

Defining the Canadian Sovereign Scalable Company (CSSC) and Closing the Pre-Institutional Capital Gap

Supplementary Brief to the Standing Senate Committee on Banking, Commerce and the Economy. This brief elaborates on the policy framework and recommendations in testimony before the Committee on April 30, 2026.

From: Claudio Rojas, CEO, National Angel Capital Organization (NACO)

Date: May 7, 2026

1. Defining the Canadian Sovereign Scalable Company (CSSC)

NACO recommends that federal capital instruments target a defined category of company, the **Canadian Sovereign Scalable Company (CSSC)**, identified by two qualifying paths.

- A. The primary path is private-sector validation. The company has received arms-length investment of at least \$150,000 within the prior 24 months from qualified angel investors operating within an angel network in good standing within the NACO membership¹, or from a qualified venture capital fund.
- B. The alternative path applies to Canadian-headquartered, knowledge-based, IP-intensive high-growth companies that can demonstrate proprietary intellectual property, export-market orientation, and management capability commensurate with the opportunity.

Targeting CSSCs aligns federal capital deployment with the category of company most likely to generate scalable, IP-intensive growth and to recycle returns back into the Canadian economy, balancing fiscal prudence with targeted economic outcomes.

In this brief, the CSSC definition is applied to the **CSSC Investment Tax Program**

Recommendation (Sections 2.1 and 2.3), comprising (1) National Investment Tax Credit, (2) capital gains deferral, and (3) capital gains exemption.

¹ *National Angel Capital Organization (NACO) is Canada's professional association for angel investors and early-stage investment organizations. Incorporated in 2002, NACO represents approximately 4,000 angel investors and over 100 member organizations across Canada, including angel networks, early-stage venture funds, and venture studios. NACO members have collectively invested more than \$1.8 billion into over 2,000 Canadian ventures.*

This brief also elaborates on the design of the \$1.75 billion venture capital strategy committed in Budget 2025, specifically the \$750 million envelope to support “Canadian firms facing early growth-stage funding gaps” and aimed at empowering entrepreneurs with “the capital and networks they need to launch and scale” (Section 2.2).

2. Capital Supply, Deployment, and Momentum

NACO's policy recommendations are grounded in the Lifecycle of Capital Framework set out in *NACO's Unified Capital Strategy report* (October 2025), which traces how capital moves through the innovation economy from initial supply, through deployment into companies, to the recycling of returns into new investments. Each of the three components, capital supply, capital deployment, and capital momentum, corresponds to a federal policy lever recommended in this brief.

The *United Kingdom's Enterprise Investment Scheme (EIS)* is a leading international example of a tax policy framework designed as an integrated system. Operating since 1994, EIS has mobilized more than £30 billion in private investment into qualifying companies (HMRC, 2024), and is recognized internationally as a benchmark for early-stage capital policy. By including capital deployment mechanisms, as outlined below, Canada will generate a greater return on each public dollar invested.

2.1 Capital Supply: a 30% National Investment Tax Credit

NACO recommends a 30% refundable National Investment Tax Credit (NITC), stackable with existing provincial credits. The NITC should be available to qualified angel investors making arms-length investments into CSSCs, and to individuals investing as limited partners in qualified Canadian venture capital funds. The 30% rate is consistent with EIS at the investor level and aligns with established Canadian provincial precedents, including British Columbia (30%), Manitoba (45%), Nova Scotia (35 to 45%), and New Brunswick (50% for individuals). NACO recommends that the combined federal-provincial tax credit be capped at 50%, consistent with the rate of relief provided under the *UK Seed Enterprise Investment Scheme (SEIS)*.

The fiscal case for the NITC is supported by Canadian evidence at the provincial level. Hellmann and Schure (2010) found that British Columbia's Venture Capital Program produced a combined federal-provincial fiscal return of \$2.92 in tax revenue per \$1 of credit issued, leveraging more than \$2.3 billion in private equity from \$256 million in tax credits over 2001 to 2008.

2.2 Capital Deployment: extending VCAP and VCCI architecture to the pre-institutional stage

The Venture Capital Action Plan (VCAP) and the Venture Capital Catalyst Initiative (VCCI) have built deployment capacity at the institutional venture capital stage. As of December 31, 2023, VCAP and VCCI 2017 together committed approximately \$2.07 billion to underlying venture capital funds (ISED Performance Metrics Reports). Across both programs, more federal capital flowed to foreign funds and portfolio companies than reached Canadian pre-seed and seed-stage funds. Section 2.2.1 sets out the empirical basis for this assessment, with source data in Appendix C (VCAP) and Appendix D (VCCI 2017).

Canada has not built proportionate deployment capacity at the pre-institutional stage, which we define as the pre-seed, seed, and Series A rounds funded by angel investors within established angel networks, and by venture capital funds without significant institutional investor participation.

NACO–Startup Genome Report on Canada’s Funding Gaps (February 2026) identified a US\$1.6 billion five-year funding shortfall at the pre-institutional stage, with a 30% deficit at seed compounding into a 40% deficit at Series A and a 50% deficit at Series B. The gap is structural rather than cyclical. In the transition from VCAP to the VCCI 2017 period, Series A funding in Canada grew 2.5x while seed grew only 1.6x. Series A capital expanded faster than the seed pipeline that feeds it. Companies that begin under-capitalized spend their early years raising small rounds rather than building, arriving at later stages operationally weaker and under cumulative pressure to exit early. The deficit compounds along inequities introduced at the earliest stages: women-led companies that cannot access arms-length capital at pre-seed and seed do not progress to Series B, with cascading effects across the pipeline that constrain Canada’s broader scale-up potential.

