



Funding Your Fintech: Navigating the Drought in Canadian Venture Capital

Barbara Hendrickson

Robb Miller

BAX Securities Law

October 23, 2025

Disclaimer

- This presentation is informational only. It is not legal advice.
- Do you need legal advice? If so, let's speak.

Tel: 416.601.1004

bhendrickson@baxsecuritieslaw.com

rmiller@baxsecuritieslaw.com

Capital Raising Challenges in Canada

A photograph of a large, white iceberg floating in dark blue water. The iceberg is on the left side of the slide, and its reflection is visible in the water below it.

- Currently global geopolitical uncertainty combined with the impact of new and threatened Trump tariffs on Canadian businesses and resources has impacted the Canadian capital markets.
- Canadian fintechs are facing a “venture drought.” Early-stage and growth capital is harder to come by than at any point in the past decade.
- Many founders are now looking beyond traditional VC for creative financing solutions—whether that’s revenue-based financing, strategic partnerships, or leveraging government programs.

Capital Raising Challenges in Canada

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- Currently global geopolitical uncertainty combined with the impact of new and threatened Trump tariffs on Canadian businesses and resources has impacted both the Canadian and Ontario capital markets.
- The recently updated Ontario Securities Commission (OSC) initiatives to support capital-raising for early-stage Ontario businesses: TestLab: Early-Stage Capital Raising, which was originally [announced in May 2024](#).

Capital Raising Challenges in Canada

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- OSC TestLab consulted with over 500 stakeholders for feedback on the initiatives through surveys, focus groups, roadshows, and one-on-one engagements. This includes early-stage businesses, angel investor groups, exempt market dealers, legal and advisory professionals, and innovation hubs.
- OSC TestLab gathered data and information and much of this feedback has been reflected in the updates and extensions to our capital-raising initiatives for early-stage Ontario businesses.
- These initiatives will be discussed later in this presentation.

Cross-Border Approach: Raising Capital Beyond Canada

A photograph of a large, white iceberg floating in dark blue water. The iceberg is partially submerged, with its reflection visible on the water's surface. This visual metaphor likely represents the hidden complexities and opportunities of cross-border capital raising.

- For many Canadian fintechs, cross-border capital is the difference between scaling and stalling. But the cross-border context adds layers of complexity and opportunity.
- Many Canadian fintechs structure raises to attract US and global investors including those from the UK and EU.
- Canadian raises typically rely on the “accredited investor” exemption, but securities issued to US investors must also comply with US private placement rules (e.g., Reg D, Rule 144A).

Cross-Border Approach: Raising Capital Beyond Canada

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- Both regimes impose resale restrictions and require careful coordination to avoid tripping US registration requirements or Canadian prospectus obligations.
- Cross-border investors often negotiate for US-style rights (registration, anti-dilution, board seats)
- Cross-border capital is available, but structuring these deals requires careful navigation of both Canadian and US securities laws and regulatory approval regimes.

A large iceberg floats in dark blue water, with its reflection visible below. The iceberg is white and jagged, contrasting with the deep blue background.

Structuring your Raise

Common Structural Approaches

- Structure offering to satisfy Canadian prospectus exemptions (accredited investor, OM, etc.)
- Parallel compliance with US Reg D/S for US investors
- UK/EU qualified investor exemptions for European capital
- Advantages: Simpler structure, Canadian tax benefits, government program eligibility
- Trade-offs: More complex securities compliance

US Private Capital Exemptions



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Regulation	Key Feature	Fintech Sweet Spot
Reg D (506(b/c))	Unlimited raise, accredited investors	Series A/B rounds, institutional VC
Reg A/A+	Up to \$75M, retail investors	Consumer fintech, crowdfunding hybrid
Reg CF	Up to \$5M, true crowdfunding	Early-stage, community-driven fintechs
Reg S	Offshore offerings	International expansion, non-US investors

An iceberg floating in dark blue water, with its reflection visible below the surface.

