

Consolidated financial statements of

Province of Nova Scotia
Nova Scotia Innovation Corporation

March 31, 2016

Province of Nova Scotia
Nova Scotia Innovation Corporation
March 31, 2016

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Independent Auditor's Report

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

Report on the Consolidated Financial Statements

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, 2016, 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, 2016, 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.

A handwritten signature in cursive script that reads "Deloitte LLP".

Chartered Accountants
Halifax, Nova Scotia
June 21, 2016

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, CPA, CA, CPA (IL)
VP Finance and Administration

_____, 2016

Province of Nova Scotia

Nova Scotia Innovation Corporation

Consolidated statement of financial position
as at March 31

	2016	Restated - Note 22 2015
	\$	\$
Financial assets		
Cash	3,180,042	7,594,500
Restricted cash & cash equivalents	204,560	1,375,782
Accounts receivable (Note 4)	4,407,819	871,233
Loans receivable (Note 5)	3,737,810	3,297,500
Portfolio investments (Note 6)		
Investments quoted in an active market	1,004,531	2,086,712
Investments in early stage private enterprises	23,216,839	18,697,558
	35,751,601	33,923,285
Liabilities		
Payables and accruals	2,828,123	7,056,853
Tenant leasehold improvements and inducements	-	14,842
Long-term debt (Note 7)	8,876,846	8,639,650
Retirement benefits (Note 8)	1,954,774	1,915,601
Post-employment benefits (Note 9)	215,254	275,933
Deferred revenue	825,458	1,295,105
Deferred capital contributions (Note 11)	2,563,425	2,229,955
	17,263,880	21,427,939
Net financial assets	18,487,721	12,495,346
Non-financial assets		
Prepaid expenses	120,716	85,430
Landlord leasehold improvements and inducements (Note 12)	-	-
Property and equipment (Note 12)	5,439,763	4,924,694
	5,560,479	5,010,124
Accumulated surplus	24,048,200	17,505,470
Accumulated surplus is comprised of:		
Accumulated operating surplus	24,091,159	17,337,953
Accumulated remeasurement gains (losses)	(42,959)	167,517
	24,048,200	17,505,470

Province of Nova Scotia

Nova Scotia Innovation Corporation

Consolidated statement of operations and accumulated surplus
year ended March 31

	Budget (unaudited)	2016	2015
	\$	\$	\$
Revenues			
Corporate services			
Government contributions - operations (Note 13)	7,901,000	10,104,984	7,605,261
Government contributions - statutory capital (Note 13)	-	9,271,204	3,957,809
Other	13,000	30,593	22,981
Incubation	1,166,000	2,514,488	2,091,067
Investment	236,000	280,891	536,352
	9,316,000	22,202,160	14,213,470
Expenses (Note 14)			
Corporate services	1,745,000	1,656,241	1,772,873
Incubation	4,860,000	7,459,794	4,905,944
Investment	2,514,000	2,778,281	2,428,927
	9,119,000	11,894,316	9,107,744
Operating surplus	197,000	10,307,844	5,105,726
Impairment of portfolio investments and loans receivable	(500,000)	(3,400,940)	(2,728,889)
Realized gains on portfolio investments	100,000	(153,698)	36,377
Government transfer - real property	-	-	(4,766,423)
Gain on sale of property and equipment	62,000	-	2,400,822
	(338,000)	(3,554,638)	(5,058,113)
Surplus (deficit)	(141,000)	6,753,206	47,613
Accumulated operating surplus, beginning of year	-	17,337,953	17,290,340
Accumulated operating surplus, end of year	-	24,091,159	17,337,953

Province of Nova Scotia
Nova Scotia Innovation Corporation
Consolidated statement of change in net financial assets
year ended March 31

	2016	2015
	\$	\$
Annual surplus	6,753,206	47,613
Remeasurement loss arising during the year	(210,476)	(57,203)
	6,542,730	(9,590)
Change in tangible capital assets		
Acquisition of property and equipment	(833,768)	(948,505)
Disposal of property and equipment at net carrying value	-	4,491,917
Amortization of property and equipment	318,699	437,711
(Increase) decrease in tangible capital assets	(515,069)	3,981,123
Change in other non-financial assets		
Amortization of landlord leasehold improvements and inducements	-	115,583
Net change in prepaid expenses	(35,286)	(36,746)
Increase (decrease) in other non-financial assets	(35,286)	78,837
Increase in net financial assets	5,992,375	4,050,370
Net financial assets, beginning of year	12,495,346	8,444,976
Net financial assets, end of year	18,487,721	12,495,346

The accompanying notes to the financial statements are an integral part of this financial statement.

