on the ex-dividend date, and capital gains and losses are recognized on the date of sale.

Cash

Cash includes petty cash and amounts on deposit with financial institutions.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

Financial instruments

<u>Classification of financial instruments</u>

Available for sale financial assets are those non-derivative financial assets that are designated as such, or that are not classified as loans and receivables, held to maturity, or held for trading. Available for sale securities with quoted market values are carried at fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income until sale or other than temporary impairment at which time the cumulative gain or loss is transferred to the consolidated statements of earnings. Available for sale securities that do not have quoted market values are recorded at cost and are assessed annually for other than temporary impairment.

Held for trading financial assets and liabilities are financial instruments purchased for resale, generally within a short period of time and other financial instruments that an entity designates on initial recognition as held for trading. Held for trading financial assets and liabilities are measured at fair value on the balance sheet date with changes in fair value recorded in net earnings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other financial liabilities are recorded at amortized cost using the effective interest method with gains and losses recognized in net earnings in the period that the liability is derecognized. Other liabilities include all liabilities other than held for trading liabilities and derivative instruments. Transaction costs related to financial liabilities classified as other liabilities are expensed when incurred.

Loans and receivables are recorded at amortized cost using the effective interest method, with gains and losses recognized in net earnings in the period the asset is derecognized or impaired.

Innovacorp's financial assets and liabilities are generally classified and measured as follows:

Financial asset/liability	Classification	Measurement
Cash	Held for trading	Fair value
Investments	Available for sale	Fair value
Receivables	Loans and receivables	Amortized cost
Long-term receivables and deposits	Loans and receivables	Amortized cost
Investments and funds		
Nova Scotia First Fund (portfolio investments)	Available for sale	Fair value
Nova Scotia First Fund (fund investments)	Available for sale	Cost
Research Endowment Fund	Available for sale	Fair value
Other investments	Available for sale	Cost
Payables and accruals	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Fair value

Fair value is the estimated amount for which a financial instrument could be exchanged between willing parties, based on the current market for instruments with the same risk, principal and remaining maturity. Certain fair value estimates are significantly affected by assumptions for the amount and timing of estimated cash flows and discount rates, all of which reflect varying degrees of risk. As a result, the fair values may not necessarily be indicative of the amounts that would be realized if these instruments were actually settled. The methods and assumptions used to estimate the fair value of financial instruments are described in the following paragraphs.

Investments in securities having quoted market values and which are publicly traded on a recognized securities exchange are recorded at values based on quoted closing prices. The fair value of impaired fund investments for which there is no quoted market value are determined based on valuations or implied valuations in transactions in the financial instruments of the investee.

Due to the short period to maturity, the fair value of cash, receivables, and payables and accruals approximate their carrying values as presented in the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

The cost of property and equipment are amortized over their estimated useful lives at the following rates and methods:

Buildings	0.04	Declining balance
Site improvements	0.08	Declining balance
Machinery and equipment	0.2	Declining balance
Computer equipment	0.3	Declining balance
Furniture and fixtures	0.2	Declining balance
Leasehold improvements	Term of lease	Straight line
Management information system and network infrastructure	5 - 20%	Straight line

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment is determined as the excess of the carrying value of the asset over its fair value.

Donated assets

The donation of assets to Innovacorp are recorded as contributed capital assets. These assets are recorded at their fair value with an increase to contributed surplus. These assets are amortized over their estimated useful lives as described above. There were no assets donated in 2010 or 2011.

Deferred capital contributions

Contributions used for the acquisition of property and equipment are deferred and recognized as income on the same basis as the related assets are amortized. Contributions related to other expenses are recognized as income in the year the related expenses are incurred.

Landlord leasehold improvements and inducements

Costs incurred or paid to tenants to renovate premises are recorded as leasehold improvements and amortized over the life of the lease. Free or reduced rents provided to tenants during the period are recorded as leasehold inducements and amortized over the life of the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tenant leasehold improvements and inducements

Costs incurred or paid by landlords to renovate Innovacorp's premises are recorded as leasehold improvements and amortized over the life of the lease. Free or reduced rents provided by landlords during the period are recorded as leasehold inducements and amortized over the life of the lease.

