CANADIAN FEDERAL BUDGET – 2026

RESEARCH & INNOVATION INVESTMENT SUMMARY

Prepared by: Robert Merson, November 5, 2026

This is the second budget for Mark Carney's liberal government. It's a strong response supporting economic growth and national building projects, however, it you're in the life sciences sector, you're likely going to be disappointed.

This budget builds on the 2025 budget, which I've added a link to my summary below, for reference.
https://www.mersoncorp.com/mci/wp-content/uploads/2025/11/BUDGET-2025-HIGHLIGHTS-ON-INNOVATION.pdf

The Scientific Research and Experimental Development (SR&ED) tax program continues to be of interest to this government, with the 2026 budget proposing an expansion to the program to include commercialization related expenses.

The budget references additional work to be undertaken on a review of Canada's "intellectual property ecosystem" with additional announcements planned for Spring of 2027. Details remain vague, but there's an ongoing interest to increase the commercialization rates from federal research funding.

The word "innovation" does appear in the budget 68 times, however, unless you're in AI, defence, housing, or climate related industries, then the "innovation" investments are likely not going to support you. The word "life sciences" appears only 3 times (all of which are summarized below). Two of the life sciences references are for the Pharmaceutical and Life Sciences Sector Task Force recommendations on improving access to medications. The third reference is for dual use defence technologies.

It looks like if you're in search of government support for a life sciences innovation, it better have dual use applications in either defence or quantum/AI.

Direct highlights from the budget are included below.

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Excerpts on Innovation from the Canadian Federal Budget 2026

Compiled directly from budget (Source: Department of Finance Canada, Budget 2026)
Highlights and section title edits by R. Merson

Highlights from "Making Canada the best place to invest" (Section 1.1)

Helping Canadian innovators scale at home

Canada's economic security depends on innovative Canadian founders who start companies, commercialise new ideas, and scale up their businesses while remaining anchored to Canada. That is how we create good jobs at home and reap the greatest benefits from our world-class workforce and ingenuity.

Canada's **Early and Growth Stage Investment Strategy**, first announced in Budget 2025, addresses persistent financing gaps facing Canada's most promising firms. Through up to $750 million in investments, offered on a cash basis, the Strategy will mobilise domestic private capital and help Canadian companies grow and scale right here in Canada.

Delivered by the Business Development Bank of Canada, the Strategy includes:

- Pre-seed and Seed Investment Stream: $75 million to support investment in innovative early-stage companies.
- Later and Growth Stage Investment Stream: $675 million to increase the availability of domestic growth capital for Canadian companies as they expand and scale.

Together, these streams will help more promising Canadian companies access the capital they need to grow and scale here at home.

Boosting innovation and commercialisation

Canada's research and innovation agenda is entering a pivotal phase. Major projects are moving forward at speed and scale, and significant investments are being made in research, innovation, and emerging technologies. This is a competitive advantage for Canada. We have long been a global leader in these fields, and we can fuel our long-term economic growth and competitiveness by strongly supporting science and innovation. At a time when other countries are pulling back from research, Canada is doubling down. We are putting policies in place that attract leading researchers, innovators, and entrepreneurs from around the world, giving them the opportunity to contribute here.

Canadian businesses need a tax system that supports businesses of all sizes, from research and development through to commercialisation. Last year, we enhanced and simplified the **Scientific Research and Experimental Development** (SR&ED) tax incentive program by expanding access to the enhanced credit, restoring support for capital expenditures, and increasing the annual eligible expenditure limit on
which the enhanced credit can be earned to $6 million to help businesses innovate and grow. To build on this momentum:

- Budget 2026 proposes to further expand the SR&ED tax incentive program to include certain commercialisation expenses. Eligible expenditures would be expanded to include certain costs associated with bringing a new product or process to market, including obtaining necessary regulatory approvals or certifications, and securing and maintaining intellectual property protection. This measure would apply to expenditures incurred in taxation years that begin on or after Budget Day. This measure is expected to provide support of $930 million over five years, with $235 million ongoing.
- In addition, the Canada Revenue Agency will work to provide sector-specific guidance to clarify SR&ED eligibility as it pertains to commercialisation expenses.

