
Consolidated Financial Statements of

NOVA SCOTIA INNOVATION CORPORATION

March 31, 2015



Deloitte LLP
1969 Upper Water Street
Suite 1500
Purdy's Wharf Tower II
Halifax NS B3J 3R7
Canada

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Province of Nova Scotia
Nova Scotia Innovation Corporation

Tel: 902-422-8541
Fax: 902-423-5820
www.deloitte.ca

We have audited the accompanying financial statements of Province of Nova Scotia - Nova Scotia Innovation Corporation ("Innovacorp"), which comprise the consolidated statement of financial position as at March 31, 2015, and the consolidated statements of operations and accumulated surplus, change in net financial assets, cash flows and remeasurement gains and losses 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 public sector accounting standards, 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 Nova Scotia Innovation Corporation as at March 31, 2015, and the results of its operations, changes in its net financial assets, cash flows and its remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants
Halifax, Nova Scotia
June 23, 2015

Management's Report

Management's Responsibility for the Consolidated Financial Statements

The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the consolidated financial statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

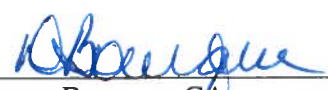
The board of directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises these responsibilities through the board. The board reviews internal consolidated financial statements on a monthly basis and external audited consolidated financial statements yearly.

The external auditors, Deloitte LLP, conduct an independent examination, in accordance with Canadian generally accepted auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full and free access to financial management of Innovacorp and meet when required.

On behalf of **Innovacorp**



Stephen Duff
President and CEO



Donna Bourque, CA
VP Finance and Administration

June 26, 2015

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA INNOVATION CORPORATION**

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NOVA SCOTIA INNOVATION CORPORATION

Consolidated Statement of Financial Position

As at March 31

	2015	2014
FINANCIAL ASSETS		
Cash	\$ 7,594,500	\$ 1,061,348
Accounts receivable (Note 4)	871,233	1,554,504
Loans receivable (Note 5)	3,297,500	2,100,000
Portfolio investments (Note 6)		
Investments quoted in an active market	3,462,494	4,740,568
Investments in early stage private enterprises	18,697,558	14,126,063
	33,923,285	23,582,483
LIABILITIES		
Payables and accruals	7,056,853	1,428,670
Tenant leasehold improvements and inducements	14,842	29,684
Long-term debt (Note 7)	8,639,650	9,247,506
Retirement benefits (Note 8)	1,915,601	1,852,603
Post-employment benefits (Note 9)	275,933	287,908
Deferred revenue	1,295,105	10,000
Deferred capital contributions (Note 11)	2,229,955	2,281,136
	21,427,939	15,137,507
Net financial assets	12,495,346	8,444,976
NON-FINANCIAL ASSETS		
Prepaid expenses	85,430	48,684
Landlord leasehold improvements and inducements (Note 12)	-	115,583
Property and equipment (Note 13)	4,924,694	8,905,817
	5,010,124	9,070,084
Accumulated surplus	\$ 17,505,470	\$ 17,515,060
Accumulated surplus is comprised of:		
Accumulated operating surplus	\$ 17,337,953	\$ 17,290,340
Accumulated remeasurement gains	167,517	224,720
	\$ 17,505,470	\$ 17,515,060

NOVA SCOTIA INNOVATION CORPORATION
Consolidated Statement of Operations and Accumulated Surplus
For the year ending March 31,

	Budget (unaudited)	2015	2014
Revenues			
Corporate services			
Government contributions - operations (Note 14)	\$ 7,581,000	\$ 7,605,261	\$ 7,673,550
Government contributions - statutory capital (Note 14)		3,957,809	4,420,841
Other	13,000	22,981	19,920
Incubation	1,830,000	2,091,067	1,880,688
Investment	175,000	536,352	639,823
	9,599,000	14,213,470	14,634,822
Expenses (Note 15)			
Corporate services	2,185,000	1,772,873	1,976,503
Incubation	4,397,000	4,905,944	4,627,034
Investment	2,658,000	2,428,927	3,247,938
	9,240,000	9,107,744	9,851,475
Operating surplus	359,000	5,105,726	4,783,347
Impairment of portfolio investments and loans receivable	(500,000)	(2,728,889)	(1,215,184)
Realized gains on portfolio investments	-	36,377	281,688
Government transfer - real property (Note 23)	-	(4,766,423)	-
Gain on sale of property and equipment	-	2,400,822	258,441
	(500,000)	(5,058,113)	(675,055)
Surplus	(141,000)	47,613	4,108,292
Accumulated operating surplus, beginning of year		17,290,340	13,182,048
Accumulated operating surplus, end of year		\$ 17,337,953	\$ 17,290,340

NOVA SCOTIA INNOVATION CORPORATION
Consolidated Statement of Change in Net Financial Assets

For the year ended March 31

	<u>2015</u>	<u>2014</u>
Annual surplus	\$ 47,613	\$ 4,108,292
Remeasurement loss arising during the year	(57,203)	(383,755)
	(9,590)	3,724,537
Change in tangible capital assets		
Acquisition of property and equipment	(948,505)	(1,394,027)
Disposal of property and equipment at net carrying value	4,491,917	52,559
Amortization of property and equipment	437,711	393,735
Decrease (increase) in tangible capital assets	3,981,123	(947,733)
Change in other non-financial assets		
Amortization of landlord leasehold improvements and inducements	115,583	126,092
Net change in prepaid expenses	(36,746)	49,911
Decrease in other non-financial assets	78,837	176,003
Increase in net financial assets	4,050,370	2,952,807
Net financial assets, beginning of year	8,444,976	5,492,169
Net financial assets, end of year	\$ 12,495,346	\$ 8,444,976

NOVA SCOTIA INNOVATION CORPORATION

Consolidated Statement of Cash Flows

For the year ended March 31

	2015	2014
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Operating transactions		
Net operating surplus from continuing operations	\$ 47,613	\$ 4,108,292
Items not affecting cash:		
Amortization	437,711	393,735
Deferred capital assistance recognized	(118,199)	(97,178)
Employee future benefits expense (Note 8 and 9)	106,059	341,260
Nova Scotia First Fund income	(137,983)	(264,041)
Tenant lease inducements amortized	(14,842)	(14,842)
Landlord lease inducements amortized	115,583	126,092
Accrued interest on Province of Nova Scotia - NSFF loan (Note 7)	230,517	343,652
Investment impairments	2,728,889	1,215,184
Gain on sale of property and equipment	(2,400,822)	(258,441)
	994,526	5,893,713
Changes in non-cash operating working capital	7,559,813	(282,492)
Employee future benefits payments (Note 8 and 9)	(55,036)	(57,247)
Payment of interest on Province of Nova Scotia - NSFF loan	-	(3,094,533)
	8,499,303	2,459,441
Capital transactions		
Proceeds from sale of property and equipment	6,472,895	309,913
Property and equipment purchases	(948,505)	(1,394,027)
	5,524,390	(1,084,114)
Investing transactions		
Proceeds on sale or redemption of portfolio investments	1,358,854	1,954,303
Acquisitions of portfolio investments	(8,497,884)	(6,249,830)
Return of capital of portfolio investments	-	194,304
	(7,139,030)	(4,101,223)
Financing transactions		
Long-term debt repayments (Note 7)	(838,373)	(133,587)
Deferred capital contributions	486,862	625,839
	(351,511)	492,252
Increase (decrease) in cash	6,533,152	(2,233,644)
Cash, beginning of year	1,061,348	3,294,992
Cash, end of year	\$ 7,594,500	\$ 1,061,348
Supplemental information:		
Interest paid	\$ 47,776	\$ 3,144,824