Non-monetary transactions

Certain companies in which Innovacorp holds investments through the Nova Scotia First Fund ("NSFF") provide shares in exchange for consulting and mentoring services. The value of the transaction is established by the fair value of fees charged for such services and is agreed by both parties. The number of shares is determined by share prices confirmed through third party transactions.

Employee future benefits

Innovacorp has a Public Service Award Program covering substantially all of its permanent employees. The benefit is based on years of service and the employee's compensation during the final year of employment. This program is funded in the year of retirement of eligible employees.

Innovacorp pays 65% of the cost of health care plans for substantially all retirees or surviving spouses of retirees. The program is funded each year by the payment of the required premiums.

Innovacorp accrues its defined benefit obligations under these employee benefit plans as the employees render the services necessary to earn the future benefits and has adopted the following policies:

- The cost of the benefits earned by employees is determined annually using the projected benefit method prorated on service and actuarial assessment and best estimate of probability of retirement, retirement ages and expected health care costs.
- The excess of the net actuarial gain or loss over 10% of the benefit obligation is amortized over the average remaining service period of active employees, which is 10 years (2010 – 10 years).
- The transitional obligation resulting from the implementation of the policy is amortized over the average remaining service period of active employees at inception, which is 5.6 years (2010 – 6.6 years).

Innovacorp has an unfunded Supplementary Employee Retirement Plan covering its permanent employees whose salaries exceed the maximum on which contributions to a registered pension plan may be deducted. Eligible employees receive a defined benefit equivalent to the registered pension they would have earned on an excess earnings upon retirement on the same terms as are contained in the Province's registered pension plan.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees of Innovacorp, other than casual employees, are entitled to receive pension benefits pursuant to the provisions of the Public Service Superannuation Act. The defined contribution plan is funded by equal employee and employer contributions and the employer's contributions are included in the expenses of Innovacorp. The Province of Nova Scotia administers the Public Service Superannuation Fund and is responsible for any unfunded liability.

4. DISCONTINUED OPERATIONS

Innovacorp decided to cease its Product Engineering activity effective March 31, 2010. Assets that are expected to be disposed of are valued at $9,900 (2010-$8,285) and have been separately classified on the balance sheet as assets from discontinued operations.

(Loss) income from discontinued operations of ($28,207) (2010 - $52,948) included in the statement of loss and deficit is comprised of revenues of $3,500 (2010 - $278,178) and expenses of $31,707 (2010 - $225,230).

5. RECEIVABLES

	2011	2010
Leases	**$ 141,706**	$ 182,352
Less: current portion	**35,488**	30,591
	$ 106,218	$ 151,761

Innovacorp leases equipment under an agreement with a 10 year term. The lease, which substantially transfers the entire risks and benefits incidental to ownership, has been accounted for as a sale. The lease bears interest at prime plus 25 basis points (2010 – 0%). The lease is scheduled to be repaid by February 1, 2015.

6. PROPERTY AND EQUIPMENT

	2011			2010
	Cost	**Accumulated Amortization**	**Carrying Value**	Carrying Value
Land	$ **374,015**	$ **-**	$ **374,015**	$ 374,015
Buildings	**8,977,302**	**3,316,408**	**5,660,894**	5,847,619
Site improvements	**403,065**	**107,311**	**295,754**	288,905
Machinery and equipment	**1,099,693**	**980,607**	**119,086**	101,532
Computer equipment	**628,373**	**611,867**	**16,506**	24,228
Furniture and fixtures	**420,393**	**272,675**	**147,718**	69,926
Leasehold improvements	**798,453**	**213,413**	**585,040**	43,017
Management information systems and network infrastructure	**312,558**	**210,361**	**102,197**	114,448
	$ **13,013,852**	$ **5,712,642**	$ **7,301,210**	$ 6,863,690

7. LANDLORD LEASEHOLD IMPROVEMENTS AND INDUCEMENTS

	2011	2010
Landlord leasehold improvements and inducements	**$ 1,347,129**	$ 1,347,129
Accumulated amortization	**(842,657)**	(702,418)
	504,472	644,711
Less: current portion	**136,704**	140,241
	$ 367,768	$ 504,470

