



Canada's Defence Industrial Strategy: What Has Actually Happened Since February

A follow-up on Security, Sovereignty and Prosperity and where the real opportunities are now

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When we published our initial analysis of Canada's Defence Industrial Strategy (DIS) in early March, the ink on the February 17 announcement was barely dry. The strategy was ambitious, generational even, but it was still mostly a framework. Targets, pillars, principles. The question that most clients were actually asking us was: okay, but what's going to happen, and when?

Seven weeks later, we have a lot more to work with. The government has moved fast, faster than most people expected, and the picture is considerably clearer. Canada has now formally hit the NATO 2% target. A \$35-billion Arctic infrastructure package has been announced. The National Research Council (NRC) has deployed nearly a billion dollars in defence innovation investments. The Business Development Bank of Canada (BDC) has expanded its Defence Platform to \$6 billion and is already writing cheques. The legislative path for the Defence Investment Agency (DIA) is in motion. And the federal budget is expected to provide further detail on the financing picture.

This update tracks what has changed since our first article, what it means for companies positioning themselves in this space, and where counsel can add the most value right now.

The Headline: Canada Hit 2% and the Goalposts Have Already Moved

On March 26, 2026, Prime Minister Carney announced that Canada achieved the NATO 2% of GDP defence spending target for the 2025-26 fiscal year, reportedly the first time Canada has hit that level since the 1990s. This was accomplished through an injection of \$9.3 billion into the Department of National Defence's budget, alongside a broader whole-of-government accounting exercise that brought spending across over a dozen departments into the NATO-eligible category. The final number: over \$63 billion in defence spending for the year.

This matters for clients for two reasons. First, it validates that the government is willing to spend at the speed it announced, executing the plan in 101 days, despite officials initially saying it would take longer. That has direct implications for how seriously industry should take the timelines and delivery commitments embedded in the DIS. Second, 2% is now the floor, not the target. At the NATO summit last summer, Canada and its allies committed to a new Defence Investment Pledge of 5% of GDP by 2035: 3.5% in direct military expenditures, plus 1.5% in critical defence and security-related investments. Reaching that goal would mean approximately \$120-150 billion in annual defence spending within a decade.

There is legitimate debate about how realistic that figure is, and the Parliamentary Budget Office has already flagged the fiscal pressures it would create. But from a business and legal standpoint, the direction of travel is unmistakable. The question is not whether Canada is serious about defence spending. The question is how to position to capture it.

The Arctic: A \$35-Billion Program That Actually Has Addresses

One of the strongest signals that the government is moving from strategy to execution came on March 12, when Carney travelled to Yellowknife to announce a comprehensive plan to defend and build Canada's Arctic and Northern regions, backed by over \$40 billion in total investment with more than \$35 billion in direct federal commitments.

The bulk of the investment, \$32 billion, goes to upgrades at four Forward Operating Locations: Yellowknife, Inuvik, Iqaluit, and the Deployed Operating Base at 5 Wing Goose Bay. These are not abstract line items. They include specific infrastructure: airfield expansions, new hangars, ammunition and fuel facilities, and upgraded accommodations and IT systems. The infrastructure is being built to support the incoming F-35 fleet along with the P-8A Poseidon and SkyGuardian platforms Canada has been procuring.

Beyond the bases, the announcement added two new Northern Operational Support Hubs in Whitehorse and Resolute, two Northern Operational Support Nodes in Cambridge Bay and Rankin Inlet, and committed \$6.5 billion for a new Arctic Over-the-Horizon Radar system developed in partnership with Australia. Several major civilian infrastructure projects were referred to the federal Major Projects Office: the Mackenzie Valley Highway connecting Yellowknife to Inuvik, the Taltson Hydro Expansion doubling the Northwest Territories' hydro capacity, and the Arctic Economic and Security Corridor, a proposed 400-kilometre road to Canada's first overland connection to a deepwater Arctic port.

The dual-use theme throughout was deliberate. Carney framed it as simultaneously securing sovereignty, opening critical mineral corridors, and creating economic opportunity for northern communities and Indigenous peoples. Construction on the Mackenzie Valley Highway could begin as early as this summer.

For clients in construction, engineering, energy, logistics, telecommunications, and environmental services, this represents a decade-plus of work. It also validates the DIS Pillar V framework around northern and Arctic infrastructure. That pillar was not aspirational language. It was a preview.

BDC's Defence Platform: From Announcement to \$6 Billion in Three Months

One of the most concrete and immediately accessible developments under the DIS framework has been the rapid scaling of the Business Development Bank of Canada's Defence Platform, and the speed of its evolution is worth understanding in detail.