NOVA SCOTIA INNOVATION CORPORATION
Consolidated Statement of Remeasurement Gains and Losses
For the year ended March 31

	<u>2015</u>	<u>2014</u>
Accumulated remeasurement gains, beginning of year	\$ 224,720	\$ 608,475
Remeasurement (loss) gain arising during the year		
Remeasurement (loss) gain on portfolio investments quoted in an active market	(19,524)	42,641
Reclassifications to the statement of operations		
Realized gains on portfolio investments quoted in an active market	(37,679)	(148,793)
Other	-	(277,603)
Net remeasurement losses	(57,203)	(383,755)
Accumulated remeasurement gains, end of year	\$ 167,517	\$ 224,720

Nova Scotia Innovation Corporation

Notes to the consolidated financial statements

March 31, 2015

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 business anywhere in the world. Innovacorp is exempt from income taxes under section 149 of the *Income Tax Act*.

In 1997, pursuant to the *Innovation Corporation Act*, the Province of Nova Scotia transferred the assets of the Nova Scotia First Fund (“NSFF”) 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. In 2010, Order-in-Council (“OIC”) 2009-228 authorized an additional advance of up to \$30 million from the Province of Nova Scotia to the NSFF, draws against which started in 2014. In 2012, OIC 2011-326 authorized additional advances from the Province of Nova Scotia of up to \$24 million for the creation of a clean technology fund, draws against which started in 2012. As of March 31, 2015, \$14,193,547 has been drawn and \$14,503,244 has been committed under the OICs, leaving \$25,303,209 as undrawn and available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The consolidated financial statements of Innovacorp have been prepared by management in accordance with Canadian Public Sector Accounting Standards (“PSAS”) as established by the Public Sector Accounting Board (“PSAB”).

Innovacorp reports all revenues and expenses on an accrual basis. Assets are carried at the lower of cost and net recoverable value except that certain financial instruments are carried at fair market value. Liabilities and financial obligations to outside organizations are recorded at the estimated amount ultimately payable.

Both financial and non-financial assets are reported on the statement of financial position. Non-financial assets are used to provide services in future periods and are charged to expense through amortization or upon utilization. These assets do not normally provide resources to discharge the liabilities of the corporation unless they are sold. As a result, non-financial assets are not taken into consideration when determining the net financial assets of Innovacorp, but rather are added to the net financial assets to determine the accumulated surplus.

Basis of consolidation

The financial statements are prepared on a fully consolidated basis and reflect the assets, liabilities, revenues and expenses of the reporting entity, which is composed of all organizations which are controlled by Innovacorp. These organizations are 1402998 Nova Scotia Limited and 3087532 Nova Scotia Limited, wholly owned subsidiaries whose year-ends are the same as that of Innovacorp.

All inter-departmental and inter-entity accounts and transactions between these organizations are eliminated upon consolidation.

Nova Scotia Innovation Corporation
Notes to the consolidated financial statements
March 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Cash

Cash includes petty cash and amounts on deposit with financial institutions and is measured at cost.

Accounts receivable

Receivables are measured at amortized cost using the effective interest method. A valuation allowance is used to reduce the recorded value to the lower of its cost or net recoverable value.

Loans receivable

Loans receivable include promissory notes and convertible debentures which are carried at cost (including conversion features), with cost being equal to the fair value of the assets given up or liabilities assumed, with the exception of significantly concessionary notes and debentures which are carried at the discounted value of the note or debenture after the grant portion has been charged to the consolidated statement of operations.

For significantly concessionary loans, subsequent to the initial measurement, the loans are carried at amortized cost using the effective interest method.

Gains and losses are recognized in the statement of operations in the period the loans are derecognized or impaired.

Portfolio investments

Portfolio investments include investments which are publicly held and quoted in an active market, as well as investments in equity instruments of early stage private enterprises.

a. Portfolio investments which are publicly held and quoted in an active market

Portfolio investments which are publicly held and quoted in an active market are carried at fair value. Unrealized gains and losses are reported in the statement of remeasurement gains and losses until they are realized or impaired, at which time the cumulative gain or loss is transferred to the consolidated statement of operations.

b. Investments in equity instruments of early stage private enterprises

Investments in equity instruments of private enterprises are carried at cost with realized gains and losses recognized in the consolidated statement of operations in the period they are sold. When the terms associated with a particular investment are so concessionary that the substance of the transaction is that all or a significant part of the investment is in the nature of a grant, the investment is carried at its discounted value after the grant portion of the transaction has been charged to the consolidated statement of operations.

The amount of any investment discount is amortized to revenue by applying the effective interest method over the term to redemption or maturity of the investment.

Nova Scotia Innovation Corporation
Notes to the consolidated financial statements
March 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Payables and accruals

Payables and accruals are measured at amortized cost using the effective interest method with gains and losses recognized in the statement of operations in the period that the liability is derecognized.

Long-term debt

Long-term debt is measured at amortized cost using the effective interest method with gains and losses recognized in the statement of operations in the period that the liability is derecognized.

Impairment of financial assets

a. Loans receivable

Loans receivable are classified as impaired when, in the opinion of management, there is reasonable doubt as to the timely collection of the full amount of principal and interest. A specific valuation allowance is established to reduce the recorded value of the impaired loan to its estimated net recoverable value.

Initial and subsequent changes in the amount of valuation allowance are recorded as a charge or credit to the statement of operations.

Loans receivable are written off after all reasonable restructuring and collection activities have taken place, and management believes that there is no realistic prospect of recovery. Once all or a part of a loan receivable has been written off, the write-off is not reversed.

In the event a loan which was previously written off is recovered, the recovery is credited to the statement of operations upon receipt.

b. Portfolio investments

When there has been a loss in the value of a portfolio investment that is other than a temporary decline, the investment is written down and a loss reported in the statement of operations. A write-down of an investment to reflect a loss in value is not reversed if there is a subsequent increase in value.

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.

Nova Scotia Innovation Corporation
Notes to the consolidated financial statements
March 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Fair value (continued)

The fair values of investments in securities which are publicly held and quoted in an active market are based on quoted closing prices. The fair values of impaired investments for which there is no quoted market value are determined based on values indicated by transactions in the financial instruments of the investee. Where transactions in the financial instruments of the investee are not available, other factors, such as milestone progress, are considered in determining fair value.

Due to the short period to maturity, the fair value of cash, accounts receivable, and payables and accruals approximate their carrying values as presented in the consolidated statement of financial position.