The deployment mechanisms appropriate to the pre-institutional stage are angel networks and early-stage funds. Budget 2025 committed \$750 million to support “Canadian firms facing early growth-stage funding gaps” and to empower entrepreneurs with “the capital and networks they need to launch and scale.” NACO’s recommendations for the structure of the envelope are set out in the *Seeding Growth* white paper (March 31, 2026), attached as Appendix A. In summary:

- **Early-Stage Matching Funds Program** — \$500 million. Operates on a 2:1 private-to-public matching ratio, mobilizing \$1 billion in private investment for \$1.5

billion in total deployment, with per-company investment of \$500,000 to \$1 million reaching 500 to 1,000 Canadian companies over five years.

- **Early-Stage Infrastructure Funding Initiative** — \$250 million. Five-year operational investment in 125 angel networks and early-stage investment organizations, designed to deliver a 5x private capital mobilization multiple per public dollar.

Together, the two programs apply to the pre-institutional stage the same architectural support that VCAP and VCCI 2017 applied at the institutional venture capital stage.

2.2.1 Pre-institutional underfunding and domestic capital leakage to foreign funds and portfolio companies

The pre-institutional underfunding identified in Section 2.2 has measurable downstream consequences for the existing federal architecture. NACO's research indicates that the weak pre-institutional pipeline has reduced the volume of institutional-stage Canadian deal flow available to VCAP and VCCI 2017 fund recipients, contributing to deployment of public commitments to foreign funds and foreign portfolio companies.

The ISED Performance Metrics Reports (December 31, 2023) for VCAP (**Appendix C**) and VCCI 2017 (**Appendix D**) record this pattern. Of \$1,112 million in VCAP funds-of-funds commitments to underlying venture capital funds, \$171 million (15%) went to non-Canadian funds, with \$34 million additionally invested directly in non-Canadian companies. Of \$955.9 million in VCCI 2017 funds-of-funds commitments, \$189.5 million (20%) went to non-Canadian funds, with \$25 million additionally invested directly in non-Canadian companies.

In summary, of the approximately \$2.07 billion committed by the funds-of-funds across both programs, \$360 million flowed to non-Canadian funds and an additional \$59 million to non-Canadian portfolio companies, totalling \$420 million (~20%) directed outside Canada. Across the same programs, 52 of 796 Canadian portfolio companies, approximately 6.5%, were headquartered in Alberta, Saskatchewan, or Manitoba combined. The federal venture capital architecture has directed more capital to non-Canadian destinations than it has reached, in deal count, across the three Prairie provinces combined.

The stage-allocation pattern is consistent with the same upstream weakness. Of \$990.7 million in VCAP commitments to Canadian venture capital funds, seed-focused funds received \$71.6 million (7%). Of \$858.9 million in VCCI 2017 commitments to Canadian venture capital funds, seed-focused funds received \$138.3 million (16%). Across both programs, seed-focused funds received approximately \$210 million of \$1.85 billion in combined commitments to Canadian

funds, or 11%. Institutional-stage rounds (early venture, late venture, and growth equity) together received the remaining 89%. Neither program reports a separate pre-seed allocation in its stage taxonomy, suggesting that pre-seed focused funds received no allocation across either program.

Strengthening the pre-institutional pipeline through the Budget 2025 envelope addresses both the cascading capital gap described in Section 2.2 and the downstream pressure on existing federal programs to deploy abroad.

2.3 Capital Momentum: capital gains exemption and deferral

The third stage of the framework addresses how capital recycles after a successful exit, returning to the asset class to fund the next generation of Canadian companies.

NACO recommends two complementary mechanisms, together forming a Canadian analog to the US Qualified Small Business Stock (QSBS) framework supported in NACO's pre-Budget submission and the joint NACO–CVCA letter to the Minister of Finance (September 22, 2025), attached as **Appendix B**:

- **Capital gains deferral.** An investor who realizes a gain and reinvests the proceeds into a CSSC within twelve months defers tax on that gain until the new investment is realized.
- **Capital gains exemption.** An investor who holds a qualifying CSSC investment for at least five years is exempted from capital gains tax on the proceeds, up to \$15 million per investor, with the exemption extended to investments held through limited partnership structures.

2.4 Conclusion

Canada's federal capital architecture has produced documented results at the institutional venture capital stage and documented underfunding at the pre-institutional stage. The Canadian Sovereign Scalable Company definition, paired with the three policy levers set out in this brief, offers the Committee a coherent framework for evaluating how the \$1.75 billion venture capital strategy committed in Budget 2025, and the broader federal capital architecture, can be designed to produce scalable, IP-intensive economic growth that compounds within the Canadian economy. NACO welcomes the Committee's consideration of this framework and remains available to provide further information, evidence, or technical input as the Committee's study proceeds.

Appendix A — Seeding Growth: The Case for Early-Stage Capital in Canada’s \$1.75B Venture Strategy

National Angel Capital Organization, March 31, 2026.

