

Quebec Venture Capital and Private Equity Market Overview

Q2 | 2025

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MESSAGE FROM THE CEO

Réseau Capital and its Center of Expertise present the quarterly report on investment capital activity in Quebec. Produced in collaboration with CVCA (Canadian Venture Capital and Private Equity Association), this report provides a detailed analysis of venture capital (VC) and private equity (PE) investments for the second quarter of 2025. It offers a comprehensive overview of private investment activity in Quebec-based companies by investment type, industry sector, stage, and deal size.

Since the start of the year, Quebec has recorded 60 venture capital deals totaling \$524 million. While deal count remained stable compared to the first half of 2024, total funding declined. This slowdown reflects increased seed stage activity alongside lower funding at the early and later stages. With an average deal size of \$8.73 million, Quebec ranks fifth among provinces for average venture capital deal size in the first half of 2025.

In private equity, the deal count fell slightly by 4% compared to the same period in 2024. However, invested amounts rose sharply, reaching \$18.3 billion across 192 deals, an increase of over 176% year over year. The semester was characterized by capital concentration in large-scale transactions, with deals over \$100 million accounting for 94% of all capital invested.

The economic and geopolitical environment remained uncertain in the second quarter of 2025, in Canada and globally. Trade tensions between Canada and the United States continued, especially due to U.S. tariffs on key Canadian products such as steel, aluminum, and vehicles. Canada's retaliatory measures remain in place, contributing to a tense business climate. Alongside ongoing market volatility and slower economic growth, this situation continues to affect consumer and business confidence. However, some sectors are showing resilience, partially offsetting the effects of these challenges.

Olivier Quenneville
Chief Executive Officer **Réseau Capital**



VENTURE CAPITAL

HIGHLIGHTS Q2 2025

In the second quarter of 2025, Quebec recorded 29 venture capital deals totaling \$246 million. This represents a 6% drop in deal count and an 11% decline in total funding compared to Q1 2025. Historically, Q2 2025 ranks 40th out of 50 quarters since 2013 by deal volume and 25th by capital invested.

Since the beginning of the year, 60 VC deals have been completed in Quebec, a 6% decrease from the 64 recorded in H1 2024 and below the historical average of 72 for a first half since 2013. Total funding reached \$524 million, placing H1 2025 ninth among first halves over the past 13 years. Compared to H1 2024, capital invested dropped 57%. With an average deal size of \$8.73 million, Quebec ranks fifth among Canadian provinces.

The ICT sector led activity in H1 2025 with 28 deals totaling \$169 million, representing 47% of deals and 32% of capital invested. The life sciences sector followed with 16 deals totaling \$135 million (27% of deals, 26% of funding). The CleanTech sector saw a slowdown, with 7 deals totaling \$32 million. No agribusiness transactions were reported.

By stage, seed activity rose significantly: 29 deals totaling \$79 million marked a 31% increase in capital invested from H1 2024. Seed deals made up 48% of total volume and 15% of capital raised. At the early stage, 17 deals totaled \$255 million, reflecting a 23% drop in volume and a 24% decline in funding year over year. Early stage activity represented 28% of total deals and 49% of capital deployed. Later stage activity included 9 deals totaling \$150 million. While deal count increased from the previous year, funding decreased by 35%. Later stage deals accounted for 15% of total deals and 29% of invested capital. One growth stage investment totaling \$30 million was recorded, the first growth deal since 2022.

Since January, Quebec has accounted for 24% of the deal count and 18% of funding in venture capital across Canada, ranking second nationally in volume. Ontario leads with 40% of both deals and funding. Quebec stands ahead of British Columbia in deal count, which holds 12%, but falls behind in invested capital, where British Columbia holds 25%.

PRIVATE EQUITY

HIGHLIGHTS Q2 2025

In the first half of 2025, Quebec recorded 192 private equity transactions totaling \$18.3 billion, reinforcing its leadership at the national level. Since the beginning of the year, the province has accounted for 60% of all private equity transactions and 59% of total capital invested across Canada.

In Q2 2025, total invested capital reached \$2.1 billion, an 87% decline compared to Q1 2025. Despite this steep drop, the quarter holds up from a historical standpoint, ranking 17th out of 50 quarters since 2013 for total capital raised and just under the historical quarterly average of \$2.2 billion. It is worth mentioning that Q1 2025 was atypical, lifted by major transactions involving Garda World Security Corp and Héroux Devtek Inc. Deal activity, by contrast, rose sharply, with 110 transactions completed, a 34% increase compared to Q1 2025, placing Q2 2025 eighth among the past 50 quarters in transaction volume.

The average deal size fell to \$19.3 million in Q2 2025, bringing the year-to-date average to \$95.3 million per transaction. This puts Quebec second among provinces, behind Ontario, which posted an average of \$168.3 million. The largest transaction in Q2 2025 was valued at \$488 million and involved Telus Health. This deal ranked third overall for H1 2025, following those of Garda World Security Corp and Héroux Devtek Inc. Notably, four of the ten largest private equity transactions in Canada in H1 2025 occurred in Quebec.

Large scale transactions of \$100 million or more represented over 94% of all capital deployed since the beginning of the year. In contrast, transactions of \$5 million or less made up 61% of disclosed deals, highlighting the strong degree of bimodality in Quebec's private equity market, with capital concentrated in a small number of large deals and a high volume of smaller ones. In addition, 20 transactions, about 10% of the total in H1 2025, had undisclosed values.

The industrial and manufacturing sector remained the most active by deal count, with 66 transactions totaling \$1.98 billion in H1 2025. In terms of total funding, the "Other" category led with \$14 billion, mainly driven by the Garda World transaction in Q1. The life sciences sector followed with 10 transactions totaling \$646 million. The retail sector also showed strong numbers, with 27 transactions totaling \$496 million, followed by the financial sector with 16 transactions amounting to \$305 million.

VENTURE CAPITAL AND PRIVATE EQUITY ACTIVITY

YEAR-TO-DATE | H1 2025

VENTURE CAPITAL

60

deals

\$524M

PRIVATE EQUITY

192

deals

\$18.3B

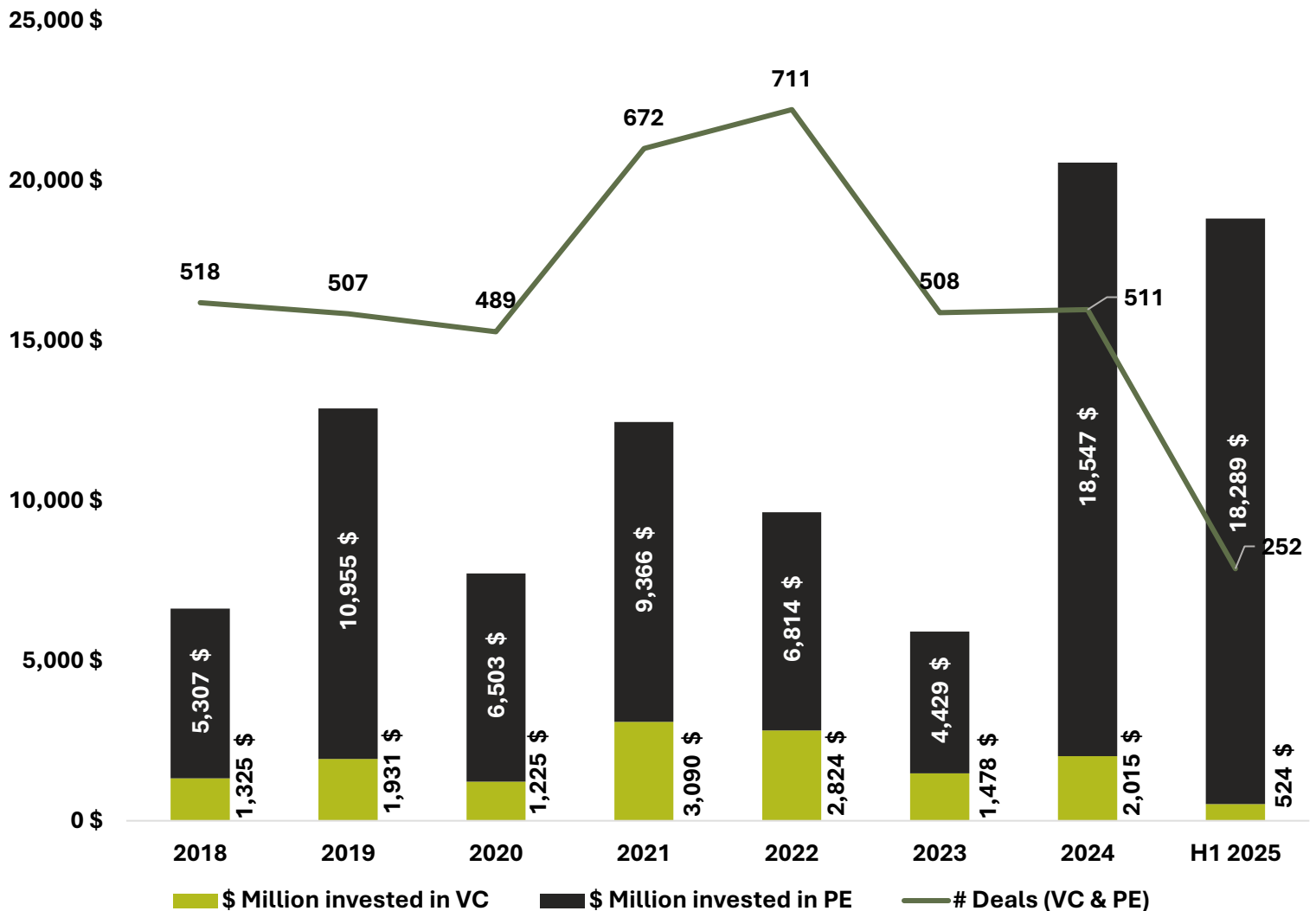
TOTAL
252 deals

TOTAL INVESTED
\$18.8B

Since the beginning of the year, average deal size in Quebec's private capital market has shown diverging patterns. In venture capital, the average deal size dropped to \$8.73 million, while in private equity it rose sharply to \$95.3 million. Overall, venture capital activity in Quebec has slightly declined compared to previous years, whereas private equity has delivered historic results.

