Growing Canadian companies finding no VC investment is a 'wake-up call' for Ottawa

ANALYSIS

A robotics booth at the Collision conference in Toronto. Chris Young/The Canadian Press.

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The numbers in this week's Canadian Venture Capital and Private Equity Association (CVCA) quarterly report are stark if Canada ever wants to duplicate the home-grown success of Shopify: in the first three months of 2026, venture capital investment in Canadian growth-stage companies fell to a single deal worth roughly $1 million. A typical first quarter sees around $140 million deployed at that stage. The CVCA called it the lowest deal count in any quarter since 2017.

For John Ruffolo, founder and managing partner at Maverix Private Equity and a long-time voice on Canadian capital policy, the result was not a surprise. "Predictable," he told *The Hub*. "It starts with the capital pools funding the VCs. That is an early warning signal. When they really stopped a few years ago, you knew there would not be capital to deploy to entrepreneurs."

The broader picture is consistent with that warning. Total venture capital reached $936 million across 104 deals i[illegible]arlier-stage companies absorbed almost 70 percent of Q1 invest[illegible]a sharp reversal from last year's trend toward later-stage funding. Two-thirds of later-stage transactions are typically supported by U.S. or foreign capital, but that activity largely didn't materialize.

"Typically, we see more spread to the later stages," said David Kornacki, the CVCA's director of data and product in an interview.

Matt Cohen, managing partner at Ripple Ventures, believes the problem is structural rather than cyclical.

"The Q1 2026 collapse to a single $1 million growth-stage deal is not Canada catching a cold from a global slowdown," he told *The Hub*. "We never built the domestic capital base required to back companies as they grow. When American funds retreat, Canadian scale-ups have nowhere to land. That is a market structure issue."

Gerard Lucyshyn, a senior economist at the Montreal Economic Institute (MEI), said the collapse had been building for years, driven by compounding policy failures. "We had the uncertainty around the capital gains inclusion rate—the government said they were going to hike it, started collecting taxes on that basis, then reversed course," he told The Hub in a phone interview. "In the business environment, whenever you have that kind of uncertainty, investment sits on the sidelines. Nobody invests when they can't factor the rules into their risk calculations."

Some companies are finding workarounds. Xanadu Quantum Technologies, the Toronto-based quantum computing firm, went public on the Nasdaq and TSX earlier this year, raising $302 million in its IPO rather than continue seeking private backers. "It was going slow, to be honest," chief executive Christian Weedbrook told the *Globe and Mail*. "This is a race, so we need to move as fast as possible."

Budding startups are abandoning Canada

Others are voting with their feet. Late last year, Mai Trinh and Gabriel Ravacci—the Gen Z co-founders of Internet Backyard, a fintech startup —made national news when they relocated to the U.S. and incorporated in Delaware. Within one week of reincorporating, they closed a $4.5 million USD round at a $25 million USD valuation. For context: all pre-seed funding raised across Western Canada in the entire first quarter of 2025 totalled just $3 million USD. “You wake up one day, you realize your worth, and then you get out,” Trinh said.

This pattern is documented beyond anecdotes. A September 2025 study by Leaders Fund found that from 2015 to 2019, roughly 70 percent of high-potential Canadian-founded startups—those that raised at least $1 million—were headquartered in Canada. By 2024, that share had fallen to 32 percent, with nearly half of the most promising Canadian-founded companies now based in the U.S.

Ruffolo linked this migration directly to the capital gap.

“This is the rub,” he said. “They will have to go to other jurisdictions to get funding—the U.S. in particular. The risk to us is the departure of companies and entrepreneurs from Canada, and it’s already happening at the early stages.”

The signal from abroad has been equally pointed. Y Combinator (YC)—Silicon Valley’s most prestigious startup accelerator, whose alumni include Airbnb, Dropbox, and Coinbase—quietly removed Canada from its list of acceptable countries of incorporation in November 2025, effectively requiring Canadian founders to reincorporate in the U.S. before joining its program. YC reversed the decision in February after a backlash, but the episode crystallized what many founders already knew: serious capital has a few addresses, and Canada isn't one of them.

Government inaction could mean Canada loses more entrepreneurs

Lucyshyn warned the consequence of continued inaction was not merely slower growth but a structural hollowing out of Canada's innovation base.

"Innovation isn't a nationalistic thing—it's about where innovators want to reside and flourish," he said. "If you keep bumping up against regulation or tax disincentives, you pack up and leave. We see medical innovation flee south, software and IP flee south. If Canada doesn't improve its stance, what we're left with is a hollowing out of our innovation space, and that's very detrimental for the economy moving forward."

Ruffolo, who outlined his diagnosis of Canada's capital ecosystem in a Substack essay published this spring, argued the failure runs across every rung of what he described as a capital formation ladder, from angels and family offices through to pension funds and sovereign vehicles. Canada's pension funds, run by world-class investors collectively managing more than $2.4 trillion, have historically directed that capital toward foreign assets rather than domestic ventures.

The country also lacks a structural equivalent to the U.S. Qualified Small Business Stock (QSBS) regime, which lets investors exclude substantial capital gains when holding qualifying startup shares for five years. In his essay, Ruffolo argued that Canada had built powerful tax incentives for housing investment while leaving entrepreneurial capital—in many economists' view, the most productive form of risk-taking in an economy—largely unsupported.

Cohen's prescription aligns closely to Rufolo's diagnosis. He called for pension funds—the Canada Pension Plan Investment Board (CPPIB), the Ontario Municipal Employees Retirement System (OMERS), the British Columbia Investment Management Corporation (BCI), the Healthcare of Ontario Pension Plan (HOOPP), and the Public Sector Pension Investment Board (PSP)—to meaningfully increase their domestic venture allocations; dedicated Canadian growth-stage vehicles capable of leading Series C rounds; a QSBS-equivalent capital gains framework; and consistent policy signals that Canada is open to risk capital, which includes stopping "telegraphing tax changes that punish risk-taking."

"Founders and LPs are reading the signal that Canada is not competing for tech capital," Cohen said.

The federal government has committed $750 million for startup support and $1-billion in its rebranded Venture and Growth Capital Catalyst Initiative announced in the 2025 budget. The CVCA is pressing Ottawa to deploy growth capital toward funds capable of leading large investment rounds. One quarter, as Kornacki noted, does not predict a full year, and U.S. venture investment in Canada is beginning to recover.

But Cohen put the stakes plainly.

"Q1 2026 is a wake-up call we should have heeded five years ago. If this report does not move policymakers and institutional allocators, nothing will."

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