*Submitted to Innovation, Science and Economic Development Canada (ISED) and Finance
Canada. Available at <https://nacocanada.com/seeding-growth#white-paper>.*

Seeding Growth: The Case for Early-Stage Capital in Canada's \$1.75B Venture Strategy

To: Innovation, Science and Economic Development Canada (ISED) and Finance Canada

Date: March 31, 2026

Canada stands at a generational moment for its innovation economy. The \$750M early-stage envelope within Budget 2025's \$1.75B Venture Capital Strategy is an opportunity to correct a structural deficit that has weakened Canadian venture capital returns for two decades, and to build the foundation on which the strategy's broader ambitions depend.

Context

Budget 2025's Venture Capital Strategy committed \$1.75B to the innovation economy. The \$1B component carries specific mandates directed toward later-stage and institutional-grade investment vehicles, building on a decade of substantial public investment through the BDC's Venture Capital Catalyst Initiative (VCCI) and Venture Capital Action Plan (VCAP). This programming has provided significant infrastructure for institutional-ready funds. The \$750M represents the remaining allocation, and is the envelope that most directly corresponds to the segment of the capital continuum that has received the least sustained policy attention: the pre-seed and seed stages.

The scale of the gap is now quantified. A joint NACO–Startup Genome report, published March 5, 2026, analyzed approximately 65,000 funding rounds across eight Canadian and comparable U.S. ecosystems.[1] It found that Canadian startups at seed receive rounds approximately 40% smaller than U.S. peers, take over five months longer to close, and enter a seed funnel that is 20% narrower. The annual seed funding gap is estimated at \$116M USD, with an additional \$26M specifically for the Toronto-Waterloo corridor. The annual Series A gap is approximately \$181M USD. These gaps persist even after a decade of VCAP and VCCI, because Fund-of-Funds capital has flowed overwhelmingly through institutional VCs that invest at Series A and beyond — not at seed.

Data from NACO's annual reports on angel investing, industry-led national consultations, and the Startup Genome findings all converge on the same conclusion: this chronic underfunding deepened over the same period in which later-stage infrastructure expanded. Canada's top three ecosystems have lost a combined \$66 billion USD in startup ecosystem value over the last five years, measured against their peak share of the world's top-50 ecosystems. This loss is not attributable to a shortage of late-stage capital. Rather, it is due to a structural funding deficit at the earliest stages, which has weakened venture capital returns.

The argument that Canadian venture capital funds are insufficiently sized for institutional pension participation inverts the causation. Pension funds allocate globally and routinely invest in emerging managers when returns justify it. Canadian early-stage returns have underperformed because the pipeline is structurally underfunded, not the reverse. CPP

Investments now allocates 47% of its \$714.4 billion portfolio to U.S. assets and only 12% to Canada, the lowest domestic share in the fund's history.[2] Proportional investment across the capital continuum is what reverses this. A funded early-stage pipeline produces stronger companies at Series A and B, which improves returns for the later-stage funds that the \$1B component supports, which gives pension funds a domestic performance case that competes with their U.S. alternatives. The \$750M at early stage is not a competing priority with the \$1B — it is the condition that makes the \$1B work.

Utilizing the \$750M at the pre-seed and seed stage would reach more companies per dollar, generate a larger pipeline of venture-ready firms, and build the domestic anchoring that reduces reliance on U.S. capital before growth-stage competition begins. Directing this envelope toward segments already served by existing commitments and prior programming would compound this gap rather than address it. Venture capital returns would continue to suffer, resulting in perpetual dependence on government support.

Capital Efficiency: Matching Funds

NACO's matching funds recommendation of \$500M operates with a per-company cap of \$500K to \$1M. At this level:

- \$500M in public capital, operating on a 2:1 matching ratio, with \$2 from private-sector investors for every \$1 of public-sector capital, mobilizes an additional \$1 billion in private investment. At a per-company cap of \$500K to \$1M, this reaches 500–1,000 companies at the pre-seed and seed stage. No other allocation of the \$750M envelope achieves comparable breadth.
- Exponential success cannot be predicted at the company level. Returns emerge across a large pool, with a proportion of high performers compensating for those that do not progress. This is the "power law," and it is how venture capital generates returns. The instinct to apply this at the policy level by concentrating public capital in perceived winners inverts the logic. A venture fund can afford to double down on winners because it has already seeded the pool that produced them. Government, investing at the pre-seed and seed stage, is seeding that pool. The policy objective is not to pick winners but to ensure the pipeline is deep enough that winners emerge consistently, and that they emerge as Canadian companies, capitalized by Canadian investors, embedded in Canadian networks. The \$500M matching funds program is designed to create precisely these conditions.

Canadian Companies Supported and Capital Deployed by Year

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Companies	100 - 200	100 - 200	100 - 200	100 - 200	100 - 200	500 - 1000

Matching Funds	\$100M	\$100M	\$100M	\$100M	\$100M	\$500M
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The evidence supports this approach. In mature ecosystems, the ratio of seed to Series A funding stabilizes at approximately 64%.^[3] For every \$1 allocated to Series A, \$0.64 should flow to seed to maintain a healthy pipeline. Current Canadian capital allocation does not approach this ratio, particularly in Toronto-Waterloo, where the Seed:Series A ratio is measurably below the benchmark.

Growth-stage allocation of the \$750M would represent an extraordinarily narrow use of public dollars — picking a small number of perceived winners from an already-weak pipeline, while doing nothing to address the structural conditions that created that weakness.