8. NOVA SCOTIA FIRST FUND

In 1989 the Nova Scotia First Fund (NSFF) was established by Governor in Council. During 1996-1997, Innovacorp assumed management of the NSFF pursuant to the Innovation Corporation Act. The administration of investments and obligations made through the NSFF to April 1, 1996 was also transferred to Innovacorp. The objective of the fund is to encourage the development of high technology industries and the adoption of new technologies by existing industries. Fund investments represent investments in development stage enterprises and, as such, have not yet earned significant revenues from their intended business activities or established their commercial viability. The recovery of investments amounts and the realization of investment returns are dependent upon the successful resolution of scientific, regulatory, competitive and other risk factors, as well as the eventual commercial success of these enterprises. Adverse developments could result in further write-downs of the carrying values of these investments.

Fund activity during the current year is summarized below:

				2011	2010
	Portfolio Investments	Venture Investments	Valuation Adjustment	**Fund Balance**	Fund Balance
Beginning balance	$ 9,957,914	$ 10,357,137	$ (6,202,543)	**$ 14,112,508**	$ 14,913,448
Add (deduct):					
De-consolidation adjustment	-	-	-	-	338,640
Purchases	(935,696)	932,696	-	**(3,000)**	-
Income	250,329	166,739	-	**417,068**	331,020
Comprehensive income (loss)	201,197	(36,801)	-	**164,396**	233,494
Additions and transfers	-	-	-	-	(17,537)
Investment impairments	-	-	(560,387)	**(560,387)**	(1,686,557)
Ending balance	$ 9,473,744	$ 11,419,771	$ (6,762,930)	**$ 14,130,585**	$ 14,112,508

Innovacorp is entitled to recover direct expenses associated with its administration of the NSFF. To date, it has elected not to charge the Fund for any of the costs incurred.

8. NOVA SCOTIA FIRST FUND (continued)

As at March 31, 2011 there were $1,383,758 (2010 - $2,220,712) approved commitments for the NSFF.

Included in the fund balance is the High Performance Incubation Fund with an authorized limit of $1,000,000. Investments made through this fund range from $50,000 to $250,000 and are targeted at earlier stage opportunities. As at March 31, 2011 $786,052 (2010 - $686,051) was invested in such companies.

The fund includes $8,000,000 advanced to Innovacorp by the Province of Nova Scotia with terms as described in Note 13. Income earned on these funds is included as income of the NSFF. Interest of $260,400 (2010 - $261,183) accrued for the year on this advance has been recorded as interest expense and charged to Innovacorp's general operations. On May 4, 2009 the Governor-in-Council issued Order 2009-228 authorizing an additional advance of up to $30,000,000 to the Nova Scotia First Fund. This is expected to be drawn starting in fiscal 2012/2013.

As at March 31, 2011, the market value of the portfolio investments were $9,473,744 (2010 - $9,959,948).

9. RESEARCH ENDOWMENT FUND

The Research Endowment Fund was transferred to Innovacorp when the Nova Scotia Research Foundation Corporation was dissolved. Subject to any directions provided by the Governor in Council, the Fund is administered and controlled by Innovacorp. The Fund can be used for purposes consistent with the objectives of Innovacorp.

10. OTHER INVESTMENTS

	2011	2010
Amirix Systems Inc.		
340,000 3%, non-cumulative preferred shares	**$ 340,000**	$ 490,000
Other investments, at cost	**10,000**	10,000
Other investments, at net realizable value	**869**	869
	$ 350,869	$ 500,869

11. EMPLOYEE FUTURE BENEFITS

	2011	2010
Long term service award	**$ 311,997**	$ 302,005
Post retirement benefits	**915,586**	822,338
Supplementary employee retirement plan (SERP)	**97,477**	96,712
	$1,325,060	$ 1,221,055

11. EMPLOYEE FUTURE BENEFITS (continued)

Employees of Innovacorp are entitled to long term service awards on retirement, based on the number of years of service. These are earned at a rate of one week's pay for every year of service, to a maximum of 26 weeks.

The liability recorded represents management's best estimate of the net present value of future awards to be paid to retiring staff. The benefit expense calculation includes an imputed interest charge on the average unfunded liability throughout the period, and an accrual for the awards earned by employees during the period.