The platform was formally launched on December 17, 2025, built on a \$1 billion capital injection from Budget 2025. At launch, BDC committed to deploying up to \$4 billion in total support: \$3.5 billion in financing and advisory services to help Canadian businesses scale and participate in defence supply chains, and \$500 million in venture capital investments structured through three streams. The StrongNorth Fund, a new vehicle focused on deep technologies with dual-use applications. The Catalyst Innovation Fund, designed to serve the startup ecosystem at earlier stages. And a third stream oriented toward indirect investment through accelerators, incubators, and academic institutions with active defence programs.

The priority sectors BDC identified at launch mirror the DIS Sovereign Capabilities list almost exactly: manufacturing, critical minerals, robotics, quantum computing, aerospace, artificial intelligence, cybersecurity, and dual-use technology. That alignment was intentional. As BDC's VP of Defence Strategy Peter Dawe stated publicly, the Sovereign Capabilities framework drives BDC's investment decision-making directly.

Then, on March 12, BDC announced an additional \$1.2 billion federal injection, expanding the platform's total deployment capacity from \$4 billion to \$6 billion. The announcement came alongside confirmation that BDC had already provided \$91.7 million in financing to 16 businesses since launching the platform, including companies in AI processing, cybersecurity, and munitions. The first beneficiaries named publicly were Sherbrooke-based Irréversible Inc. and Toronto-based Canada Rocket Company, both funded in January 2026.

The StrongNorth Fund received a named managing partner in Peter Suma, a co-founder with over 25 years of experience in AI, robotics, semiconductors, and advanced defence systems. The fund, valued at \$300 million, is described as stage-agnostic and focused specifically on early-stage Canadian startups developing technologies with defence or dual-use applications.

What this means for clients varies considerably depending on where they sit.

For SMEs developing dual-use technology, BDC represents a route to capital that did not exist a year ago at this scale, from a funder that is now actively seeking deal flow rather than passively responding to it. The platform is designed for companies that are not yet in major prime contractor supply chains and are trying to find their footing in the procurement ecosystem. Accessing that capital well, with proper IP ownership structures, licensing provisions, and government access rights in place from the outset, is exactly the kind of work where early legal structuring makes a material difference.

For established defence contractors, the \$6 billion platform matters because it is accelerating the growth of a new generation of Canadian technology companies that will become either partners or competitors in Industrial and Technological Benefits (ITB) subcontracting arrangements and strategic teaming situations. Understanding what BDC is funding, and what kinds of companies it is building relationships with, is part of a serious positioning strategy under the DIS's Build-Partner-Buy framework, which prioritizes building capability in Canada first, partnering with trusted allies second, and buying off-the-shelf only as a last resort.

For investors, including foreign primes and allied country firms exploring Canadian partnerships, the BDC ecosystem is increasingly the on-ramp to the Canadian defence industrial base. Navigating that ecosystem alongside *Investment Canada Act* considerations, sensitive-tech screening, and the DIS's IP ownership expectations requires integrated advice that spans corporate, investment, and regulatory law.

The NRC Investments: Where Innovation Money Is Flowing

On March 9, the NRC announced over \$900 million in investments under the DIS framework. The breakdown is worth knowing:

- Over \$500 million to advance next-generation aerospace technologies and autonomous systems development, tied directly to the Sovereign Capabilities list.
- More than \$161 million for quantum technology in defence and security applications, covering quantum sensing, quantum-safe communications, and quantum internetworking.
- \$241 million through the NRC's Industrial Research Assistance Program (NRC-IRAP) Defence Industry Assist stream, which launched in January 2026 and is active now, providing funding and advisory support to Canadian SMEs developing dual-use technologies.
- \$28 million targeted at biomedical countermeasures against biological threats and high-consequence pathogens.

The BOREALIS roadmap, the new Bureau of Research, Engineering and Advanced Leadership in Innovation and Science, is expected to be published in Q3 2026, along with its first round of funded research projects.

The practical point for clients: if your company is in AI, autonomous systems, quantum, cybersecurity, or dual-use technology and has not looked at NRC-IRAP Defence Industry Assist, it should. The program is designed to pull innovative companies into the defence supply chain, not just serve existing primes. Structuring that relationship properly from the start, covering IP ownership, licensing, government access rights, and collaboration agreements, matters enormously at this stage.