Root Cause Analysis: Why the Growth Stage Perpetually Demands Government Support

A core flaw in the growth-stage-first argument is that it treats a symptom rather than the disease. A key reason Canada’s growth-stage players persistently demand government support is that companies are arriving at Series B in a chronically weakened position. The founders are unnecessarily diluted. Early-stage ventures have struggled to raise capital, relative to their peers in other jurisdictions. Their investors hold outsized influence. And so they require intervention or exit early to foreign acquirors at subsequent stages.

The Startup Genome data illustrates this inheritance effect directly. In the pre-VCAP period (2011–2013), Canadian Tier 1 ecosystems had 30% fewer seed-funded companies than U.S. Tier 1. That 30% deficit at seed translated into 40% fewer Series A companies and 50% fewer Series B companies in the same cohort. The attrition compounds: approximately 22% of Canadian Tier 1 seed-funded startups progress to Series A, compared to approximately 28% for U.S. Tier 1. This is not a growth-stage problem that can be solved with growth-stage capital. It is a seed-stage problem that manifests at every subsequent stage.

The companies that have achieved meaningful scale in Canada — Wealthsimple, Kepler Communications, and others — share a common characteristic: access to strong early networks and capital. This is not replicable at the growth stage. It is built at the pre-seed and seed stage, when patient, high-risk capital from angel investors and pre-institutional funds gives companies the momentum they need to become genuinely investable.

If the pipeline is weak at the source, no amount of downstream capital can compensate. Investing \$750M in growth-stage funds without addressing the underlying pipeline weakness essentially guarantees that the government will need to return with another allocation in four years to prop up the next cohort of undercapitalized companies. If the \$750M goes to the later stage, this risks compounding a structural decline in Canada's innovation capacity that has deepened over two decades of disproportionate later-stage investment.

The premise that scaling later-stage vehicles will eventually attract sufficient domestic institutional capital is fundamentally flawed. After a decade of VCAP and VCCI, pension fund

allocation to Canadian assets has reached historic lows and ecosystem rankings have fallen. The missing ingredient is not larger funds. It is a pipeline of high-growth companies that generates the returns those funds need to attract private capital on their own.

Domestic Capital and the “Buy Canadian” Opportunity

The Government has articulated a clear policy goal of advancing economic sovereignty. Given scarce government resources, this goal is most effectively advanced at the early stage, not the growth stage.

Growth-stage companies with demonstrated traction are inherently attractive to U.S. capital. No amount of Canadian government investment at that stage can reliably outcompete the scale and speed that American venture funds and hyperscalers are willing to deploy. An arms race with the U.S. at the growth stage would be exceptionally costly for Canadian taxpayers with a low probability of success. Instead, Canada can win by investing at the early stage.

The pre-seed and seed stage are structurally different. They are hyperlocal, high-risk, and relationship-driven. These are precisely the conditions where U.S. capital does not compete. Winnipeg-based deep-tech, Saskatoon-based agri-tech, Yukon-based resource innovation: these are not markets where Silicon Valley is hunting for deal flow. This is where Canada has a genuine, durable competitive advantage.

By extending professional early-stage infrastructure into every region of Canada and reducing founder out-migration, this initiative directly advances the One Canada and economic sovereignty priorities articulated in Budget 2025.

Investing \$750M at the early stage is the “Buy Canadian” play that actually works: building a generation of companies that are deeply embedded in Canadian networks, funded by Canadian angels, and that arrive at the growth stage with enough momentum to resist early acquisition pressure and choose where they want to grow.

The AI Imperative

The urgency of early-stage investment is amplified by the AI transformation. The Startup Genome report found that Canadian AI-native startups raise approximately half as much at seed as their U.S. counterparts and take 31% longer to close rounds.[4] In a sector where speed is a decisive competitive factor, this gap is particularly damaging. AI startups require faster and larger seed rounds to compete globally. Canadian investors are demonstrably more cautious about AI than their U.S. peers. This is understandable, given the sector’s different risk profile. But, without public de-risking at the seed stage, Canada’s AI startups will continue to be outpaced, acquired early, or relocated to jurisdictions with more responsive capital.

This is not a hypothetical risk. AI has outstripped all other sectors in recent years as a driver of startup ecosystem growth, and ecosystems that fail to adapt will lose ground permanently. Directing matching funds through Canada’s existing angel and early-stage investor networks

ensures that capital flows to AI ventures and other frontier technologies where the funding gap is most acute, and where speed of deployment depends on hyperlocal investors who are already active in the communities where these companies are being built.

In Summary

The four key points above are reinforcing. Early-stage capital is more efficient per public dollar, addresses the root cause of persistent government dependence at the growth stage, advances economic sovereignty where Canada holds a structural advantage, and positions the country to compete in the AI transformation where speed of early funding is decisive.

The documented funding gap is \$323M annually. Over a 5-year period, that gap exceeds \$1.6 billion. The \$500M matching funds component of NACO's recommendations for the \$750M, deployed at a 2:1 ratio, would mobilize an additional \$1 billion in private investment, bringing total capital mobilized to \$1.5 billion. The \$250M infrastructure component strengthens the early-stage investment ecosystem in every region of Canada, enabling higher private participation and ensuring the matching funds reach founders beyond the major centres. Together, the two pillars are designed to close the structural gap and build the pipeline depth that generates stronger returns at every subsequent stage.