The inclusion of certain commercialisation expenses under the SR&ED program will provide an additional level of support for builders and businesses performing cutting-edge research and development, translating their intellectual and technological capital into commercial-ready ventures.

To fully realise the economic benefits of their new ideas, Canadian businesses must also be able to translate their innovations into commercial success and retain the value they create. This requires a competitive, transparent, and coordinated approach to intellectual property: one that helps Canadian businesses and entrepreneurs retain and capitalise on their ideas right here at home.

To support this, Budget 2025 announced the government's intention to undertake a performance review to strengthen Canada's intellectual property ecosystem and support the growth of intellectual-property-intensive firms. Budget 2026 announces several initial measures to deliver on that commitment, including:

- Modernising policies at Canada's three federal granting councils—the Natural Sciences and Engineering Research Council of Canada, the Social Sciences and Humanities Research Council, and the Canadian Institutes of Health Research—to improve commercialisation rates for publicly funded research.
- Initiating consultations with experts on how to strengthen technology transfer capacity at post-secondary institutions and help bring more Canadian research to market.
- Leveraging the expertise, capabilities, and assets of the National Research Council of Canada to identify ways to expand the impact of its intellectual property and support Canadian innovation and economic growth.
- Amending the *Patent Act* to require changes in patent ownership to be registered with the Canadian Intellectual Property Office, giving businesses and investors clearer information about who owns Canadian patents and helping reduce due diligence costs and investment risk.
- Developing new regulations under the *Patent Act* to establish minimum requirements for written patent demand letters. This will help protect Canadian businesses from abusive practices, including vague or misleading patent infringement claims intended to extract nuisance payments.

Further measures will be announced in spring 2027.

Chapter 1
Canada's Investment Supercycle
millions of dollars

	2026-2027	2027-2028	2028-2029	2029-2030	2030-2031	Total
1.1 Making Canada the best place to invest	**2,044**	**9,170**	**9,266**	**7,455**	**10,089**	***38,024***
Kickstarting Canada's Investment Supercycle with the Productivity Mega Deduction*[1]	2,015	8,870	8,895	7,020	9,255	*36,055*
Backing Canada's next generation of entrepreneurs	...	35	35	120	525	*715*
Helping Canadian innovators scale at home	...	7	50	50	43	*150*
Less: Funds previously provisioned in the fiscal framework	*-5*	*-11*	*-15*	*-14*	*-11*	*-56*
Boosting innovation and commercialisation*	25	200	247	227	237	*936*
Unleashing billions for Canadian businesses with the Canada Investment Summit	...	50	40	50	40	*181*
Mobilising private investment to modernise Canada's airports	9	18	13	1	0	*42*

Targeted support can also help innovative businesses take on larger, riskier projects, as well as commercialise and scale new technologies. The **Strategic Response Fund**, initially launched in 2017 as the Strategic Innovation Fund, helps Canadian industries innovate, adapt, and compete by supporting large-scale projects that strengthen Canada's economy. To help bridge market gaps and catalyse investment in promising new innovations across the economy, including in areas like AI, agri-food, bio-manufacturing, and clean technologies:

- Budget 2026 proposes to provide $1 billion over six years, starting in 2028-29, to the Strategic Response Fund to support large-scale research and development and innovation projects that can strengthen Canada's longterm competitiveness and growth.

Additional Notes of Interest

Improving access to medications (Section 3.3)
Canadians depend on timely access to critical vaccines and life-saving medicines that keep us safe and healthy and allow us to be active members of our communities. Canadians need to know that treatment will be available when it matters most, whether the medicine is made here in Canada or abroad.

- In June 2026, the Pharmaceutical and Life Sciences Sector Task Force launched by the ministers of Health and Industry published a final report with 39 recommendations to improve access to medicines and support a strong and competitive pharmaceutical and life sciences industry. The government is currently assessing the Task Force's recommendations; further details will be announced in the coming months.
- In the meantime, Budget 2026 is taking steps to support health research into new medical treatments, by proposing to provide $10 million over two years, starting in 2027-28, to the Praxis Spinal Cord Institute, to help it develop new treatments for life-altering medical conditions.

