The Funding Playbook

A guide to help Ottawa founders navigate early-stage business financing.

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IO VENTURE PATH

There are generally two types of funding – and a hybrid – that you may receive in your startup's life.

Dilutive Funding

Dilutive funding involves the exchange and equity (shares) in the company for the money you receive.

- Common types include angel investment and venture capital.

Non-Dilutive Capital

With **non-dilutive capital,** you do not provide shares in exchange for the money. However, this type of funding isn't necessarily free.

- Common types include government grants and loans, bank loans, and venture debt.

There is also a **hybrid** option known as **convertible debt.** This begins as non-dilutive but eventually converts to dilutive over the company's lifetime. More on this here.

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There are trade-offs and opportunity costs with each type of funding. For example:

- If you wish to avoid dilutive funding and retain all ownership of your company, you may grow more slowly and *potentially* generate a smaller overall financial return.
- If you want to shoot for the moon and raise investment, you need to be comfortable sharing decision-making power and the eventual financial rewards.

Note: even if you are open to raising dilutive funding, it may not be an option. Your business may not be a fit for investment at its current stage (or ever).

Read more on that here.

Dilutive Funding and Non-Dilutive Capital

	Dilutive Funding	Non-Dilutive Capital
Pros	• You can often raise larger sums of capital, allowing you to accelerate growth. • Good investors provide support in the form of future follow-on capital, advice, and connections.	• You retain ownership of your business. You set the rules, make the decisions, and reap the financial rewards in full.
Cons	• You share the financial rewards. When you eventually succeed you do not keep 100% of the return. • You have more voices to listen to. Investors will often act as advisors or even take a seat on your Board, and they will have a say in major business decisions. • You take on legal fiduciary responsibility for the best interests of all stakeholders (not just yourself).	• You may find it difficult to raise large sums of non-dilutive cash (especially at the early stages) and therefore need to adjust growth expectations. • In the case of debt, you need to manage cash in order to pay the funding back at a later date. Some forms of debt even require a personal guarantee – putting your personal finances at risk.

Funding Stages

Funding rounds are the number of times a company raises capital.

A funding round should provide you with 12 to 24 months of “runway” or time before you need to raise further capital.

The startup world has its own lingo. You may hear terms like “pre-seed”, “seed” and many abbreviations and acronyms when discussing dilutive funding rounds.

What do these terms mean?

They correspond to the stages of a company’s lifecycle. As a company grows and requires larger sums of capital to continue, it moves to the next type of funding round.

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Funding Stages – A Visual

	Friends and Family	Angel/Pre-Seed	Seed	Series A	Series B+
Company Stage	Concept/Idea Some research done to validate the pain points or market viability	Minimum Viable Product (MVP) Customer discovery complete Founding team in place	Prototype Product in market Traction with customers	Product-market fit Recurring/consistent revenues Repeatable sales process	**Scaling** **Focus on capital efficiency**
Type of Investor	Your own network e.g., family, friends, and fools ;)	Angels/angel groups, some VCs	Angel groups, VCs	VCs	VCs, private equity firms, investment banks
Typical* Round Size	$10k - $200k	$250k - $1M	$1M - $5M	$3M - $15M	$10M +
Typical* Valuation	<$1M	$1M - $3M	$3M - $10M	$10M - $50M	$100M +

**These are typical – each company's circumstances are unique and will dictate round size/valuation.*
***A company can raise as many rounds as they need before exiting. After Series B, round sizes continue to grow and follow the letters of the alphabet (e.g., Series C, Series D).*

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IO TIP

1. Consider your long-term vision and your risk preferences when deciding on a financing path. How fast and how big do you want your company to grow?

2. Ensure you and any co-founders are fully aligned when it comes to dilutive and non-dilutive capital options.

3. Unsure, confused, or simply looking for a sounding board about financing with dilutive or non-dilutive funds? Speak with an Early-Stage Advisor for expert guidance.

Getting Started:

Funding your Bright Idea

Bootstrapping – First Principles

IO VENTURE PATH

Taking on personal debt for your startup typically makes sense only when you are bridging a cash shortage and there is a very high probability of a near-term grant, revenue, or a cash injection of some kind.

Borrowing money just to build a product is not a good idea. Taking on debt without strong customer traction or insight on demand, customer acquisition costs, or the profit model is likely an unnecessary risk.

Building your startup will take longer than you think, so you need to be strategic in managing your personal finances to see the opportunity through. It can take years to build a brand and a scalable product and establish product market fit.

Most startups that do succeed in getting traction and revenue don't see high growth for years. Even when you've established initial revenue and break even, debt may undermine your startup's ability to survive long enough to see high growth.

Running a startup is stressful enough given the opportunity cost. You typically are not paid for your efforts early on and that can create a cash crunch. Taking on personal debt compounds this issue and can lead to founders making less strategic decisions.

Trying to raise capital with debt on the balance sheet can be problematic. Most early-stage investors want their funds used for growth, not to pay off debt. Debt can be seen as a red flag if the debt is perceived as the primary reason a founder is trying to raise capital.

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Bootstrapping – Credit

If you need to bridge cash to your startup, an easy way to access capital is to cover expenses using a line of credit (LOC) or low-interest credit card.

This option is viable only if one of the founders has good credit and is willing and able to use it.

Credit is a workable option if you are looking for less money upfront and see a path to repaying the debt.

Founders need to discuss the repayment obligations should the debt not be personally guaranteed by all co-founders.

Pros:

- Access to revolving credit (you can pay down the debt and continue to access more credit, as opposed to a traditional loan that requires an application each time you need more cash)
- May improve your credit score (if payments are made on time)
- Access to perks and rewards programs with discounts on travel, cash-back, etc.
- Can aid in record-keeping
- No equity dilution

Cons:

- It's debt – you must pay it back
- Can negatively affect your personal credit score
- Can reduce your personal buying power
- The cost of high interest rates
- Low limits (typically up to ~$50,000 available in credit)
- Can lead to personal bankruptcy

How to Bootstrap

- Firstly, what do you really need cash for? Focus on a milestone or metric required to advance the business and put off other non-mandatory expenses. For example, getting a letter of intent from a customer may not require any cash.
- Get paid by the first customer to build the product. While it may be more of a custom product than a scalable product, it allows you to build your product's foundation while getting paid and learning about the value it provides.
- For B2B, do the work manually and don't over-rotate on the technology or on building a scalable product. Act as an "agency as a service" to get started, generate revenue, and use this cash to help build a product that replaces the people required to deliver on the service obligations.
- For B2C, presell a limited beta with a premium, exclusive offering of long-term value.
- Its ok to have a job, pursue a job, or take on unrelated contract work after you have founded your startup. It does not represent a lack of commitment or failure if you need to take on work. This income buys you time to see your startup through, and there are numerous examples of successful founders who have chartered the same paths.
- If you have taken an investment, having a second job is not ideal for investors, though neither is the alternative: running out of personal runway and abandoning the venture. Investors will get over it when you are successful, and you'll need as much time and runway as possible to be successful.

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IO VENTURE PATH

IO TIP

1. ***Extremely important:*** **Before you invest substantial personal funds in product development, ensure you have clearly validated the customer pain and have ideally achieved some form of "message-market fit."**
    - **To do so, you may need to use limited $s to develop a prototype or undertake minimal digital marketing to interact with your target audience.**
    - **The key is to keep things lean. Read The Lean Startup by Eric Ries.**

2. **Speak with your Early-Stage Advisor (ESA) before investing significant funds in the business or taking on debt.**

3. **Finally, *if and only if* you have done this homework and have true validation to move forward, work with IO to connect you with our Partners at RBCx to discuss credit options.**

Friends and Family – Best Practices

Raising a small amount of funding from friends and family (F&F) can be an effective way to secure the initial capital you need to advance your business beyond its earliest stages. It's important to be careful in this process to maintain healthy relationships along the way.

- Be transparent: Ensure your F&F are truly prepared to lose the funding they have provided. Have open and honest conversations about the financial risk involved.
- Have a plan and ideally some level of initial traction. This will mitigate some of the risk and help you avoid having to circle back for more funding to see the opportunity through.
- Seriously contemplate how raising funds from these individuals might impact future relationships — even if it means saying no to willing participants. As much as your family loves you, this is not the place for grandma's pension fund. It is ultimately the founder’s duty to protect F&F investors from themselves.
- You will want to keep this process as professional as possible. At the venture's earliest stage, amounts from each party should be ideally limited to $5 - $10k.
- Establish clear terms: Convertible debt is usually the best option as it eliminates the need to determine valuation and often outlines a plan to pay back the money.
- Show the respect and professionalism you would future investors keeping F&F informed on progress and responding to their questions and concerns.
- If you can invest you may do so but, if it's not feasible, consider foregoing salary for some time to demonstrate your commitment (i.e., "sweat equity").