NACO recognizes that a healthy innovation ecosystem requires strength across the full capital continuum. Strong venture capital funds and a robust early-stage pipeline are mutually reinforcing. Each depends on the other to perform. The \$1B component of Canada's venture capital strategy addresses later-stage capacity, and that mandate matters. Directing the \$750M to the earliest stages is what ensures that mandate succeeds: a deeper pipeline of well-capitalized Canadian companies arriving at Series A and beyond is what generates the returns that make later-stage funds attractive to institutional capital on their own merits. These two components of the strategy are not in competition. They are designed to work together.

[1] Startup Genome, "Canada's Funding Gaps," prepared for NACO, March 5, 2026. Analysis based on approximately 65,000 funding rounds across eight Canadian and comparable U.S. ecosystems.

[2] [CBC "Nearly half of national public pension plan is invested in U.S. — and only 12% in Canada" - Elizabeth Thompson \(June 19, 2025\)](#)

[3] The Seed:Series A ratio for top North American ecosystems averages approximately 64%. This ratio is used as the benchmark for healthy capital allocation across stages.

[4] Startup Genome analysis of AI-native startups across Canadian and U.S. ecosystems, 2022–2024.

Policy Recommendations

The following two recommendations emerge from a nine-month industry-led consultation process that engaged over 250 senior leaders across Canada's full capital pipeline. Officials at ISED and Finance Canada requested concrete, implementable recommendations to address persistent structural gaps in Canada's early-stage capital market. Together, these proposals allocate the full \$750M early-stage envelope across two complementary pillars: direct capital deployment and early-stage infrastructure.

Recommendation 1: Early-Stage Matching Funds Program (\$500M)

Recommendation 2: Early-Stage Infrastructure Funding Initiative (\$250M)

Recommendation 1: Early-Stage Matching Funds Program

\$500M Allocation | \$750M Early-Stage Envelope

Mandate for These Recommendations

NACO has concluded a nine-month industry-led consultation process, which engaged over 250 senior leaders across the full capital pipeline, including angel investors, angel networks, early-stage venture capital (VC) funds, venture studios, founders, and other senior leaders.

Officials at ISED and Finance Canada requested recommendations to address persistent structural gaps in Canada's early-stage capital market. Budget 2025's \$750M commitment to addressing early-stage gaps creates a rare and time-sensitive opportunity to act on those recommendations.

The Case for Early-Stage Intervention

The strength of the early-stage market determines how many companies scale meaningfully, attract institutional capital, and anchor growth in Canada. Structural capital gaps at the pre-seed and seed stages are materially constraining the venture pipeline. An insufficient number of companies are able to access the early risk capital required to grow into Series A-ready businesses.

Existing matching fund programs and supporting infrastructure were not designed for early-stage capital deployment and have historically under-allocated to this segment of the market. Without targeted intervention to mobilize private early-stage capital, Canada will continue to underproduce venture-scale firms relative to its research capacity, technical talent, and private wealth base.

Guiding Principles

NACO's recommendations are grounded in five principles:

- **Market validation first** — public capital deployment follows credible, arm's-length private commitment
- **Additionality** — funding reaches qualified deals that would otherwise not close due to capital constraints
- **Regional equity** — capital reaches founders outside major urban centres
- **Pipeline quality** — investments are selected and monitored by experienced practitioners
- **Recyclability** — returns flow back into the ecosystem to sustain long-term capital redeployment.

The Opportunity

A \$500M federal early-stage matching envelope represents a pivotal opportunity to:

- Catalyze \$1 billion of dormant private wealth into productive risk capital
- Increase the graduation rate of companies to Series A¹
- Improve signalling quality to institutional venture capital, increasing the flow of capital into Canadian companies at later stages
- Support economic growth in regions outside major urban centres
- Build a stronger pipeline of investable opportunities at the later stages
- Build a recyclable capital pool capable of sustaining long-term deployment

Program Highlights

The \$500M Early-Stage Matching Funds Program is a competitive, equity-based matching program designed to crowd in private pre-seed and seed capital and accelerate companies toward Series A readiness.

Matching Mechanism

The program operates on a public-private matching ratio. Public capital commitment is first-in, but deployment is triggered only after arm's-length private capital has been committed and a credible lead investor identified. This ensures government funds follow validated private conviction, preserving market integrity and mitigating adverse selection risk.

Private investment leverage ratio: \$2 from private-sector investors for every \$1 of public-sector capital (including investments from other levels of government or agencies wholly government owned).

Strategic Sector Priorities

Sixty percent of program funds will be directed toward companies in strategically important sectors:

- Artificial Intelligence
- Quantum Computing
- Aerospace & Defence (Dual-Use Technologies)
- Life Sciences & BioTech
- Advanced Manufacturing
- Clean Energy & Electrification

Regional Equity

Thirty percent of program funds will be directed toward non-urban regions where early-stage capital gaps are most pronounced.

¹ Only 22% of seed-funded startups in Canadian Tier 1 ecosystems graduate to Series A, compared to 28% in U.S. Tier 1 ecosystems (NACO-Startup Genome Report on Canada's Funding Gaps, March 2026)

Support for Early-Stage Emerging Managers

Fifteen percent of the envelope is reserved for emerging seed and pre-seed fund managers — those who have been active for fewer than five years or are raising their first fund — with eligibility based on demonstrated deal activity rather than assets under management.