VENTURE CAPITAL AND PRIVATE EQUITY ACTIVITY

YEAR-OVER-YEAR | 2018 – H1 2025



Quebec maintains its position as the leading province in Canada for private equity, with investment volume totaling \$18.3 billion in the first half of the year. This marks the strongest performance recorded for a first half since 2013. In contrast, venture capital saw a sharp decline with \$524 million invested in H1 2025, representing a 57% decrease compared to H1-2024, when investments reached \$1.22 billion.

VENTURE CAPITAL AND PRIVATE EQUITY ACTIVITY

BY ADMINISTRATIVE REGION | H1 2025

ADMINISTRATIVE REGION	VENTURE CAPITAL	PRIVATE EQUITY
Bas-Saint-Laurent	-	11
Capitale-Nationale	5	31
Centre-du-Québec	-	6
Chaudière-Appalaches	-	10
Estrie	6	14
Gaspésie-Îles-de-la-Madeleine	-	6
Lanaudière	-	3
Laurentides	-	11
Laval	2	6
Mauricie	-	1
Montréal	2	17
Montréal	43	57
Nord-du-Québec / Abitibi-Témiscamingue	-	3
Outaouais	2	2
Saguenay-Lac-Saint-Jean / Côte-Nord	-	14
TOTAL	60	192

TOTAL
252 DEALS

MOST ACTIVE REGION
MONTRÉAL



Quebec Venture Capital Market Overview

Q2 | 2025



VENTURE CAPITAL

FOREWORD

In Q2 2025, \$246 million was invested across 29 venture capital deals in Quebec. Compared to the previous quarter, this period saw a decrease in investments at the seed stage, with 12 deals totaling \$34 million, and at the later stage, with 4 deals totaling \$17 million. In contrast, early stage activity rose notably, with 10 deals amounting to \$161 million. However, from a half-year view, the pattern shifts: seed, later stage, and growth stages all increased compared to H1 2024, while early stage declined.

Compared to earlier quarters, deal count slowed, with 31 deals in Q1 2025 and 29 deals in Q2 2024, remaining under the historical average of 36 deals per quarter. This places Q2 2025 at the 40th spot out of 50 quarters since 2013. In terms of total funding, Q2 2025 (\$246 million) is also below the historical average of \$366 million, ranking 27th out of 50 quarters since 2013. It reflects an 11% decrease from Q1 2025 (\$301 million) and a 62% drop from Q2 2024 (\$650 million).

Quebec's results since the start of the year have been supported by funding rounds from dcbel Inc. (\$79 million), Puzzle Medical Devices (\$43 million), Novisto (\$38 million), and Botpress (\$34 million).

The ICT sector led in Q2, with 15 deals totaling \$99 million. This accounted for 52% of the total deal count and 40% of invested amounts in the quarter. Despite a 41% increase compared to Q1 2025, total amount invested remains well below Q2 2024 levels, down 78%. Life Sciences registered 7 deals worth \$55 million, down 31% from Q1 2025 and 38% from Q2 2024. CleanTech recorded 3 deals worth \$11 million, a decline of 46% from the previous quarter and 83% from Q2 2024.

The average VC deal size in Quebec reached \$8.73 million in H1 2025, below the Canadian average of \$11.40 million. The province ranks fifth nationally .

No publicly disclosed venture capital exits have been recorded in Quebec since the beginning of the year.

KEY FIGURES

Seed stage rebounds in H1 2025 with 29 deals totaling \$79 million.

In the first half of 2025, Quebec represented 24% of all venture capital deals and 18% of total capital invested in Canada.

The average venture capital deal size in Quebec (\$8.73 million) remains below the Canadian average (\$11.40 million).

VENTURE CAPITAL

HIGHLIGHTS



Seed stage rebounds in H1 2025 with 29 deals totaling \$79 million. This stage accounts for 48 % of deal count and 15 % of total funding since the beginning of the year.



In H1 2025, Quebec represents 24 % of venture capital deals and 18 % of total capital deployed in Canada, ahead of British Columbia. Ontario remains the main driver of national VC activity.



Early stage and later stage investment amounts fell by 24% and 35% respectively compared to H1 2024.



The average venture capital deal size in Quebec stands at \$8.73 million in H1 2025, below the Canadian average of \$11.40 million, ranking the province fifth nationally.



With \$169 million invested over 28 deals, the ICT sector recorded its weakest first-half performance since 2015.



A \$30 million growth stage investment involving SRTX Inc. was recorded this quarter, marking the first deal at this stage since 2022.

