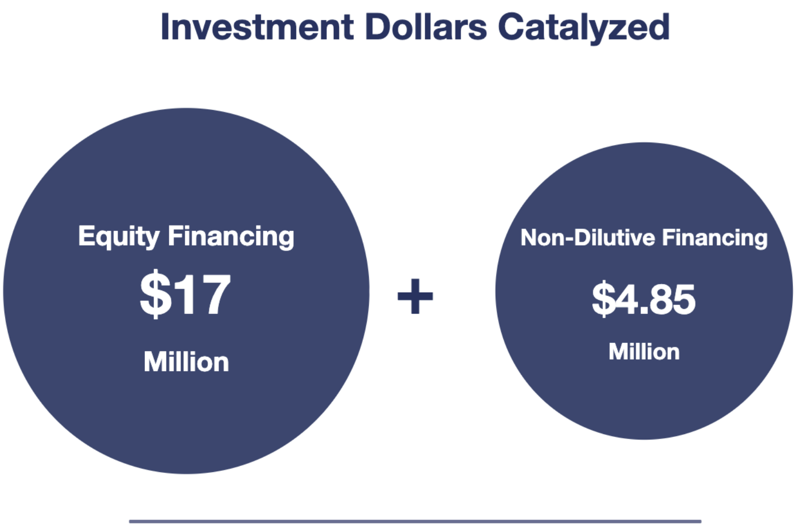
2024 REPORT

Tidal Venture Partners Fund I

TIDAL
VENTURE PARTNERS

Tidal Venture Partners Fund I is heading into year three of our deployment. At the end of 2024 we had eight companies in our portfolio. These companies are early-stage, Atlantic Canadian technology companies. Tidal is an investment stage specialist, focusing on early-seed companies, with an industry-generalist strategy.

We follow a robust portfolio model that guides our decision making and due diligence process. An important aspect of this portfolio model tracks both our own deployment, as well as the impact of those deployed dollars. When we write a cheque, we also consider the follow-on capital from other investors that may be unlocked through that cheque. Out of the current eight investments the fund has made, **Tidal has led five of those investments with a Tidal term sheet.** Term sheets are an important lever in driving capital into our portfolio companies, and the broader ecosystem. Ideally, term sheets are catalytic, and attract other investors to join an investment round in a company. It's not just setting the terms of an investment that's important, it's someone taking the time to underwrite the investment opportunity through disciplined due diligence. We are proud that when Tidal leads investment rounds, others follow.



Significant investment dollars, both equity and non-dilutive, have been catalyzed by Tidal term sheets and by partnering with co-investors across Canada and the United States. The combined co-investment equity capital, plus non-dilutive capital that has gone into our portfolio companies stands at $21.85M CAD. Non-dilutive capital includes debt financing and tax credits - important sources for runway extension. Tidal's current multiplier on our own investment contribution divided by the total dilutive and non-dilutive capital provides an **8 x multiplier on our investment capital.** i.e. for every dollar that Tidal invests, a total of eight additional dollars is attracted to our companies.

Tidal's Macro Outlook: Venture Capital is back, but…

Where to start? 2024 was another year full of macro twists and turns. The federal government's increased capital gains announcement in April's budget release sent shockwaves through the innovation ecosystem across the country and sparked a national conversation around the technology sector's competitiveness, incentive structures, and the role of government in stimulating private capital markets. This took place against another national conversation around productivity, often described as a "crisis situation".[1] Again the strength (or weakness) of Canada's innovation ecosystem was often entwined in these discussions. And then there were our neighbours to the south, holding a rather important election. The outcomes of that election are now being felt. How are startups and venture investors in Canada to navigate a macro environment that is shifting almost weekly? There are two areas we are particularly conscious of as we navigate 2025:

- Pre-seed and Seed capital flows;
- AI business builders;

Capital Flows: Previous Tidal investor reports have spoken to the significant decline in venture dollars, especially after the period of 2020 to the first quarter of 2022, a time with historic outflows of venture capital dollars. In 2024, the global

[1]https://macdonaldlaurier.ca/canada-has-a-productivity-crisis-heres-how-we-can-get-back-on-track-jon-hartley-in-the-toronto-star/

venture market, taken as a whole, across all stages of venture capital, rose above the pre-pandemic year of 2019.[2] This is important as it essentially means a return to normal after the Covid venture boom. But, when you drill down into the specific stages, it becomes clear that the recovery is weaker at the earlier stages of financing. Data collected by the Canadian Venture Capital Association (CVCA) shows that pre-seed and seed stages (Tidal's investment stages) are significantly lagging historical outflows. Why does this matter; what does this mean? Tidal is a co-investor in every single financing that we have done, and fewer dollars here at these stages make it harder for us to close financings. Early stage venture is a team sport - we need as many players here as possible.