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IO TIP

1. Ask IO staff for help drafting your initial legal documents. Our legal partners can have a free consult with you and provide templates for common docs such as a Shareholder's Agreement or a Convertible Note.

2. The National Angel Capital Organization (NACO) has created free draft templates of the most common fundraising docs – see them here.

3. Leverage the IO Slack network to get peer feedback on raising funds from friends and family. We have many clients who have gone this route and have success stories — or horror stories — to share.

Taking Off 🚀
Raising Investment
(Dilutive Funding)

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What is an Angel?

Angels are high-net-worth individuals (known as "accredited investors") that invest their personal funds in early-stage ventures. They are typically motivated by:

- Potential for financial return.
- Desire to mentor entrepreneurs and give back to their communities.
- The opportunity to learn something new and be exposed to innovative tech.

What is an Angel Network?

An angel network is a collection of individual angels who have joined forces. Finding and evaluating deals can be difficult and time-consuming, so banding together as a collective group allows them to:

- Save time and effort finding companies and performing due diligence by sharing the work.
- Benefit from one another's knowledge/areas of expertise.
- Diversify their individual portfolios by writing smaller cheques on an individual basis while pooling their capital to purchase an appropriate stake as a group.
- Gain greater leverage when negotiating terms of the deal (than if they were operating solo).

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Things to keep in mind

Should you raise from solo angels or through a network?

- If you are a well-networked serial founder, you may have success raising money from individual angels one by one.
- In most cases, working through organized angel networks is a better fit for busy founders. By following a single process, you can gain access to many angels and the due diligence process and pitch processes are streamlined.
- Consider your stage as well. Generally, solo angels may be willing to invest in an idea whereas organized groups prefer to see a product and market traction.

Geographic considerations

- Most angels invest in companies located in their city/region — they like to be close to their portfolio firms so they can stay updated and provide mentorship. Keep this in mind when generating your fundraising strategy.
- There are regional differences when it comes to cheque size and risk profile. A Silicon Valley angel may be willing to write a $100k cheque on an idea. But most Canadian investors want to see a product developed and some traction before making commitments.

Level of involvement

- Angels have personal preferences for portfolio management. Some sit back and wait for the returns to roll in while others want to have a very hands-on role as a trusted advisor.
- Make sure you know what type of angel you are dealing with. If you are taking money from angels who want to be actively involved, ensure they have the experience, connections, and expertise to help (rather than hinder).

IO TIP

1. You never know where you'll meet an angel. Fun fact: One of our IO Accelerator firms once raised angel funds by striking up a conversation with a random stranger on the train. Have a solid elevator pitch at the ready-to-take advantage of moments of serendipity.

2. Attend our Ignition Pitch Finale events (one/quarter) to see elevator pitches in action and learn what works.

3. If you land a meeting with an angel, do your homework on their background. Look for any personal details you can draw on to build rapport. Did you go to the same university? Have kids the same age? Similar philanthropic interests? Angels often make emotional decisions so focus on building a human connection and fostering trust.

4. Although getting to your first angel can be tough, use the power of network to speed up the overall fundraising process. Ask each angel you meet for another introduction. High-net-worth individuals often run in the same circles.

Angel Groups to Know

Capital Angel Network (CAN)

The largest group of angel investors in the Ottawa-Gatineau region (70 members).

IO VENTURE PATH

CAPITAL ANGEL

SECTORS	STAGE	AVG CHEQUE/ DEAL SIZE	KEY CONTACT
Agnostic, open to software and hardware opportunities.	Angel/pre-seed rounds of $500k - $2M, typically like to see companies have a prototype developed and early revenue.	$25k - $200k	Suzanne Grant, Executive Director suzanne@capitalangelnetwork.ca

Investment process

- Firms can submit an online application anytime, monthly review cycle
- Applications are pre-screened and 6 are invited to present at a screening meeting
- CAN members meet 9x per year and select 2-3 companies to pitch at each session for investment

To date: $65M investment deployed in 170+ companies

In 2022, CAN deployed $5M into 26 companies (1 based in the Ottawa-Gatineau region).

Of 2022 deployment, 8 were new investments and 14 were follow-on (in existing portfolio).

IO companies that have raised from CAN: Hoppier (2018), Tablz (2019), Neurovine (2019), Realize Medical (2021), Hyperion (2021), LearnExperts (2021), Spiderwort (2020/2022) and many more!

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Fresh Founders

An exclusive, invite-only, mastermind group of founders, CEOs, and high-impact individuals who are out to change the world. 182 members and is expanding in Ottawa, Toronto, Montreal, Vancouver, and Miami.

SECTORS	STAGE	AVG CHEQUE/ DEAL SIZE	KEY CONTACT
Information technology, fintech, SaaS, Web3.	Angel/pre-seed rounds of $500k - $5M.	$35k - $100k	Solon Angel solon@FreshFounders.com

Investment process

- Company reaches out to dustin@FreshFounders.com with ask and pitch deck.
- Preliminary Analysis is conducted by chatting through email.
- If promising, in-depth due diligence is performed including a 90-minute call with the founder and additional research to create an Investment Memo.
- Partners meeting held to discuss Investment Memo, followed by a final round of due diligence.
- Partners make their decision and the term sheet is sent out.

Fresh Founders invests in unique resilient founders with scar tissue from previous ventures and are humble enough to have real dialogue. They must have a good understanding of the founder before investing.

To date: $2.1M investment deployed in 12 companies. In 2022, Fresh Founders deployed $1.2M into 7 companies (1 based in the Ottawa-Gatineau region). Of the 2022 deployment, 6 were new investments and 1 was a follow-on. 0 were led by Fresh Founders.

IO companies who have raised from Fresh Founders: Hoppier.

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Archangel Network

A portfolio of four angel funds based in Ontario.

ARCHANGEL FUND

SECTORS

Each fund has a different sector focus. See below.

STAGE

Angel/pre-seed stage

AVG CHEQUE/ DEAL SIZE

$100k - $300k

KEY CONTACT

Ehsan Mirdamedi, General Partner, ehsan@archangelnetwork.ca

ArchAngel is a network of several angel stage investment funds:

- Adrenaline Fund: Passively co-invests with experienced angels – rather than actively seeking deals, Adrenaline follows other angel groups (specifically GTAN out of Waterloo region).
- Axion Fund: Focus on companies with unique IP, and assists in commercialization of ideas generated within universities and innovation centres. This fund also has a focus on firms based in (or willing to relocate to) Northern Ontario.
- StarForge Fund: Focus on B2B companies operating in the technology, sustainability, health sciences, and smart manufacturing industries.
- Phoenix Fire Fund: Focus on women-led opportunities in technology, sustainability, health sciences, and smart manufacturing industries.

Fresh Founders invests in unique resilient founders with scar tissue from previous ventures and are humble enough to have real dialogue. They must have a good understanding of the founder before investing.

To date: $2.1M investment deployed in 12 companies. In 2022, Fresh Founders deployed $1.2M into 7 companies (1 based in the Ottawa-Gatineau region). Of the 2022 deployment, 6 were new investments and 1 was a follow-on. 0 were led by Fresh Founders.

IO companies who have raised from Archangel: None (yet!)

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Anges Québec

The largest group of angel investors in Canada (200+ members).

SECTORS	STAGE	AVG CHEQUE/ DEAL SIZE	KEY CONTACT
Agnostic: Open to software and hardware opportunities. See detailed eligibility criteria for each sector here.	Focused on seed rounds, with some interest in pre-seed rounds in deep tech companies.	$750k to $2m Average of $500k coming from Anges Québec angels	Caroline Pelletier, VP Investment, caroline.pelletier@angesquebec.com

Investment process

- Firms can submit an online application (pitch deck) anytime and application are pre-screened by staff.
- Select opportunities are evaluated by a small group of angels familiar with the sector.
- Preliminary due diligence is completed and, if successful, entrepreneurs are invited to pitch the network.
- Final due diligence is performed, term sheet provided, and closing.
- While there are formal pitch evenings 6 to 7 times a year, they are not required to pitch Anges Québec's angels. Opportunities are centralized on a platform and presented to members according to the best timing for that specific deal.
- Anges Québec works in collaboration with the venture fund AQC Capital, which has as its thesis to coinvest with angel investors.

Potential additional $250k to $750k from partner fund AQC Capital.
Although based in Québec, open to deals in the Capital region due to proximity.

To date: $132M investment deployed in 196 companies. In its fiscal year ending June 30, 2022, deployed $19.5M into 48 companies. Of 2022 deployment, 15 were new investments and 33 follow-on.