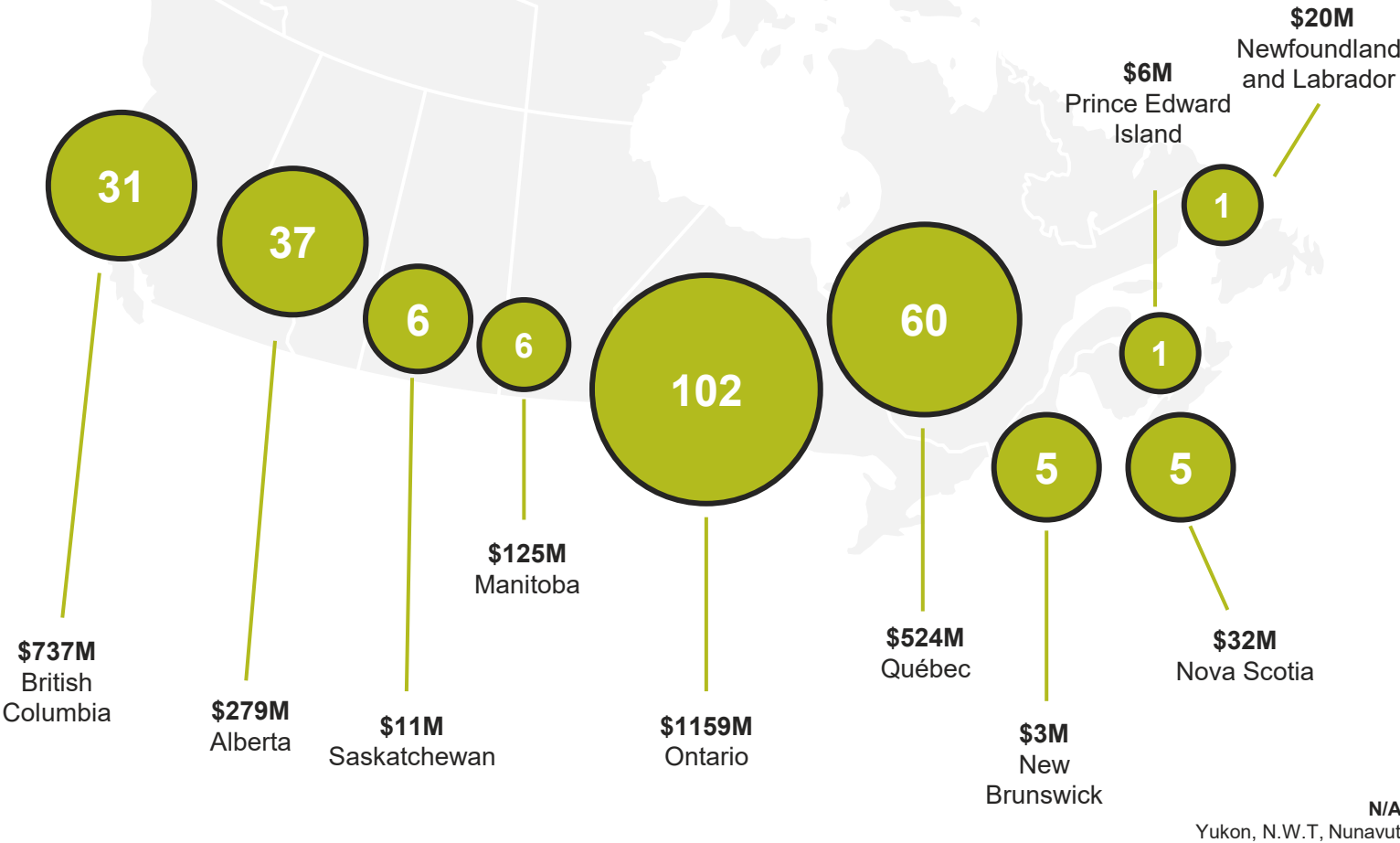
VENTURE CAPITAL

VENTURE CAPITAL HEAT MAP

YEAR-TO-DATE | H1 2025

TOTAL
254 DEALS

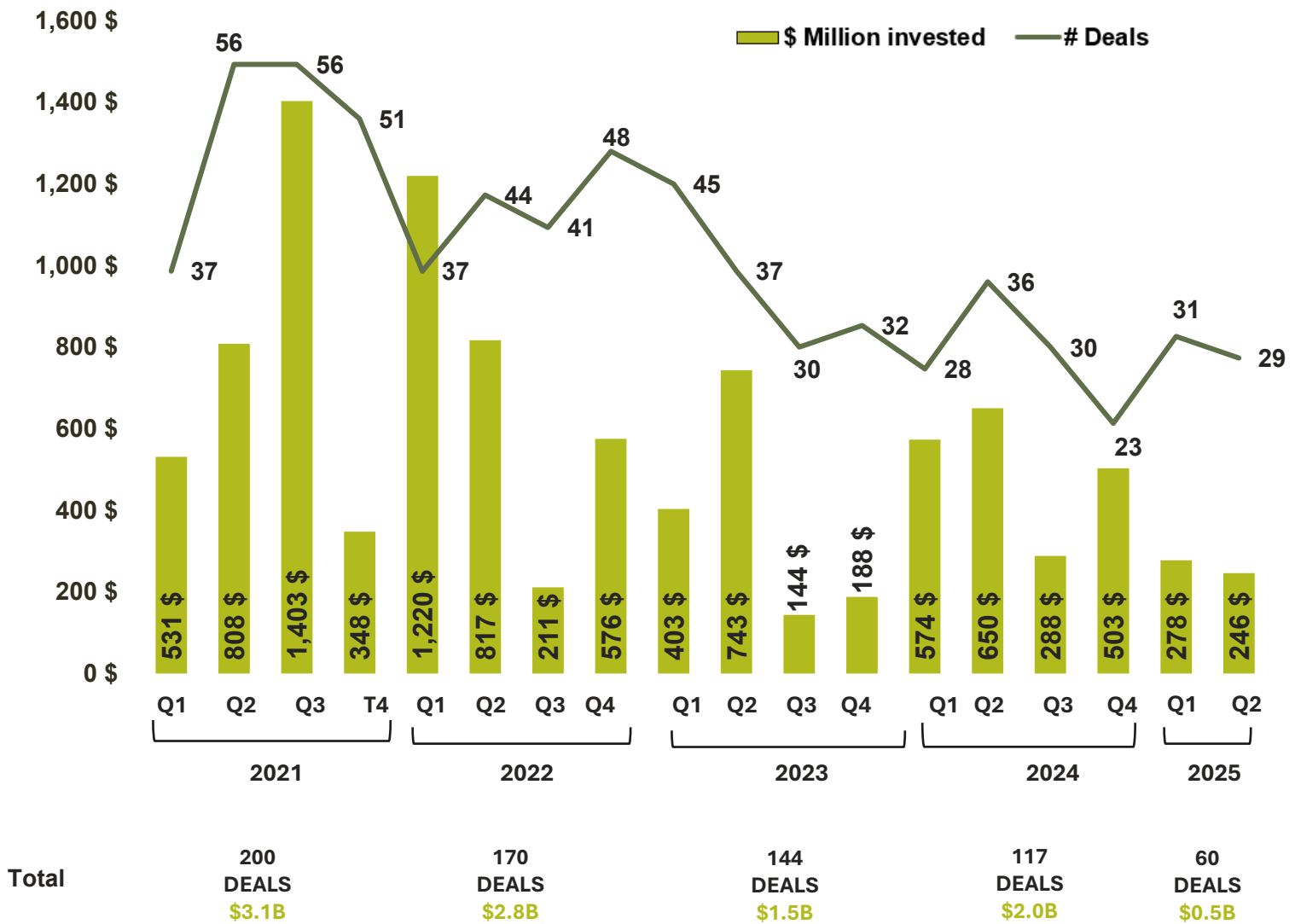
TOTAL INVESTED
\$2.9 BILLION



VENTURE CAPITAL

VENTURE CAPITAL INVESTMENTS

QUARTER-OVER-QUARTER | 2020 – Q2 2025

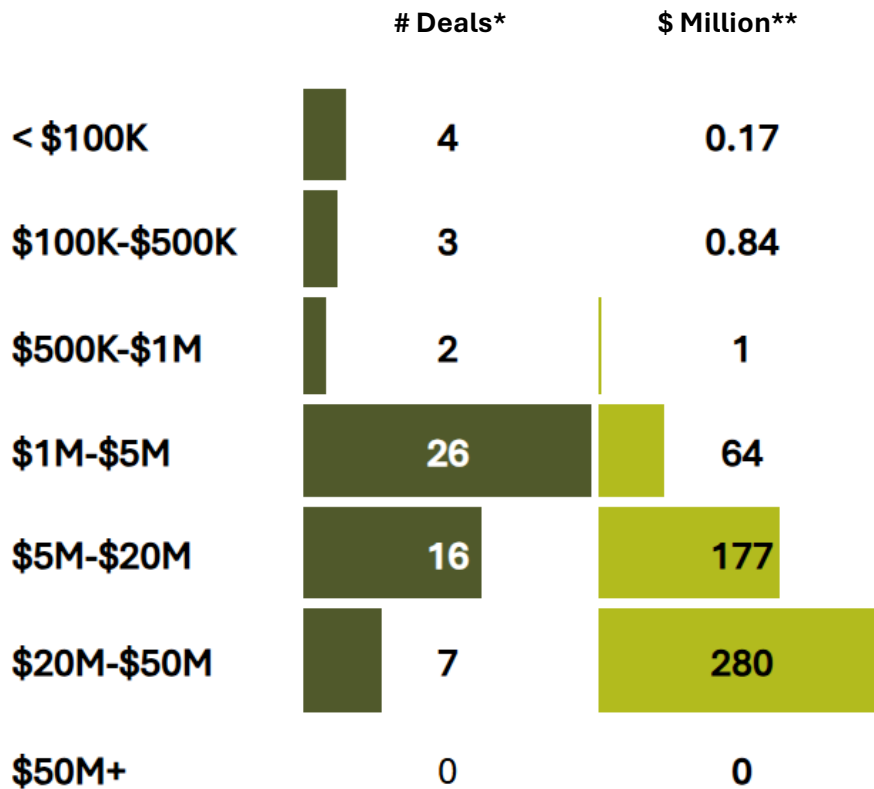


With \$246 million invested over 29 VC deals, Q2 2025 trails both Q1 2025 (31 deals) and Q2 2024 (36 deals), sitting below the long-term average of 36 deals and ranking 40th of 50 quarters since 2013.

VENTURE CAPITAL

VENTURE CAPITAL INVESTMENTS

BY DEAL SIZE | H1 2025



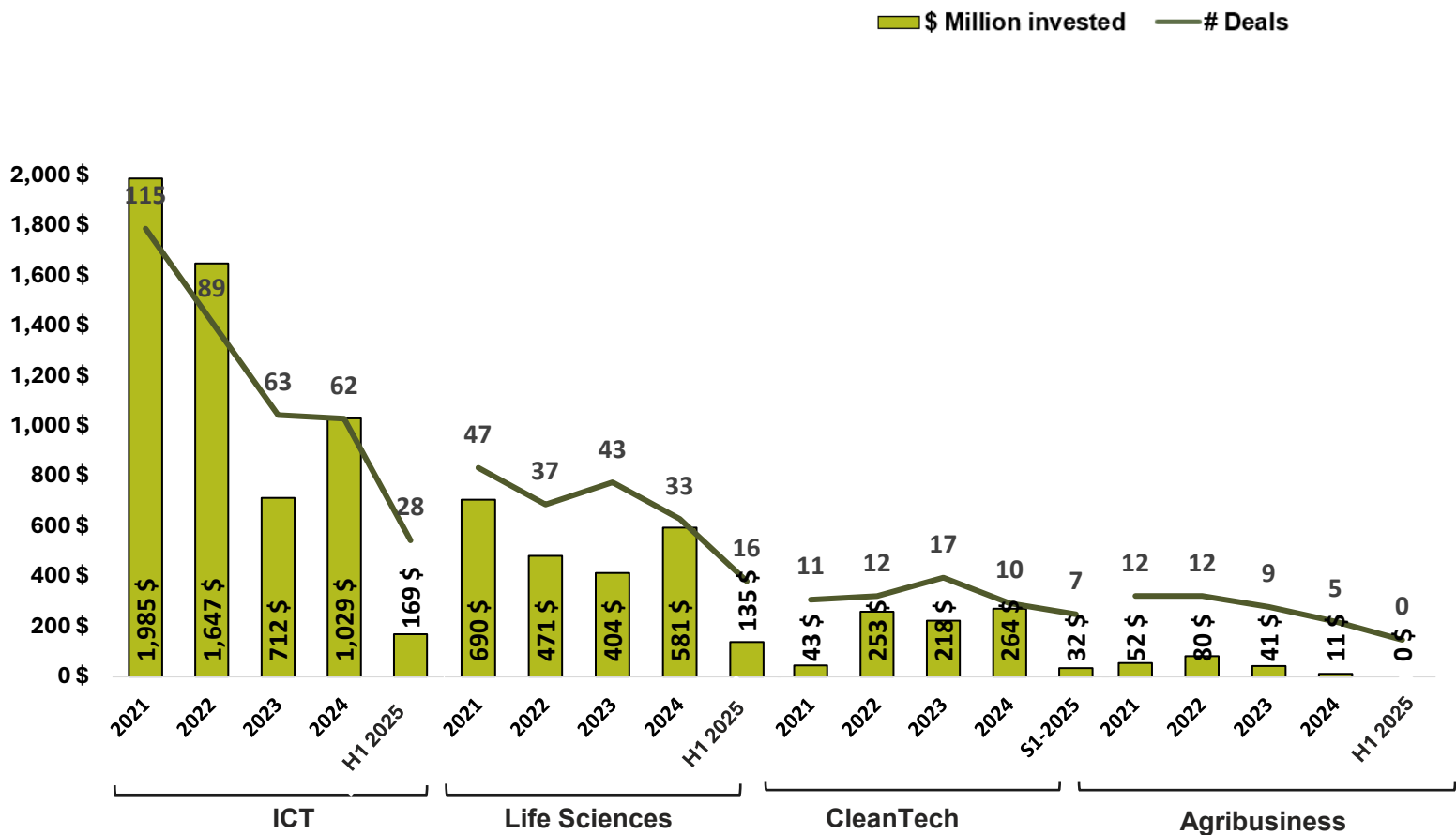
Seed-stage deals account for 48% of all transactions in Québec, above the historical average of 36%.