US Reg D –

The VC Workhouse

"Where Most Fintech VC Happens"

- **506(b)**: Up to 35 non-accredited + unlimited accredited
 - *Perfect for*: Seed rounds with founder networks
- **506(c)**: Unlimited accredited only, general solicitation allowed
 - *Perfect for*: Marketing to institutional VCs, demo days
- **No SEC review required** - file Form D within 15 days
- **State law preemption** for 506 offerings

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Resale Restrictions

The Hidden Complexity in Cross-Border Raises

When Canadian fintechs raise capital from US or international investors, resale restrictions become a critical—and often overlooked—compliance issue. Both Canadian and US securities laws impose holding periods and transfer restrictions that must be carefully coordinated.

Canadian Resale Rules (NI 45-102)

Key Principle: Securities acquired under a prospectus exemption are subject to resale restrictions

Indefinite hold period unless the issuer becomes a reporting issuer

Legending requirements must be complied with to ensure shares become freely tradable if the issuer goes public

Complex rules that generally prevent free trading until reporting issuer status is achieved

Resale Restrictions

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US Resale Rules (Rule 144 & Reg D/S)

Reg D Securities:

Minimum 6-month holding period for reporting companies

12-month holding period for non-reporting companies

Must comply with volume limitations and manner of sale requirements

Reg S Securities:

6-month holding period for foreign issuers

Cannot flow back to US investors during restricted period

Requires offshore transaction compliance

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US Reg A+

"Mini-IPO" for Consumer Fintech

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"Retail Investor Access with SEC Oversight"

- **Tier 1:** Up to \$20M (state review required)
- **Tier 2:** Up to \$75M (federal preemption)
- **Key advantages:** Marketing before qualification, retail investors
- **Fintech use cases:**
 - Consumer apps seeking brand awareness
 - Community banking/lending platforms
 - Crypto/blockchain projects (with caveats)
- **Trade-off:** SEC review process (3-6 months)

US Reg CF

True Crowdfunding for Fintech

A graphic of a white iceberg floating on a dark blue surface, with its reflection visible below.

- *"\$5M from the Crowd - No Accreditation Required"*
- **Raise up to \$5M** in 12-month period (increased from \$1.07M in 2021)
- **Anyone can invest** - no accreditation requirement
- **Investment limits:** \$2,500 or 5% of income/net worth (whichever is greater)
- **Must use SEC-registered funding portal** (not broker-dealers)

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US US Fintech Venture Investment

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US Fintech Funding by Stage (2024-H1 2025)

"Bigger Checks, Fewer Deals, Tougher Market"

- US Fintech Market Overview (2024)
- **Total Funding:** \$33.7B globally (down 20% YoY)
- **Deal Count:** 3,580 deals (down 17% YoY)
- **Key Trend: Median deal size jumped 33% to \$4M**
- **Mega-rounds:** 73 rounds >\$100M raised \$12B total

US Fintech Venture Investment

Stage	Activity Level	Key Metrics	Trend
Seed	 Slowing	• Avg 41 deals/quarter • \$112M/quarter • Median: \$3.1M deals • Median valuation: \$11.5M	Lowest since Q1 2019
Series A	 Mixed	• Deal count recovered Q2-Q3 • Capital lagging 2023 • Median valuation: \$49-50M • Q3: \$233M raised	Q1/Q3 lowest in 5 years
Mid/Late Stage	 Growing	• Banking: 38% of deals (vs 21% in 2023) • Focus on proven solutions • Higher valuations	17pp increase in banking

CLARITY Act Update

Current Status: Stalled but Not Dead

-  House passed July 2025 (strong bipartisan support)
-  Senate missed September 30 deadline
-  Now in legislative limbo - likely lame duck or 2026 reintroduction
-  Trump administration **supportive** of crypto-friendly legislation

What CLARITY Act Would Do

- **Core Change:** Remove "investment contract assets" from securities definition
- **Practical Impact:**
- **Self-certification process** for "digital commodities" (60-day SEC review)
- **Abandons Howey test** economic realities for "labels and ledgers"
- **CFTC jurisdiction** for "decentralized" digital assets
- **Lighter SEC oversight** for remaining crypto securities

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Canadian Registration Exemptions