The last actuarial valuation for funding purposes took place on April 1, 2008. During the year, the services of an actuary were obtained to update the accrued benefit obligation balances as of March 31, 2011. The next actuarial valuation for funding purposes will take place on April 1, 2011.

The accrued benefit liabilities, based on actuarial assumptions and calculations, are as follows:

	Long-term Service Award	Post Retirment Benefits	SERP	**2011**	2010
Accrued benefit liability, beginning of year	$ 302,005	$ 822,338	$ 96,712	**$ 1,221,055**	$ 1,153,797
Current period benefit cost					
Current service cost	30,617	26,456	-	**57,075**	55,301
Interest cost	18,642	63,143	5,477	**87,262**	90,058
Amortization of actuarial experience loss	4,324	20,696	962	**25,982**	36,465
Amortization of transitional obligation	-	29,723	-	**29,723**	29,723
Less: payments made during the year	(43,590)	(46,770)	(5,675)	**(96,037)**	(144,289)
Accrued benefit liability, end of year	$ 311,998	$ 915,586	$ 97,476	**$ 1,325,060**	$ 1,221,055
Unamortized actuarial experiences losses	$ 76,723	$ 232,431	$ 20,476	**$ 329,630**	$ 393,008
Unamortized transitional obligation	-	136,798	-	**136,798**	166,521
Accrued benefit obligation, end of year	$ 388,721	$ 1,284,815	$ 117,952	**$ 1,791,488**	$ 1,780,584

11. EMPLOYEE FUTURE BENEFITS (continued)

The significant assumptions adopted by management in measuring the accrued benefit obligations are as follows:

		2011	2010
Discount rate		**4.75%**	4.75%
Salary increase rate	Under 30	**5.75**	5.75
	30 - 34	**5.25**	5.25
	35 - 39	**4.75**	4.75
	40 - 44	**4.25**	4.25
	45 - 49	**3.75**	3.75
	50 plus	**3.25**	3.25
	Disabled members	**2.75 flat**	2.75 flat
Assumed health care cost trend increase		**6.75 - 4.5%**	9.25 - 4.5%

Health costs are assumed to increase at a decreasing rate, with 0% being assumed for the period ending April 1, 2011, 6.60% for 2012, decreasing by 0.15% each subsequent year until they stabilize at 4.5%.

Innovacorp's net post retirement benefit expense for the year was $200,042 (2010 - $206,405).

12. LONG TERM DEBT

	2011	2010
3.255% Province of Nova Scotia - NSFF	**$ 10,236,940**	$ 9,976,540
5.6% Province of Nova Scotia - capital project	**1,198,424**	1,305,696
Province of Nova Scotia - land transfer	**401,560**	401,560
	11,836,924	11,683,796
Less: current portion	**113,408**	107,273
	$ 11,723,516	$ 11,576,523

In 2004, the Province of Nova Scotia advanced $8,000,000 to Innovacorp for the purpose of investing in the Nova Scotia First Fund. The loan bears interest at a rate of 3.255% and matures in 2014 when the principal portion and accrued interest will be repaid. Accrued interest to date in the amount of $2,236,940 is included in the above balance and is expected to increase to $3,094,533 upon maturity in March 2014.

12. LONG TERM DEBT (continued)

In 2005, the Province of Nova Scotia advanced $1,800,000 to Innovacorp to fund building improvements. The loan is repayable in blended quarterly payments of $44,541 to 2019.

In 2006, Nova Scotia Business Inc., a party related by virtue of common ownership, transferred land and buildings in exchange for assumption of $401,561 of debt owed to the Province of Nova Scotia, an amount equal to the net book value of the assets transferred at the time of transfer. The loan is non-interest bearing and has no fixed repayment terms.