* Deals with undisclosed values have been removed from this slide
** Total deal value – includes all investors.

Rounds of \$5M or less
represented 60% of disclosed venture capital deal count.

VENTURE CAPITAL SECTOR BREAKDOWN

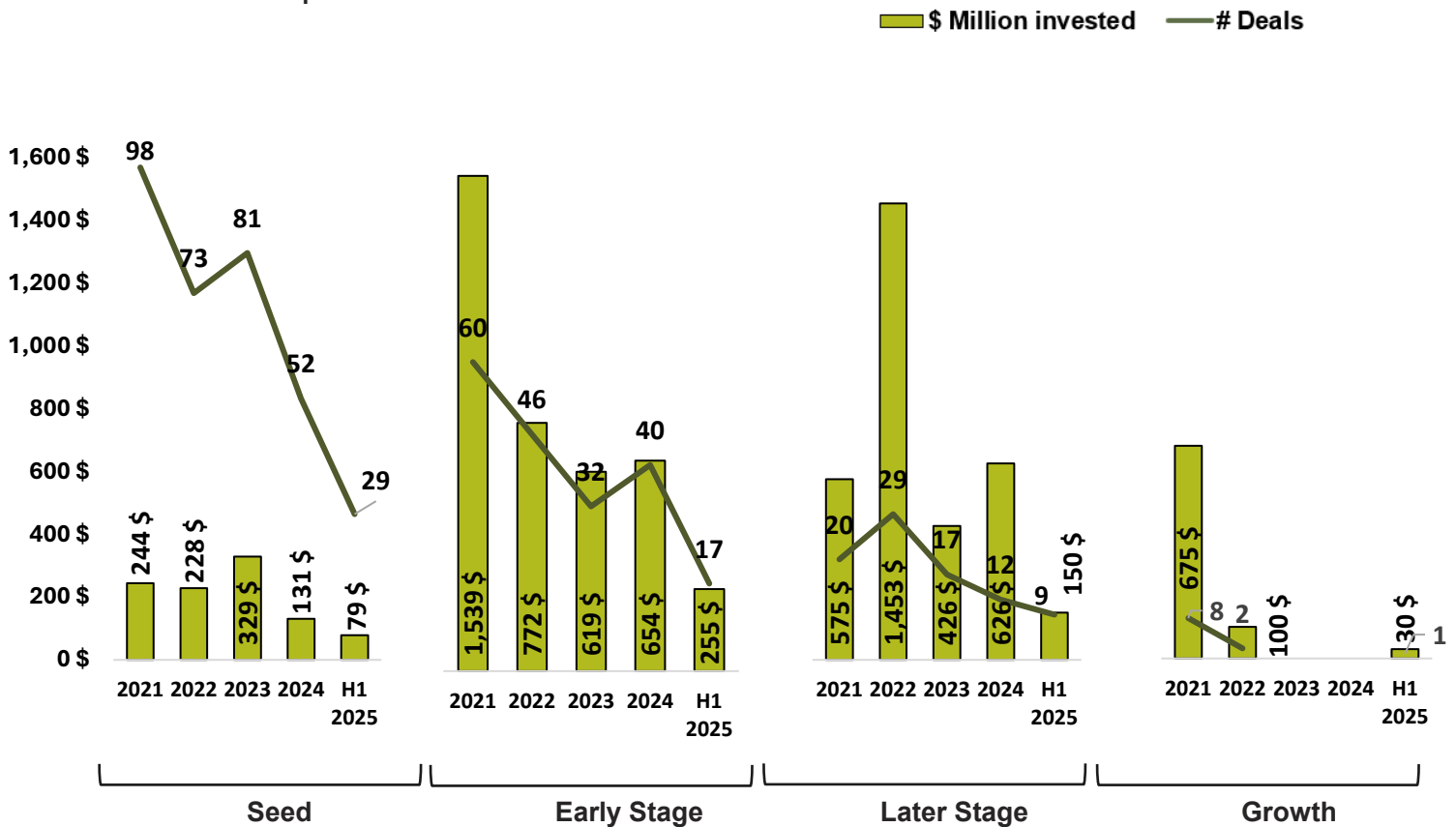
YEAR-TO-YEAR | 2020 – H1 2025



In Q2 2025, ICT led the market with 15 transactions worth \$99 million, representing 52% of deals and 40% of total funding. While investment rose 41% from Q1 2025, it remained 78% lower than in Q2 2024. Life Sciences and CleanTech both experienced significant declines.

VENTURE CAPITAL STAGE BREAKDOWN

YEAR-TO-YEAR | 2020 – H1 2025



*According to the latest CVCA survey, the number of seed-stage transactions for 2024 has been revised upward, increasing from 39 to 52, and from \$112M invested to \$131M invested.

In the first half of 2025, the early stage and later stage experienced declines of 24% and 35% respectively in total funding compared to the first half of 2024. Since 2013, early stage activity for the first half of the year ranks 12th in deal count and 7th in total funding over the past 13 years, while later stage ranks 9th in both categories. The later stage is the only stage showing growth in deal count. Seed stage deal volume was unchanged year-over-year, but funding rose 31%, placing 5th in deal count and 4th in funding over the past 13 years.

VENTURE CAPITAL

TOP DISCLOSED VENTURE CAPITAL EXITS IN QUÉBEC

YEAR-TO-DATE | H1 2025

Company Name	Admin. Centre	Declared investors	Sector	\$M
dcbel	Montréal	Idealist Capital, Canada Growth Fund	Others	79
Puzzle Medical Devices	Montréal	BDC Capital Inc., AQC Capital, Lumira Ventures, Desjardins Capital, Longview Ventures, KF Matheson Investment Holdings	Life Sciences	43
Novisto	Montréal	Teralys Capital, Fondation, Desjardins Capital, Inovia Capital Inc., White Star Capital Inc., Portage Ventures, Diagram Ventures, Scor Ventures	ICT	38
Botpress	Capitale-Nationale	Inovia Capital Inc., Framework Venture Partners, Deloitte Ventures, Decibel Partners LP, HubSpot Ventures	ICT	34
SRTX Inc. (Sheertex)	Montréal	BDC Capital Inc., Investissement Québec, Export Development Canada (EDC), H&M Group	Others	30
Optable Technologies	Montréal	Desjardins Capital, Brightspark Ventures, TELUS Global Ventures, Hearst Ventures, Deloitte Ventures, AsterX Capital	ICT	28
Exterra Carbon Solutions	Montréal	BDC Capital Inc., Investissement Québec, Clean Energy Ventures, MOL Switch, Karpowership	Others	20
Eli Health	Montréal	BDC Capital Inc., Real Ventures, TELUS Global Ventures, Garage Capital, Accelia Capital, Leva Capital, IKJ Capital, Muse Capital, Rocana Ventures, Swizzle Ventures, Nextblue, Foreground Capital	Life Sciences	17
Vessel Funds Inc.	Montréal	Golden Ventures, Inovia Capital Inc., Telegraph Hill Capital (THCAP), Afore Capital, FJ Labs, BY Venture partners, Four Cities Capital	ICT	14
Reaction Dynamics	Montréal	N'a pas été divulgué.	Others	14

There have been no publicly disclosed VC exits in Quebec since the beginning of the year.

VENTURE CAPITAL

MOST ACTIVE VENTURE CAPITAL INVESTORS

YEAR-TO-DATE | H1 2025

5 of the 10 most active investors in Canada are based in Québec.