- Firms that are in the “business” in the trading of securities will need to be registered as either an investment dealer or exempt / restricted market dealer
- The tests for when the registration requirements apply are complex and guidance
- The exemptions from the registration requirements are limited

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Canadian Prospectus Exemptions

- The trigger for the prospectus requirement is a “distribution” of securities
- A distribution is a “trade in a security of an issuer that has not been previously issued”
- There are a number of exemptions from the prospectus requirement
- In Ontario these exemptions are found in NI 45-106 and in various local rules and blanket orders

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Canadian Prospectus Exemptions

- An issuer will not be required to prepare and provide a prospectus to issuers if an exemption from that requirement is available. These include:
 - Accredited investors
 - Offering memorandum
 - Private issuer
 - Friends, Family and Close Business Associates
 - Minimum Amount Investment



Canadian Prospectus Exemptions

The OSC recently updated and extended the Not-for-Profit Angel order and Early-Stage Business Registration exemption, subject to ministerial approval.

In addition, the OSC has introduced a local blanket order providing a Self-Certified Investor Prospectus exemption effective October 25, 2025. The OSC's local order is consistent with the harmonized Self-Certified Investor Prospectus Exemption that was announced by the CSA earlier today.

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Canadian Prospectus Exemptions

- The Angel Investor Group Registration Exemption provides an exemption from dealer registration for not-for-profit angel investor groups that carry on certain activities, subject to terms and conditions.
- The Early-Stage Business Registration Exemption provides Ontario early-stage businesses with an exemption from the dealer registration requirement so that they may engage in permitted promotional activities and raise capital up to \$3M from accredited investors and self-certified investors, provided that certain conditions are met.

Canadian Prospectus Exemptions



- Ontario Securities Commission Instrument *45-510 Self-Certified Investor Prospectus Exemption* complements existing accredited investor exemptions to enable broader participation in the capital markets by individuals with relevant experience or expertise.
- To invest as a self-certified investor, a person must certify that they meet at least one of the qualifying criteria and acknowledge the investment risks. Self-certified investors would be permitted to invest up to \$50,000 per calendar year across multiple businesses.
- The CSA recently published a Notice and Request for Comment for a proposed new harmonized multilateral instrument that would implement the Self-Certified Investor Prospectus in most jurisdictions in Canada.

Canadian Resale Rules

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- Resale rules (NI 45-102) require that where an investor acquires a security in reliance on a prospectus exemption that the resale of that security can only be made if there is another prospectus exemption available or they meet certain conditions
- Otherwise the securities are subject to an indefinite hold subject to the issuer going public
- 45-102 provides for certain legending requirements that must be complied with to ensure that if the issuer goes public, the shares will be freely tradable
- These rules are complex but generally the shares will not be become freely tradable until the issuer becomes a reporting issuer

Tokenization

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- Tokenization—issuing digital tokens that represent equity, debt, or other rights—remains a hot topic for early-stage fintechs, especially those looking to tap global capital or build community-driven platforms. But the regulatory landscape in Canada is still evolving and highly nuanced.
- In almost all cases, tokens that represent an investment in a business (including “utility” tokens with profit potential) are treated as securities under Canadian law. This means prospectus requirements or exemptions (like the accredited investor exemption) apply, just as with traditional shares.

Tokenization

- Most compliant Canadian token raises use private placement exemptions (accredited investor, friends and family, offering memorandum) and restrict resale, mirroring traditional early-stage equity rounds.
- If you're selling tokens to US or global investors, you must also comply with US (SEC) and other foreign securities laws—often requiring parallel exemptions and legal opinions.

Alternative Funding

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- Revenue-based financing (Clearco, Timia Capital), government programs (IRAP, SR&ED, NRC), and strategic partnerships are increasingly important as VC dollars get tighter.

Crowdfunding

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- Equity crowdfunding is gaining traction as an alternative to VC and angel rounds, especially for pre-seed and seed-stage fintechs.
- National Instrument 45-110 Start-up Crowdfunding Exemption, which allows companies to raise up to \$1.5M per 12-month period from retail investors, subject to investment caps and disclosure requirements.
- Investors are restricted to investing \$2500 unless through a registered dealer then \$10,000.