Province of Nova Scotia

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Consolidated statement of cash flows
year ended March 31

	2016	Restated - note 22 2015
	\$	\$
Operating transactions		
Net operating surplus from continuing operations	6,753,206	47,613
Items not affecting cash:		
Amortization	318,699	437,711
Deferred capital assistance recognized	(102,116)	(118,199)
Employee future benefits expense (Note 8 and 9)	29,529	106,059
Nova Scotia First Fund income	13,778	(21,263)
Tenant lease inducements amortized	(14,842)	(14,842)
Landlord lease inducements amortized	-	115,583
Accrued interest on Province of Nova Scotia - NSFF loan (Note 7)	237,196	230,517
Investment impairments	3,400,940	2,728,889
Gain on sale of property and equipment	-	(2,400,822)
	10,636,390	1,111,246
Changes in non-cash operating working capital	(8,270,249)	7,559,813
Employee future benefits payments (Note 8 and 9)	(51,036)	(55,036)
	2,315,105	8,616,023
Capital transactions		
Proceeds from sale of property and equipment	-	6,472,895
Property and equipment purchases	(833,768)	(948,505)
	(833,768)	5,524,390
Investing transactions		
Proceeds on sale or redemption of portfolio investments	1,709,939	1,023,327
Acquisitions of portfolio investments	(9,212,542)	(8,743,186)
	(7,502,603)	(7,719,859)
Financing transactions		
Long-term debt repayments (Note 7)	-	(838,373)
Deferred capital contributions	435,586	486,862
	435,586	(351,511)
(Decrease) increase in cash & cash equivalents	(5,585,680)	6,069,043
Cash & restricted cash, beginning of year	8,970,282	2,901,239
Cash & restricted cash, end of year	3,384,602	8,970,282
Cash & restricted cash consists of:		
Cash	3,180,042	7,594,500
Restricted cash:		
Cash	131,330	32,022
Cash equivalents	73,230	1,343,760
	3,384,602	8,970,282
Supplemental information:		
Interest paid	-	47,776

The accompanying notes to the financial statements are an integral part of this financial statement.

Province of Nova Scotia
Nova Scotia Innovation Corporation
Consolidated statement of remeasurement gains and losses
year ended March 31

	2016	2015
	\$	\$
Accumulated remeasurement gains, beginning of year	167,517	224,720
Remeasurement loss arising during the year		
Remeasurement loss on portfolio investments quoted in an active market	(102,574)	(19,524)
Reclassifications to the statement of operations		
Realized gains on portfolio investments quoted in an active market	(107,902)	(37,679)
Net remeasurement losses	(210,476)	(57,203)
Accumulated remeasurement gains, end of year	(42,959)	167,517

The accompanying notes to the financial statements are an integral part of this financial statement.

Province of Nova Scotia

Nova Scotia Innovation Corporation

Notes to the consolidated financial statements
March 31, 2016

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 which expired on March 31, 2016. As of March 31, 2016, \$11,648,321 has been drawn and \$12,805,369 has been committed under OCI 2009-228, leaving \$5,546,310 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.

Province of Nova Scotia

Nova Scotia Innovation Corporation

Notes to the consolidated financial statements
March 31, 2016

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.

Restricted cash & cash equivalents

Restricted cash & cash equivalents includes funds held in the NSFF for future investments.

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.

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Nova Scotia Innovation Corporation

Notes to the consolidated financial statements
March 31, 2016

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.

Province of Nova Scotia

Nova Scotia Innovation Corporation

Notes to the consolidated financial statements
March 31, 2016

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 and accrued liabilities. Actual results could differ from these estimates.

Revenue recognition

Incubation revenue is recognized as earned and collection 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.

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 are 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.

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Notes to the consolidated financial statements
March 31, 2016

2. Summary of significant accounting policies (continued)

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.

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.

Province of Nova Scotia

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Notes to the consolidated financial statements
March 31, 2016

2. Summary of significant accounting policies (continued)

Non-monetary transactions

Certain companies in which Innovacorp holds investments through the NSFF provide shares in exchange for rent. 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 as at March 31, 2015 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.
- Net actuarial gains or losses are amortized over the average remaining service period of the related employees, which is 10 years (2015 – 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.