IN QUÉBEC

IN CANADA

	# Deals	\$ Million
BDC Capital	10	139
Anges Québec	8	61
Fonds de solidarité FTQ	7	35
Fondaction	6	70
Investissement Québec	5	60
Desjardins Capital	5	117
Front Row Ventures	5	9
Inovia Capital	4	98
Telegraph Hill Capital	3	16
AQC Capital	3	48

	# Deals	\$ Million
BDC Capital	25	477
Fonds de solidarité FTQ	7	35
EDC	7	102
Fondaction	5	68
Desjardins Capital	4	113
Deloitte Ventures	4	108
Inovia Capital	4	78
Lumira Ventures	4	76
Investissement Québec	4	55
Garage Capital	4	42

* Total Deals Values – includes all participating investors

VENTURE CAPITAL

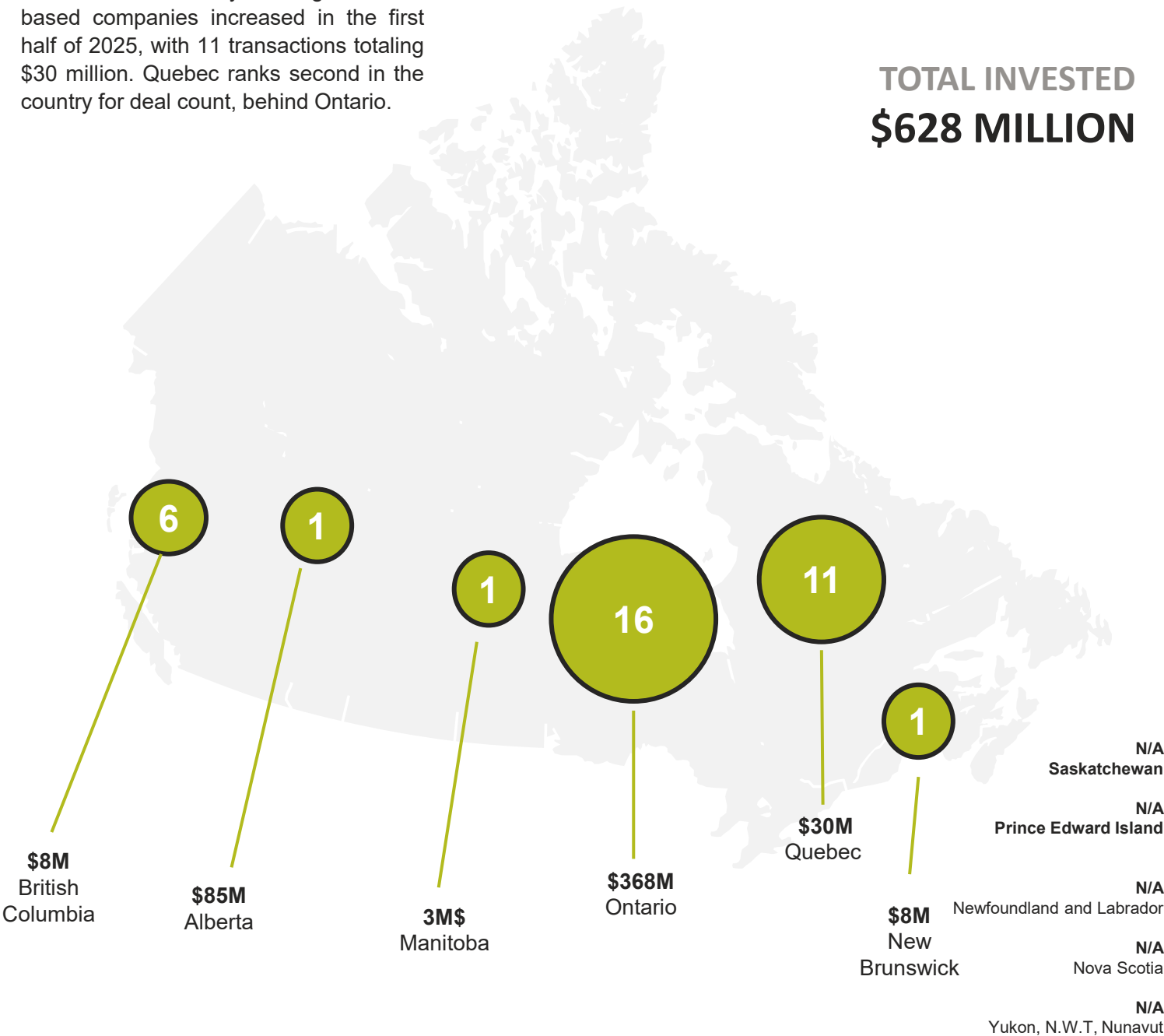
VENTURE DEBT HEAT MAP

YEAR-TO-DATE | H1 2025

Venture debt activity among Quebec-based companies increased in the first half of 2025, with 11 transactions totaling \$30 million. Quebec ranks second in the country for deal count, behind Ontario.

TOTAL
36 DEALS

TOTAL INVESTED
\$628 MILLION



Quebec Private Equity Market Overview

Q2 | 2025



PRIVATE EQUITY

FOREWORD

Quebec experienced an excellent start to the year in private equity, recording the highest invested amounts in the first half of any year since 2013. The province maintains its leading position nationally, representing 60% of deal count and 59% of invested amounts across Canada.

In H1 2025, Quebec recorded \$18.3 billion in private equity investments across 192 deals, ranking fifth in deal count and first in capital deployed among the past 13 first halves since 2013. The average deal size was \$19.27 million in Q2, down from an outlier \$197.19 million in Q1, bringing the semester average to \$95.26 million, slightly below the Canadian average of \$95.82 million, driven higher by Ontario's \$168.25 million average. Quebec and Ontario together represented 99% of private equity capital deployed nationally.

From a sector standpoint, the industrial and manufacturing sector leads in deal count with 66 transactions totaling \$1.98 billion, representing 34% of all deals recorded in Quebec in H1-2025. In terms of capital invested, the "Other" sector dominates with just 2 deals totaling \$14 billion, equating to 77% of all investments made in the province during this period.

While 4 of Canada's 10 largest private equity deals occurred in Quebec, the market remains dominated by smaller transactions, with 61% of disclosed deals valued at \$5 million or less.

Key Figures

Quebec maintains its leading position in private equity, accounting for 60% of deal count and 59% of invested amounts in Canada in H1 2025.

The average deal size decreased in Q2, settling at \$19.27M, bringing the H1 2025 average to \$95.26M per transaction.

PE Activities remains highly concentrated in small transactions, with 61% of deals with disclosed amounts valued at \$5M or less.

** It should be noted that the amounts invested for 10% of transactions recorded during H1-2025 remain confidential.*

PRIVATE EQUITY

HIGHLIGHTS



Since the start of 2025, Quebec has posted a record \$18.3 billion in investments across 192 transactions.



With 60% of Canada's private equity transactions, Quebec leads the country, outpacing Ontario (23%) and British Columbia (10%). It also ranks first in capital deployed, accounting for 59% compared to Ontario's 40%.



The three largest disclosed private equity transactions in Q1 2025 are Garda World Security Corp (\$14 billion), Héroux-Devtek Inc. (\$1.4 billion), and Telus Health (\$488 million).



Quebec posted an average deal size of \$95.26 million in the first half of 2025, the second-highest in Canada.



The industrial and manufacturing sector continues to generate significant deal volume, with 66 transactions totaling \$1.98 billion, while the "Other" sector, driven by the Garda World Security Corp transaction, remains the leader in invested capital. The retail, finance, and life sciences sectors also saw sustained activity.



In the first half of 2025, five of the country's ten most active investors in private equity were based in Quebec.