Measurement uncertainty

The preparation of the consolidated financial statements in conformity with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements and the reported amounts of the revenues and expenses during the reporting period. Key components of the consolidated financial statements requiring management to make significant estimates include the allowance for doubtful accounts, employee future benefits, amortization for property, equipment and leasehold improvements and inducements, the impaired value of loans receivable and equity investments in early stage private enterprises, retirement benefits, government transfer – real property (Note 23), and accrued liabilities. Actual results could differ from these estimates.

Revenue recognition

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

Investment revenue includes dividends, and capital gains and losses, as well as interest on cash balances, fixed income securities, and loans receivable, including amortization of premiums or discounts arising upon initial recognition in accordance with the effective interest method.

Interest is accrued daily to the extent it is deemed collectable, dividend income is recognized on the ex-dividend date, and capital gains and losses are recognized upon de-recognition of the investment.

Investment revenue ceases to be accrued when the collectability of such investment income is not reasonably assured.

Government contributions are recognized as revenue in the period the transfer is authorized, and all eligibility criteria have been met, except when and to the extent the transfer includes stipulations which have not yet been met.

Nova Scotia Innovation Corporation
Notes to the consolidated financial statements
March 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Government contributions with stipulations are initially deferred and recognized as revenue as the related stipulations are met. Stipulations associated with the acquisition of property and equipment is considered to be met as the assets are used for their intended purpose.

Advances of statutory capital by the Province of Nova Scotia to finance investments are recognized at the later of the date that the funds are received and the date an eligible investment is made.

Property and equipment

Property and equipment are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets.

The cost, less residual value, of the property and equipment, excluding land, are amortized over their estimated useful lives at the following rates and methods:

Buildings	4%	Declining balance
Site improvements	8%	Declining balance
Equipment	20 - 30%	Declining balance
Furniture and fixtures	20%	Declining balance
Leasehold improvements	Term of lease	Straight line
Management information system and network infrastructure	5 - 20%	Straight line

Property and equipment are written down when conditions indicate that they no longer contribute to the ability to provide goods and services, or when the value of future economic benefits associated with the property and equipment are less than their net book value.

When conditions indicate that certain property and equipment no longer contribute to Innovacorp's ability to provide goods and services, the cost of the assets are written down to residual value, if any.

When conditions indicate that the value of future economic benefits associated with the property and equipment are less than their net book value, and the decline in value is permanent, the cost of the property and equipment are written down to the total estimated undiscounted future cash flows in order to reflect the decline in the asset's value.

The net write-downs are accounted for as expenses in the consolidated statement of operations and are not reversed.

Contributed property and equipment are recorded in revenues at their fair market value on the date of donation, except in circumstances where fair value cannot be reasonably determined, which are then recognized at nominal value. Transfers of property and equipment from related parties are recorded at carrying value.

Nova Scotia Innovation Corporation

Notes to the consolidated financial statements

March 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at year-end. Foreign currency transactions are translated at the exchange rate prevailing at the date of the transactions. Adjustments to monetary assets and liabilities arising as a result of a change in the exchange rate from the original transaction date to settlement are credited or charged to operations at the time the adjustments arise.

Retirement 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 benefit liabilities under the above noted plans as the employees render the services necessary to earn the future benefits and has adopted the following policies:

- The liabilities are valued using the projected benefit method prorated on service and actuarial assessment and best estimates of the probability of retirement, salary escalation, inflation, expected health care costs, retirement ages and mortality rates.
- The discount rate applied is based on Innovacorp's cost of borrowing.

Nova Scotia Innovation Corporation
Notes to the consolidated financial statements
March 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits (continued)

- Net actuarial gains or losses are amortized over the average remaining service period of the related employees, which is 10 years (2014 – 10 years).
- Adjustments for plan amendments related to prior period employee services, net of offsetting unamortized actuarial gain/losses, are recognized in the statement of operations in the period of plan amendment.

Post-employment benefits

Innovacorp is responsible for ongoing amounts in respect of premiums for health benefit coverage, contributions to the Public Service Pension Plan (“PSPP”) in respect of pension accrual, and premiums for basic life insurance to former employees who have qualified for long-term disability until the date of retirement.

Innovacorp recognizes a benefit liability for such benefits in the period the employee qualifies for long-term disability and has adopted the following policies:

- The liability is valued using the projected benefit method prorated on service and actuarial assessment and best estimate of inflation, expected health care, insurance and PSPP costs, and retirement ages.
- The post-employment benefit liability is determined by applying a discount rate with reference to Innovacorp’s cost of borrowing.
- Net actuarial gains or losses are amortized over the average expected period that benefits will be paid, which is 4 years (2014 – 13 years).
- Adjustments for plan amendments related to prior period employee services, net of offsetting unamortized actuarial gain/losses, are recognized in the statement of operations in the period of plan amendment.

Pension plan

Innovacorp employees belong to the PSPP, which is a multi-employer joint trustee plan. This plan is a defined benefit plan, providing a pension on retirement based on the member’s age at retirement, length of service and highest earnings averaged over five years. Inflation adjustments are contingent upon available funding.

The joint trustee board of the plan determines the required plan contributions annually.

The contribution to the plan is recorded as an expense for the year.

Nova Scotia Innovation Corporation
Notes to the consolidated financial statements
March 31, 2015

3. CHANGES IN ACCOUNTING POLICIES

The Chartered Professional Accountants of Canada have issued a new accounting standard PS 3260 Liability for Contaminated Sites which is applicable to Innovacorp's 2015 fiscal year.

The new accounting standard gives direction on how to account for a liability associated with the remediation of contaminated sites. A liability for remediation normally results from:

- a) All or part of an operation of the government or government organization that is no longer in productive use;
- b) All or part of an operation on entities outside the government reporting entity that is no longer in productive use for which the government accepts responsibility;
- c) Changes to environmental standards relating to all or part of an operation that is no longer in productive use; and
- d) An unexpected event resulting in contamination.

Innovacorp assessed the effect of PS 3260 on its financial statements and concluded that there was no liability for contaminated sites to recognize.

4. ACCOUNTS RECEIVABLE

	<u>2015</u>	<u>2014</u>
Trade receivables		
Ordinary	\$ 718,275	\$ 757,700
Related parties (Note 16)	327,302	280,413
HST receivable	120,821	141,717
Due from related parties (Note 16)		
Province of Nova Scotia	-	679,113
Other non-trade	1,217,456	1,176,423
	<u>2,383,854</u>	<u>3,035,366</u>
Less: Allowance for doubtful accounts	<u>(1,512,621)</u>	<u>(1,480,862)</u>
	<u>\$ 871,233</u>	<u>\$ 1,554,504</u>

The allowance for doubtful accounts is determined on a specific identification basis with consideration as to the age of the receivable, and management's knowledge of the clients' current financial situation.

5. LOANS RECEIVABLE

Loans receivable include promissory notes and convertible debentures which were issued under the mandate of the NSFF and have yet to earn significant revenues from their intended business activities or establish their commercial viability.