Principal repayments on long term debt are as follows:

2012	$ 113,408
2013	119,893
2014	10,363,689
2015	133,998
2016	141,662
Thereafter	964,274
	$ 11,836,924

13. GOVERNMENT CONTRIBUTIONS

Innovacorp receives an annual contribution from the Province of Nova Scotia, as well as funding from various other federal and provincial government agencies for current operations, acquisition of property and equipment, and special projects funding. Funding related to the acquisition of capital assets is deferred as disclosed in Note 3. Details of funding for the year are as follows:

	2011	2010
Contributions received - Province of Nova Scotia	**$ 5,357,000**	$ 4,554,618
Contributions used to finance property and equipment	**(394,919)**	(116,249)
Recognition of previously deferred contributions	**100,831**	120,166
	(294,088)	3,917
Net contributions - Province of Nova Scotia	**$ 5,062,912**	$ 4,558,535
Amortization of contributions - Atlantic Canada Opportunities Agency	**$ 55,095**	$ 55,964
	$ 5,118,007	$ 4,614,499

14. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	2011	2010
Capital stock - authorized, issued and outstanding		
75 Class A common shares, par value of $1	$ 75	$ 75
Principal share, par value $1	1	1
	76	76
Contributed surplus		
Nova Scotia First Fund	**11,110,791**	11,110,791
Nova Scotia Research Foundation Corporation	**7,509,888**	7,509,888
Amirix Systems Inc.	**490,000**	490,000
	19,110,679	19,110,679
	$ 19,110,755	$ 19,110,755

15. RELATED PARTY TRANSACTIONS

Entity	Relationship	Revenues Generated	Year End Receivables
PlantSelect Biotechnology Systems Limited	50% Investee	$ -	$ 298,844
BioScience Enterprise Centre	Managed incubator	372,069	805,273
NSFF Investments	Investees	35,602	294,123

Sales to NSFF investees are at the same terms and conditions as sales to unrelated parties.

The receivable from PlantSelect Biotechnology Systems Limited is offset by an allowance for doubtful accounts of $298,844.

The receivable from the BioScience Enterprise Centre is offset by an allowance for impairment of $741,798.

The receivables from the NSFF Investees are offset by an allowance for doubtful accounts of $272,819.

Contributions were received from the Province of Nova Scotia as described in Note 13. The Province of Nova Scotia also invoices Innovacorp for salaries and benefits that it pays on Innovacorp's behalf. During the year, total salaries and benefits paid by the Province on behalf of Innovacorp totaled $3,164,815.

At March 31, 2011 there was a balance receivable from the Province of Nova Scotia of $948,495.

16. COMMITMENTS

Innovacorp has entered into operating lease arrangements for buildings and equipment. Future minimum annual lease payments for the next 5 years under these leases are as follows:

2012	$ 1,566,850
2013	1,548,151
2014	1,530,659
2015	1,498,767
2016	1,481,407
	$ 7,625,834

17. CAPITAL DISCLOSURES

Innovacorp includes total long-term debt and net assets in the definition of capital as follows:

	2011	2010
Total long-term debt	**$11,836,924**	$ 11,683,796
Net assets	**8,801,612**	9,416,294
	$20,638,536	$ 21,100,090

Innovacorp's objective when managing capital is to deliver its mandate while meeting or bettering the operating and capital budgets contained in its annual business plan, forming part of the estimates of the Province of Nova Scotia.

18. FINANCIAL INSTRUMENTS

Financial instruments include the following:

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Held for trading:				
Cash	**$ 1,815,732**	**$ 1,815,732**	$ 739,931	$ 739,931
Available for sale:				
Nova Scotia First Fund (portfolio investments)	**9,473,744**	**9,473,744**	9,959,948	9,959,948
Research Endowment Fund	**295,173**	**295,173**	292,710	292,710
Loans and receivables:				
Receivables	**2,441,881**	**2,441,881**	1,071,043	1,071,043
Other liabilities:				
Payables and accruals	**2,179,787**	**2,179,787**	562,607	562,607

The carrying value of cash, receivables, and payables and accruals approximate their fair value due to the short-term maturity of these instruments.

The NSFF portfolio investments and the Research Endowment Fund investments are recorded at fair value based on quoted market prices at March 31, 2011.

The fair values of the NSFF fund investments and other investments, with a carrying value of $4,656,841 and $350,869 respectively, have not been disclosed because the investments do not have a quoted market price in an active market, and given their nature as emerging venture-grade technology companies, their fair value cannot be measured reliably.

The fair value of the receivable for equipment leases, with a carrying value of $141,706, has not been disclosed because it is not practical to determine the current market interest rate of the borrower in order to reliably measure the current fair value of the receivable.