Strengthening Canada's defence industrial base (Section 5.1)
Launched in February 2026, the government's Security, Sovereignty and Prosperity: Canada's Defence Industrial Strategy sets out an ambitious agenda to protect Canada's sovereignty and strengthen our strategic autonomy while building greater economic prosperity here at home. The Strategy increases defence investments, while at the same time streamlining our supply chains. Through the government's Buy Canadian Policy, we are ensuring that Canadian firms are the key partners in meeting Canada's new defence and security needs. This gives Canadian defence companies the demand to scale up and invest with confidence. This also means that the Defence Industrial Strategy is another tool we are using to strengthen our economy while creating high-value jobs, building new infrastructure, and expanding Canadian defence offerings for global markets.

Key progress to date includes:
- Supporting Canadian businesses and SMEs: Launched the Regional Defence Investment Initiative to help small- and medium-sized businesses enter or grow within defence supply chains.
- Developing Canadian technologies: Selected three innovators to advance Canadian-based "light lift" rockets.
- Supporting SMEs and dual-use technologies: Launched Defence Industry Assist, already supporting 860 SMEs, while advancing dual-use projects through the Life Sciences Fund and Strategic Response Fund.
- Expanding Canadian defence production: Selected General Dynamics – Ordnance and Tactical Systems and IMT Precision to support new artillery manufacturing capacity in Québec and Ontario.

Building on the Defence Industrial Strategy, Budget 2026 proposes to: Direct up to $2.7 billion over five years, starting in 2026-27, on a cash basis, from previously announced funding, including toward the following priority measures:
- Advance Phase 2 of the Canadian Quantum Champions Program to support leading Canadian quantum companies in scaling up the development of industrial-scale quantum computers capable of solving real-world problems across industries, including in cryptography, advanced materials, signal processing, and pattern recognition. This will help ensure that Canada retains its quantum firms.
- Expand the Launch the North initiative to establish a sovereign, medium-lift Canadian space launch capability through the development of domestic launch vehicles, a national rocket propulsion ecosystem, and dedicated Government of Canada launch and testing infrastructure managed by the Department of National Defence. This will be delivered through competitive, milestone-based support to Canadian industry to mature propulsion systems, vehicle architectures, and launch technologies.

- Further develop Canadian space technology by helping firms scale up development and capacity for launch in space missions. The Canadian Space Agency's Space Technology Development Program provides direct support to Canadian industry with a return on investment of over 3 to 1.
- Strengthen cross-cutting funding tools and enablers of the defence industry. This includes extending initiatives such as BOREALIS, Defence Industry Assist, export promotion, and the Regional Defence Investment Initiative; and ensuring Canada has specialised secure facilities for industry to work with the Department of National Defence on sovereign capabilities.
- Recapitalise the Canadian Defence Industry Resilience Program to enable direct strategic investments in sovereign capabilities that are critical to maintaining the CAF's combat advantage, and build the industrial capacity we need.
- Secure critical inputs for Canadian defence production. This includes funding to complete the construction of a General Dynamics Ordnance and Tactical Systems production facility in Québec for nitrocellulose, a critical input in munitions, and to support Canadian industry to produce high-grade ballistic steel, a critical enabler in specialised manufacturing of armoured vehicles, reducing dependency on foreign suppliers.
- Fully operationalise the National Research Council's drone innovation hubs and enable the Department of National Defence to create competitions for industry to advance technologies for uncrewed vehicles and air systems.

Canada's National AI Strategy (Section 5.2)

Budget 2026 proposes to: Support Canada's continued participation in the Global Partnership on Artificial Intelligence via the International Centre of Expertise in Montréal on Artificial Intelligence. The Global Partnership on Artificial Intelligence is an international forum for countries to share information and develop practical tools related to responsible development of AI. Budget 2026 proposes to provide $6.2 million over four years, starting in 2027-28, to Innovation, Science and Economic Development Canada to support this work.