Nova Scotia Innovation Corporation
Notes to the consolidated financial statements
March 31, 2015

5. LOANS RECEIVABLE (continued)

The recovery of loan principal 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. Therefore, these factors have been considered in establishing the valuation allowance. Future adverse developments could result in further write-downs of the carrying values of these loans.

	<u>2015</u>	<u>2014</u>
Promissory notes	\$ 1,172,259	\$ 512,259
Convertible debentures	5,925,244	4,825,244
Valuation allowance	(3,800,003)	(3,237,503)
	<u>\$ 3,297,500</u>	<u>\$ 2,100,000</u>

The promissory notes and debentures have interest rates ranging between 5% and 20%.

The debentures are convertible at the option of Innovacorp into common or preferred shares of the borrower either on demand, in the event of default or at maturity.

The maturity dates of the loans are as follows:

	<u>Promissory Notes</u>	<u>Convertible Debentures</u>	<u>Total Amount Due</u>
Past due	\$ 1,047,259	\$ 3,615,317	\$ 4,662,576
Year ending March 31, 2016	125,000	1,305,849	1,430,849
Year ending March 31, 2017	-	1,004,078	1,004,078
	<u>1,172,259</u>	<u>5,925,244</u>	<u>7,097,503</u>
Valuation allowance	(262,259)	(3,537,744)	(3,800,003)
Carrying value	<u>\$ 910,000</u>	<u>\$ 2,387,500</u>	<u>\$ 3,297,500</u>

6. PORTFOLIO INVESTMENTS

Portfolio investments include investments which are publicly held and quoted in an active market, as well as investments in early stage private enterprises that have yet to earn significant revenues from their intended business activities or establish their commercial viability.

The recovery of the investments in early stage enterprises 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. Therefore, these factors have been considered in determining the write-down of these investments. Future adverse developments could result in further write-downs of the carrying values of these investments.

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Notes to the consolidated financial statements
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6. PORTFOLIO INVESTMENTS (continued)

	<u>2015</u>	<u>2014</u>
Investments quoted in an active market, at fair value	\$ 3,462,494	\$ 4,740,568
Investments in early stage private enterprises, at cost	29,332,551	23,574,666
Less: Other than temporary impairment	(10,634,993)	(9,448,603)
	<u>18,697,558</u>	<u>14,126,063</u>
	<u>\$ 22,160,052</u>	<u>\$ 18,866,631</u>

Included in investments quoted in an active market are investments of the NSFF with a fair value of \$2,800,933 (2014 – \$4,092,041) and The Research Endowment Fund of \$277,182 (2014 – \$277,182), with the remainder representing unrestricted funds of Innovacorp.

The Research Endowment Fund was transferred to Innovacorp when the Nova Scotia Research Foundation Corporation (Innovacorp's predecessor) 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 Innovacorp's objectives.

Included in investments in early stage private enterprises are NSFF investments valued at cost less other than temporary impairments of \$18,904,889 (2014 – \$14,126,063).

7. LONG-TERM DEBT

	<u>2015</u>	<u>2014</u>
2.879% Province of Nova Scotia - NSFF	\$ 8,238,089	\$ 8,007,572
5.6% Province of Nova Scotia - capital project	-	838,373
Province of Nova Scotia - land transfer	401,561	401,561
	<u>\$ 8,639,650</u>	<u>\$ 9,247,506</u>

In 2004, the Province of Nova Scotia advanced \$8,000,000 to Innovacorp for the purpose of investing in the NSFF. The loan bore interest at a rate of 3.255% and matured on March 19, 2014 when the principal portion and accrued interest were to be repaid. In March 2014 the maturity date of the loan was extended to March 19, 2019 with an interest rate of 2.879%. Accrued interest to March 19, 2014 was repaid to the Province of Nova Scotia. As at March 31, 2015, accrued interest in the amount of \$238,089 (2014 – \$7,572) is included in the above balance and is expected to increase to \$1,219,846 upon maturity of the loan in March 2019.

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7. LONG-TERM DEBT (continued)

In 2006, Nova Scotia Business Inc., a party related by virtue of common ownership, transferred land and buildings in exchange for the 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.

During the year the building and property at 101 Research Drive, Dartmouth, NS was sold and the associated capital project loan repaid.

Anticipated principal repayments on long-term debt are as follows:

2019	8,238,089
Thereafter	401,561
	\$ 8,639,650

The total interest paid or that became payable during the year and recorded in the statement of operations was \$268,128 (2014 – \$394,477).

8. RETIREMENT BENEFITS

	2015	2014
Long-term service award	\$ 389,322	\$ 382,106
Post retirement benefits	1,526,279	1,470,497
	\$ 1,915,601	\$ 1,852,603

Innovacorp employees are entitled to long-term service awards upon retirement, based on years of service and the employee's compensation during the final year of employment. Specifically, these awards are earned at a rate of one week's pay for every year of service, to a maximum of 26 weeks.

Innovacorp provides these benefits through an unfunded defined benefit plan. The benefit costs and liabilities related to this plan are included in the consolidated financial statements.

Innovacorp continues to pay 65% of the cost of life insurance, dental and health care benefits for substantially all employees after retirement. Innovacorp provides these benefits through an unfunded defined benefit plan. The benefit costs and liabilities related to this plan are included in the consolidated financial statements.

Nova Scotia Innovation Corporation
Notes to the consolidated financial statements
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8. RETIREMENT BENEFITS (continued)

The accrued benefit liabilities as a result of the above noted plans, which are based on actuarial assumptions and calculations, are as follows:

	Long-term service award	Post- employment benefits	2015	2014
Accrued benefit liability, beginning of year	\$ 382,106	\$ 1,470,497	1,852,603	\$ 1,760,394
Current period benefit cost				
Current service cost	31,878	33,115	64,993	72,908
Interest cost	14,094	60,605	74,699	72,590
Amortization of actuarial experience gains	(5,180)	(347)	(5,527)	(10,407)
Less: benefits paid during the year	(33,576)	(37,591)	(71,167)	(43,837)
Accrued benefit liability, end of year	\$ 389,322	\$ 1,526,279	\$1,915,601	\$ 1,851,648
Unamortized actuarial experience gains	\$ (32,318)	\$ 26,765	\$ (5,553)	\$ (179,821)
Accrued benefit obligation, end of year	\$ 357,004	\$ 1,553,044	\$1,910,048	\$ 1,671,827

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

	2015	2014
Discount rate	4.3%	4.3%
Supplemental employee retirement plan Indexing		
Salary increase rate		
Under 30	5.50%	5.50%
30 - 34	5.00%	5.00%
35 - 39	4.50%	4.50%
40 - 44	4.00%	4.00%
45 - 49	3.50%	3.50%
50 plus	3.00%	3.00%
Disabled members	2.25%	2.25%
Extended health care cost increase	6.3% - 4.5%	6.3% - 4.5%
Inflation rate	2.25%	2.25%

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8. RETIREMENT BENEFITS (continued)

The unamortized actuarial gains and losses will be amortized over the average remaining service life of the related employee group which has been estimated to be 10 years (2014 – 10 years).