The fair value of long-term debt, with a carrying value of $11,836,923, has not been disclosed because the debt originated in a related party transaction with the Province of Nova Scotia, and therefore it is not practicable to determine Innovacorp's current market interest in order to reliably measure the current fair value of the debt.

Financial instruments recorded at fair value on the consolidated balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

18. FINANCIAL INSTRUMENTS (continued)

The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The above table presents the financial instruments recorded at fair value in the Consolidated Balance Sheet, in which all are classified as Level 1. During the year, there has been so significant transfer of amounts between Level 1 and Level 2.

Risks associated with financial assets and liabilities

Innovacorp is exposed to various financial risks arising from its financial assets and liabilities. These include market risk relating to equity prices, interest rates and foreign exchange rates, liquidity risk and credit risk. To manage these risks, Innovacorp adheres to a Board approved investment policy that governs its venture capital and liquid portfolio investing activities. The High Performance Incubation business model, which provides incubation, mentoring and investments services to early stage technology enterprises, is also used to mitigate risks.

Market risk

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate as a result of changes in market prices. For Innovacorp, market risk is comprised of equity price risk, interest rate risk and foreign exchange risk.

Equity price risk

Equity price risk refers to the risk that the fair value of marketable securities and long-term investments will vary as a result of changes in market prices of the investments. Therefore, there is a risk that an amount realized in the subsequent sale of an investment may significantly differ from the reported value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions.

18. FINANCIAL INSTRUMENTS (continued)

The table below shows the impact to Innovacorp's net income and other comprehensive income resulting from a 32.5% increase or decrease in market prices on securities carried at market value in the consolidated balance sheet. This illustrates the effect on Innovacorp's financial results due to a certain price change, and may not reflect the best or worst case scenarios.

Fair value	Price change	Estimated fair value after price change	Estimated impact on net income	Estimated impact on other comprehensive income*
$ 2,103,309	32.52% increase	$ 2,787,305	$ 178,921	$ 505,075
$ 2,103,309	32.52% decrease	$ 1,419,313	$ (178,921)	$ (505,075)

Innovacorp manages its equity price risk through the use of strict investment policies approved by the Board of Directors. These policies cover investments position and transaction limits, trade authorizations, record keeping and investment reporting.

Interest rate price risk

Interest rate price risk is the risk that market values of fixed income investments will vary as a result of changes in underlying interest rates.

Innovacorp partially mitigates its exposure to interest rate fluctuations through limitations on duration of its fixed portfolio imposed by its investment policy.

The table below shows the impact to Innovacorp's net income and other comprehensive income of a 1% increase or decrease in interest rates on fixed income securities carried at market value in the consolidated balance sheet. The selected change may not reflect what could be considered the best or worst case scenarios.

Fair value	Interest rate change	Estimated fair value after price change	Estimated impact on net income*	Estimated impact on other comprehensive income
NSFF				
$ 7,265,765	1% increase	$ 7,027,752	$ -	$ (238,013)
$ 7,265,765	1% decrease	$ 7,503,778	$ -	$ 238,013
Research Endowment Fund & Short Term Investments				
$ 760,984	1% increase	$ 732,751	$ -	$ (28,233)
$ 760,984	1% decrease	$ 789,217	$ -	$ 28,233

*Assuming liquidity requirements are met from the cash allocation in the respective portfolios, these flucuations in value would be unrealized.

18. FINANCIAL INSTRUMENTS (continued)

Foreign exchange risk

Foreign exchange risk refers to the risk that values of financial assets denominated in foreign currencies in the consolidated balance sheet of Innovacorp will vary as a result of changes in underlying foreign exchange rates.

Innovacorp allocates a portion of the Nova Scotia First Fund liquid portfolio to debt and equity securities denominated in US dollars. At March 31, 2011, the effect of 9.5% change in the US/Canadian exchange rate on comprehensive income would have been $89,356 and on net income would have been $5,837.

Innovacorp limits its exposure to foreign exchange fluctuations on the Nova Scotia First Fund liquid portfolio through adherence to its Board approved investment policy that limits foreign currency allocations by asset class.