IO companies that have raised from Anges Québec: Trexity (2022, Anges Quebec co-led), Spiderwort (2020/2022)

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Venture Capital

What is a Venture Capitalist (VC)?

Unlike angels that invest their own personal money, VCs are professional money managers that invest other people's cash.

- They usually come in after angels (later stage).
- They have an "investment thesis" which guides their decision making — for example, a preference for a specific stage of company, specific sectors of interest, etc.
- They are always motivated by financial return and sometimes motivated by:
  - Economic development (particularly if their funding comes from government sources).
  - Strategic considerations (particularly if their funding comes from a specific corporation).
- Compared to angels, VCs tend to have a more structured diligence process, take a longer time to close, write larger cheques, and take a more active role with their portfolio companies (i.e., board seat).

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How does a VC firm operate?

A VC firm involves two key groups: Limited Partners (LPs) and General Partners (GPs).

Limited Partners (LPs)

- Provide the money to be invested (pension funds, corporations, family offices, etc.) but otherwise are not involved in day-to-day operations.
- LPs specifically look to venture capital as a private asset class that can achieve outsized returns when compared to the public markets.
- They know venture capital involves higher risk but also the potential for higher reward.

General Partners (GPs)

- They are money managers working on the investment process day to day.
- Like LPs, GPs must fundraise too. They pitch to LPs and ensure commitments to form a "fund"— the pool of money that they will use to make investments.
- There is a lifecycle and a strategy for each fund. Most funds have a lifespan of five to 10 years and a plan to deploy capital into new deals for the first few years of that life before shifting strategy to provide follow-on capital for the remainder.
- Their goal is to generate a financial return by the end of the lifespan — this usually occurs when a company "exits" by either going public or being acquired.
- Returns are then split between LPs and GPs (usually 80/20).

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Venture Investment – Common Terminology

- **Data room:** a virtual collection of documents, research, and information pertaining to your business. Investors will use a data room to perform due diligence — gaining a full understanding of the investment opportunity and ensuring everything is in order.
- **Common shares:** A type of stock typically held by founders and employees. They typically come with a set of minimum rights such as the right to vote on decisions made by the company.
- **Preferred shares:** A type of stock typically held by investors. They come with certain privileges/benefits over common shares, like being the first in line to receive a return or payout.
- **Pre-money valuation:** the value of your business before a round of investment is closed.
- **Post-money valuation:** the value of your business after a round of investment is closed (pre-money valuation + the size of the investment).
- **Capitalization table/cap table:** a spreadsheet or document that outlines the equity structure of the company, who the shareholders are, how many shares/what type of shares they own, and the share price paid by each party.
- **Burn rate:** The rate at which a company is spending cash/losing money (typically expressed in $ per month).
- **Runway:** the amount of time a company can operate until it runs out of money (typically measured in # of months)
- **Dry powder:** In the venture world, this refers to the amount of unallocated capital a firm has on hand waiting to be invested.

IO TIP

1. While pitching investors, be mindful of the fund lifecycle. If they are amid raising a fund, it might be a terrible time to try and get a cheque written.

2. They may not be forthcoming with this information. They likely want to keep you on the back burner for when they can eventually deploy capital — but this is wasting your time!

3. Leverage IO's Market Insights investment services for intel — we can pull a VC's Pitchbook profile which will include information on their dry powder/fund status.

VC Math or "Why do VCs chase unicorns?"

- There is often an inherent difference between a founder's idea of "success" and a VC's expectations.
- For example, if you turn $10M into $100M, that's a 10x return! Certainly, something to be proud of, but it may not impress a VC.
- Don't forget that VCs have investors too (i.e., LPs).
- VCs need to achieve a 2 - 4x return on their fund to keep their jobs.
- It's also a high-risk asset class — most startups will fail. They are depending on just a few winners to generate the return they need.
- Also, consider ownership and dilution: VCs only get a portion of each exit (relative to their portion of equity).

Example of VC Math

- InvestNottawa is a Series A investor with a $100M fund.
- At the end of the fund term they need to return $300M (3x).
- The firm targets a 10% ownership stake in their portfolio firms.
- Therefore, they need to see $3B in total exit value (10% of $3B = $300M).
- They invest in 20 companies.
- For simplicity's sake, let's assume the firm invests enough in future rounds to maintain their "pro rata."

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InvestNottawa: Two Potential Scenarios

Fund size: $100,000,000.00

Scenario 1	
10 companies fail	$ -
5 companies exit for $50M each	$250,000,000.00
5 companies exit for $100M each	$500,000,000.00
Total exit value	$750,000,000.00
Investor's portion	$75,000,000.00
Portion of fund returned	75%

Scenario 2	
15 companies fail	$ -
4 companies exit for $400M each	$1,600,000,000.00
1 company exits for $1.5B	$1,500,000,000.00
Total exit value	$3,100,000,000.00
Investor's portion	$310,000,000.00
Portion of fund returned	310%

- Even though more companies fail overall in Scenario 2, the outcome is much better for the fund.
- While $100M exit might seem amazing to the founder (and it is!), it doesn't work for most VCs.
- Knowing that most bets will fail, investors need to look at each individual opportunity and know that it alone has the potential to return the fund.
- This is why investors chase unicorns. It's not personal, it's just math.

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IO TIP

1. Don't get caught up in the hype. VC-backing is not the end-all and be-all of startup success.

2. You could have a fantastic idea and business BUT if you don't have the potential to meet these VC return expectations, don't chase venture capital.

3. Have a potential Total Addressable Market (TAM) of $1B+ and opportunity to generate $100M annual revenue? You could be a fit for VC. If not, pursue other forms of funding.

4. Need help estimating your TAM? Leverage IO's Market Insights business environment research service.

5. For help with forecasting future revenues, talk to one of IO's Finance Advisors.

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VCs to Know

MaRS Investment Accelerator Fund (IAF)

Leading seed stage fund for firms based in Ontario.

SECTORS

IT, healthtech, and cleantech with a minimum addressable market size of $100M

STAGE

Seed rounds of $1M - $4M

Typically like to see companies close to commercialization/product has been built and early market traction

AVG CHEQUE/ DEAL SIZE

$500k

Maximum total investment per company: $1.5M

KEY CONTACT

Emil Savov, Managing Director, esavov@marsdd.com, based in Ottawa

Elisha Krauss, Senior Investment Associate, ekrauss@marsdd.com, based in Toronto

Investment process

- Applications are accepted via IAF website and through contacts and referrals.
- Screening/Due diligence is performed.
- There is an Investment Committee (comprised of external members of the VC community) that meets once a month to approve deals.

Funding Activity:

- Current fund size: IAF is an evergreen fund. It typically deploys between $5M - $7M per year.
- Investment to date: $85M deployed in 175+ companies. IAF is one of the most active early-stage VCs in Canada ranked consistently by the Canadian Venture Capital Association in the top 10 by # of deals.
- Investment in 2022: $5.5M deployed into 22 deals.
- Of 2022 deployment, 7 were new and 15 were follow-on.

Some IO companies that have raised from MaRS IAF:
Mindbridge (2017), Raven Connected (2018/2020/2022), Welbi (2019/2020/2022), LearnExperts (2021)

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Graphite Ventures

Graphite Ventures was spun out of MaRS IAF in 2021; the former MaRS IAF team now leads Graphite (although MaRS IAF lives on). For companies headquartered in Canada.

Graphite Ventures

SECTORS

B2B/Enterprise

Sectors of interest: SaaS, fintech, digital health, proptech, and capital efficient hard ware.

STAGE

Seed rounds of $1.5M - $4M

Typically like to see companies have a product in-market (including paid pilots) and generating revenue that provides proof points supporting the long-term vision and are showing early signs of product market fit

AVG CHEQUE/ DEAL SIZE

$500k - $1M

cheques at the entry point of seed with reserves for follow-on in subsequent rounds

KEY CONTACT

Lance Laking, Managing Director & General Partner, lance@graphitevc.com

Kevin Madill, Partner, kevin@graphitevc.com

Investment process

- Companies can reach out to hello@graphitevc.com with a summary of their business and pitch deck.; however, it is preferred to have a warm intro from one of Graphite's trusted partners, including Invest Ottawa.
- Investment team reviews deck to ensure fit and interest in the opportunity.
- Company meets with the larger investment team and then deeper diligence, including reference calls with customers, partners etc., is performed.
- Screening process is designed to be mindful of founder's time while understanding that the relationship being formed is one that is long-term and built on foundation of trust/collaboration. Graphite aims to add value to the company throughout the process through transparent feedback and sometimes value-add introductions (to potential customers/partners/investors).
- Final investment decision is made by Graphite Partners on the strength of the opportunity and alignment with overall thesis.