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Notes to the consolidated financial statements
March 31, 2016

2. Summary of significant accounting policies (continued)

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 (2015 – 4 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.

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.

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Notes to the consolidated financial statements
March 31, 2016

4. Accounts receivable

	2016	2015
	\$	\$
Trade receivables		
Ordinary	645,241	718,275
Related parties (Note 15)	272,321	327,302
HST receivable	261,221	120,821
Due from related parties (Note 15)		
Province of Nova Scotia	3,513,345	-
Other non-trade	475,488	1,217,456
	5,167,616	2,383,854
Less: Allowance for doubtful accounts	(759,797)	(1,512,621)
	4,407,819	871,233

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.

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.

	2016	2015
	\$	\$
Promissory notes	793,129	1,172,259
Convertible debentures	7,208,054	5,925,244
Valuation allowance	(4,263,373)	(3,800,003)
	3,737,810	3,297,500

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.

Province of Nova Scotia

Nova Scotia Innovation Corporation

Notes to the consolidated financial statements
March 31, 2016

5. Loans receivable (continued)

The maturity dates of the loans are as follows:

	Promissory notes	Convertible debentures	Total amount due
	\$	\$	\$
Past due	147,259	4,325,244	4,472,503
Year ending March 31, 2017	-	1,379,950	1,379,950
Year ending March 31, 2018	635,000	1,502,860	2,137,860
Year ending March 31, 2019	10,870	-	10,870
	793,129	7,208,054	8,001,183
Valuation allowance	(313,129)	(3,950,244)	(4,263,373)
Carrying value	480,000	3,257,810	3,737,810

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.

	2016	2015
	\$	\$
Investments quoted in an active market, at fair value	1,004,531	2,086,712
Investments in early stage private enterprises, at cost	35,832,071	29,332,551
Less: Other than temporary impairment	(12,615,232)	(10,634,993)
	23,216,839	18,697,558
	24,221,370	20,784,270

Included in investments quoted in an active market are investments of the NSFF with a fair value of \$839,477 (2015 – \$1,705,481) and The Research Endowment Fund of \$77,182 (2015 – \$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.

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6. Portfolio investments (continued)

Included in investments in early stage private enterprises are NSFF investments valued at cost less other than temporary impairments of \$23,216,839 (2015 – \$18,697,558).

7. Long-term debt

	2016	2015
	\$	\$
2.879% Province of Nova Scotia - NSFF	8,475,285	8,238,089
Province of Nova Scotia - land transfer	401,561	401,561
	8,876,846	8,639,650

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, 2016, accrued interest in the amount of \$475,285 (2015 – \$238,089) is included in the above balance and is expected to increase to \$1,219,846 upon maturity of the loan in March 2019.

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.

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

	\$
2019	8,475,285
Thereafter	401,561
	8,876,846

The total interest paid or that became payable during the year and recorded in the statement of operations was \$237,196 (2015 – \$230,517).

8. Retirement benefits

	2016	2015
	\$	\$
Long-term service award	364,552	389,322
Post retirement benefits	1,590,222	1,526,279
	1,954,774	1,915,601

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Notes to the consolidated financial statements
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8. Retirement benefits (continued)

Innovacorp employees are entitled to long-term service awards upon retirement, based on years of service as at March 31, 2016 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 as at March 31, 2016, 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.

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	2016	2015
	\$	\$	\$	\$
Accrued benefit liability, beginning of year	389,322	1,526,279	1,915,601	1,852,603
Current period benefit cost				
Current service cost	-	35,771	35,771	64,993
Interest cost	15,215	63,653	78,868	74,699
Impact of curtailment	35,832	-	35,832	-
Amortization of actuarial experience gains	(32,317)	1,302	(31,015)	(5,527)
Less: benefits paid during the year	(43,500)	(36,783)	(80,283)	(71,167)
Accrued benefit liability, end of year	364,552	1,590,222	1,954,774	1,915,601
Unamortized actuarial experience gains	(34,093)	(103,514)	(137,607)	(5,553)
Accrued benefit obligation, end of year	330,459	1,486,708	1,817,167	1,910,048

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Notes to the consolidated financial statements
March 31, 2016

