TRIPLE HELIX

Venture Capital Financing and Canadian Defence

by Alexander Salt

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POLICY PERSPECTIVE

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On 9 June 2025, Prime Minister Mark Carney announced that Canada will embark on a major effort to rebuild, rearm, and reinvest in the Canadian Armed Forces (CAF). In his address, the Prime Minister stated that the government will accelerate defence spending to strengthen Canada's defence industrial base, including a focus on expanding emerging technological capabilities.

Advanced technologies such as AI, robotics, space-based systems, advanced sensors, cloud networks, advanced munitions, synthetic environments, biotechnologies and quantum computing are holding increasing relevancy to modern military operations as well as Canadian defence. What sets the current generation of emerging technologies apart from traditional 20th-century defence technologies such as tanks and fighter jets is their origins in that historically, conventional military hardware has typically been designed and manufactured by defence contractors, while it is civilian technological startups driving today's innovation. Many of these startups are creating technology with dual-use application, meaning they hold utility to both militaries as well as the civilian economy. These dual-use technologies are also developed at a much more rapid pace than how traditional government procurement processes can handle. Simply put, the status quo of how Canada identifies and acquires new military technology is likely ill-suited to ensure that the CAF maintains access to strategically vital emerging technologies. Unless this is fixed, the CAF will be outpaced by allies and adversaries alike.

Positively, Canada's latest defence policy, *Our North Strong And Free* (ONSAF), underlined that Public Services and Procurement Canada (PSPC) is undergoing a review of Canada's defence procurement, and is committed to its reform. ONSAF also promised a "deeper and more strategic relationship" with industry. The Department of National Defence (DND) started on the delivery of this promise by appointing in the Fall of 2024 an Assistant Deputy Minister (Industrial Policy), whose responsibility is to develop a defence industrial strategy. This approach echoes the calls from academics and the business community alike, who have advocated for the development of a Defence Industrial Strategy to help interconnect the country's industry to its defence needs in a more streamlined manner. The re-election of U.S. President Donald Trump has greatly enhanced the need for such a strategy, given his rhetoric has presented an existential challenge to Canada's defence relationship with the United States, fostering the need to now more than ever promote domestic defence capabilities.

Following this context, there is now an opportunity for Canada to seriously consider potential alternatives to how it approaches technological acquisitions for defence, and thus significantly enhance the capabilities of the CAF by streamlining its connection to Canada's technological startup ecosystem.

Internationally, other countries have recognized the increasing influence of Venture Capital (VC) funds in fostering the growth of domestic technological startups with military applications. There is growing interest in their defence sector role due to their potential to drive quicker development and product outputs than traditional defence firms. Tied to this trend is the role of

government funded institutions such as In-Q-Tel, a not-for-profit VC firm that was founded to support the CIA and other U.S. government intelligence agencies. These organizations have been established to better leverage emerging technologies for U.S. national security purposes by using the speed and flexibility offered by the VC structure. Presently, Canada currently does not have any such government funded VC group available to assist in its national security needs.

Research Objectives and Methodology

In response to this challenge, Triple Helix has undertaken this present study in order to unpack the potential role of VC in Canada's technological startup and national defence ecosystem. More specifically it is exploring the viability of whether VC can accelerate the procurement of emerging technologies for the DND and CAF. This research analyses how VC may support the growth and scalability of defence-focused startups, while shaping relevant technological research and development for defence. Further, it identifies and addresses other related policy or structural barriers that may affect collaboration between various national defence stakeholders.

To address this question, Triple Helix conducted a series of semi-structured industry roundtables and individual interviews with stakeholders from Canada's financial, investment, and technology startup communities. These engagements took place between November 2024 and February 2025. While most interviews were conducted in person, a portion took place virtually to accommodate participant availability and geographic distribution. All discussions were held under conditions of anonymity to encourage candid and open dialogue. In total, over 50 individuals participated in the roundtables and interviews. Participants represented a broad cross-section of the innovation ecosystem, with the majority occupying senior leadership roles such as Chief Executive Officers (CEOs), Chief Operating Officers (COOs), Chief Technology Officers (CTOs), and Directors.