Funding Activity:

- Current fund size: $110M
- Investment to date: $21M deployed in 23 companies
- Investment in 2022: $11.5M deployed into 17 companies (2 based in the Ottawa-Gatineau region).
- Of 2022 deployment, 8 deals were new (seed stage) and 9 were follow-on in existing portfolio. Graphite led 6 of these deals.

Some IO companies that have raised from Graphite Ventures
Welbi (2022) and Raven Connected (2022).

Note: As Graphite is a spin out of MaRS IAF, here are other IO companies that have raised from the Graphite team while they were part of MaRS IAF: Mindbridge, LearnExperts, You.i TV, MASV, Spoonity, Rockport, and Cybernetiq.

Mistral Venture Partners

Seed stage VC based right here in Ottawa. Open to deal flow across Canada& the US.

SECTORS

Enterprise software, AI for enterprise, marketplaces

STAGE

Pre-seed & seed

Typically like to see companies have a product in-market and generating early revenue ($0 - $200k MRR) and they provide targeted support to find product-market fit

AVG CHEQUE/ DEAL SIZE

$1M - $5M

Over the life of the company

KEY CONTACT

Raif Barbados, Partner,
raif@mistral.vc

Investment process

- To apply, it's best to get a warm intro from someone the Mistral team knows, like Invest Ottawa!
- During screening/due diligence, Mistral wants to get comfortable with the team, technology, strategy, vision, financials, and product—they get this through several calls/meetings and research.
- To make investment decisions, internal Partners vote at two points in the process to indicate interest in performing DD and then to commit to a deal.

Funding Activity:

- Current fund size: $55M
- Investment to date: Investment deployed into 17 companies.
- Investment in 2022: Investment deployed into 5 companies.
- Mistral leads nearly all their investments.

IO companies that have raised from Mistral Venture Partners:
Giatec (2014), Klipfolio (2014/2015/2017), Foko Retail (2015/2016/2017), Relogix (2018/2019), Rewind (2020/2021), and Nook (2022).

Panache Ventures

Canada's leading nationwide pre-seed venture fund.

IO VENTURE PATH

PANACHE VENTURES

SECTORS

Agnostic

Open to both software and hardware opportunities though ~80% of activity is in software

STAGE

Pre-seed & seed

No minimum traction required but do like to see at minimum an MVP and early customer discovery to validate the pain/solution.

AVG CHEQUE/ DEAL SIZE

$250K - $1M

KEY CONTACT

Prashant Matta, Partner, prashant@panache.vc

Sarah Willson, Associate, sarah@panache.vc

Investment Process:

- Companies can apply online here.
- Screening/due diligence process is about three weeks from first meeting to deploying capital. Typically, the process involves a first meeting to confirm fit, then subsequent calls/due diligence questions/references, meeting the entire team on both sides to ensure mutual fit, and legals/wiring funds.
- How investment decisions are made: At investment committee meetings, the Panache team always focuses on the following:
  - Are the founders are uniquely positioned to build the business?
  - Can the business can become venture scale ($100M ARR)?
  - How is the platform/product is being used today?
- You can read more about the Panache decision-making factors here.

Funding Activity:

- Current fund size: $100M
- Investment to date: Funding deployed into 120 companies over the last 4.5 years out of two funds ($58M Fund I and $100M Fund II)
- Investment in 2022: Funding deployed into approximately 15 companies
- Of 2022 deployment, ~75% were new investments and ~25% follow-on. Panache led about 60% of these deals.
- Of 2022 deployment, how many deals did you lead?

IO companies that have raised from Panache Ventures:

Masterpiece Studio (2018), Redock (2018), and GoFor (2020).

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Inovia Capital

Inovia is one of the largest Canadian VCs, supporting founders from pre-seed to IPO and beyond. The firm manages US$2.2B AUM across 9 funds, including a Venture stage fund. Focus on companies HQ'd in Canada but do some pre-seed in Europe.

inovia

SECTORS

B2B and B2C SaaS

Focus on tech transforming commerce, digital health, future of work, cybersecurity, travel and hospitality, Dev Ops/Infra, supply chain, LLM

STAGE

Pre-seed to Series A

AVG CHEQUE/ DEAL SIZE

US$100k – $250k for pre-seed

US$1M - $5M for seed

US$5M - $15M for Series A

KEY CONTACT

Kelly Jacques, kelly@inovia.vc, based in Montreal but covering Ottawa region

Investment Process:

- Inovia invests in Canadian entrepreneurs with global ambitions, a large potential market, a strong moat and seasoned executive teams.
- The team engages in weekly evaluations of each opportunity that undergoes screening.
- Screening: Initial introduction to a potential company of interest.
- Evaluating: Senior team member/partner validates the deal and joins a follow-up call.
- Due Diligence: Comprehensive review of the company's data room and key information.
- Partner Pitch: Management team presents their business plan to the entire venture team.
- Term Sheet: Agreement reached on proposed investment terms and conditions.
- Final Diligence and Closing: Last checks are conducted, and the term sheet is signed to finalize the deal.

Funding Activity:

- Current fund size: $325M USD, raised in 2022.
- Investment to date: 9 companies.
- Investment in 2022: 8 new deals and 5 follow-on rounds in existing portcos (0 based in Ottawa-Gatineau).
- Of 2022 deployment, Inovia led 7 of the 8 new deals.

IO companies that have raised from Inovia Capital:

Fellow (2019 & 2021) and Rewind (2021).

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Other Investors to Know

For Deep Tech Firms

Life Sciences/MedTech:

Amplitude Ventures — Precision-healthcare fund interested in various areas across the therapeutic platform domain including cellular therapies, advanced biologic therapies, and drug discovery. Invest at a range of stages from pre-commercialization to pre-IPO.

Lumira Ventures — Leading life science focused VC. Open to early, clinical, and revenue-stage companies in the biotech, medtech, digital health, and consumer health sectors.

Genesys Capital — Focus on biotech, pharmaceuticals, and medical technology.

CleanTech:

BDC Climate Tech Fund — Late-stage seed to growth stage VC fund with a focus on hard tech (capital intensive) with defensible IP and ability to materially reduce GHG emissions. Invest across a few verticals including electrification, carbon capture/utilization/conversion/sequestration, agtech, and foodtech.

Cycle Capital — Manage investments via six different funds with a focus on clean energy/smart cities tech, circular innovation, green chemistry, and sustainable agriculture.

General Deep Tech:

Boreal Ventures — Pre-seed and seed investments in companies with cutting edge innovation in medtech, healthtech, artificial intelligence, semiconductors, cleantech, watertech, industry 4.0, IoT and connected objects. Although focused on Quebec firms, 20% of fund is allocated outside of QC.

Innovobot Resonance Ventures — Seed investments in "deep tech for good" — particular focus on robotics, AI, IoT, advanced materials, and human machine interface (HMI) opportunities. Technology should also have environmental and/or social benefits.

Amplify Ventures — Pre-seed and seed VC, focus on tech with social and environmental impact in three key sectors: health, climate, and education. Open to software and hardware, but don't pursue anything with heavy regulatory barriers.

BDC Deep Tech Fund — Seed and Series A investments in deep tech verticals like quantum, photonics, electronics, advanced materials, and AI.

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For Female Founders

SheBoot – Originally founded by Invest Ottawa & Capital Angel Network, SheBoot is a consortium of women angels that run programming and provide investment to women-led firms across Canada. Investment is provided at the end of an annual bootcamp and startups could win up to $300k in angel funding.

Backbone Angels – A collective of women in tech (who found each other working at Ottawa-founded Shopify) that provide angel funding to early-stage firms (tech and non-tech) in a range of sectors. Backbone has a focus on supporting under-represented founders (women and non-binary, BIPOC).

StandUp Ventures – VC fund that makes investments primarily at the seed stage. Sector-agnostic but do have a particular affinity for B2B SaaS, healthtech, and biotech.

BDC Thrive Fund – VC fund focused on opportunities at the seed and Series A/B stages. Sector agnostic, open to both B2B/B2C firms and lean toward software.

Accelia Capital – Pre-seed and seed VC fund based in Quebec but open to deals across Canada. Preference for software and will do some hardware but nothing too capital intensive/biotech.

The51 Ventures – Seed VC fund, also does some Series A and pre-seed on occasion. Sector agnostic but preference towards cleantech, agtech, healthtech, and fintech.