The last actuarial valuation for accounting purposes took place on April 1, 2014. During the year, the services of an actuary were obtained to update the accrued benefit obligation balances as of March 31, 2015. The next actuarial valuation for accounting purposes will take place on April 1, 2017.

9. POST-EMPLOYMENT BENEFITS

Innovacorp is responsible for ongoing amounts in respect of premiums for health benefit coverage, contributions to the Public Service Superannuation Plan in respect of pension accrual, and premiums for basic life insurance to members qualifying for long-term disability.

The accrued benefit liability as a result of the long-term disability plan, which is based on actuarial assumptions and calculations, is as follows:

	<u>2015</u>	<u>2014</u>
Accrued benefit liability, beginning of year	\$ 287,908	\$ 96,114
Current period benefit cost	-	199,108
Interest cost	9,681	7,876
Amortization of actuarial experience gains	(3,797)	-
Less: benefits paid during the year	(17,859)	(15,190)
Accrued benefit liability, end of year	\$ 275,933	\$ 287,908
Unamortized actuarial experiences losses	(218,724)	(38,667)

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

	<u>2015</u>	<u>2014</u>
Discount rate	4.1%	4.3%
Extended health care cost increase	6.3% - 4.5%	6.3% - 4.5%
Inflation rate	2.25%	2.25%

The unamortized actuarial gains and losses will be amortized over the average expected period during which benefits will be paid in respect of long-term disability benefits which has been estimated to be 13 years at April 1, 2014 for amortizations commencing prior to March 31, 2015, and 4 years at April 1, 2015 for amortizations commencing on and after March 31, 2015. The reduction in amortization period is due to an employee, on long-term disability, returning to work during the year.

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9. POST-EMPLOYMENT BENEFITS (continued)

The last actuarial valuation for accounting purposes took place on April 1, 2014. During the year, the services of an actuary were obtained to update the accrued benefit obligation balances as of March 31, 2015. The next actuarial valuation for accounting purposes will take place on April 1, 2017.

10. PENSION PLAN

Innovacorp and its employees contribute to the Public Service Superannuation Plan in accordance with the Public Service Superannuation Act. The plan provides defined pension benefits to employees based on their length of service and rates of pay. The contribution rates for eligible employees were 8.4% for earnings up to the Year's Maximum Pensionable Earnings for Canada Pension Plan contributions and 10.9% for excess earnings (2014 - 8.4% for earnings up to the Year's Maximum Pensionable Earnings for Canada Pension Plan contributions and 10.9% for excess earnings). Innovacorp matches employee contributions to the plan. During the year ended March 31, 2015, Innovacorp contributed \$263,153 (2014- \$245,709) to the plan. These contributions are Innovacorp's pension benefit expense. Since sufficient information is not readily available to account for the Corporation's participation in the plan using defined benefit pension plan accounting, these financial statements have been prepared using accounting for defined contribution pension plans. No pension liability for this type of plan is included in the consolidated financial statements.

11. DEFERRED CAPITAL CONTRIBUTIONS

	Balance, beginning of year	Receipts during year	Transferred to revenue	Retirement	Balance, end of year
PNS - Knowledge Park ^(a)	\$ 375,176	\$ -	\$ -	\$ -	\$ 375,176
PNS - Fibre MAN ^(b)	54,188	-	4,500	-	49,688
ACOA - 101 Research Drive ^(c)	453,747	-	44,989	(408,758)	-
ACOA - 1344 Summer St. ^(d)	280,668	-	20,199	-	260,469
Efficiency Nova Scotia ^(e)	11,867	-	783	(11,084)	-
PNS - Building Energy retrofit ^(f)	118,188	-	4,735	-	113,453
ACOA - 1344 Summer St. ^(g)	487,302	-	29,412	-	457,890
ACOA - 1344 Summer St. ^(h)	500,000	-	13,581	-	486,419
ACOA - 1344 Summer St. ⁽ⁱ⁾	-	486,860	-	-	486,860
	\$ 2,281,136	\$ 486,860	\$ 118,199	\$ (419,842)	\$ 2,229,955

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11. DEFERRED CAPITAL CONTRIBUTIONS (CONTINUED)

- (a) OIC 2005-387 provided Innovacorp with \$1.7 million in funding for infrastructure improvements in the Woodside Industrial park towards the creation of a Knowledge Park on land owned by Innovacorp. Funding under this OIC has been fully advanced. Expenditures on land improvements have been deferred and are recognized upon disposition of land inventory.
- (b) In 2005, the Province of Nova Scotia (“PNS”) provided Innovacorp with \$98,200 to connect Innovacorp to the Halifax Area Dark Fibre Network. Additionally, \$90,000 was paid to the operator of the network, which entitled Innovacorp to use it for 20 years. These funds are being recognized over the period for which their cost entitles Innovacorp to access the dark fibre network.
- (c) In 2004 and 2005, Atlantic Canada Opportunity Agency (“ACOA”) provided Innovacorp with \$996,000 in assistance to renovate its facilities at 101 Research Drive, converting them into a late-stage grow-out business incubation facility for the life sciences sector. These funds are being recognized on the same basis as the assets they funded are depreciated. The unamortized balance was derecognized on February 28, 2015 as a result of the sale of 101 Research Drive.
- (d) In 2011, ACOA provided Innovacorp with \$348,000 in assistance to fit-up space at the Innovacorp Enterprise Centre (“IEC”). These funds are being recognized on the same basis as the assets they funded are depreciated.
- (e) In 2011, Efficiency Nova Scotia provided Innovacorp with \$14,429 in assistance in connection with a lighting retrofit completed under its Electrical Efficiency Program. These funds are being recognized on the same basis as the assets they funded are depreciated. The unamortized balance was derecognized on February 28, 2015 as a result of the sale of 101 Research Drive.
- (f) In 2012, under the Government Building Energy Retrofit program, the Nova Scotia Department of Transportation and Infrastructure Renewal covered the \$121,831 cost of converting Innovacorp’s air handling unit at 1 Research Drive from electric to natural gas. The associated costs have been deferred and will be recognized on the same basis as the asset they funded is depreciated.
- (g) In 2013, ACOA provided Innovacorp with \$500,000 in assistance to fit-up space at IEC. These funds will be recognized on the same basis as the related assets are depreciated.
- (h) In 2014, ACOA provided Innovacorp with \$500,000 in assistance to fit-up space at IEC. These funds will be recognized on the same basis as the related assets are depreciated.
- (i) In 2015, ACOA provided Innovacorp with up to \$500,000 in assistance to fit-up space at IEC. These funds will be recognized on the same basis as the related assets are depreciated.