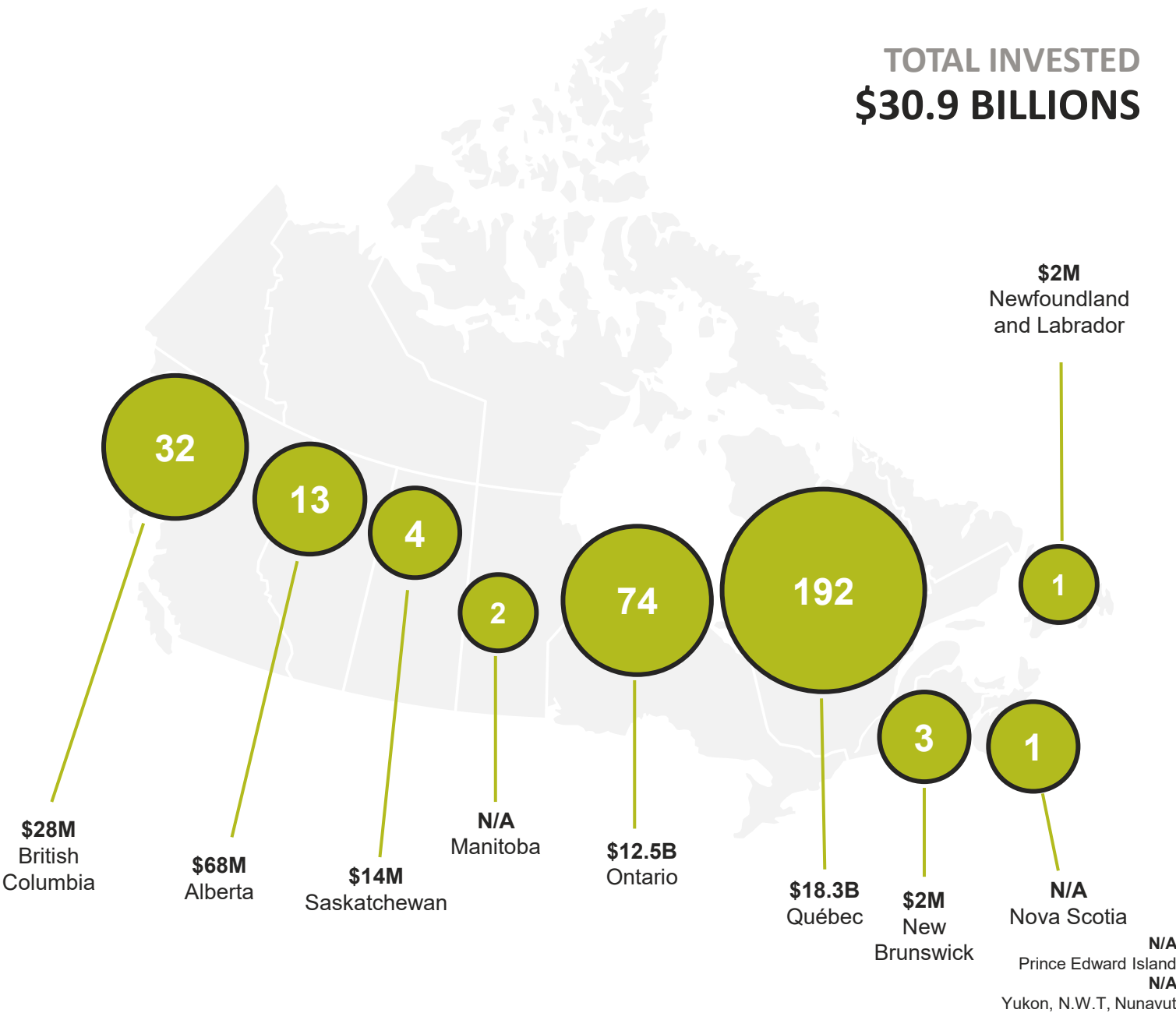
PRIVATE EQUITY

PRIVATE EQUITY HEAT MAP

YEAR-TO-DATE | H1 2025

TOTAL
322 DEALS

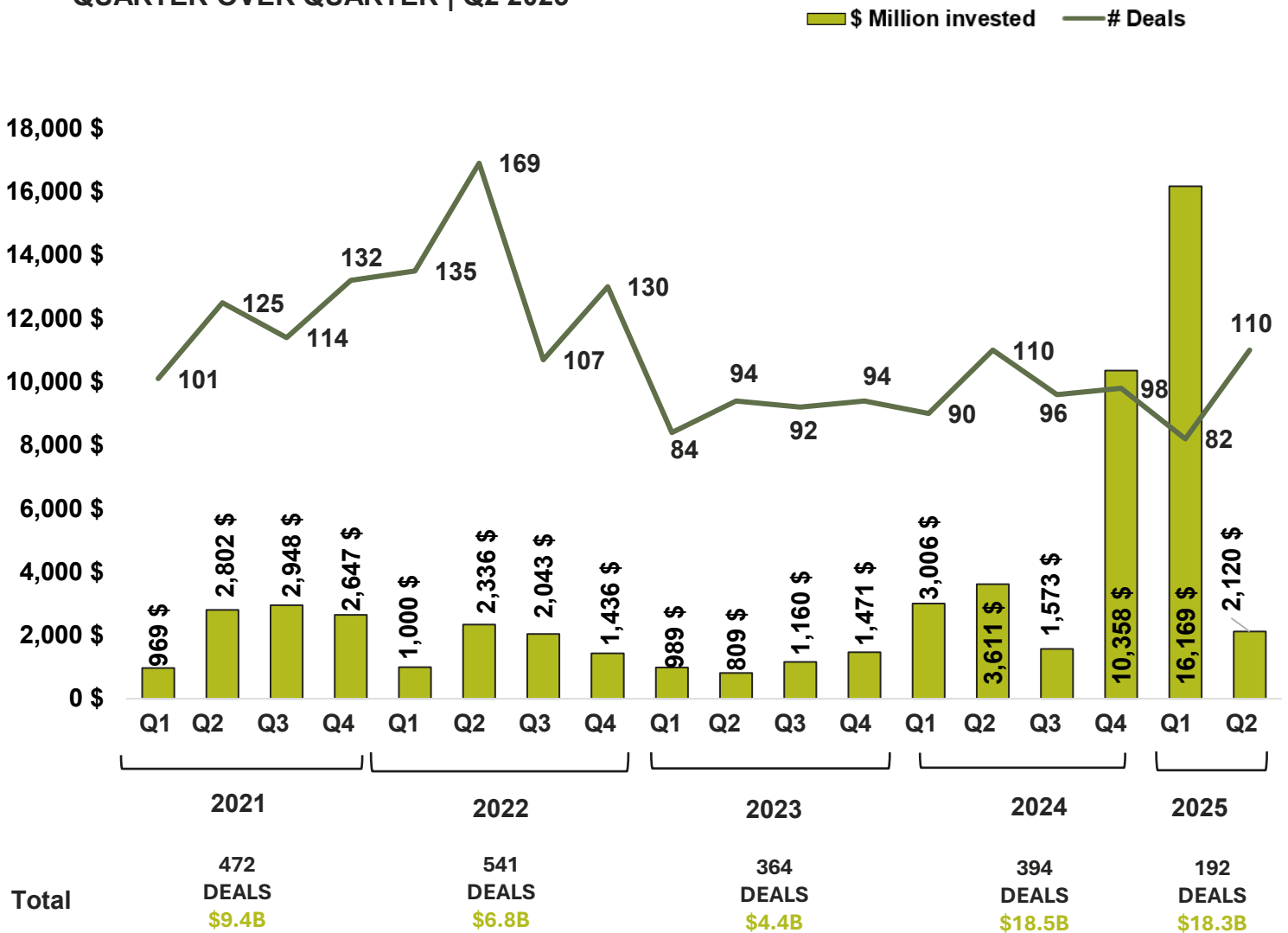
TOTAL INVESTED
\$30.9 BILLIONS



PRIVATE EQUITY

PRIVATE EQUITY INVESTMENTS

QUARTER OVER QUARTER | Q2 2025



In Q2 2025, \$2.1 billion was invested, a steep 87% drop from Q1 2025, ranking 17th among the last 50 quarters and just under the historical quarterly average of \$2.2 billion. However, deal activity surged to 110 transactions, placing 8th since 2013 and up 34% from the previous quarter.

PRIVATE EQUITY

PRIVATE EQUITY INVESTMENTS

BY DEAL SIZE | H1 2025

	# Deals	\$ Million
<\$100K	4	0
\$100K-\$500K	15	5
\$500K-\$1M	22	14
\$1M-\$5M	64	131
\$5M-\$25M	42	465
\$25M-\$100M	14	551
\$100M-\$500M	9	1,774
\$500M-\$1B	0	0
\$1B-\$2.5B	1	1,350
\$2.5B+	1	14,000

Deals of \$100M
or more
accounted for
over 94% of
private equity
total funding.

* Total deal value – includes all investors.

** Deals with undisclosed values have been removed from this slide.

Rounds of \$5M or less
represented account for 61% of the
disclosed private equity transactions
by number.

PRIVATE EQUITY

PRIVATE EQUITY ACTIVITY

BY SECTOR | H1 2025

	# Deals	\$ Million
Industrial & Manufacturing	66	1,978
Consumer & Retail	27	496
ICT	19	194
Agri-Forestry	17	203
Financial	16	305
Automotive & Transportation	12	97
Business Products & Services	11	27
Life Sciences	10	646
Oil & Gas, Power	4	308
Mining & Resources	4	26
CleanTech	3	9
Others	2	14,002
Real Estate	1	1

The \$14B transaction involving Garda World Security Corp. is the largest private equity deal ever recorded in Québec.

*Total Deals Values – includes all participating investors

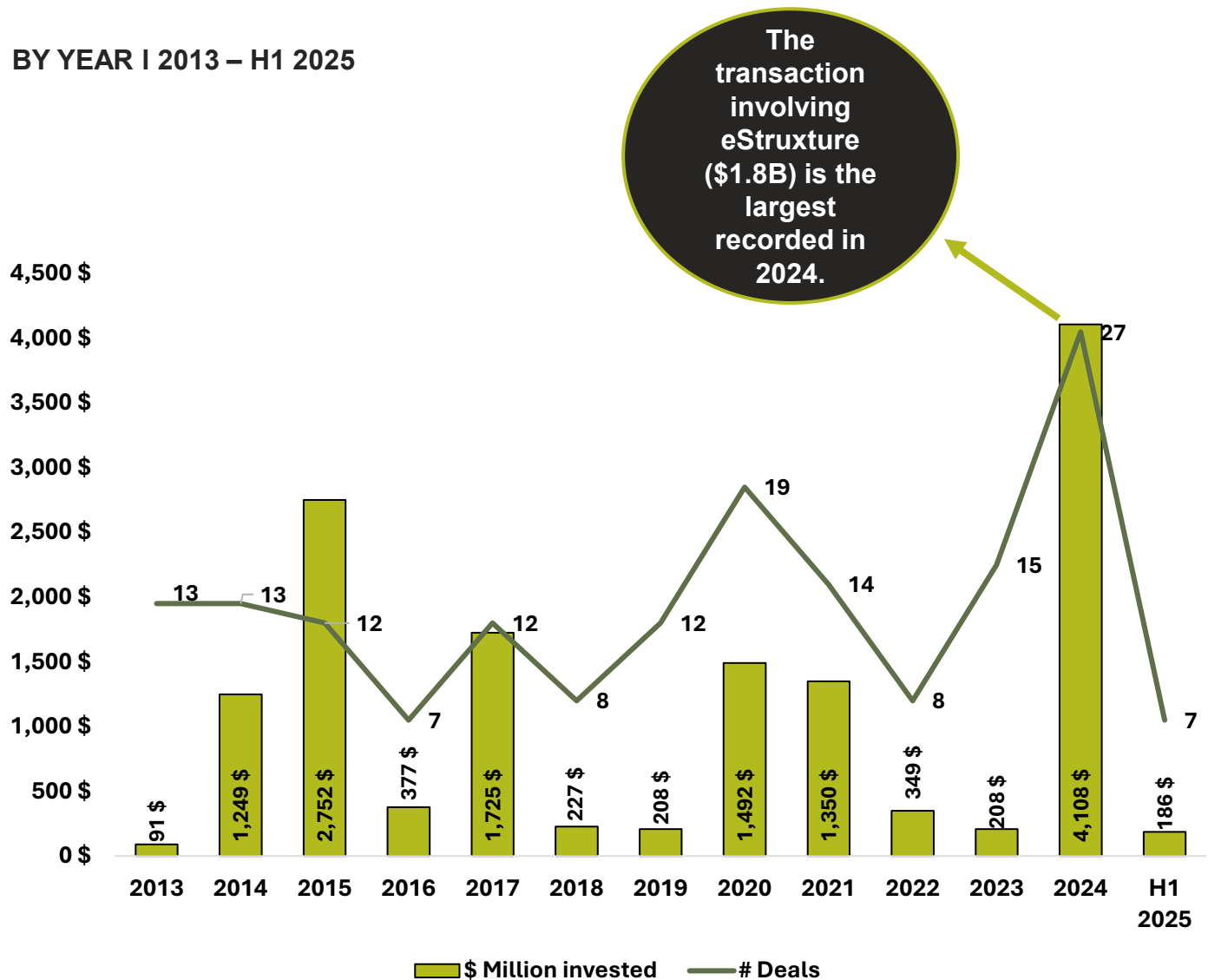
** Deals with undisclosed values have been removed from this slide.