Competitive Selection Process

Participation in the program is competitive. Fund managers accessing matching capital must demonstrate:

- Demonstrated experience investing at the pre-seed or seed stage
- Defined governance and decision-making processes
- Evidence of portfolio construction discipline
- Capacity to conduct diligence and provide post-investment oversight

Measuring Success

The program is outcomes-driven. Success will be measured against a defined set of metrics, including:

- Private capital leveraged per public dollar deployed
- Series A graduation rate of portfolio companies
- Follow-on capital raised within 24 months of matching investment
- Company survival rates at 24, 48, and 60 months
- Regional company formation growth in non-urban centres

A formal mid-term program review will occur at 36 months.

Recommendation 2: Early-Stage Infrastructure Funding Initiative

\$250M Allocation | \$750M Early-Stage Envelope

Mandate for These Recommendations

NACO has concluded a nine-month industry-led consultation process, which engaged over 250 senior leaders across the full capital pipeline, including angel investors, angel networks, early-stage venture capital (VC) funds, venture studios, founders, and other senior leaders.

Officials at ISED and partner departments requested concrete, implementable recommendations to address persistent structural gaps in Canada's early-stage capital market. Budget 2025's \$750M commitment to addressing early-stage gaps creates a rare and time-sensitive opportunity to act on those recommendations.

The Structural Gap

Canada's early-stage capital market operates below its structural potential. The organizations responsible for first-cheque investment, investor activation, and founder development, including angel networks, emerging fund managers, venture studios and early-stage venture funds, function without sustained operational support, forcing them into reactive, survival-mode operating models that prioritize continuity over growth. NACO's consultations with senior leaders across every region of Canada identified this as the single most consistent constraint on early-stage capital mobilization: not a shortage of investor interest, but a shortage of the operational capacity required to mobilize, coordinate and deploy that capital at scale.

The downstream effects are measurable and compound over time. Reliance on short-term, activity-based public funding interrupts deal flow, erodes institutional knowledge, constrains staff retention, and limits intermediaries' ability to build and maintain investor networks, particularly in regions where early-stage infrastructure is already thin. Early-stage capital cycles require 3 to 5 years for deployment and more than 10 years for company maturation. Annual, reimbursement-driven supports are structurally misaligned with these timelines. The result is weakened diligence capacity, smaller and less active investor pools, prolonged founder fundraising cycles, and increased pressure on high-potential Canadian companies to seek capital, and ultimately relocate, elsewhere.

Program Design

The Early-Stage Infrastructure Funding initiative allocates \$250M over five years to stabilize and professionalize the foundational layer of Canada's pre-seed and seed ecosystem. This is an investment in the operational infrastructure that makes private capital deployment possible at scale. Eligible recipients will include angel networks, pre-seed and seed stage funds, venture studios, emerging managers, and other early-stage investment infrastructure organizations.

Five Investment Pillars

Funding supports five capacity domains identified through stakeholder consultation as the primary constraints on ecosystem performance:

- **1. Human capital:** Executive directors, general managers, investment staff and regional leads to increase deployment velocity and deal quality.
- **2. Diligence and governance:** Standardized due diligence frameworks, sector expertise on retainer, and legal structuring support to reduce angel attrition and improve institutional credibility.
- **3. Technology and shared infrastructure:** Deal management platforms, CRM systems, portfolio tracking tools, and coordinated national licensing agreements to lower friction and standardize reporting.
- **4. Angel activation:** Structured multi-year education programs, lead mentorship cohorts, regional outreach campaigns, and SPV enablement infrastructure to expand Canada's active angel pool.
- **5. Regional growth:** Dedicated regional staffing, public and private partnerships, and investor activation to reduce founder out-migration, increase regional footprints and improve interprovincial syndication.

RFP Process

Competitive selection for operational funding will proceed through a structured national RFP. Evaluation criteria will weight demonstrated deployment capacity, investor activation mandate, audited financial transparency, and governance structures appropriate to fiduciary responsibility.

Accountability Framework

Five-Year Accountability Metrics	Target*
Number of angel and early-stage investment organizations benefiting from professionalization	125
Private capital mobilization multiple (per public dollar)	5x
Net new active investors and LPs onboarded nationally	10,000
Companies funded at pre-seed and seed stages	5,000
Survival rate to Series A	30% increase

**Targets informed by: NACO Report on Angel Investing in Canada (2020 - 2025), NACO & Startup Genome Report - Canada's Funding Gaps (2026), and outcomes reported during NACO's administration of the Southern Ontario Angel Community funding program in partnership with FedDev Ontario (2021 - 2025), information gathered during NACO's 9 month national consultation process with 250 industry organizations nationally (2025 - 2026)*

Metrics will remain fixed across the full five-year cycle to enable longitudinal analysis. Reporting will focus on capital deployed, companies funded, and economic outcomes. Granular expense tracking will not be required.

The Investment Case

Operational funding functions as a capital multiplier. Stabilized infrastructure will increase private capital participation at scale. With this infrastructure in place, matching programs and LP commitments will perform at higher levels. A five-year, outcome-driven Early-Stage Infrastructure Funding initiative will institutionalize Canada's angel and pre-seed infrastructure, professionalize 125 operators, and strengthen the effectiveness of the full \$750M early-stage envelope.