12. LANDLORD LEASEHOLD IMPROVEMENTS AND INDUCEMENTS

	<u>2015</u>	<u>2014</u>
Landlord leasehold improvements and inducements	\$ 1,347,129	\$ 1,347,129
Less: Accumulated amortization	(1,347,129)	(1,231,546)
	<u>\$ -</u>	<u>\$ 115,583</u>

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13. PROPERTY AND EQUIPMENT

March 31, 2015

	<u>Land</u>	<u>Buildings</u>	<u>Site improvements</u>	<u>Equipment</u>	<u>Furniture and fixtures</u>	<u>Leasehold improvements</u>	<u>Information technology</u>	<u>2015 total</u>
Cost								
Opening balance	\$563,821	\$9,262,468	\$ 403,065	\$1,382,853	\$ 508,892	\$ 2,784,233	\$ 931,155	\$15,836,487
Additions	8,672	90,434	37,224	795	-	782,724	28,656	948,505
Disposals	(350,700)	(8,003,366)	-	(980,842)	-	-	-	(9,334,908)
Write-downs	-	-	-	(18,071)	-	-	(94,706)	(112,777)
Closing balance	221,793	1,349,536	440,289	384,735	508,892	3,566,957	865,105	7,337,307
Accumulated amortization								
Opening balance	-	3,971,226	172,765	1,068,916	368,055	494,159	855,651	6,930,772
Amortization	-	199,257	19,913	62,086	28,167	113,711	14,577	437,711
Disposals	-	(3,899,391)	-	(947,771)	-	-	-	(4,847,162)
Write-downs	-	-	-	(17,537)	-	-	(91,171)	(108,708)
Closing balance	-	271,092	192,678	165,694	396,222	607,870	779,057	2,412,613
Net book value	\$221,793	\$1,078,444	\$ 247,611	\$ 219,041	\$ 112,670	\$ 2,959,087	\$ 86,048	\$ 4,924,694

Nova Scotia Innovation Corporation
Notes to the consolidated financial statements
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13. PROPERTY AND EQUIPMENT (continued)

March 31, 2014

	<u>Land</u>	<u>Buildings</u>	<u>Site improvements</u>	<u>Equipment</u>	<u>Furniture and fixtures</u>	<u>Leasehold improvements</u>	<u>Information technology</u>	<u>2014 total</u>
Cost								
Opening balance	\$ 566,634	\$ 9,141,318	\$ 403,065	\$ 1,140,568	\$ 508,892	\$ 1,806,779	\$ 927,865	\$ 14,495,121
Additions	49,746	121,252	-	242,285	-	977,454	3,290	1,394,027
Disposals	(52,559)	-	-	-	-	-	-	(52,559)
Closing balance	563,821	9,262,570	403,065	1,382,853	508,892	2,784,233	931,155	15,836,589
Accumulated amortization								
Opening balance	-	3,753,280	152,738	1,020,718	332,845	433,991	843,465	6,537,037
Amortization	-	217,946	20,027	48,198	35,210	60,168	12,186	393,735
Closing balance	-	3,971,226	172,765	1,068,916	368,055	494,159	855,651	6,930,772
Net book value	\$ 563,821	\$ 5,291,344	\$ 230,300	\$ 313,937	\$ 140,837	\$ 2,290,074	\$ 75,504	\$ 8,905,817

NOVA SCOTIA INNOVATION CORPORATION
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14. 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 project funding. Funding specifically related to the acquisition of property and equipment is deferred as disclosed in Note 11. Innovacorp also receives advances of statutory capital from the Province of Nova Scotia to finance NSFF and clean technology fund investments. These advances are recognized as revenue at the later of the date on which the funds are received and the date on which an eligible investment is made. Gains and losses on these investments will be recognized in operating surplus or deficit in subsequent periods in accordance with the portfolio investments accounting policy described in Note 2.

Details of funding for the year are as follows:

	<u>2015</u>	<u>2014</u>
Contributions received - Province of Nova Scotia	\$ 7,487,062	\$ 7,576,372
Statutory capital advances (Note 1)	3,957,809	4,420,841
Recognition of previously deferred contributions (Note 11)	118,199	97,178
Total contributions	\$ 11,563,070	\$ 12,094,391

15. EXPENSES BY OBJECT

	<u>2015</u>	<u>2014</u>
Advertising and promotion	\$ 218,762	\$ 194,705
Amortization	526,648	490,757
Awards	786,400	1,111,040
Bad debt	52,122	40,586
Board activities	18,437	5,530
Communications	120,482	150,164
Information resources	28,425	30,351
Interest	279,809	394,776
Investment management fees	13,137	19,948
Miscellaneous	72,841	88,523
Outside services	2,492,435	2,637,331
Professional development	177,336	158,094
Repairs and maintenance	143,084	122,364
Salaries and benefits	3,591,853	3,722,837
Supplies	90,511	84,181
Travel	169,558	260,990
Utilities	325,904	339,298
	\$ 9,107,744	\$ 9,851,475

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16. RELATED PARTY TRANSACTIONS

Entity	Relationship	Revenues generated	Year end receivables	Valuation allowance
Non-Trade				
Province of Nova Scotia	Parent	\$ 7,487,062	\$ 2,256,000	\$ -
BioScience Centre	Managed incubator	-	760,121	726,046
PlantSelect	50% investee	-	298,844	298,844
NSFF Trade receivables	Investees	162,832	327,302	272,234
		\$ 7,649,894	\$ 3,642,267	\$ 1,297,124

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

Contributions were received from the Province of Nova Scotia as described in Note 14. 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 of Nova Scotia on behalf of Innovacorp totalled \$3,597,863.

17. FINANCIAL INSTRUMENTS

a) Classification of financial instruments

The carrying amounts of financial assets and liabilities recorded at cost, amortized cost or at fair value are as follows:

	2015		2014	
	Classification		Classification	
	Fair Value	Cost	Fair Value	Cost
Financial Assets				
Cash	\$ -	\$ 7,594,500	\$ -	\$ 1,061,348
Accounts receivable	-	871,233	-	1,554,504
Loans receivable	-	3,297,500	-	2,100,000
Portfolio investments				
Investments quoted in an active market	3,462,494	-	4,740,568	-
Investments in early stage private enterprises	-	18,904,889	-	14,126,063
	\$ 3,462,494	\$ 30,668,122	\$ 4,740,568	\$ 18,841,915
Financial Liabilities				
Payables and accruals	\$ -	\$ 7,056,853	\$ -	\$ 1,428,670
Long-term debt	-	8,639,650	-	9,247,506
	\$ -	\$ 15,696,503	\$ -	\$ 10,676,176

NOVA SCOTIA INNOVATION CORPORATION
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17. FINANCIAL INSTRUMENTS (continued)

b) Fair value

Fair value estimates are made as of a specific point in time, using available information about the financial instruments and current market conditions. The following table discloses the corporation's financial assets and financial liabilities as at March 31, 2014, measured at fair value on a recurring basis:

	2015			Total
	Level 1	Level 2	Level 3	
Investments quoted in an active market	\$3,462,494	-	-	\$3,462,494
	\$3,462,494	\$ -	\$ -	\$ 3,462,494

Level 1 - Fair value measurements based on quoted prices in active markets for identical assets or liabilities

Level 2 - Fair value measurements based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3 - Fair value measurements based on inputs for the asset or liability that are not based on observable market data

c) Risk disclosures

Innovacorp is exposed to various financial risks arising from its financial assets and liabilities. These include market risk relating to changes in equity prices, interest 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 corporation's business model, which provides incubation, business guidance and investment services to early stage technology enterprises, is also used to mitigate risks.