We anticipate that the capital flow challenges of these stages will become even harder in 2025, with fewer Canadian funds writing pre-seed and seed cheques. Many Canadian pre-seed and seed funds are going back into fundraising mode in 2025, which will leave a gap in the market. On top of that, we won't be able to rely on American funds to fill the gap. Many American fund managers are becoming nervous of cross-border investing given the dynamic environment of U.S.-Canadian relations.

A further strain on capital flows at these two stages is the relative decline of angel investing in Canada. We are seeing two contributing factors here: 1.) Angels waiting for liquidity after several years of strong angel activity. And 2.) the 2024 federal government's capital gains tax hike. While the capital gains hike may be in the rear-view mirror, it's had a chilling effect on many Canadian investors.

Every dollar matters at the earliest stages of venture and, as a fund that focuses on these stages, we need to be closely monitoring capital flows here.

AI business builders: Despite the capital flow challenges that we anticipate will continue in 2025, we remain convinced that this is an excellent time to allocate to early-stage technology companies. It's a remarkable time to be a builder, especially if you fall into the category of being an AI business builder, which is distinct from an AI builder or a pure technologist. If you're investing at the application layer of AI companies, there is almost no technology moat - the entire opportunity and defensibility of the company lies in their go-to-market strategy and ability to execute

[2] https://news.crunchbase.com/venture/global-funding-data-analysis-ai-eoy-2024/

that strategy.[3] While the enterprise value of the investment may seem riskier here, AI business builders are focused on building free-cash flow generating businesses. That's where the ultimate enterprise value is derived from.

Jeffrey Bussgang, from Flybridge Capital, recently commented on the shift from building the technology to deploying the technology saying "The reality is that AI technology has evolved from something you need to build to something you need to wield. It's moved from being a computer science problem to being a business model opportunity." In this shift we aren't diminishing the role or need of technologists. However, in 2025, business applications and business models have an opportunity to catch up to the technology - typically the reverse opportunity.

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>
> – **Jeffrey Bussgang**

In 2025, we are focused on finding and backing the AI builders who have a laser focus and deep understanding of a market need. These founders look at AI as a technology to move faster, and build leaner, more capital-efficient businesses. The founders we want to speak with in 2025 are building validated applications that have market pull. Tidal's most recent investment, Floqer, epitomizes this shift in founder profile and focus. A company that moved aggressively fast in product launch with minimum spend on product development, and was generating revenue in a fraction of the time that it would have taken just two years ago.

We are predicting that 2025 will be the year of the AI business builder. Tidal is ready to identify and back the strongest founders in this emerging category.

[3] Recent events with DeepSeek have shown that the technological defensibility of the model and infrastructure layers is weakening.

Ecosystem Outlook

A brief note and outlook on the Atlantic Canadian ecosystem.

The Canadian Venture Capital Association (CVCA) 2024 report tracked $176 million in venture capital deployed in Atlantic Canada. This is a contraction of $30 million over 2023, when $206 million was deployed.[4]

The reality on the ground doesn't always match up with that total number. Speak with founders in this ecosystem, and you'll often get a sense that there has been a major, not slight contraction in venture dollars. It's a "yes, but…" situation. Again, similar to the national story, venture funding is particularly constrained for the early stages, but much more plentiful for later stage financings. Tidal's recent investment in Floqer is both a testament to the type of founding teams coming out of Atlantic Canada, and the challenges of capitalizing companies here. Tidal led Floqer's pre-seed financing and we were joined by co-investors from across Canada and the United States. Tidal was the only Atlantic Canadian money in that round - a reflection of the current state of the venture financing ecosystem in Atlantic Canada.

In addition, there is also a growing concern around new company formation. Recent data published by Entrevestor, the region's leading data aggregator on startup metrics, showed an 11 percent drop year over year in active companies.[5] While company formation is an important metric, and one that we are watching closely too, it doesn't tell the full story. We believe that repeat founders and founding teams is a quiet development happening in our ecosystem. **Out of the eight companies we have backed so far, five teams are repeat founders.** That statistic borders on being anecdotal, but our intent is to invest in the top 1% of founders in this ecosystem, not invest in aggregate. Our current investment opportunity pipeline also reflects repeat founders. Another "yes, but…" situation.

Like the rest of the country, there's a sense of urgency in our region right now around the resiliency of our economy. Both New Brunswick and Nova Scotia have recently elected Premiers with either a new mandate (New Brunswick) or a renewed mandate (Nova Scotia). As we consider the outlook for 2025 in our ecosystem, one

[4] See CVCA's 2024 report here: https://reports.cvca.ca/books/myfw/#p=9
[5] See https://entrevestor.com/%20home/entry/have-we-reached-peak-startup-in-atlantic-canada

positive we see emerging is the will and interest from the provincial governments to stimulate private capital markets. We see growing evidence that governments understand they need to provide a supportive environment for private capital development and deployment.[6]

Thank you again for partnering with us and sharing our conviction on the investment opportunity in Atlantic Canada.

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[6] See Premier Tim Houston's recent caucus memo as an example of this openness to private sector leadership. https://www.documentcloud.org/documents/25501852-caucus-memo/