Liquidity risk

Liquidity risk is the risk that Innovacorp will encounter difficulty in meeting its financial obligations. Innovacorp believes it has access to sufficient capital through operating and investing cash flows. Ongoing operating funding from the Province is required to meet the obligations set out below. In addition, occupancy levels in its facilities are a key factor in Innovacorp's ability to make quarterly principal and interest payments under its building improvement loan. The amount and timing of exits from NSFF venture investments will play a significant role in determining the extent to which principal and interest on the Nova Scotia First Fund loan, due in March of 2014, will be paid at maturity.

The following table shows the timing of expected payments on current liabilities and long-term debt:

	Due within 1 Year	Due within 2 - 5 Years	Due within 6 - 10 Years	Due after 10 years
Accounts payable	$ 2,179,787	$ -	$ -	$ -
Long-term debt	113,408	7,664,709	562,714	401,560
Interest due on NSFF debt	-	3,094,533	-	-
	$ 2,293,195	$ 10,759,242	$ 562,714	$ 401,560

Credit risk

Credit risk refers to the risk that counterparty will fail to fulfill its obligations under a contract and, as a result, will cause Innovacorp to suffer a loss. Innovacorp's financial assets that are exposed to credit risk consist primarily of fixed income investments of the Nova Scotia First Fund and the Research Endowment Fund, and accounts and loans receivable.

18. FINANCIAL INSTRUMENTS (continued)

Fixed income

For fixed income investments, Innovacorp is exposed to credit risk from the issuers of the bonds, banker's acceptances, commercial paper and treasury bills. This risk is managed by adherence to an investment policy which sets the standards of credit quality and issuer type and was as follows at March 31, 2011:

	AAA	AA (H)	AA	AA (L)	A (H)	A	Total
Government of Canada	$ 818,327	$ -	$ -	$ -	$ -	$ -	$ 818,327
Canada Provinces	364,495	-	1,448,094	-	1,771,016	1,737,567	5,321,172
Canada Municipals	-	-	532,557	-	-	-	532,557
Canada Corporates	-	-	213,348	-	449,909	-	663,257
Nova Scotia First Fund Total	1,182,822	-	2,193,999	-	2,220,925	1,737,567	7,335,313
Canada Provinces	-	-	-	-	265,110	397,178	662,288
Canada Corporates	-	-	-	104,627	-	-	104,627
Research Endowment Fund Total	-	-	-	104,627	265,110	397,178	766,915
	$ 1,182,822	$ -	$ 2,193,999	$ 104,627	$ 2,486,035	$ 2,134,745	$ 8,102,228

Receivables

Trade receivables are significantly concentrated with 15.18% of the balance due from early-stage technology-based companies. The stage of development of Innovacorp's client base combined with the technology sector concentration increased the associated credit risk. Innovacorp's active involvement with its clients through the delivery of its High Performance Incubation services mitigates this risk. The maximum exposure to credit risk associated with financial assets is the total carrying value of those assets.

Innovacorp's loan receivable is the result of sales-type lease of equipment to its anchor tenant, increasing its credit risk exposure from this source. The credit risk is mitigated by Innovacorp's security interest in the assets leased.

18. FINANCIAL INSTRUMENTS (continued)

Details of trade and loans receivable are as follows:

	Current	Up to 90 Days Past Due	Over 90 Days Past Due	Allowance for Doubtful Accounts	No Set Terms of Repayment	Total
Trade receivables	$ 86,770	$ 86,145	$ 655,491	$ (626,852)	$ -	**$ 201,554**
Due from BioScience Enterprise Centre (Note 16)	-	-	-	-	63,475	**63,475**
Due from Province of Nova Scotia	765,000	-	-	-	183,495	**948,495**
Loan receivable - current (Note 6)	35,488	-	-	-	-	**35,488**
HST receivable	-	-	-	-	113,277	**113,277**
Other accrued receivables	-	-	-	-	373,282	**373,282**
Current receivables	887,258	86,145	655,491	(626,852)	733,529	**1,735,571**
Loan receivable - non current (Note 6)	106,218	-	-	-	-	**106,218**
	$ 993,476	$ 86,145	$ 655,491	$ (626,852)	$ 733,529	**$ 1,841,789**

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.