The DIA: From Concept to Legislation

When the DIS was released in February, the Defence Investment Agency existed as a special operating agency within Public Services and Procurement Canada (PSPC). The strategy committed to introducing legislation in Spring 2026 to establish it as a standalone entity with expanded procurement authorities.

That legislative process is now in motion. Once passed, the DIA legislation will give the agency a broader mandate than it currently holds, including the ability to make procurement decisions that currently require coordination across the Department of National Defence (DND), Innovation, Science and Economic Development Canada (ISED), and PSPC. The DIA is intended to be the central integrator of the Build-Partner-Buy framework, coordinating industry engagement, running the new Defence Advisory Forum, and managing the strategic partner identification process.

Clients should be watching this closely. The passage of DIA legislation will trigger a cascade of downstream changes: revised procurement authorities, updated solicitation frameworks, and new contracting vehicles. Firms that have already established relationships with the DIA and started building their ITB compliance infrastructure will be ahead of competitors that wait for the legislation to pass before paying attention.

There is a political variable here. Canada operates in a minority Parliament environment, though the Liberals have been aggressively pursuing floor crossings and have reached 171 seats after five MPs crossed, putting them within striking distance of a majority. Whether or not that majority materializes, DIA legislation is not guaranteed a clear path to Royal Assent on any particular timetable. Prudent planning means treating the legislative timeline as uncertain while acting on the procurement direction as if it is already real, because functionally it is.

ITB Reform: Still Forthcoming, but the Shape Is Clear

The DIS committed to ISED publishing reforms to the Industrial and Technological Benefits Policy in early 2026. As of the time of this writing, the updated policy has not been released. But from everything the government has telegraphed, the direction is clear enough to start planning around it now.

The five areas of ITB reform to watch for:

Strategic Investment Transactions. A new credit category for investments that increase Canadian defence industrial capacity, support sovereign capabilities, or involve IP transfer. This is the mechanism that will allow primes to get credit not just for subcontracting to Canadian firms, but for making strategic investments in the Canadian industrial base, including manufacturing capacity, R&D infrastructure, and workforce development.

Enhanced multipliers. Higher multiplier credits for activities aligned with the 10 Sovereign Capabilities. If your client is proposing R&D in quantum, AI, aerospace, or autonomous systems in Canada, the multiplier calculus will change, potentially significantly.

Canadian Company Boost. A new incentive tied to Canadian Content Value. Firms that can demonstrate 70 to 100% domestic content thresholds in their offerings will receive preferential treatment in bid scoring. Supply chain provenance is now a competitive differentiator, not just a compliance checkbox.

SME tools. Revised eligibility concepts under a Small Mid Cap framework, designed to make ITB compliance more accessible for smaller firms and allow them to count as ITB-eligible partners without the documentation burden carried by large primes.

Sovereign Capabilities alignment. The existing 17 Key Industrial Capabilities (KIC) are being replaced by the 10 Sovereign Capabilities. Any client with an existing ITB commitment or Value Proposition (VP) strategy built around the old KIC list needs to revisit their compliance architecture.

The takeaway for clients is straightforward: do not wait for the final ITB policy before redesigning your value proposition. The broad strokes are settled. Companies that start the IP, supply chain, and subcontracting work now will be in a much stronger position when the RFPs start dropping.

The EU SAFE Initiative and Supply Chain Diversification

One development that has not received enough attention domestically, but that has significant implications for clients with cross-border supply chains: in February 2026, at the Munich Security Conference, Canada officially joined the European Union's Security Action for Europe (SAFE) initiative. SAFE is a central pillar of the EU's Readiness 2030 plan.

This formalizes what the DIS had only gestured toward, namely that Canada's partnership diversification strategy is real and structural, not just rhetorical pushback against U.S. tariff pressure. The government is also working to establish the Defence, Security and Resilience Bank (DSRB), a new multilateral financial institution designed to mobilize private capital for defence, security, and resilience initiatives across allied supply chains.

European partnerships are now an explicit government priority, with trade commissioner support and dedicated bid teams being committed to help Canadian firms access European defence contracts. The inverse is equally true. European primes entering Canada will face the same scrutiny around IP, manufacturing, and control that American primes face. The rules do not distinguish by allied status.

F-35 and the Sovereign Procurement Question

The F-35 review, triggered by the ongoing trade tensions with the United States, is still technically underway, though Canada has committed to the first 16 aircraft. Carney has had discussions with French and British counterparts about alternative platforms and domestic manufacturing options.