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Strategic Investors

- In addition to VCs that invest primarily to generate a financial return, you may encounter strategics.
- Strategic investors can be customers, partners, suppliers, etc., who look to invest in startups developing technologies that are complementary to their own business.
- The investment might be done via a formal investment vehicle (i.e., corporate venture capital fund) or an alternative structure (investing off the balance sheet on a case-by-case basis).
- These investors often have different drivers than a traditional VC. For example:
    - They may have first-hand experience with the problem you are solving and a vested interest in seeing the solution succeed.
    - Your technology could be integrated to enhance the value of their solution.
    - They may see your business as a long-term M&A target for their parent company to fold in (and capture more market share).
- They often bring industry-specific networks, expertise, customers, distribution, and other capabilities to the relationship.
- **Note of caution:** Although strategics can be an excellent partner, they also present a natural conflict-of-interest. The strategic could influence your ability to sell to their competitors, limit your market potential and, in turn, your valuation. The nefarious upside for them — your business is now cheaper for them to acquire! Legal counsel is your friend in these situations.

The Correct Time to Raise Investment

- It's important to remember that VCs are professional investors whose full-time job is to deploy capital and seek an oversized return.
- As much as the founder may want to raise funding to provide a salary for themselves or pay back founder debt, the investor generally does not care about these things.
- The correct time to raise external funding is when you can see an inflection point in your business from the funding. The funding is meant to accelerate your business and your investor will expect to see this. They will push you to spend the money to achieve growth.
- If, for whatever reason, you do not have a way of achieving acceleration with this funding, it is probably best not to take the investment as your life could get very uncomfortable.
- To make matters more complicated, venture investment markets go through times of hot and cold activity like the public markets. You may find yourself requiring capital at a time when VCs are holding back on new deal activity and have a much more difficult time raising funds. These moments can be hard to predict as they include unforeseen events like the COVID-19 pandemic in early 2020).
- Be sure you manage your runway carefully because times can change quickly! Start fundraising well before you think you will run out of cash.

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Finding a Lead

- A **lead investor** is the first secured investor and often the largest investor ($) in a round. They are critical because they:
  - Are a signal of confidence to other investors and a potential reference.
  - Establish terms for the round reducing time spent haggling with other investors.
  - Can provide introductions to other investors.
  - Can provide guidance and support even before a round closes.
- The bottom line: securing a lead investor is often the most time-consuming part of fundraising, but once you have a lead, the rest of the round tends to close faster.
- Some investors have a consistent preference for leading/following. In the early days of fundraising, ensure you know which investors are willing to lead and which are not (hint: you can just ask them!). This lets you prioritize your time and effort accordingly.

How does the Fundraising Process Work?

IO VENTURE PATH

With most equity investors, you can expect the process to include the following stages:

Deal sourcing/ networking	Screening	Due Diligence	Term Sheets (Valuation)	Formal Investment Committee	Closing	Continuing relationship – Board direction and support

This process can take anywhere from a few days (not typical) to the better part of a year (much more common). The speed depends on many factors like the type of investor you're dealing with, the amount of money you are seeking, the strength of your business opportunity and network, and macroeconomic conditions.

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Getting Your Foot in the Door

Deal sourcing/networking:

This involves generating a list of investors that you want to meet/contact. You should focus on building leads just like you would with customers: ensure the investor is a potential fit (make sure you aren't pitching something they would never fund), utilize warm referrals from mutual contacts where possible, and get comfortable with cold calling.

Your goal is to reach out to many potential investors as you will likely receive a lot of "NO"s which is normal and part of the process. Focus on building top of the funnel.

Pitch, pitch, pitch!

This initial stage of the fundraising journey is when you utilize your pitch. You should get comfortable delivering the pitch in various formats - an elevator pitch, a standalone email, or a full verbal pitch presentation for intro meetings.

IO VENTURE PATH

IO TIP

1. Pitchbook and Crunchbase are great Market Insights tools to build a lead list of potential investors.

2. Treat the list like a sales pipeline: select targets, track outreach and response efforts, and follow up a few times with each contact (investors are busy people with overflowing inboxes).

3. Once you have a meeting secured, ask us to share a detailed Pitchbook profile on the individual investor. Profiles contain information such as:
   - The investor's fund lifecycle (do they have capital to deploy right now?).
   - Their portfolio companies (opportunity to get referrals on what the VC is like).
   - Track record (how active are they in your space? What sort of exits have they had? Have they found success in your vertical or been burned in the past?).

4. Once you have a pitch ready, contact Megan Maltby (Investor Relations lead) for help with warm introductions to investors in our IO network.

The Investor’s Assessment

1 **Screening**

- This is the initial research or review an investor performs to determine if your opportunity is a potential fit.
- It usually involves the investor reviewing your pitch deck and conducting their own research on the customer pain, market size, etc.

2 **Due diligence**

- If an investor likes what they see during screening and they want to seriously consider making an investment, they undertake "due diligence" — a deeper dive into research, performing interviews with your customers and partners, and going over your financials and legal documentation with a fine-tooth comb.
- It often involves a lot of back-and-forth communication with the startup founder(s) — asking questions, requesting documents, etc.

Remember – Due Diligence is a Two-Way Street

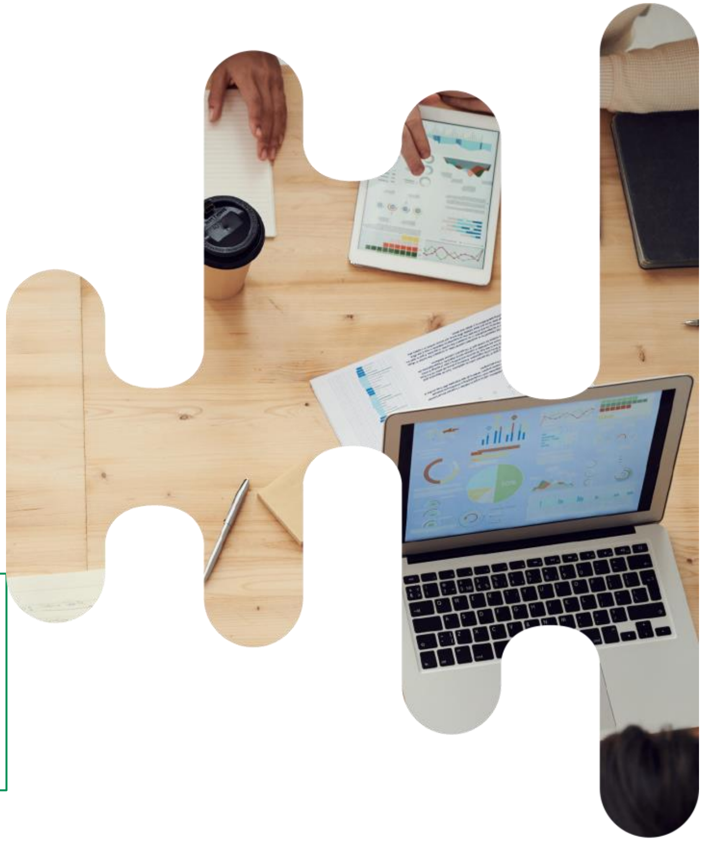
Due diligence is the process during which an investor goes over your entire business front to back to ensure that everything is as it should be before they agree to invest. Many founders think this is a one-way street, BUT it is not! Investors may fall into any of the following categories:

- They provide money but eat up a lot of your time/provide poor advice.
- They provide money but offer no additional value.
- They provide money and value-add helping to truly accelerate the business.

You need to understand which category your investor leads fall into and what it's like to work with them. The only way to achieve this is for you to undertake your own due diligence.

Start by asking the investor for references, specifically CEOs of companies they've invested in. Keep in mind that like any reference provided voluntarily, they are probably going to lean positive.

You need to know how investors react when things get challenging (which they always do!) so research and speak with leaders from failed portfolio companies as well.



IO TIP

1. Utilize the IO Slack workspace to ask around about investors. Even if a company hasn't received funding from a particular VC, they may have insight in the funder's process.
2. Focus on references for the specific investment partner you are working with (in addition to the overall firm). You will spend most of your time dealing with this individual.

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IO VENTURE PATH

IO TIP

1. Prep your data room early — preferably before you hit the fundraising trail — to ensure that you have your house in order and get ahead of any potential issues.

2. It will also contribute to a faster closing. When an investor requests your data room it will be ready, ensuring you don't hold up the process.

3. Here is a helpful overview of Data Room Basics.

Securing Commitment

Term Sheet

If all goes well during due diligence, and the investor would like to make an offer, they issue a term sheet.

A term sheet is a non-binding document that outlines what sort of investment the funder would like to make, how the deal will work, and the valuation of the company (which in turn indicates how much equity the investor will "purchase").

A term sheet is meant to be open to negotiation — just because an investor provides you with one, it doesn't mean the deal is done. You can debate, change the terms, and come to agreement on a final deal.

Founders also have more leverage before the term sheet is signed because you can continue to negotiate with multiple funders and hunt for the best "deal."

Formal Investment Committee

In many cases, after diligence is complete and terms have been agreed to, there are still approvals required for the investor to proceed.