Crowdfunding

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- Most fintechs use registered crowdfunding portals (e.g., FrontFundr) to manage compliance, investor onboarding, and reporting.
- Crowdfunding is a prospectus-exempt distribution, but you must file reports of exempt distribution and comply with resale restrictions.
- The rules across Canada are harmonized, but always double-check for local nuances (e.g., advertising, portal registration, investor limits).

UK and EU for Raising Capital

A large, white, irregularly shaped iceberg floats on a dark blue, calm body of water. The iceberg's surface is textured with various peaks and valleys. Its reflection is clearly visible on the water's surface, creating a symmetrical image. The background is a solid dark blue.

- **Why Look to the UK and EU?**
- The UK and EU remain global fintech powerhouses, with London consistently ranked as a top fintech hub and the EU market offering access to 400+ million consumers.
- For Canadian fintechs, these regions offer not just capital, but also regulatory innovation, sophisticated investors, and potential for international expansion.

UK and EU for Raising Capital

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- **UK:** Despite macro headwinds, London-based VCs and growth funds (e.g., Anthemis, Augmentum, Balderton, LocalGlobe) remain active in fintech, especially for companies with a clear path to UK/EU market entry or regulatory compliance.
- **EU:** Continental Europe has seen a shift toward later-stage and “scale-up” deals, but early-stage capital is still available for fintechs with a strong product-market fit and a plan for EU passporting or compliance.

UK and EU for Raising Capital

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- **Regulatory Sandboxes:** The UK's FCA regulatory sandbox and the EU's Digital Finance Package (including the Markets in Crypto-Assets Regulation, MiCA) make it easier for fintechs to test new products and raise capital under clear, innovation-friendly frameworks.
- **Open Banking:** The UK's open banking regime is more advanced than Canada's, and EU PSD2 rules have driven widespread adoption of API-driven financial services. Canadian fintechs with open banking or payments tech may find a warmer reception (and more sophisticated diligence) from UK/EU investors.

UK and EU for Raising Capital

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- The UK and EU have their own prospectus exemptions (e.g., the UK's "private placement" and "qualified investor" routes, and the EU's Prospectus Regulation exemptions for offerings under €8 million or to fewer than 150 persons per member state).
- If you're raising from UK/EU investors, you'll need to structure your round to comply with both Canadian and local exemptions—often requiring parallel legal opinions and careful coordination of offering documents.

UK and EU for Raising Capital

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- The UK and several EU countries have established legal frameworks for equity crowdfunding and are piloting regulated token offerings.
- If you're considering these routes, you may find more regulatory clarity (and investor appetite) in the UK/EU than in North America.
- The UK and EU offer opportunities for Canadian fintechs—both as sources of capital and as launchpads for international growth. But success requires careful structuring, dual compliance, and an understanding of local investor expectations and regulatory regimes.