By extending professional early-stage infrastructure into every region of Canada and reducing founder out-migration, this initiative directly advances the One Canada and economic sovereignty priorities articulated in Budget 2025.

Appendix B — Joint NACO–CVCA Letter to the Minister of Finance

National Angel Capital Organization and Canadian Venture Capital and Private Equity Association, September 22, 2025.

Co-signed by Claudio Rojas (CEO, NACO) and Jeannette Wiltse (Board Chair, CVCA). Submitted to the Honourable François-Philippe Champagne, Minister of Finance, with copies to the Deputy Minister of Finance, the Parliamentary Secretary to the Minister of Finance and National Revenue, and the Chair of the House of Commons Standing Committee on Finance.

Hon. Francois-Phillipe Champagne, P.C., M.P.
Minister of Finance and National Revenue
90 Elgin St
Ottawa, ON K1P 5E9

September 22, 2025

Dear Minister Champagne,

We write to you as Canada's two leading voices representing the full spectrum of private capital: the *Canadian Venture Capital and Private Equity Association (CVCA)* and the *National Angel Capital Organization (NACO)*. Together, our memberships encompass over 450 organizations and 7,300 individual investors, including angel investors, venture capital firms, growth equity funds, and private equity firms that have collectively deployed billions of dollars into Canadian entrepreneurs and high-growth businesses.

This has tangible effects on the economy – private equity and venture capital investments support over 312,000 Canadian jobs^[1] – roughly the size of the natural resources sector. Venture Capital backed firms deliver 43% higher total factor productivity growth than comparable businesses^[2], which is of vital importance given Canada's productivity challenges.

The Government has also been a strong partner to our organizations and members. Since 2013, federal programs such as the Venture Capital Action Plan (VCAP) and the Venture Capital Catalyst Initiative (VCCI) have deployed \$840M in government commitments, mobilizing \$5.1B from all sources and supporting investment into at least 796 Canadian companies^[3]. This is important as government support can have a multiplier effect with investors.

Following our respective pre-budget submissions – recommendations from which we have attached in the appendix - we are writing this letter as a demonstration of our shared priorities and close coordination.

Our shared mandate is to align public policy with the needs of Canada's innovation ecosystem, fostering economic growth, job creation, and long-term prosperity for all Canadians. By reinforcing our aligned recommendations, we aim to ensure that innovative companies originating in Canada can access the funding needed to launch, grow, and remain in Canada—building the industries and technologies that will anchor Canada's economic strength and ensure the country is prepared to respond to emerging global and geopolitical challenges.

The Innovation Economy Is Canada's Economic Future

Canada is endowed with world-class research institutions, emerging leadership in strategic sectors such as artificial intelligence, defence and life sciences, and a generation of ambitious founders. But we are also constrained by a fragmented capital landscape that too often forces

^[1] [CVCA Intelligence, 2013–2024](#)

^[2] [CVCA White Paper, 2024](#)

^[3] [VCAP performance reports](#) and [VCCI performance reports](#) as of Dec 31, 2023.

our most promising companies to either relocate abroad or be acquired prematurely, taking jobs, intellectual property, and long-term value with them.

Public policy has a pivotal role to play in supporting entrepreneurs and investors at every stage of the capital journey, from the angel cheque that gets a company off the ground, to the venture capital funding that scales a global champion. When this continuum is coordinated and complete, capital flows efficiently, companies grow faster, IP and ownership remains anchored in Canada.

Why Canada's Innovation Economy Must Be a National Priority

1. Innovation Underpins Economic Sovereignty and Strategic Capacity

Canada's capacity to exercise economic sovereignty and meet complex global challenges is closely tied to its ability to develop and scale innovation in strategic sectors. Fields such as artificial intelligence, clean technology, life sciences, quantum computing, and defence technologies are increasingly recognized as areas of strategic economic significance. These sectors contribute not only to productivity and employment, but also to Canada's capacity to develop critical technologies domestically, reduce reliance on foreign innovation, and respond to emerging policy and security challenges with greater autonomy.

A strong domestic innovation economy ensures that the intellectual property, advanced capabilities, and high-growth firms within these sectors remain under Canadian ownership and leadership. Without targeted support, Canada risks ceding these assets to better-capitalized global leaders with more coordinated investment strategies.

2. Canada's Innovation Ecosystem Is Systemically Underfunded and Fragmented

Canada suffers from chronic gaps in early-stage funding and persistent fragmentation across regions and stages of capital. Seed and pre-seed VC investment in 2024 experienced their first decline since 2020, reaching their lowest levels since the pandemic — with \$510M in seed funding and \$99M in pre-seed, both significantly down in deal value and average deal size compared to recent years. The absence of harmonized innovation policy across Canada discourages capital mobility and limits scale. High-potential companies are stalling at key inflection points—especially when seeking Series A/B funding—leaving Canada vulnerable to premature exits, foreign takeovers, and the erosion of economic value. Coordinated action is needed to strengthen the full innovation capital continuum, ensuring a seamless path from ideation to global scale.