During the interviews, participants were asked a series of questions related to the following themes: research and development trends and capacity of Canadian technological startups; access to funding and views on the wider defence-investment landscape in Canada; views on existing government regulations and policies; views on the government defence procurement process; relationships between startups, financiers and end users; and views on the international defence marketplace and related policies of foreign governments.

This report undertakes a qualitative analysis of the interviews to identify insights into how stakeholders perceive challenges and opportunities in funding defence-focused startups, navigating government regulations, and integrating emerging technologies into the wider defence ecosystem in Canada. The analysis offers nuanced understanding of the financial, regulatory, and strategic factors that shape the defence-investment landscape in Canada. This research report begins by contextualizing the role that VC and associated mechanisms play among several of Canada's international defence partners. Next, it provides a synthesis and analysis of the core themes that emerged out of the various interviews. Finally, it concludes with

evidence-based policy recommendations for the Government of Canada and relevant stakeholders.

The Venture Capital and Defence International Context

A common trend across many of Canada's international defence allies has been growing experimentation with alternative funding models, including VC, for defence purposes. These have included government-backed VC funds, defence accelerator institutions that offer grants rather than standard investments, and the establishment of investment banks, all of which in different ways can support the integration of private sector research and development with varying mixes of private and public funds. Of note is that the presence of VC in the defence sector has grown exponentially over the last two decades, and especially so over the last 10 years. This section explores these mechanisms across the United States, NATO and Five Eye (FVEY) partners while also providing context for the current Canadian defence-financial ecosystem.

The United States

The U.S. leads the world in defence-related venture investment. This is largely due to the combined efforts of mature government initiatives along with an exceedingly vibrant private sector VC community. First and foremost is In-Q-Tel, founded in 1999 making it one of the earliest government VC groups. In-Q-Tel has been tasked with accelerating investments in a variety of technological innovation areas including artificial intelligence, cybersecurity, and autonomous systems. In-Q-Tel not only allows government end-users to shape the evolution of research and development of such technologies but also provides the government with a considerable amount of business-intelligence on trends within the global technological community, ensuring that the US will have access to a wealth of knowledge.

The U.S. military operates a number of defence accelerator programs. The Air Force runs AFWERX, which serves as the innovative institution of the service, aimed at identifying and streamlining the acquisition of commercial technologies such as hypersonic and autonomous systems, for the Air Force. The Army operates xTech which follows a similar function to AFWERX, including having commercial startups and related small and medium enterprises (SMEs) come and pitch directly to the Army their technological offerings. The U.S. Department of Defense has the Defense Innovation Unit, which looks to streamline technological innovation for U.S. defence, though they rely on direct contracting rather than equity investments. These institutions are designed to reduce entry barriers by streamlining requirements, shortening timelines, and lowering the overall costs that SMEs and other commercial partners face when manoeuvring through the military's complex bureaucratic systems. Overall, while not VC funds, they do help complement the wider U.S. VC capital ecosystem by funding early-stage technologies of small companies that may later receive follow-on private investments.

What separates the U.S. from the rest of the world is the size of its private VC ecosystem, which is unparalleled. The amount of defence-focused VC firms and the amount of money in this sector has grown considerably over the past several years. For example, U.S. defence VC funding for military related dual-use startups doubled between 2019 to 2022, and since 2021 DOD has invested upwards of $130 billion into emerging technology firms. There are a number of high-profile firms now associated with such hypergrowth, including Anduril Industries which specializes in AI, and Palantir Technologies that focuses on big data analytics and software development. However, several 'patriotic' VC firms have also emerged; these groups, such as "Rebooting the Arsenal of Democracy" and "America's Frontier Formed" were created to collectively shape and grow the country's emerging technologies capabilities for national defence.

Europe

Many of Canada's European allies have adopted distinct approaches to leveraging venture capital and other distinctive forms of funding for defence acceleration. The United Kingdom established the National Security Strategic Investment Fund (NSSIF), a venture capital entity managed under the British Business Bank, in 2018 with an initial allotment of £85 million GPB ($157 million CAD). NSSIF's mandate is supporting technological startups focused on dual-use technologies such as those relating to AI, space-based systems and cyber capabilities for national defence. Additionally, the U.K. also operates the Defence and Security Accelerator (DASA), which is focused on partnering with early-stage dual use startups with a mix of grants and contracts but does not make direct equity investments. DASA's involvement with defence-relevant firms ensures they have the ability for scaling their technologies so that Defence can benefit.