Conclusion

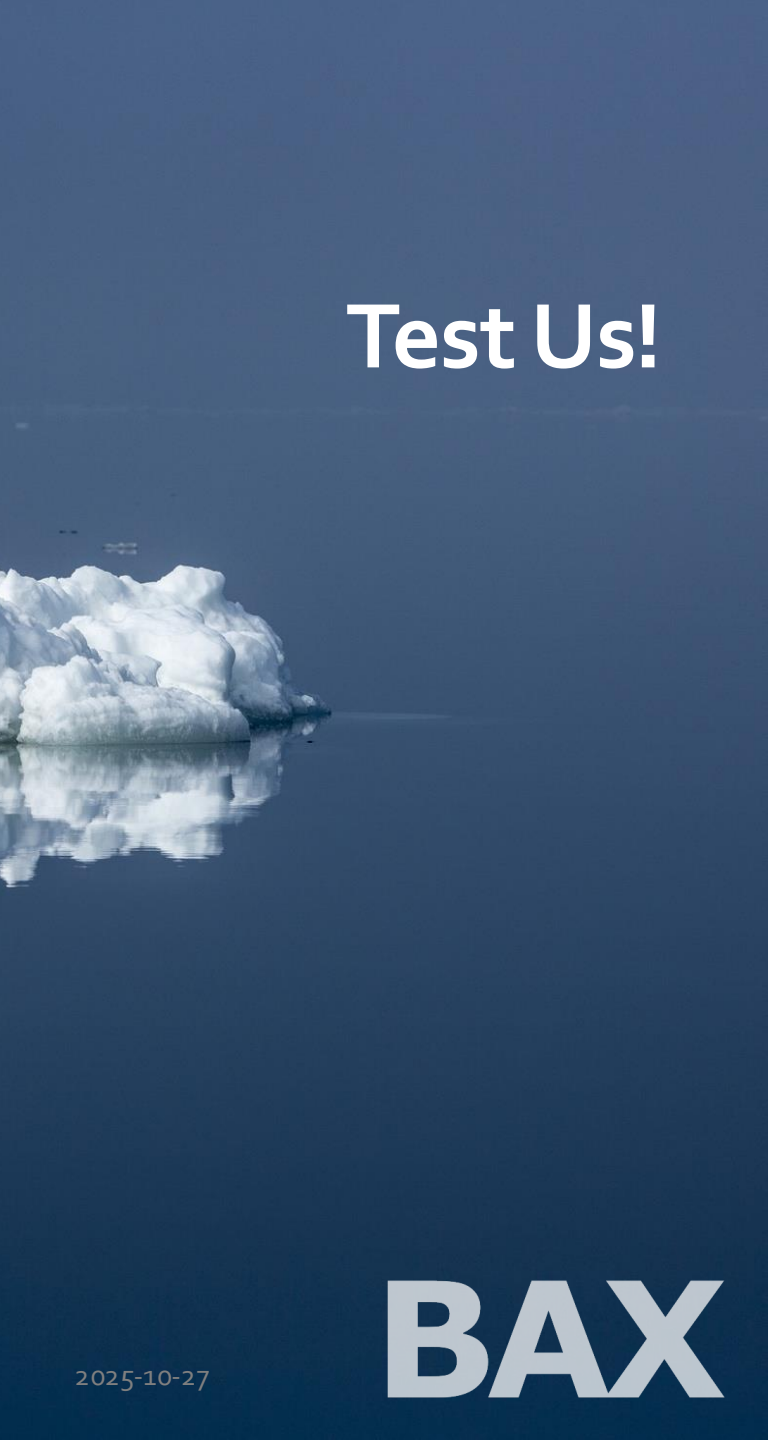
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- Traditional prospectus exemptions in the context of tokenization and crowdfunding structures are viable, but highly regulated, paths for early-stage Canadian fintechs.
- Treat every raise as a securities offering, know your exemptions, and structure for compliance in every jurisdiction where you're raising.
- The right blend of local and cross-border capital, creative structuring, and regulatory discipline is what will separate the winners from the rest in Canada's next fintech wave.

Conclusion

A large iceberg floats in a dark blue body of water. The iceberg is white and jagged, with its reflection visible in the calm water below. The sky is a deep blue, matching the water.

- *BAX Securities Law specializes in the full spectrum of fintech funding strategies.*
- Whether you're pursuing cross-border VC rounds, structuring compliant tokenization offerings, leveraging crowdfunding platforms, or tapping UK/EU capital markets, our team understands the intricate dance of satisfying multiple jurisdictions' securities laws while structuring deal terms that work for both Canadian corporate law and international investor expectations.
- We'll help you build funding strategies that turn regulatory complexity into competitive advantage, whether you're blending multiple funding approaches or navigating the venture drought with creative, compliant solutions.

A large iceberg floats in a dark blue sea under a clear sky. The iceberg is white and jagged, with its reflection visible in the calm water.

Test Us!

Ready to navigate your next funding round?

Contact BAX Securities Law to discuss how we can structure your path to growth capital while keeping you compliant across all relevant jurisdictions

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Contact Information

Barbara Hendrickson

Robb Miller

30 St. Patrick Street, Suite 700

Toronto, Ontario M5T 3A3

Tel: 416.601.1004

Email: bhendrickson@baxsecuritieslaw.com

rmiller@baxsecuritieslaw.com

www.baxsecuritieslaw.com