Market risk

Market risk is the risk that the future cash flows of a financial instrument will fluctuate as a result of changes in market prices and rates. For Innovacorp, market risk is composed of price risk on equity securities and interest rate risk on debt securities.

Price risk

Price risk refers to the risk that the fair value of the financial instrument will vary as a result of changes in market prices of the financial instrument. Fluctuation in the market price of an instrument may result from perceived changes in the underlying economic characteristics of the investment, the relative price of alternative investments, and general market conditions. Therefore, there is a risk that an amount realized in the subsequent sale of portfolio investments which are quoted in an active market may significantly differ from the reported value.

NOVA SCOTIA INNOVATION CORPORATION
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17. FINANCIAL INSTRUMENTS (continued)

c) Risk disclosures (continued)

Market risk (continued)

Price risk (continued)

The table below illustrates the impact to Innovacorp's surplus and remeasurement gain resulting from a 27.7% increase or decrease in market prices on equity portfolio investments quoted in an active market and carried at fair value in the consolidated statement of financial position. The table illustrates the effect on Innovacorp's financial results due to a certain price change, and may not reflect the best or worst case scenarios.

<u>Fair value</u>	<u>Price change</u>	<u>Estimated fair value after price change</u>	<u>Estimated impact on the current period surplus</u>	<u>Estimated impact on current period remeasurement gain</u>
\$ 678,325	27.67% increase	\$ 866,018	\$ -	\$ 187,693
\$ 678,325	27.67% decrease	\$ 490,633	\$ -	\$ (187,693)

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

Interest rate risk

Interest rate price risk is the risk that market values of a financial instrument 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 illustrates the impact to Innovacorp's surplus and remeasurement gain from a 1% increase or decrease in interest rates on fixed income portfolio investments quoted in an active market and carried at fair value in the consolidated statement of financial position. The table illustrates the effect on Innovacorp's financial results due to a certain interest rate change and may not reflect the best or worst case scenarios.

<u>Fair value</u>	<u>Interest rate change</u>	<u>Estimated fair value after price change</u>	<u>Estimated impact on the current period surplus</u>	<u>Estimated impact on current period remeasurement gain</u>
\$ 1,378,284	1% increase	\$ 1,350,812	\$ -	\$ (27,473)
\$ 1,378,284	1% decrease	\$ 1,385,245	\$ -	\$ 6,961

NOVA SCOTIA INNOVATION CORPORATION
Notes to the Consolidated Financial Statements
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17. FINANCIAL INSTRUMENTS (continued)

c) Risk disclosures (continued)

Liquidity risk

Liquidity risk is the risk that Innovacorp will encounter difficulty in meeting its financial obligations as they become due. Innovacorp believes it has access to sufficient capital through operating and investing cash flows. Ongoing operating funding from the Province of Nova Scotia 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 investments in early stage private enterprises will play a significant role in determining the extent to which principal and accrued interest on the NSFF loan, due March 19, 2019, will be paid at maturity.

The following table shows the remaining contractual maturities of financial liabilities:

	Due within 1 Year	Due within 2 - 5 Years	Due within 6 - 10 Years	Due after 10 Years	No set terms of repayment	Total
Payables and accruals	\$ 7,056,853	\$ -	\$ -	\$ -	\$ -	\$ 7,056,853
Long-term debt	-	8,238,089	-	-	401,561	8,639,650
	<u>\$ 7,056,853</u>	<u>\$ 8,238,089</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 401,561</u>	<u>\$ 15,696,503</u>

Credit risk

Credit risk refers to the risk that a 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 portfolio investments quoted in an active market, accounts receivable, and loans receivable.

Fixed income portfolio investments quoted in an active market

For fixed income portfolio investments quoted in an active market, Innovacorp is exposed to credit risk from the issuers of the bonds. This risk is managed by adherence to an investment policy which sets the standards of credit quality and issuer type. The following table highlights Innovacorp's maximum exposure to credit risk from fixed income portfolio investments quoted in an active market at March 31, 2015, broken down by credit quality and issuer type:

	AAA	AA	AA (L)	A (H)	Total
Canada Provinces	\$ 158,381	\$ -	\$ 615,265	\$ 487,057	\$ 1,260,703
Canada Municipals	-	117,581	-	-	117,581
	<u>\$ 158,381</u>	<u>\$ 117,581</u>	<u>\$ 615,265</u>	<u>\$ 487,057</u>	<u>\$ 1,378,284</u>

NOVA SCOTIA INNOVATION CORPORATION
Notes to the Consolidated Financial Statements
March 31, 2015

17. FINANCIAL INSTRUMENTS (continued)

c) Risk disclosures (continued)

Credit risk (continued)

Accounts receivable

Accounts receivable includes trade receivables, due from the BioScience Enterprise Centre and the Province of Nova Scotia, HST receivable, and other accrued receivables.

Trade receivables of \$718,275 are significantly concentrated, with 39% of the balance due from early stage technology-based companies. The development stage of Innovacorp's client base combined with the technology sector concentration increases the associated credit risk. Innovacorp's active involvement with its clients mitigates this risk.

The credit risk associated with the remaining balances is low given that the balances are due from other government entities.

Innovacorp's maximum exposure to credit risk from accounts receivable is its carrying value of \$871,233.

Loans receivable

Loans receivable include promissory notes and convertible debentures issued under the mandate of the NSFF.

These loans have been issued to enterprises in the development stage that have yet to earn significant revenues from their intended business activities or establish their commercial viability. The recovery of loan principal 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.

Credit risk of the loans receivable is mitigated by Innovacorp's presence on the boards of the investees and, the majority of the loans have security interests in the property of the investees.

Innovacorp's maximum exposure to credit risk from the loans receivable is its carrying value of \$3,297,500

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17. FINANCIAL INSTRUMENTS (continued)

c) Risk disclosures (continued)

Credit risk (continued)

Loans receivable (continued)

Details of the carrying value of accounts receivable and loans receivable that are past due at the financial statement date, but not impaired, are as follows:

	Current	Up to 60 Days Past Due	Over 60 Days Past Due	Allowance for Doubtful Accounts	Total
Accounts receivable					
Trade receivables	\$ 339,151	\$ 312,674	\$ 106,930	\$ (215,435)	\$ 543,320
HST receivable	120,821	-	-	-	120,821
Due from Province of NS	-	-	-	-	-
Due from related parties	400	37,166	1,466,712	(1,297,186)	207,092
	460,372	349,840	1,573,642	(1,512,621)	871,233
Loans receivable	2,434,927	135,465	4,527,111	(3,800,003)	3,297,500
	<u>\$ 2,895,299</u>	<u>\$ 485,305</u>	<u>\$ 6,100,753</u>	<u>\$ (5,312,624)</u>	<u>\$ 4,168,733</u>

18. CONTRACTUAL OBLIGATIONS

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

2016	\$ 1,497,827
2017	1,487,827
2018	1,484,529
2019	1,484,416
2020	1,479,096
	<u>\$ 7,433,695</u>

As at March 31, 2015, there were \$14,503,244 (2014 – \$15,604,665) approved commitments to invest under the mandate of the NSFF as discussed in note 1.