France has announced the formation of a 450-million-euro ($703 million CAD) defence investment fund as a direct response to the destabilized European security situation due to Russia's war of aggression in Ukraine. This new French fund also has a degree of open-source structuring, as it will allow the average French citizen to make contributions to the fund at a minimum level of 500 Euros. A recent study by the European Commission on financing and SMEs across Europe has found that on the whole, public sector funding for SMEs needs to be adapted and improved. In particular, the study identified that defence-oriented SMEs faced greater challenges in securing financing than comparable sized firms in other sectors.

In contrast, Germany lacks a strong venture capital presence in the defence sector. The most notable exception is KfW Capital, a government owned investment firm and subsidiary of the state development bank, KfW Bankengruppe. Operating as a not-for-profit model, KfW Capital does not have a direct mandate to invest in defence related ventures and faces restrictions on the types of investments it can pursue; for example, it is explicitly prohibited from funding projects involving 'controversial' weapons systems. However, it is permitted to support investments that "sstrengthen the strategic autonomy of Europe in the security and defence sector."

Overall, Europe's defence VC ecosystem remains underdeveloped compared to North America's. This gap is the result of several factors, including widespread investor reluctance toward defence-related investments due to social norms, as well as restrictive government policies that limit how funds can be used. However, interest in defence tech investment is growing across Europe, and financial analysts increasingly anticipate that VC activity in this sector will expand in the coming years.

Australia

Canberra recently formed the National Reconstruction Fund Corporation, a $15 Billion AUD ($13.4 Billion CAD) fund tasked with making investments in seven sectoral areas, with defence being one of them. Many of its investments have multi-sectoral application beyond just defence. For example, in 2024 it invested several million in an Australian hyperscale cloud company, Vault Cloud, to enhance the government's cloud and data infrastructure. It has also made investments into quantum computing. Additionally, Australia also operates an Advanced Strategic Capabilities Accelerator (ASCA) which is designed to streamline the acquisition and integration of emerging technologies for Australian defence, and building stronger relations between defence, academics and industry.[1] Much like other country's defence accelerator institutions, the ASCA does not offer direct equity investments into firms, but rather offers contractual agreements for products, as well as grants that can support research and development efforts. An innovative element of the ASCA is that it holds periodic 'pitch events' where firms can directly present ideas for quicker contracts.

NATO

In 2023, the NATO Innovation Fund (NIF) was launched as a $1 billion USD ($1.37 billion CAD) VC fund and given the mandate to make targeted investments in dual-use deep tech startups that support the security and defense needs of NATO member states. Deep tech startups are firms that develop and advance dual-use technologies based on significant scientific and engineering innovations; examples commonly include breakthroughs in artificial intelligence, advanced materials, and biotechnology. NIF has invested in a variety of startups dealing with a broad range of emerging technologies that have military applications, including those related to AI, autonomy, biotechnology, energy and advanced materials.[2] Additionally, NATO also operates an accelerator program, the Defence Innovation Accelerator for the North Atlantic (DIANA), which provides non-dilutive grants and support for startups and researchers to develop and test dual-use technologies without the need for firms to give up equity. Aside from grants, NATO DIANA can also facilitate testing facilities and wider access to NATO's defence networks.

Canada

Canada does not currently possess either a not-for-profit defence-oriented VC fund, or a formal accelerator institution. However, Canada has actively and successfully participated in NATO DIANA, with several Canadian firms selected through its competitive innovation challenges. In the 2024 challenge, seven Canadian companies were chosen across a range of priority themes, including data and information security, critical infrastructure and logistics, and human health and performance. The selected firms were Quantropi, SDQ Solutions Canada, Synaptrain Technologies Inc., TACTIQL, Reaction Dynamics, Flosonics Medical, and Qidni Labs Inc.