8. Retirement benefits (continued)

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

	2016	2015
Discount rate	4.10%	4.30%
Supplemental employee retirement plan Indexing		
Salary increase rate		
Under 30	2.50%	5.50%
30 - 34	2.00%	5.00%
35 - 39	1.50%	4.50%
40 - 44	1.00%	4.00%
45 - 49	0.50%	3.50%
50 plus	0.00%	3.00%
Disabled members	2.00%	2.25%
Extended health care cost increase	0% - 4.5%	6.3% - 4.5%
Inflation rate	2.00%	2.25%

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 (2015 – 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, 2016. 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:

	2016	2015
	\$	\$
Accrued benefit liability, beginning of year	275,933	287,908
Interest cost	2,058	9,681
Amortization of actuarial experience gains	(48,716)	(3,797)
Less: benefits paid during the year	(14,021)	(17,859)
Accrued benefit liability, end of year	215,254	275,933
Unamortized actuarial experiences losses	(175,814)	(218,724)
Accrued benefit obligation, end of year	39,440	57,209

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Notes to the consolidated financial statements
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9. Post-employment benefits (continued)

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

	2016	2015
Discount rate	4.1%	4.1%
Extended health care cost increase	0% - 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.

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, 2016. 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 (2015 - 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, Innovacorp contributed \$244,445 (2015- \$263,153) 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.

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11. Deferred capital contributions

	Balance, beginning of year	Receipts during year	Transferred to revenue	Balance, end of year
	\$	\$	\$	\$
PNS - Knowledge Park ^(a)	375,176	-	-	375,176
PNS - Fibre MAN ^(b)	49,688	-	4,500	45,188
ACOA - 1344 Summer St. ^(c)	260,469	-	19,155	241,314
PNS - Building Energy retrofit ^(d)	113,453	-	4,538	108,915
ACOA - 1344 Summer St. ^(e)	457,890	-	28,519	429,371
ACOA - 1344 Summer St. ^(f)	486,419	-	30,331	456,088
ACOA - 1344 Summer St. ^(g)	486,860	5,586	15,073	477,373
ACOA - 1344 Summer St. ^(h)	-	430,000	-	430,000
	2,229,955	435,586	102,116	2,563,425

- (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 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.
- (d) 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 Dive 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.
- (e) 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.
- (f) 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.
- (g) 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.
- (h) In 2016, ACOA provided Innovacorp with up to \$430,000 in assistance to fit-up space at IEC. These funds will be recognized on the same basis as the related assets are depreciated.

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12. Property and equipment

March 31, 2016

	Land	Buildings	Site improvements	Equipment	Furniture and fixtures	Leasehold improvements	Information technology	2016 total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
Opening balance	221,793	1,349,536	440,289	384,735	508,892	3,566,957	865,105	7,337,307
Additions	1,082	14,325	768	6,850	73,598	701,255	35,890	833,768
Disposals	-	-	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-	-
Closing balance	222,875	1,363,861	441,057	391,585	582,490	4,268,212	900,995	8,171,075
Accumulated amortization								
Opening balance	-	271,092	192,678	165,694	396,222	607,870	779,057	2,412,613
Amortization	-	43,611	19,840	44,493	26,307	163,349	21,099	318,699
Disposals	-	-	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-	-
Closing balance	-	314,703	212,518	210,187	422,529	771,219	800,156	2,731,312
Net book value	222,875	1,049,158	228,539	181,398	159,961	3,496,993	100,839	5,439,763

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Nova Scotia Innovation Corporation

Notes to the consolidated financial statements
March 31, 2016

12. Property and equipment (continued)

March 31, 2015

	Land	Buildings	Site improvements	Equipment	Furniture and fixtures	Leasehold improvements	Information technology	2015 total
	\$	\$	\$	\$	\$	\$	\$	\$
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

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Nova Scotia Innovation Corporation

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March 31, 2016

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 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:

	2016	2015
	\$	\$
Contributions received - Province of Nova Scotia	10,002,868	7,487,062
Statutory capital advances (Note 1)	9,271,204	3,957,809
Recognition of previously deferred contributions (Note 11)	102,116	118,199
Total contributions	19,376,188	11,563,070