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19. GUARANTEE

Through the NSFF, a guarantee of \$292,000 was provided to an investee company to strengthen its application for Atlantic Innovation Fund support. The company's application was successful and should it be unable to finance the industry contribution portion of its project out of cash flows, the guarantee would be provided. As at March 31, 2015 the guarantee had not been utilized.

20. SEGMENTED INFORMATION

Innovacorp's segments have been identified on the basis of functional classifications of activities undertaken by Innovacorp, including incubation, investment, and corporate services.

The corporate services segment represents the accumulation of revenue and expenses pertaining to the administration of Innovacorp. The corporate services segment includes the areas of communication and marketing, human resources, and Innovacorp's finance and portfolio management.

The investment segment represents the accumulation of revenue and expenses pertaining to the administrative functions of reviewing and managing investment files.

The incubation segment represents the accumulation of revenue and expenses pertaining to three facilities managed and operated by Innovacorp where rent and business services are offered for fees.

Segmentation is based on the core activities of the corporation and their related support resources. The revenue and expenses of each segment is accumulated based on actual occurrences of events and incurrence of costs.

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	Corporate Services		Investment		Incubation		Consolidated	
	2015	2014	2015	2014	2015	2014	2015	2014
Operating revenues								
Government contributions	\$ 11,563,070	\$ 12,094,391	\$ -	\$ -	\$ -	\$ -	\$ 11,563,070	\$ 12,094,391
Management and director's fees	-	-	62,000	45,900	-	-	62,000	45,900
Program funding	8,603	1,045	134,123	293,975	112,798	-	255,524	295,020
Interest and dividends on portfolio investments and loans receivable	-	-	337,237	297,618	-	-	337,237	297,618
Rent	-	-	-	-	1,510,843	1,443,876	1,510,843	1,443,876
Business recoveries	-	-	-	-	403,803	410,723	403,803	410,723
Interest on lease receivable	-	-	-	-	-	-	-	-
Other	14,378	18,874	2,992	2,331	63,623	26,089	80,993	47,294
	11,586,051	12,114,310	536,352	639,824	2,091,067	1,880,688	14,213,470	14,634,822
Operating expenses								
Advertising and promotion	75,147	61,434	79,247	106,821	64,368	26,450	218,762	194,705
Amortization	-	-	-	-	526,648	490,757	526,648	490,757
Awards	-	-	686,400	1,111,040	100,000	-	786,400	1,111,040
Bad debt	-	-	-	-	52,122	40,586	52,122	40,586
Board activities	18,437	5,530	-	-	-	-	18,437	5,530
Communications	4,953	13,498	13,122	20,213	102,407	116,453	120,482	150,164
Information resources	1,848	1,659	18,945	16,350	7,632	12,342	28,425	30,351
Interest	47,776	51,124	232,033	343,652	-	-	279,809	394,776
Investment management fees	-	-	13,137	19,948	-	-	13,137	19,948
Miscellaneous	19,420	15,253	2,713	17,505	50,708	55,765	72,841	88,523
Outside services	461,142	417,137	229,174	388,608	1,802,119	1,831,586	2,492,435	2,637,331
Professional development	45,011	44,563	63,519	67,491	68,806	46,040	177,336	158,094
Repairs and maintenance	12,886	9,233	-	-	130,198	113,131	143,084	122,364
Salaries and benefits	1,055,554	1,314,964	1,000,960	978,408	1,535,339	1,429,465	3,591,853	3,722,837
Supplies	11,944	16,566	21,466	19,784	57,101	47,831	90,511	84,181
Travel	18,755	25,542	68,211	158,118	82,592	77,330	169,558	260,990
Utilities	-	-	-	-	325,904	339,298	325,904	339,298
	1,772,873	1,976,503	2,428,927	3,247,938	4,905,944	4,627,034	9,107,744	9,851,475
Operating income (loss)	9,813,178	10,137,807	(1,892,575)	(2,608,114)	(2,814,877)	(2,746,346)	5,105,726	4,783,347
Impairment of portfolio investments and loans receivable								
Gain on sale of property, equipment	-	-	(2,728,889)	(1,215,184)	-	-	(2,728,889)	(1,215,184)
Gain on SERP settlement	-	-	-	-	2,400,822	258,441	2,400,822	258,441
Government transfer	-	-	-	-	(4,766,423)	-	(4,766,423)	-
Realized gains (losses) on marketable securities	-	-	36,377	281,688	-	-	36,377	281,688
	-	-	(2,692,512)	(933,496)	(2,365,601)	258,441	(5,058,113)	(675,055)
Surplus (deficit) continuing operations	\$ 9,813,178	\$ 10,137,807	\$ (4,585,087)	\$ (3,541,610)	\$ (5,180,478)	\$ (2,487,905)	\$ 47,613	\$ 4,108,292

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21. COMPENSATION DISCLOSURE

This schedule of payments is published in compliance with the provisions of *The Public Sector Compensation Disclosure Act*.

The Act requires the publication of the names of every person who receives the amount of compensation of \$100,000 or more in the fiscal year and the amount paid to each.

Compensation amount includes total amount or value of all cash and non-cash salary, wages, payments, allowance, bonuses, commissions and perquisites, other than a pension, pursuant to any arrangement, including an employment contract, payments made for exceptional benefits not provided to the majority of employees and the value of the benefits derived from vehicles or allowances with respect to vehicles.

Kenneth Lee	\$171,016
Stephen Duff	167,760
Charles Baxter	151,886
Jennifer Robichaud	131,651
Gregory Phipps	129,505
Fraser Gray	122,038
Dawn House	111,703
Donna Bourque	111,257
Dawn Umlah	108,246
Shelley Hessian	106,984
Robert Pelley	100,388

22. BUDGETED FIGURES

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Provincial legislature.

23. GOVERNMENT TRANSFER – REAL PROPERTY

In accordance with the Nova Scotia Finance Act (“Finance Act”), Innovacorp is required to remit the net proceeds related to the sale of real property to the general account of the Province of Nova Scotia. As “net proceeds” is not defined within the Finance Act, there is a possibility that the estimated government transfer – real property, as recognized on the Statement of Operations, and the related liability may materially differ from the estimate.

24. SUBSEQUENT EVENT

On April 9, 2015 Finance and Treasury Board Minister, Diana Whalen, presented Nova Scotia’s 2015-2016 Budget (“Budget”) in the Nova Scotia Legislature. The Budget includes a three-year wage freeze for excluded (non-union) employees and a freeze in their public service awards. The impact will be a reduction in Innovacorp’s retirement benefits and post-employment benefits liabilities and expenses in future years.

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25. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.