Canada has two federally owned crown corporations that have recently updated their internal rules and procedures to better respond to national defence needs. Export Development Canada (EDC) provides support for Canadian firms looking to expand their international business ventures through financing, insurance and advisory services. There is also the Business Development Bank of Canda (BDC) which similarly offers financial and strategic support to SMEs, which has expanded its mandate to work with companies developing dual-use technologies.

Canada's biggest attempt to develop an innovation driver in the defence sector has been the Innovation for Defence Excellence and Security (IDEaS) program, launched in 2018, which provides funding to startups, SMEs, universities, and research institutions developing technologies with military applications through competitive grants. Successful projects progress from concept development to prototype demonstrations, where developers present their solutions to government and defence officials and receive feedback. Since its foundation, IDEaS has hosted several competitions, including challenges focused on countering drones and on detecting and tracking submarines in Arctic waters. Additionally, other investment institutions support defence and dual-use startups and SMEs, even if they do not focus exclusively on defence. One of the most prominent examples is the Innovative Solutions Canada program, which funds the development of emerging technologies that align with government priorities.

Stakeholder Interview Analysis

This section provides a synthesis of the core discussions surrounding the questions posed to stakeholders during roundtable and interview sessions. The analysis is purely qualitative in nature. Participant responses identified a wide range of interrelated views on the subjects discussed in relation to Canadian defence procurement, financing, and issues with the wider Canadian-defence ecosystem. It situates these differing perspectives into the following themes: challenges in Canadian defence procurement, the role of venture capital, government involvement and policies, and issues with improving collaboration and ecosystem building.

Challenges in Defence Procurement

There is a clear consensus among stakeholders that Canadian defence procurement is highly dysfunctional, as it does not deliver the needed equipment with the necessary speed. Nor does it provide industry with sufficient opportunity to thrive. The procurement timelines are seen as far too lengthy; the slowness of the process is particularly difficult for technological startups and other SMEs to engage in effectively. The contracting is so slow that SMEs are unable to get money required to keep the lights on and payroll covered. Further, by the time contracts are awarded, technological advancements may have rendered some solutions outdated and in need of further upgrading.

There was a broad sense that the current procurement system favors larger traditional defence firms due to previous relationships and track record with government, leaving little space for newer startups with innovative but untested technological solutions. Larger firms often have the resources to weather delayed contracting timelines while SMEs often need more rapid capital injections. The government's backlog of security clearance processing has likewise been a major constraint, especially for newer SMEs who lack personnel with appropriate clearance. Larger defence contractors can mitigate the security clearance issue more easily.

The conservative, bureaucratic character of Canadian defence maintains a system that prioritizes risk-averseness to an extreme degree, preventing necessary quick decision making. Canada lacks any institutional or contractual mechanism for rapidly acquiring emerging technologies, which makes it highly difficult for startups to scale within the defence ecosystem. Further, the bureaucratic nature of the procurement system created multiple regulatory hurdles for SMEs, especially dual-use ones unfamiliar with the sector's existing regulatory and compliance requirements.

The Role of VC in Defence Innovation

From the interviews, it was clear that many stakeholders felt that VC plays a crucial role in fostering innovation in the emerging technology sector and could be an intriguing tool for Canadian defence if given an expanded presence. However, there remain some reservations towards the formal role of VC. Several participants mentioned the potential benefits of a government VC fund, particularly in providing early-stage funding and bridging the gap between research and development and market-ready products. The U.S. model, particularly with In-Q-Tel, was cited as a successful example of how government VC can drive innovation in defence. By providing capital investment, defence-oriented VCs can help small firms overcome financial barriers and accelerate the development and commercialization of new technologies. Further, a government-VC would be able to provide that direct connection between end user and product developer.

It was noted that dual-use startups often struggle to secure funding because some financial institutions view the sector as risky, either due to uncertain procurement timelines or normative factors such as reputational risk. For example, several stakeholders pointed out that existing financial institutions such as Export Development Canada have made their policy not to work

with anything defence related, and that several banking institutions were wary of getting involved with investments that could lead to disruptive public protests. Defence procurement also requires patient investors due to longer timelines and regulatory processes, unlike the commercial technology sector where rapid scaling is possible. The Canadian financial ecosystem is thus fairly barren when it comes to defence centric investment options, leaving a potential opportunity for a governmental-VC to help fill the gaps and provide needed funding.