3. A Thriving Innovation Economy Delivers Outsized Public and Economic Returns

When functioning properly, the innovation economy acts as a national growth engine. It drives job creation, attracts private capital (including international investment), and turns public R&D spending into commercial success. Evidence from provincial tax credit programs and national

co-investment initiatives shows that every dollar of strategic public support can unlock multiples in private capital, generate sustainable employment, and build economic clusters across regions. But without the private capital infrastructure to match it, public investment stalls short of impact. Strengthening the innovation economy enhances the long-term impact of public investment by supporting the growth of high-potential firms across regions and sectors, and by generating sustained economic and societal returns over time.

Conclusion

Canada's innovation economy is a critical pillar of our future competitiveness, national resilience, and long-term economic prosperity. It enables the development of strategic industries, supports high-value employment, and ensures that Canadian intellectual property, talent, and technology remain anchored within our borders.


CVCA and NACO are aligned in a shared commitment to strengthening the full continuum of private capital. By advancing supportive policy initiatives and facilitating greater coherence between early-stage investment and later-stage growth financing, we can support the progression of Canadian companies from formation through scale, while retaining the economic value they generate.

As you prepare the Fall Budget, we ask that you recognize the importance of a unified capital strategy that spans the full innovation funding lifecycle. We stand ready to collaborate on the development of policy frameworks that reinforce Canada's leadership in innovation and enable sustainable, inclusive economic growth.

Sincerely,



Claudio Rojas
CEO
**National Angel
Capital Organization
(NACO)**



Jeannette Wiltse
Chair & Board Member
**Canadian Venture Capital
& Private Equity Association
(CVCA)**

CC: Chris Forbes, Deputy Minister of Finance Canada
Ryan Turnbull, Parliamentary Secretary to the Minister of Finance and National Revenue

Hon. Karina Gould, Chair, House of Commons Standing Committee on Finance

Appendix – CVCA Recommendations Submitted to FINA Pre Budget Consultation

Recommendation 1:

That the government deliver on the commitment to recapitalize the Venture Capital Catalyst Initiative (VCCI) program by \$1B, strengthening Canadian leadership and sovereignty in the innovation economy.

Recommendation 2:

That the government recommit \$1B towards a mid-cap sized companies fund to invest in homegrown companies, coinvesting alongside qualified private sector fund managers.

Recommendation 3:

That the government incentivizes investment in Canadian-domiciled early-stage companies through a 100% capital gains tax exemption on qualified startup equity, up to \$15 million and with a five-year holding period that extends to Limited Partnership structures. This incentive would level the playing field with competing markets, aligning Canada with the successful Qualified Small Business Stock (QSBS) exemption provided in the United States.

Recommendation 4:

That the government adopt an evergreen model for Venture Capital Incentivized Programs (VCIP), allowing reinvestment of the programs' exited proceeds back into the ecosystem and into strategic initiatives that can continuously leverage essential private-sector capital.

NACO Recommendations Submitted to FINA Pre-Budget Consultation

Recommendation 1:

That the government introduce an early-stage matching funds program, complimentary to VCCI, with a focus on national defence and dual-use technologies, totaling \$450 million into qualified private sector investment in the seed and pre-seed stages.

Recommendation 2:

That the government implement an investment of \$200 million in core operational funding to establish national infrastructure to activate private sector capital at the seed and pre-seed stages, leveraging existing organizations including angel networks and pre-seed VC funds.

Recommendation 3:

That the government introduce a capital-gains reinvestment deferral (“Canadian QSBS”) allowing investors to defer 100% of taxable gains when proceeds are reinvested within 12 months into qualified Canadian venture funds or private placements in strategic sectors.

Recommendation 4:



That the government implement a 30% refundable National Investment Tax Credit for qualified investments in Canadian-controlled venture capital funds and private corporations engaged in R&D and innovation in strategic sectors, harmonized with provincial credits to streamline incentives nationwide.

Appendix C — Venture Capital Action Plan Performance Metrics Report (December 31, 2023)

Innovation, Science and Economic Development Canada (ISED). Available at <https://ised-isde.canada.ca/site/ised/en/programs-and-initiatives/venture-capital-catalyst-initiative/program-results-and-impacts/venture-capital-action-plan-performance-metrics-report-december-31-2023>

Portfolio allocation across the four funds-of-funds

Table 3: Breakdown of direct and indirect investments by the funds-of-funds (as of December 31, 2023)

	Total commitments (\$M)	% of total
Direct investments in Canadian companies	197	85%
Direct investments in non-Canadian companies	34	15%
Total direct investments in companies	231	100%
Commitments to Canadian funds ⁴	941	85%
Commitments to non-Canadian funds	171	15%
Total fund commitments	1,112	100%

Appendix D — Venture Capital Catalyst Initiative 2017 Performance Metrics Report (December 31, 2023)

Innovation, Science and Economic Development Canada (ISED). Available at <https://ised-isde.canada.ca/site/ised/en/programs-and-initiatives/venture-capital-catalyst-initiative/program-results-and-impacts/venture-capital-catalyst-initiative-2017-performance-metrics-report-december-31-2023>

Portfolio allocation across the four funds-of-funds

Table 3: Breakdown of direct and indirect investments by the funds-of-funds (as of December 31, 2023)

	Total commitments (\$M)	% of total
Direct investments in Canadian companies	177.0	88%
Direct investments in non-Canadian companies	25.0	12%
Total direct investments in companies	202.0	100%
Commitments to Canadian funds ³	766.4	80%
Commitments to non-Canadian funds	189.5	20%
Total fund commitments	955.9	100%