In the case of a venture fund, this might involve the partner taking the deal to their board or executive team for final approval.

In the case of an angel network, it might involve the opportunity being presented to all angels to make individual investment decisions (i.e., whether they write a cheque or not).

Money in the bank

Closing

Once all approvals are in place, the investor will activate their legal team to finalize the deal with your legal team. This process typically takes 45 – 60 days, assuming all runs smoothly.

Note: This process will cost you money — you will need to pay your own lawyers and may even be required to cover some the investor's legal costs.

Monies will then be sent to your business, typically by cheque or wire.

Congratulations! You have secured an investment. You can finally breathe a sigh of relief :)

Continuing Relationship

But the journey is not over...

Even after the funds have made it into your bank account, you can expect to have an ongoing relationship with your investors.

You will need to provide regular business updates to them, and they may take a seat on your Board. You can in turn leverage your relationship with them: get their advice, introductions and, in future rounds, more capital.

IO TIP

1. It's common for the lead VC (particularly at later stage rounds) to require a seat on your Board.

2. They could be a formal Director or simply assign an Observer to attend your board meetings.

3. Check out our Playbook on building and managing your Board here.

Valuation Math

Remember:

- **Pre-money valuation**: your business value before you close a round of funding.
- **Post-money valuation**: your new value after the round is closed. It is calculated by adding the $ value of your new capital and your pre-money valuation.

When you are asked, "what is your valuation?," the investor is referring to your **pre-**money valuation; however, equity ownership is always calculated on the **post**-money valuation.

Example:

- You have a pre-money valuation of $4M and you raise a $1M seed round.
- Your post-money valuation is $5M ($4M + $1M).
- The investors that put in $1M now own 20% of the business ($1M ÷ $5M).

Supply and Demand

- Government funding is the primary source of non-dilutive funding at early startup stages.
- As with anything, supply and demand matters.
- Think of the housing market and shifting power dynamics.
- If your company is incredibly strong, you may have multiple investors competing to give you money. This oversupply improves your ability to drive valuation higher.
- If your company is in a weak position and you need to work hard to find a single investor willing to cut a cheque – your ability to negotiate valuation is diminished.

But how is pre-money valuation even determined?

- At later stages, valuation is largely determined as a multiple of your revenues/EBITDA.
- At early stages, it is more art than science and involves assigning a monetary value to different factors, like the stage of the product/service, the founding team, intellectual property, and the size of the market.
- Valuation trends are also affected by general market dynamics:
  - You may have heard of the 2021 VC gold rush where startups were raising huge amounts of capital at wildly high valuations (often on just an idea/unproven model – must be nice!).
  - Conversely, 2022/23 has seen a return to "normal" with smaller rounds and lower valuations.

Supply and Demand – A Visual

IO VENTURE PATH

TEAM EXPERIENCE			
	HIGH	VCs love to fund repeat founders or teams with rock stars.	VCs will fight to fund you at high valuations.
	LOW	Low/no chance of success. Spend more time building traction before courting investors.	Solid growth with ARR or amazing user adoption.
		LOW	HIGH

TRACTION

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Arriving at your valuation

- In the end, the best way to arrive at a reasonable valuation is through:
  - Comparables research — looking at valuations of companies that are similar in stage/sector and talking to others.
  - **IO Tip** — Our Market Insights team can also use Pitchbook to pull comparable data.
- Talking to others - the startup ecosystem is a small world and investors/lawyers see tons of deal flow. Ask funders and your own counsel what sort of valuations they are seeing to get a sense of current trends.
- Ultimately, your business value is whatever someone is willing to pay for it. Valuation is always open to negotiation between you and the lead investor.
- Your valuation at the time of investment is one point on the overall capital journey and, while the desired trajectory for shareholders is to garner a higher valuation at each future round, it is not guaranteed.
- Read more about why founders shouldn't always chase high valuations.

IO TIP

1. For help with your financing strategy, developing your pitch, and navigating the fundraising process, meet with Rob Lane, IO's Fundraising Advisor.

2. In addition to Rob, we have a few other experts available to early-stage firms:
   - Susan Robbins Parsons & Paulina Yee — Finance Advisors, great at developing your financials, building a deal room, and dealing with corporate governance
   - Kevin Madill — in addition to his role as Product Advisor, Kevin also works full-time at Graphite Ventures, an early-stage VC fund. Use him as a second set of eyes on your investor story.

How long does it take to raise a funding round?

Fundraising is not for the faint of heart. You should be prepared, start the process **early**, and remember that this process will require lots of time/attention of the CEO — taking their focus away from other parts of the business.

You should bank on at least six months of focused effort. This example is the BEST case scenario!

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You reach out to a VC who wants to hear your pitch: 2 weeks.	They love you and want their partner to hear your pitch: 2 weeks.	They need their investment committee to hear your pitch: 3-4 weeks.	They ask for your operating plan, and then ghost you: 4 weeks.
They ask you if you've achieved your last month of operating numbers (hint - your answer should be "yes").	They ghost you again, and then ask again if you achieved month two of your op plan: 4 weeks.	They begin due-diligence and get you a term sheet which you hate and negotiate back: 4 weeks.	They ask for full legal documents which takes a few weeks to create and a few more to negotiate: 4 weeks.

Funding Instruments

When raising funds there are a few mechanisms you can use:

1. Priced Round

The investor knows exactly how much of the company they will own after investing. It requires a valuation to be set (which in turn sets the price of each individual share).

2. Convertible Instruments

These defer the valuation decision to a later date and allow the investor to provide funds that will be converted to equity at a future point. Convertibles are commonly used at the earliest stages of a startup (i.e., angel/pre-seed).

They are useful because they are typically fast, easy, and affordable to execute with your lawyer, and they allow you and the investor to "put off" the valuation negotiation. It can be difficult to appropriately value an early company that has no financial record or revenues yet.

There are two main types of convertibles:
1. Convertible note
2. Simple Agreement for Future Equity (SAFE)

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Funding Instruments

When raising funds there are a few mechanisms you can use:

2a. Convertible Notes

These operate like a debt/loan: The investor is rewarded for taking a big risk by funding your business during its earliest/riskiest stage. The reward is provided via:

- **A valuation cap** — this is not the true valuation of your company but a set maximum valuation at which your convertible noteholder's money will convert to equity (a valuation that is typically lower than what your later stage investors are coming in on).
- **A conversion discount** — that gives investors a discount on the eventual price per share (e.g., the noteholder receives shares at a price that is 8% lower than the price being offered to other investors in the round).

Since convertible notes are technically a debt instrument, they also come with a maturity date and fixed interest rate. This protects the noteholder by providing a way for them to get their money back. If your company does not go on to raise future capital (allowing the note to convert), the note outlines when the investor will be paid back (with interest).

2b. Simple Agreement for Future Equity (SAFE)

SAFEs are not debt instruments, rather they indicate the right an investor has to purchase equity in your company at a future point in time (usually after a trigger event like a larger funding round). Therefore, they do not have a maturity date/interest to indicate how the investor will get their money back.

They typically have a valuation cap and/or discount rate to reward your early investors by allowing them to "buy" equity at a cheaper price than later investors.

Generally, SAFEs are considered more "founder-friendly" as they don't carry interest, don't carry a fixed deadline for repayment, and don't impact the balance sheet.

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IO TIP

1. Leverage our legal partners for guidance on term sheets, drafting legal instruments, and final closing.

2. You should be consulting your legal counsel before signing a term sheet as they can provide another perspective and let you know if what you are being offered is consistent with what's generally happening in the market.

3. Ensure you have a solid lawyer who has experience with venture financing — they can help you avoid bad terms you'll regret later!

4. Solid legal advice can be expensive — anticipate the following closing costs:
SAFE financing: $5k - $10k
Common share financing: $10k - $15k
Series seed preferred share financing: $25k+
Series A preferred share financing: $50k+

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Government Funding
(Non-Dilutive Funding)

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Why Non-Dilutive Funding is Important

- Creating a successful business is a long-term game.
- High-growth tech companies will usually need to raise some sort of outside capital, often large amounts over multiple rounds.
- Non-dilutive funding options are often created specifically to fill in gaps in the business life cycle — those areas not suited to an investors risk appetite or expectations (e.g., pre-product, pre-traction, between equity rounds).
- Founders should try to utilize nondilutive funding as much as possible, particularly at the early stages of the business.
- This preserves equity for when it matters most (and when it is ideally also worth the most).
- Also limits dilution of current shareholders, which keeps the team motivated and aligned with the success of the business.
- Bottom line – don't leave "free" money on the table.