However, some stakeholders were skeptical about the government's capability to pick winners and manage the fund efficiently. Further, some questioned if a government institution would be able to successfully attract the necessary talent to manage it efficiently. Some felt that VC does not offer a thorough enough solution to the many problems associated with defence procurement in Canada. Many SMEs felt that they had to look towards the international market, particularly the U.S. to target their products towards, and this preference may constrain the effectiveness of any new Canadian government institution. Some stakeholders felt that while a new VC fund was intriguing, a broader approach that focused on encouraging a wider range of private capital investment, including from other corporate groups, family investment offices and banks could be more effective at channeling more money into the Canadian defence industry.

Government Involvement and Policy Challenges

Several stakeholders wanted some shifts to occur with government policy. Overall, it was felt that there needed to be more of a strategic vision articulated by the government when it comes to defence in Canada. Essentially, Canada needs an innovation strategy that builds stronger ties between industry and the CAF; this is something that could more directly integrate VC investments into the wider defence ecosystem. Most stakeholders would like better insights into the problems the CAF is trying to use new technologies to solve.

Current government funding mechanisms such as IDEaS are not particularly popular, with many participants suggesting that while the program is well intentioned, its implementation has been mismanaged. IDEaS appears to place more emphasis on ensuring fair competition, and not enough effort in streamlining the acquisition of products; overall it is too bureaucratic and lacks any contracting mechanism to make participation worthwhile for many SMEs. Several stakeholders feel that other countries, such as the U.S., U.K. and Australia have more advantageous and streamlined engagements between SMEs and governments, and that Canada needs to find ways to get contracts faster to these sized firms.

Collaboration and Ecosystem Building

Stakeholders emphasized that Canada needed to build a more inclusive and stronger defence innovation ecosystem. The current generation of dual-use technologies has fundamentally reshaped how we need to approach defence. The existing ecosystem is the product of the 20th

century which clearly favors the traditional major defence contractors over at the expense of startup SMEs. These structural issues act as a significant barrier and deterrent to any dual-use Canadian SME that is considering trying to get involved with defence technology, thus pushing many to stay focused on civilian commercial applications exclusively.

Culturally, there seems to be a gap between tech startups and the military, which leads to a level of wariness and distrust in some cases. The CAF is used to dealing with traditional defence contractors in established forums, and these are often not where the most innovative tech startups are present. There needs to be more outreach between the DND/CAF and the startup community in Canada. Stakeholders felt that a government-VC could be part of the solution to bridge this divide, while others suggested that specialized defence tech incubators and accelerator institutions could also help startups navigate regulatory and procurement challenges while also attracting investor interest.

There is also opportunity for the Prime Minister and Cabinet to play a more direct role in encouraging investments into the Canadian defence industry, and pressure investment groups who had been previously hesitant to get involved to change their minds. This should involve speaking more openly and positively about the need to foster Canadian defence related innovation and industrial capacity but also helping to shape a more supportive cultural environment that legitimizes and welcomes greater private equity involvement. For investment groups that have historically been hesitant to engage in the defence sector, due to reputational concerns or social norms, the federal government can help shift attitudes by signalling clear political support. Overall, a stronger defence technology ecosystem in Canada would also prevent talent migration out of the country to the U.S. where many Canadian engineers and scientists are drawn due to access to more money.

Unleashing Canada's Defence-Technological Ecosystem

The Canadian defence ecosystem needs significant transformation to become relevant for the strategic challenges of the 21st century. Not only are allies looking to disrupt how they have traditionally approached defence, but adversaries are as well. China for example has been pouring money into their emerging technology sector and now have domestically secured about 70% of the global commercial drone production. The war in Ukraine has shown that almost overnight a new wave of SMEs can be formed and will need to be integrated into the existing defence structures. The emerging tech sector requires new thinking and new approaches.

Canada should likely consider joining the U.S., U.K., Australia, and NATO in establishing a not-for-profit defence VC fund. There is a clear attractiveness to forming a small to medium sized VC fund to help streamline defence tech investments and shape the research and development cycles of technological startups to better meet the needs of the CAF. The VC model is advantageous as it can connect the CAF as end user of the technology to the engineering teams developing it while also speeding up investment distributions. Ideally, this fund will be publicly funded and directed to coordinate directly with DND/CAF over its needs.