14. Expenses by object

	2016	2015
	\$	\$
Advertising and promotion	258,106	218,762
Amortization	318,699	526,648
Awards	3,367,738	786,400
Bad debt	(19,442)	52,122
Board activities	9,732	18,437
Communications	111,437	120,482
Information resources	54,942	28,425
Interest	230,003	279,809
Investment management fees	8,165	13,137
Miscellaneous	82,691	72,841
Outside services	3,732,619	2,492,435
Professional development	130,552	177,336
Repairs and maintenance	81,984	143,084
Salaries and benefits	3,214,443	3,591,853
Supplies	60,531	90,511
Travel	140,055	169,558
Utilities	112,061	325,904
Total	11,894,316	9,107,744

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Nova Scotia Innovation Corporation

Notes to the consolidated financial statements
March 31, 2016

15. Related party transactions

Entity	Relationship	Revenues generated	Year end receivables	Valuation allowance
		\$	\$	\$
Non-Trade				
Province of Nova Scotia	Parent	10,002,868	3,513,345	-
BioScience Centre	Managed incubator	-	27,339	27,339
PlantSelect	50% investee	-	298,844	298,844
NSFF Trade receivables	Investees	122,986	272,321	206,619
		10,125,854	4,111,849	532,802

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 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 of Nova Scotia on behalf of Innovacorp totalled \$3,591,853.

16. Financial instruments

Classification of financial instruments

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

	2016		2015	
	Classification		Classification	
	Fair value	Cost	Fair value	Cost
	\$	\$	\$	\$
Financial assets				
Cash	-	3,180,042	-	7,594,500
Restricted cash & cash equivalents	-	204,560	-	1,375,782
Accounts receivable	-	4,407,819	-	871,233
Loans receivable	-	3,737,810	-	3,297,500
Portfolio investments				
Investments quoted in an active market	1,004,531	-	2,086,712	-
Investments in early stage private enterprises	-	23,216,839	-	18,697,558
	1,004,531	34,747,070	2,086,712	31,836,573
Financial liabilities				
Payables and accruals	-	2,828,123	-	7,056,853
Long-term debt	-	8,876,846	-	8,639,650
	-	11,704,969	-	15,696,503

Province of Nova Scotia

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Notes to the consolidated financial statements
March 31, 2016

16. Financial instruments (continued)

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, 2016, measured at fair value on a recurring basis:

				2016
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Investments quoted in an active market	1,004,531	-	-	1,004,531
	1,004,531	-	-	1,004,531

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

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.

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Notes to the consolidated financial statements
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16. Financial instruments (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.

Fair value	Price change	Estimated fair value after price change	Estimated impact on the current period surplus	Estimated impact on current period remeasurement gain
\$		\$	\$	\$
584,529	27.67% increase	746,267	-	161,738
584,529	27.67% decrease	422,791	-	(161,738)

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.

Fair value	Interest rate change	Estimated fair value after price change	Estimated impact on the current period surplus	Estimated impact on current period remeasurement gain
\$		\$	\$	\$
420,002	1% increase	417,752	-	(2,250)
420,002	1% decrease	423,455	-	3,453

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Notes to the consolidated financial statements
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16. Financial instruments (continued)

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	2,828,123	-	-	-	-	2,828,123
Long-term debt	-	8,475,285	-	-	401,561	8,876,846
	2,828,123	8,475,285	-	-	401,561	11,704,969

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, 2016, broken down by credit quality and issuer type:

	AAA	A	A (H)	Total
	\$	\$	\$	\$
Canada Provinces	152,975	149,902	117,125	420,002
	152,975	149,902	117,125	420,002

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Notes to the consolidated financial statements

March 31, 2016

16. Financial instruments (continued)

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 \$401,166 are significantly concentrated, with 79% 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 \$4,407,819

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 \$3,737,810

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Nova Scotia Innovation Corporation

Notes to the consolidated financial statements
March 31, 2016

16. Financial instruments (continued)

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	555,894	10,051	138,459	(226,994)	477,410
HST receivable	261,221	-	-	-	261,221
Due from Province of NS	3,513,100	-	245	-	3,513,345
Due from related parties	5,730	1,244	681,671	(532,802)	155,843
	4,335,945	11,295	820,375	(759,796)	4,407,819
Loans receivable	3,528,680	-	4,472,503	(4,263,373)	3,737,810
	7,864,625	11,295	5,292,878	(5,023,169)	8,145,629

17. 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:

	\$
2017	1,517,143
2018	1,512,475
2019	1,505,147
2020	1,364,991
2021	1,485,198
	7,384,954

As at March 31, 2016, there were \$13,630,564 (2015 – \$14,915,630) approved commitments to invest under the mandate of the NSFF as discussed in note one.