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How Government Funding Works

- Government funding is the primary source of non-dilutive funding at early startup stages.
- Debt is typically reserved for slightly more mature businesses that can prove their solvency with historical financial statements, cashflow projections, etc.
- Each government funding program will have its own stipulations on what the money can be used for and eligibility criteria for businesses that may receive it.

Typically, more dollars = stricter terms and conditions.

- While investors are focused on achieving a financial return, government funders are focused on economic development goals. They typically gauge opportunities on the ability of the business to create jobs and bolster the economy.

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Common Types of Government Funding

1. Grants/Non-Repayable Contributions

Grants are typically lump sums of money provided to companies as an award — companies are generally not required to pay the funds back and are not required to give up equity.

Although often considered "free money," grant programs will usually require matching funds that don't qualify as "free" — think investment or loans from a third party.

Grant programs usually dictate how the money can be spent — for example, to hire a student, to complete R&D, etc. There are two ways grants are disbursed to companies:

- In some cases, the money is provided as upfront cash.
- In other cases, the money is provided as a non-repayable contribution — you must first pay for the expense out of pocket before receiving money back from the funder. Although this is still "free money," it requires you to have cash flow available to spend upfront.

Since these awards are funded by tax dollars, programs usually demand strict reporting measures so that outcomes can be tracked and shared with the public.

2. Repayable Contributions

Unlike a grant which is relatively "no strings attached," some programs will provide funds in the form of a repayable contribution.

This is money that the funder expects to be repaid, conditionally or unconditionally, at a later date.

Contributions are different from standard forms of debt as they are often provided at low- or zero-interest rates. There may also be conditions under which the money does not need to be paid back (e.g., if the business does not hit certain growth/revenue milestones).

3. Tax Credits

Tax credits are monies that are refunded by CRA to compensate for specific types of expenses incurred throughout the tax year.

The refund is a function of a company's actual spend in these areas, reimbursed up to a specified percentage.

Examples: Tax credits for businesses involved in innovative R&D, co-operative education programs, small business deductions, etc.

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IO TIP

1. New to navigating the many government funding programs? Our Market Insights team can provide custom research on non-dilutive funding programs available to you, based on stage, sector, and planned use of funds.

2. IO Finance Advisors Susan & Paulina are in-house gurus on securing government funds — they can help review your applications, prepare financial forecasts, and make helpful introductions to decision-makers.

Things to Consider with Government Funds

If you plan on raising government funding, there are some macro factors to consider beyond each program's individual eligibility criteria. These include:

- Economic climate
- Political climate
- Stacking and matching
- Timing

Things to Consider About Securing Government Funds

IO VENTURE PATH

Economic Climate

During times of austerity, you may see government pull funds from programs in niche or underutilized areas.

In other cases, government will allocate more funds to programs during economic downturns or recessions to jumpstart the business cycle and encourage economic recovery.

The thinking is that if businesses have more money:

Employment rises, which makes household incomes rise, which increases consumer spending, and businesses in turn receive more money — and the cycle repeats!

Political Objectives

Political parties that are responsible for the public budget may choose to push government funding when they need to bolster their own PR campaigns.

In exceptional circumstances (i.e., COVID-19, Freedom Convoy, etc.), the government may choose to provide special support to affected businesses in the form of relief programs.

Finally, it's important to stay aware of the government's current priorities as these can dictate how they allocate funds. For example, in recent years there has been a boost in funding for underrepresented groups in tech (women, BIPOC) as well as funding to create and retain IP in Canada.

Stacking & Matching

Some programs will require "matching funds" before they release cash. This means that the government funder will only provide a portion of the overall round and the company needs to secure the remaining portion before money is released.

- For example, a government funder agrees to fund 50% of a project requiring $1M.
- They provide you with a commitment of $500k, but you need to secure the other $500k before the government funds are disbursed.
- In some cases, the matching funds can come from other government programs. In other cases, the funder requires matching to be from equity or founder commitments.

Stacking rules are especially relevant for programs offered by the same level of government (i.e., federal, provincial, municipal). It ensures companies don't "double dip" into government coffers.

Timing

Government programs operate on a fiscal year-end of March 31st. It's also cyclical; in many cases, program leads need to secure budget on an annual basis so they must report on progress and convince government decision makers to allocate money to them every year.

What this means:

- A program could be here today, gone tomorrow – don't count your chickens before they hatch...
- A program could burn through their budget in the first part of a year and if you need money in February — you may end up waiting until the new fiscal year to secure funds.
- Conversely, a program could be underspent in the latter half of the year — and you might have an exceptionally easy time securing approval closer to fiscal year-end.

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Government Funders to Know

Industrial Research Assistance Program (IRAP)

Federal grant program run by the National Research Council (NRC).

IRAP Industrial Technology Advisors (ITAs) focus most of their time and allotted financial resources on small- and mid-sized clients who are deemed through a discretionary process to be high-potential. ITAs provide advisory, industry linkages, and direct and indirect project funding to support research and development projects at various stages of the innovation cycle in addition to youth hiring programs and other initiatives of national priority. **Can provide up to a maximum of $10M in funding but typical projects range from $25k - $50k.**

KEY CONTACT

Dragos Ragalie, Client Engagement Advisor, dragos.ragalie@nrc-cnrc.gc.ca

Eligibility Criteria:

- Incorporated, profit-oriented small or medium-sized business in Canada.
- Fewer than 500 full-time equivalent employees.
- Planning to pursue growth and profit by developing and commercializing innovative, technology-driven new or improved products, services or processes in Canada.
- Typically, do not fund companies at the ideation stage. Usually like to see traction with customers, but deep tech firms may receive funding earlier if the technology/business model is validated in some other way.

Key tips once you are working with an ITA:

- Treat your ITA like a board member and build a trusted relationship
- Keep them informed via an insider newsletter
- Plan with your ITA and meet them in person

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IO TIP

1. There are hundreds of IO Venture firms that have received funding from IRAP – leverage your peer groups and [Slack] to collect intel.

2. For example, once you are assigned an ITA, ask around and learn what this ITA likes/dislikes which will help you achieve buy-in.

3. The IRAP team also has space at Studio7 — use this as a (free) common meeting spot to build rapport in person.

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Scientific Research and Experimental Development (SR&ED)

IO VENTURE PATH

Federal tax incentive program administered by CRA.

Canada
Canada Revenue Agency

Encourages Canadian businesses of all sizes and all sectors to conduct R&D in Canada that will lead to new, improved, or technologically advanced products or processes.

KEY CONTACT

Link to Contact SR&ED here.

SR&ED allows your business to:

- Deduct SR&ED expenditures from your income for tax purposes, and;
- Provides you with an SR&ED investment tax credit (ITC) that can be used to reduce income tax payable (less common) OR be provided in the form of a refund (more common).

IO TIP

1. Record time against all your SR&ED eligible projects even if you aren't sure if you will claim at the end of the year.

2. Track all eligible expenditures against projects – from materials/supplies to subcontractors and capital expenditures.

3. Make sure you provide supporting documentation for your claims (project plans, lab notes, test results, technical reports etc.).

4. Keep details that will demonstrate the iterative and experimental nature of the project.

5. Brand new to SR&ED? Consider hiring a consultant with experience for your first filing.

CanExport

Federal grant program offered by Canada's Trade Commissioner Service (Global Affairs Canada).

There are two streams for export-ready tech firms (details below).

Companies can apply online, and applications must be submitted at least 60 business days before the start date of the first proposed activity. These are competitive programs with limited funding processed on a first-come, first-served basis. Some best practices for your application include:

- Read the applicant guide thoroughly.
  - Apply early (well before travel is set to take place).
  - Keep it simple – avoid jargon or highly technical terminology.
  - Provide clear descriptions in each section including: your business case, how the activities support your international business development goals, a rationale for your selected target market, and a detailed budget (obtain quotes, perform research to support your ask).

KEY CONTACT

Simon Gittens, Trade Commissioner, Global Affairs Canada, Simon.Gittens@international.gc.ca

CanExport SMEs:

- Up to $50K in funding that enables Canadian small- and medium-sized enterprises (SMEs) to break into new international markets.
- Funding can cover up to 50% of the overall project cost and can be used for activities like gathering market intelligence, protecting your IP, creating marketing materials, attending virtual events, and travelling to foreign markets to attend conferences/trade missions.
- To be eligible, you must have less than 500 FTEs and at least $100k in annual revenue.

CanExport Innovation:

- Up to $75K in funding to help Canadian businesses establish new R&D collaborations with partners in foreign markets.
- Funding can cover up to 75% of the overall project cost, and can be used to pursue and sign collaborative R&D agreements, including IP protection; certification in international markets; attending virtual events; travelling to meet with partners etc.
- To be eligible, you must be at TRL 4 or higher, own/co-own/have decision-making authority over the technology's IP, and intend to launch the tech in-market within 5 years.