The industrial and manufacturing sector, with 66 transactions totaling \$1.98 billion, maintains its dominance in terms of deal count, representing 34% of all private equity deals in Quebec. Meanwhile, the "others" sector, with 2 transactions totaling \$14 billion, ranks first in terms of total funding, accounting for 77% of total investments recorded in Quebec since the beginning of 2025.

PRIVATE EQUITY

BUYOUT INVESTMENTS

BY YEAR | 2013 – H1 2025



The first half of 2025 in buyouts in Quebec, with 7 transactions totaling \$186 million, ranks 4th out of the 13 first halves of the year since 2013 for the number of transactions, and 8th for capital invested.

PRIVATE EQUITY

TOP DISCLOSED PRIVATE EQUITY EXITS IN QUÉBEC

YEAR-TO-DATE | H1 2025

Company Name	Admin. Centre	Declared investors	Sector	\$M
Garda World Security Corp.	Montréal	BC Partners, HPS Investment Partners, Oak Hill Advisors (OHA), One Investment Management (OneIM)	Others	14,000
Héroux-Devtek inc.	Montréal	La Caisse, Fonds de solidarité FTQ, Platinum Equity, LLC	Industrial & Manufacturing	1,350
TELUS Health	Montréal	GTCR, LLC	Life Sciences	488
Boralex Inc.	Centre-du-Québec	La Caisse, Fondation	Oil & Gas, Power	250
Groupe Germain Inc.	Capitale-Nationale	Investissement Québec, La Caisse, Fonds de solidarité FTQ	Others	160
Trencap s.e.c.	Montréal	Fonds de solidarité FTQ	Oil & Gas, Power	53
Groupe Lebel Inc.	Bas-Saint-Laurent	Fonds de solidarité FTQ	Agri-Forestry	50
Amilia App / Les Entreprises Amilia Inc.	Montréal	Investissement Québec, Export Development Canada (EDC), Canadian Business Growth Fund (CBGF), Vertu Capital	ICT	36
Namakor Holdings	Montréal	Fonds de solidarité FTQ	Finances	29
Norda Stelo Inc.	Capitale-Nationale	La Caisse	Industrial & Manufacturing	28

No publicly disclosed exits in private equity have been recorded in Quebec since the beginning of 2025.

PRIVATE EQUITY

MOST ACTIVE PRIVATE EQUITY INVESTORS

5 of the 10 most active private equity investors in Canada are based in Quebec.

IN QUÉBEC

	# Deals	\$ Million
Fonds de solidarité FTQ	102	2,736
Desjardins Capital	34	801
Investissement Québec	26	686
Fondaction	17	431
BDC Capital	13	217
La Caisse	8	1,928
Viking Global Investors	7	N/A
Coatue Management	7	N/A
EDC	5	166
Novacap Management	3	269

IN CANADA

	# Deals	\$ Million
Fonds de solidarité FTQ	102	2,736
BDC Capital	52	355
Desjardins Capital	35	801
Investissement Québec	27	686
Fondaction	17	431
Peloton Capital Management	12	N/A
La Caisse	10	8,928
EDC	8	192
Coatue Management	7	N/A
Viking Global Investors	7	N/A

* Total deal values – including all investors.

Legal Note

presented by
Stikeman Elliott



MERGERS & ACQUISITIONS

Stikeman Elliott

Deal-Making Amid Trade Tensions: Navigating M&A Risk in 2025

*Hélia Taheri, Jean-Guillaume Shooner, Candace Cerone, David Feldman and Trevor Rowles –
Stikeman Elliott LLP*

The first half of 2025 has seen significant uncertainty and escalating trade tensions between Canada and the United States, driven by new tariffs and shifting regulatory policies. Despite these challenges, Canadian M&A activity has remained robust, with deal volume and value holding steady. This article explores the strategies Canadian dealmakers are using to navigate these risks and successfully close transactions in a volatile environment.

Background

An initial U.S. executive order, issued on February 1st, imposed a 25% tariff on all Canadian goods, other than energy, and a 10% tariff on Canadian energy. These tariffs were subsequently postponed, briefly came into force, then were substantially softened by excluding goods that qualify as originating in Canada under Canada's existing free trade agreement with the U.S. and Mexico (CUSMA), and increased to 35% on August 1st. While the impact of these general tariffs has, to date, been limited by the exclusion of CUSMA-qualifying goods, the U.S. has also imposed sector-specific tariffs on autos and auto parts (25%), steel and aluminum (initially 25%, increased to 50% on June 3rd), potash (10%) and effective August 1st, certain copper products (50%). Finally, on July 25th, the U.S. Department of Commerce also announced that, effective immediately, the rate of anti-dumping duties applicable to Canadian softwood lumber for most Canadian companies would increase to 20.56%. Canada responded with a first phase of 25% surtaxes on \$30 billion of U.S. goods effective March 4th, an additional \$29.8 billion in countermeasures in response to the U.S. steel and aluminum tariffs which took effect on March 13th, and reciprocal tariffs on U.S. autos.¹

¹ For further details, see : <https://stikeman.com/en-ca/kh/canadian-ma-law/back-and-forth-levies-north-american-trade-war-us-tariffs-and-canada-countermeasures-update>

MERGERS & ACQUISITIONS

The initial tariff announcements led market participants to approach M&A transactions in affected businesses more cautiously. As further discussed below, Canada's Minister of Innovation, Science and Industry went so far as to state that "[a]s a result of a rapidly shifting trade environment, some Canadian businesses could see their valuations decline, making them susceptible to opportunistic or predatory investment behaviour by non-Canadians." Canadian M&A has, however, proven remarkably resilient in the first half of the year, with LSEG Data & Analytics reporting an 88% increase in M&A deal value and 5% increase in volume as compared to the first half of 2024. While strong demand in sectors of the economy less impacted by tariffs, as well as opportunistic purchases by deep-pocketed acquirers, may largely explain these numbers, parties in affected industries have also been finding ways to manage risk and bridge valuation gaps in order to get deals done.

Due Diligence

Against this backdrop, a focused and adaptable due diligence process has become essential to identifying and managing the unique risks presented by today's evolving and uncertain trade and regulatory environment. In particular, supply chain risk, while already an area of focus coming out of the post-pandemic global logistics disruptions, has become a heightened area of focus in M&A transactions.

For example, for Canadian businesses that rely on U.S. suppliers, an assessment of the impact of Canada's enacted or proposed countermeasures and, if applicable, any available remission relief, is necessary. For a Canadian target that exports to the U.S., a buyer may need to consider whether the target's products qualify for preferential tariff treatment under CUSMA and whether the business has robust processes in place to maintain and document compliance, which may involve reviewing certifications of origin, supplier declarations, and internal compliance protocols. M&A due diligence also increasingly involves examining the Harmonized System tariff classification of the target's highest-volume imports to determine exposure to Canadian surtaxes and whether the target's supply chain can be adjusted to source products economically from outside the U.S. If so, it is important to evaluate what such a transition would entail post-closing.

Potential acquirors, as well as businesses themselves, are also carefully examining how customer and supplier contract terms may allocate liability for any increase in cost of supply due to U.S. tariffs or Canadian surtaxes. On occasion, commercial contracts will provide for the flow-through of increased duties, tariffs and surtaxes or include force majeure clauses that are drafted broadly enough to allow for non-performance if such costs make performance uneconomical. However, particularly in the case of long-term commercial relationships, there may be considerations beyond the contract terms as to whether increased tariff and/or surtax costs can or should be passed on to a counterparty. As such, reviewing the target's history of renegotiating contracts in response to past disruptions can provide valuable insight into how well it might be able to manage any current or future tariff-related shocks.

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MAE and Other Conditions to Closing

A key tension in negotiating M&A transactions with an interim period is that sellers will often prioritize closing certainty while buyers seek some form of protection from unexpected intervening events that could undermine the value of the target's business.