18. 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, 2016 the guarantee had not been utilized.

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Nova Scotia Innovation Corporation

Notes to the consolidated financial statements

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19. 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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19. Segmented information (continued)

	Corporate Services		Investment		Incubation		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$	\$	\$
Operating revenues								
Government contributions	19,376,188	11,563,070	-	-	-	-	19,376,188	11,563,070
Management and director's fees	-	-	22,000	62,000	-	-	22,000	62,000
Program funding	217	8,603	1,842	134,123	226,788	112,798	228,847	255,524
Interest and dividends on portfolio investments and loans receivable	-	-	256,722	337,237	-	-	256,722	337,237
Rent	-	-	-	-	897,429	1,510,843	897,429	1,510,843
Business recoveries	-	-	-	-	282,481	403,803	282,481	403,803
Other	30,376	14,378	327	2,992	1,107,790	63,623	1,138,493	80,993
	19,406,781	11,586,051	280,891	536,352	2,514,488	2,091,067	22,202,160	14,213,470
Operating expenses								
Advertising and promotion	36,982	75,147	64,198	79,247	156,926	64,368	258,106	218,762
Amortization	-	-	-	-	318,699	526,648	318,699	526,648
Awards	-	-	1,363,111	686,400	2,004,627	100,000	3,367,738	786,400
Bad debt	-	-	-	-	(19,442)	52,122	(19,442)	52,122
Board activities	9,732	18,437	-	-	-	-	9,732	18,437
Communications	3,821	4,953	8,065	13,122	99,551	102,407	111,437	120,482
Information resources	5,124	1,848	38,413	18,945	11,405	7,632	54,942	28,425
Interest	(7,199)	47,776	237,196	232,033	6	-	230,003	279,809
Investment management fees	-	-	8,165	13,137	-	-	8,165	13,137
Miscellaneous	33,249	19,420	3,902	2,713	45,540	50,708	82,691	72,841
Outside services	465,901	461,142	112,651	229,174	3,154,067	1,802,119	3,732,619	2,492,435
Professional development	29,784	45,011	16,418	63,519	84,350	68,806	130,552	177,336
Repairs and maintenance	10,707	12,886	-	-	71,277	130,198	81,984	143,084
Salaries and benefits	1,044,666	1,055,554	872,616	1,000,960	1,297,161	1,535,339	3,214,443	3,591,853
Supplies	12,704	11,944	3,845	21,466	43,982	57,101	60,531	90,511
Travel	10,770	18,755	49,701	68,211	79,584	82,592	140,055	169,558
Utilities	-	-	-	-	112,061	325,904	112,061	325,904
	1,656,241	1,772,873	2,778,281	2,428,927	7,459,794	4,905,944	11,894,316	9,107,744
Operating income (loss)	17,750,540	9,813,178	(2,497,390)	(1,892,575)	(4,945,306)	(2,814,877)	10,307,844	5,105,726
Impairment of portfolio investments and loans receivable	-	-	(3,400,940)	(2,728,889)	-	-	(3,400,940)	(2,728,889)
Gain on sale of property, equipment	-	-	-	-	-	2,400,822	-	2,400,822
Government transfer	-	-	-	-	-	(4,766,423)	-	(4,766,423)
Realized gains (losses) on marketable securities	-	-	(153,698)	36,377	-	-	(153,698)	36,377
	-	-	(3,554,638)	(2,692,512)	-	(2,365,601)	(3,554,638)	(5,058,113)
Surplus (deficit) continuing operations	17,750,540	9,813,178	(6,052,028)	(4,585,087)	(4,945,306)	(5,180,478)	6,753,206	47,613

Province of Nova Scotia

Nova Scotia Innovation Corporation

Notes to the consolidated financial statements
March 31, 2016

20. 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.

Stephen Duff	\$175,591
Charles Baxter	163,611
Jennifer Robichaud	140,551
Gregory Phipps	138,293
Donna Bourque	126,451
Dawn Umlah	120,693
Dawn House	118,968
Lidija Marusic	116,866
Michael Dennis	112,758
Shelley Hessian	110,961
Robert Pelley	105,579

21. Budgeted figures

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

22. Restatement

Innovacorp has reclassified \$1,375,782 of restricted cash and cash equivalents previously included in investments quoted in an active market as at March 31, 2015.

23. Comparative figures

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