Mitacs

Non-profit national research organization.

Mitacs is like a "try-before-you-buy" model for new hires out of school. It provides grant funding for college and university interns to work for a company and transfer knowledge. There are three streams for early-stage tech firms.

KEY CONTACT

Tim Warland,
Senior Business Advisor,
twarland@mitacs.ca

Mitacs Accelerate

- Get expert support for product development, commercialization, business strategy and advanced research through internship talent (including international students in Canada on a student visa).
- 1:1 matching for a project totaling $15k — Company contributes $7.5k and receives $7.5k in grant funding.
- Projects start at four-months per student but can be scaled based on need (longer projects, multiple students, etc.).

Mitacs Entrepreneur

- The new graduate entrepreneur program extends the Accelerate model to new graduates.
- Also 1:1 matching for a project totaling $15k — Company contributes $7.5k and receives $7.5k in grant funding.
- Allows new graduate entrepreneurs to pay their own salary while developing their company.
- Must be part of an approved accelerator/incubator — Invest Ottawa clients qualify and can provide a letter of support.

Mitacs Entrepreneur International: Mitacs assists with up to $5000 in travel grants for businesses (again, must receive support from IO to qualify).

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IO VENTURE PATH

IO TIP

1. Mitacs grants must have support from professors who complete the application process and then can assign students to the project.

2. Companies can apply to Mitacs at any time and the approval process takes six to eight weeks; however, the department has a history of running through budget in the earlier part of the fiscal year. If you have a project in mind, time is of the essence!

Debt 💰
(Non-Dilutive Funding)

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Debt Financing for Startups

Debt allows you to retain ownership/control of your business (compared to equity investment).

- It can be used as an alternative to equity investment OR as a supplement (It's particularly helpful to bridge the gap between equity rounds).
- Although debt is a common form of financing, most early-stage startups have trouble securing loans from traditional banks because they do not yet have a track record of cash flow or liquid assets to make required payments.

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Debt Options for Startups

IO VENTURE PATH

While it can be difficult to leverage at the early stages, there are a few types of debt commonly used by startups:

Line of credit: from tech-focused banks (BDC, RBCx)

Venture debt: a loan designed for investor-backed startup, typically secured at the same time or right after an equity round. It is used to extend runway, reduce dilution, and act as a cash cushion that can be drawn if you experience any glitches or unforeseen capital needs.

MRR financing: debt whereby the total amount of the loan is based on a multiple (usually 3-5x) of your current monthly recurring revenue.

Revenue-based financing: a more flexible format whereby payments are based on a percentage of your monthly revenue.

SR&ED financing: a loan that allows you to access expected SR&ED funds upfront/as you accrue them while you wait for CRA processing at tax time.

Debt Funders to Know

BDC

BDC is the financial institution devoted to Canadian entrepreneurs. BDC has several debt options for early-stage tech firms:

Working capital loans (most typical): Up to $2M, but typically $250k - $350k per project. Up to 24-month grace period before principal payments are required. This funding can be used for things like R&D, sales and marketing, or bridging the gap until a future equity raise.

Term loans for activities like an equipment or real estate purchase with preferential loan-to-value than standard term loans.

KEY CONTACT

Joe Jocks, Senior Account Manager – Tech Industry, Joseph.Jocks@bdc.ca

Nick Albright, Senior Account Manager, Tech Industry, Nick.Albright@bdc.ca

Eligibility is quite broad – any company with a product/service that is at or near commercialization could be a fit; however, BDC likes to see:

- Traction – revenue or letters of intent (LOIs)
- Commitments from other investors or non-dilutive funders (ensure BDC is not providing the entire capital requirement)
- Funding used for long-term strategic goals rather than short-term needs
- Past history/success receiving government grants (IRAP, SRED etc.)

Once data room is provided, can typically close funding in 4-6 weeks. Companies can reach out directly at any time for an initial meeting to understand options and next steps.

High-level terms to expect:

- Most working capital loans can be amortized up to 8 years, with principal postponement up to 24 months.
- Interest rates vary depending on Bank of Canada rates and other factors. Historically they have ranged from 10% - 14%, but in the last 12 months it has stayed fairly steady at 8.8%.

BDC usually requires a personal guarantee from the founders, however each client situation is different/open to discussion.

In 2022, BDC provided early-stage tech financing to over 20 firms in the Capital region.

Some IO companies that have received BDC financing: Trualta, Click Armor, Treehouse

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RBCx

RBCx serves the entire tech ecosystem and provide banking services to VCs, direct investment into fund of funds and, of course, banking for tech startups and scaleups. RBCx supports over 500 tech firms in the National Capital Region.

KEY CONTACT

Ignition/Flex/Accelerator stage firms: Jake Malette, AVP, Banking, jake.malette@rbc.com

ScaleUp stage firms: Abood Mohamed, VP, Tech Banking, abood.mohamed@rbc.com

Along with standard products like operating lines and credit cards, RBCx offers a wide range of specialized financing options for tech firms including:

- Operating facilities (line of credit): Typically comes in later than BDC and focuses on funding working capital once traction is realized (post-seed or profitability). Note: RBCx works closely with BDC/EDC to remain creative in providing debt solutions.
- SR&ED financing: Company must have two+ yrs of successful filings.
- Venture debt: Typically provide 20 - 40% of the overall raise used to extend cash runway by six to eight months. No financial covenants and warrants priced in less than 0.5 bps.
- SaaS Lines: Operating lines as a multiple of MRR (this is typically for companies doing $350k - $500k MRR).
- Cash Flow Term Loans to finance acquisitions (for later stage firms – both companies need to have three+ yrs of EBITDA+ activity).

RBCx focuses on companies that are IP-driven, and have a particular focus on life sciences, clean tech, and fintech verticals. Support is provided from ideation to exit stages — it's not uncommon for RBCx to work with pre-revenue firms, provided they have a milestone-driven plan.

Companies that are interested in applying should prepare to provide the last two years of FYE Financials, YTD Financials, Projections and ideally show traction in market.

RBCx does not require a personal guarantee from the founders.

Some IO companies that have received RBCx financing: Trualta

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Southern Ontario Fund for Investment in Innovation (SOFII)

IO VENTURE PATH

SOFII
Southern Ontario Fund for Investment in Innovation

Loan program funded by the Federal Government (FedDev Ontario) and delivered by Community Futures Ontario. Supports high-growth, innovative small- and medium-sized Enterprises (SMEs) that are in the scale-up phase of their business by offering loans of $150K-$500K (up to $1M on exceptional basis) to support all aspects of growth challenges.

Financing can be used for late-stage commercialization, new product or service development, new applications or markets, development or implementation of new processes or technologies, etc.

KEY CONTACT

Michelle Cathers, SOFII Program Manager, michelle.cathers@cfeasternontario.ca

Eligibility criteria:

- Companies must have a solution that is truly innovative.
- Should have at least $500k annual revenue and product-market fit.
- Should have at least 8 - 10 FTEs at time of application and a plan to scale headcount rapidly over the coming years
- Must have matching funds from an external source (other debt, equity investment are preferred sources).

SOFII is known as a more patient/flexible lender than traditional institutions. Although SOFII loans have a set repayment plan, there is flexibility to pay down debt without penalty and/or make interest-only payments before ramping up to normal repayment.

SOFII is known to fund growing companies who are unable to access more traditional financing options.

Some IO companies who have received SOFII funding:

Relogix, Hoppier, Wicket, TryCycle, Cord3

IO VENTURE PATH

Other Notable Debt Funders

- Venbridge — Venture debt provider specializing in financing for expected government funding (SR&ED, IRAP etc.) so you can access cash flow ASAP. Can provide $100k - $2M in as little as 3 days.

- OKR Financial — Similar to Venbridge, OKR provides bridge financing so you can access cash while you wait for IRAP grants, SR&ED credits, and other government receivables.

- Espresso Capital — Various lending options (working capital, acquisition financing, recapitalization, etc.) for high-growth tech firms. Appeals to later-stage firms with $5M minimum revenue.

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IO VENTURE PATH

IO TIP

1. Most SR&ED financing providers want to see a track record before being willing to provide debt. Make sure it's not your first-year filing for SR&ED credits before reaching out.

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Further Learning

We get it – that was a lot of information! Remember, your Client Experience Coordinator (CEC) is your #1 resource to navigating our many IO services. Contact them anytime to get introduced to the right Advisors, partners, or market insights services.

For a deep dive into all things VC, deal mechanics and terms: **Venture Deals** book by Brad Feld & Jason Mendelson

For crafting/refining your pitch:
Pitch deck template: **Download here**
Workshop recording: **"How to Pitch"**

For staying on top of market trends/funding news – subscribe to relevant newsletters:
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