Traditionally, one way of balancing these competing interests has been to include a condition to closing that no "material adverse effect" (MAE) shall have occurred in respect of the target during the interim period, but to define this term so as to exclude most macro events that could broadly affect the industry in which the target operates (such as changes in economic or political conditions, changes in laws, natural disasters, wars, etc.), so long as such macro events do not have a disproportionate effect on the target as compared to other companies in its industry (known as the "disproportionate effect carve-in").

Increasingly, we are seeing changes to tariffs or similar trade war-related items specifically listed as exceptions to the MAE definition. Arguably, a specific callout of tariff measures is not necessary, given that these are effected via changes in laws and result from, and in, various other macro conditions and events that are typically listed in the carveouts, although it is entirely customary for these lists to grow in detail with each notable macro event (with "including Covid-19" still finding its way into many such lists). In addition, the case law makes clear both that it is a very high bar to establish that a MAE has occurred, and that if it results from a macro event, a court will typically find that one or more carveouts apply. As such, for buyers seeking protection from tariff-related value destruction during the interim period, specifically tailored closing conditions or purchase price adjustment mechanisms that address their concerns would typically offer better protection.

The pandemic-related busted deal litigation does, however, contain some important lessons for sellers seeking to tighten up their closing certainty. In particular, the reference industry for the purposes of the disproportionate effect carve-in can have a significant impact. This was the crucial question in *Travelport Ltd & Ors v WEX Inc* [2020] EWHC 2670, where the buyer argued that the COVID-19 pandemic had a MAE on the target, and that the target could not benefit from the exclusion in the MAE definition for "conditions resulting from... pandemics" because the disproportionate effect carve-in applied. There, the vendors argued that the target entities were in the "travel payments" industry, and therefore that there was no disproportionate effect, whereas the buyer argued that there was no such industry and that the target was in the broader "B2B payments" industry. The English High Court agreed with the buyers, which led to a negative outcome for the vendors. A similar scenario could be imagined, for example, if a Canadian-based target sold its products primarily into the U.S. and became subject to tariffs but in an industry where the bulk of its competitors were based in the U.S. In such a scenario, the parties should negotiate the reference industry for their disproportionate effect carve-in with a clear understanding of what the impact of announced or new tariffs coming into force could be on the target in relation to that industry.

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Similarly, sellers should look to scope their interim period operating covenants, including their obligation to operate the target in the ordinary course of business, so as to give themselves sufficient flexibility to make changes that may be needed to respond to the shifting trade environment. In *AB Stable VIII LLC v. Maps Hotels and Resorts One LLC*, C.A. No. 2020-0310-JTL (Del. Ch. Nov. 30, 2020), the buyer was unsuccessful in arguing that the pandemic caused an MAE in the target's business that would allow for the termination of the acquisition, but was successful in arguing that the drastic steps taken by the target's hotel business in response to the pandemic constituted a breach of the seller's covenant to operate the business in the ordinary course. For targets that could be impacted by announced or new tariffs during the interim period, sellers will want to ensure that the interim period covenants do not constrain them from being able to make necessary changes to preserve their business.

Earnouts

A typical way of bridging valuation gaps in the face of the uncertain future performance of a business is through the use of earnouts or reverse earnouts, such that the purchase price can be increased or reduced based on financial or other results of the business over a specified period of time post-closing. Where there are disagreements over value in the face of an uncertain trade environment, earnouts are a logical solution; however because earnout payments are generally based on the performance of the target business over a relatively short period of time (typically one to three years), parties need to be mindful of the impact that temporary changes in trade flows could have during the earnout period. For example, if high tariffs and counter-tariffs were imposed for a period of a few months but then eliminated pursuant to a trade deal, this could have a material but temporary impact on a target business's financial results which may not be representative of the long-term value of the business. This could be particularly detrimental for a seller who had agreed to a short earnout period.

In addition to longer earnout periods (which come with their own set of challenges), such challenges can be addressed through mechanisms such as provisions that address the impact of trade wars, tariffs, or government actions as force majeure events that pause, extend, or otherwise modify the earnout period or calculation, or through specific adjustments to the earnout calculation to exclude or modify the impact of tariffs. However, as with any earnout provision, careful drafting is of paramount importance given that these provisions often lead to post-closing disputes, having been famously described as a means of converting "today's disagreement over price into tomorrow's litigation over the outcome".

Regulatory Context

The trade war, and concerns that its negative impacts on the Canadian economy could subject Canadian companies "to opportunistic or predatory investment behaviour by non-Canadians" also led Innovation, Science, and Economic Development Canada to update its *Guidelines on the National Security Review of Investments* by adding "economic security" as a factor that can be considered by the Minister or Cabinet when making a decision on a national security review.

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While not in fact a significant expansion or change in the Minister's review power, nor a fundamental shift in the Canadian government's approach to foreign investment review, the update to the *Guidelines* has garnered significant attention, and has given buyers some pause in their approach to Canadian regulatory approvals for transactions that would have historically been viewed as extremely low risk from a Canadian approvals perspective. This has even led some buyers to seek upfront clearance for certain transactions under the *Investment Canada Act* where not otherwise required to do so – an approach that can significantly delay the closing of a transaction, and not a decision that should be taken lightly.

Conclusion

In summary, the first half of 2025 has demonstrated the resilience and adaptability of Canadian dealmakers in the face of unprecedented trade tensions and regulatory uncertainty. While new tariffs and evolving government policies have introduced significant complexity into the M&A landscape, parties have responded with creative risk allocation strategies, enhanced due diligence, and careful negotiation of deal terms. The regulatory environment, particularly with the heightened focus on economic security, adds another layer of consideration for both buyers and sellers. As the trade and policy environment continues to evolve, successful transactions will depend on early identification of risks, robust scenario planning, and flexible deal structures that can withstand ongoing volatility. By remaining vigilant and adaptable, Canadian businesses and their advisors can continue to find opportunities and close deals, even in challenging times.

APPENDICES



METHODOLOGY

VENTURE CAPITAL

Verified completed equity, quasi-equity venture capital and venture debt deals only (non-equity or project-based government funding, pharmaceutical development deals, venture capital-backed acquisitions, and angel financing are not included). All figures are in CAD unless otherwise specified.

VENTURE CAPITAL DEVELOPMENT STAGES

Venture debt	Short-to-medium term, non-dilutive debt instrument with no equity rider.
Seed stage	Company has a concept or product under development but is probably not fully operational.
Early stage	Company has a product or service in testing or pilot production. In some cases, the product may be commercially available.
Later stage	Product or service in production and commercially available. Company is generating on-going revenue, but not necessarily, profitable.
Growth	Significant minority investment to drive growth and scale which can be combined with a secondary transaction to facilitate liquidity for existing venture capital investors.

VENTURE CAPITAL SECTORS

ICT	Computer hardware and software and services, Internet software or services, ecommerce, electronics and semiconductor. mobile and telecom technologies and services.
Life Sciences	Biotech, medical devices, pharmaceuticals, ehealth, health products and services, and other medical related products and services.
CleanTech	Energy and fuel technologies, efficiency and conservation, renewal energy, environmental technologies and other energy and environmental products and services.
Agribusiness	Traditional and advanced agricultural technologies and services.

METHODOLOGY

PRIVATE EQUITY

Dataset includes only completed private equity deals (announced but yet to be completed deals are not included).

PRIVATE EQUITY DEAL TYPE

Buyout	Investment for the control of a portfolio company, including platform creation, secondary buyout.
Add-on	Corporate acquisitions by majority controlled private equity backed portfolio company.
Growth	Significant minority investment into a portfolio company, through new capital infusion and recapitalization.
Debt	Debt investment into portfolio companies.
Infrastructure	Investments into development and management of infrastructure assets but private equity does not own the underlying assets.

PRIVATE EQUITY SECTORS

Agri-forestry	Agriculture, foods and forestry
Automotive & Transportation	Transportation, logistics and related services
Business products & services	Business products and services
CleanTech	Energy and fuel technologies, efficiency and conservation, renewal energy, environmental technologies & other energy and environmental products and services.
Consumer & Retail	Consumer products and services, brick and mortar retail
Financial	Financial services
ICT	Computer hardware/software and services, Internet software and services, ecommerce, electronic and semiconductor, mobile & telecom, and services
Industrial & Manufacturing	Equipment and material manufacturing
Life Sciences	Biotech, medical devices, pharmaceuticals, ehealth, healthcare products and services, and other medical related products and services
Mining & Resources	Non oil and gas natural resources
Oil & Gas, Power	Oil & gas, power and utilities
Real Estate	Property development and management

PARTICIPATING DATA CONTRIBUTORS

RÉSEAU CAPITAL THANKS THE FIRMS WHO PARTICIPATED IN THE Q2 2025 SURVEY.

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ABOUT

RÉSEAU CAPITAL

OUR ORGANISATION

Réseau Capital, the Québec Venture Capital and Private Equity Association, is the only private equity association that brings together all stakeholders involved in the Québec investment chain.

Founded in 1989, Réseau Capital represents private equity, tax-advantaged and public investment companies as well as banks, accounting and law firms, along with many professionals working in the field.

OUR MISSION

Our mission is to contribute to the development and efficient operation of the private equity industry, which plays a major role in the development and financing of businesses in Québec.

For more information, visit: reseaucapital.com or contact: info@reseaucapital.ca

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CVCA's mission is to help our members fuel the economy of the future by growing the businesses of today. We do this by supporting and connecting a vibrant private capital industry with advocacy, research, and education. CVCA is also the nation's ultimate resource for data on Canadian private capital investments.

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