However, it must be acknowledged that establishing a VC fund will almost certainly not eliminate the negative impact that the current procurement system has on companies. There will still be many wider and more intensive structural reforms required to overcome the problems of the past. From the interviews it was clear that funding alone was not the only major issue in constraining procurement in Canada. For example, contracting remains a major issue, as major acquisitions require the input of a large number of bureaucratic actors, and attempts to streamline the delivery of smaller value contracts has been uneven. This must be overcome, and the government should find ways of accelerating contracting for relatively smaller purchases, as many emerging technological products from SMEs fall under such a category. The Prime Minister Office as well as Canadian defence and bureaucratic leadership need to start making quicker decisions and finally break free of the normative barrier of risk averse conservatism embedded in the federal government's approach to procurement. Security clearances need to be processed faster. Overall, the number of aspects wrong with procurement in Canada is monumental.

If the government decides not to establish a VC fund, it must still find ways to streamline investments into emerging tech dual-use firms. This could involve significant structural reforms to existing financial institutions in Canada to encourage their greater involvement in the defence sector. It is also important to note that even if a publicly funded defense VC is created, these additional changes should still likely occur. Transforming the IDEaS program into a formal defense accelerator institution, similar to those in the U.K. and Australia, would also likely enhance the program's effectiveness by lessening the focus on competition over grants and allowing more opportunities for contracting to occur.

The government must actively work to shift the prevailing normative aversions to defense investments within the Canadian financial and business communities. This requires a concerted effort from the Prime Minister's Office, Cabinet Ministers, and Departments to actively engage stakeholders and foster a patriotic sentiment towards national defence. Increased funding for public-facing academic work on defence issues and providing more resources to CAF/DND's public affairs teams to collaborate with journalists will also be essential.

Overall, the Canadian defence ecosystem requires a radical shakeup to help it meet the challenges of today and tomorrow. Incremental reforms and changes will be nowhere sufficient. Accepting risk must become a much larger component of how Canadian defence operates. The establishment of a VC fund can be part of that solution, even if unlikely to be the totality of what is needed. Ultimately, a not-for-profit VC fund, paired with a dedicated defence technology accelerator, can serve as a strategic engine for Canadian innovation, strengthening national security, supporting emerging industries, and shaping the country's technological edge for the foreseeable future.

Recommendations and Findings

Canada should consider establishing a not-for-profit venture capital fund to help streamline investment in dual-use technology startups. Canadian allies such as the United States, United Kingdom, Australia, and NATO, have demonstrated that this approach can effectively foster an innovative, defence-oriented domestic technology ecosystem.

However, the establishment of such a fund will not be sufficient to address the broader challenges within Canadian defence procurement. Meaningful reform will require additional, sustained government efforts to overhaul internal processes.

The government needs to help disrupt aversions to defence investments within the Canadian financial and business communities by encouraging investments in dual-use and defence-oriented startups and SMEs.

The government should reform or replace the IDEaS program so that it operates more similarly to defence accelerator programs in the U.K. and Australia.

About the Author

Dr. Alexander Salt *has a PhD from the University of Calgary's Centre for Military, Security and Strategic Studies and an MA in Political Studies from the University of Manitoba. His dissertation explores to what extent has the battlefield experience of the U.S. military influenced post-war organizational innovation. His research has been awarded the Social Sciences and Humanities Research Council of Canada's Joseph-Armand Bombardier Doctoral Award, as well as a General Lemuel C. Shepherd, Jr. Memorial Dissertation Fellowship. He has published research relating to international security and defence policy with Strategic Studies Quarterly, Journal of Military and Strategic Studies, Canadian Foreign Policy Journal, and The Canadian Network for Research on Terrorism, Security, and Society. Previously, he was a Visiting Political Science Instructor with Macalester College and has also held positions with the Centre for Defence and Security Studies, as well as the Consulate General of Canada in Dallas, Texas, and the Consulate General of Canada in Minneapolis, Minnesota.*

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