However, this resolves, it will be the most closely watched test case for the Build-Partner-Buy framework in action. A decision to renegotiate or redirect a major procurement on sovereignty and domestic industrial grounds would fundamentally validate the DIS as more than rhetoric. The legal and commercial questions it raises around contract structure, IP ownership, and procurement law are exactly the kind of work our team handles.

Alongside the F-35 file, the government has also been making smaller but notable procurement moves that signal real execution. At the same time as the 2% milestone announcement, a \$307-million contract was awarded to Kitchener-based Colt Canada for 65,000 new rifles to replace stock that has been in service for more than 35 years. That is exactly the kind of domestically directed, Canadian-supplier procurement the DIS framework is designed to generate more of. Separately, in early March, a consortium of Pomerleau, Aecon, and Stantec was selected to deliver the Arctic Over-the-Horizon Radar project under an Integrated Project Delivery model, with validation commencing in Q1 2026.

The Critical Minerals Strategy: Q2 2026 Delivery Expected

The DIS commits to publishing a strategy for expanding production, processing, stockpiling, and procurement of defence-critical minerals in coordination with allies by Q2 2026. Canada produces 10 of the 12 NATO-identified defence-critical raw materials, including aluminum, gallium, germanium, graphite, and tungsten, and the government has committed to helping steel and aluminum producers pivot and retool to defence-grade specifications.

The December 2025 Policy on Prioritizing Canadian Materials in Federal Procurements already mandates Canadian steel, aluminum, and wood in federal defence procurements valued at \$25 million or more. The Q2 2026 strategy is expected to significantly deepen this framework.

For clients in mining, materials processing, and defence supply chain, including clean energy companies with exposure to critical mineral projects, the intersection of the DIS sovereign capabilities framework with Canada's critical minerals strategy creates legal structuring opportunities around joint ventures, offtake agreements, government partnerships, and *Investment Canada Act* risk management that do not exist in most other sectors.

What This All Means: Practical Priorities Right Now

Stepping back from the individual announcements, a few themes run through everything we are seeing.

The government is moving faster than expected. The 101-day sprint to 2% was a test of execution capacity. It was passed. Clients who assumed they had years to position before procurement vehicles materialized should revisit that assumption.

Canadian-ness is being enforced structurally, not just preferentially. The combination of Build-Partner-Buy, the Canadian Company Boost, the Canadian materials policy, and the IP ownership requirements in the DIS creates a system of interlocking requirements that will catch firms that have not structured their Canadian operations appropriately. This is not a due diligence issue. It is a deal structure issue.

The SME pathway is real and supported. The \$6 billion BDC Defence Platform, the \$357.7 million Regional Defence Investment Initiative, and the NRC-IRAP Defence Industry Assist stream are all operational or nearly so. For smaller clients who assumed defence contracting was only for Tier 1 primes, the landscape is genuinely different now.

Security compliance is a threshold issue. The DIS is explicit about faster clearances and accredited secure facilities as a priority. More opportunity will be gatekept behind personnel security clearances and facility accreditation than before. Firms that start the clearance pipeline now will have a meaningful lead over those who wait for an RFP to arrive and discover their key personnel are not cleared.

How McLeod Law Can Help

Practical, high-value workstreams:

A. Procurement positioning and bid strategy

- Corporate structuring to support sovereign-capability fit and Build-Partner-Buy pathway alignment.
- Bid/no-bid counselling and mapping offerings against the 10 Sovereign Capabilities.
- Drafting and reviewing RFI/RFP responses, compliance matrices, and negotiation of solicitation terms.
- Debriefs, procurement integrity issues, and bid challenge strategy and record-building.

B. ITB and Value Proposition restructuring

- Redesigning ITB/VP commitments around the new Sovereign Capabilities framework and Canadian Company Boost.
- Drafting the commercial paper that makes ITB real: teaming agreements, supply agreements, IP transfer instruments, investment documents, and governance for consortium bids.

C. BDC Defence Platform and innovation program structuring

- Structuring access to BDC's StrongNorth Fund, Catalyst Innovation Fund, and financing streams with proper IP ownership, licensing, and government access rights in place from the outset.
- Advising on NRC-IRAP Defence Industry Assist applications and the collaboration agreements that follow.

D. Arctic and Northern project structuring

- Drafting partnership frameworks and economic participation arrangements for Northern and Arctic infrastructure projects consistent with the DIS emphasis on local participation and dual-use benefits.
- Advising on duty-to-consult considerations with Indigenous rights holders throughout the project lifecycle.

E. Security, controlled goods, and sensitive-tech compliance

- Clearance readiness planning and contract terms that allocate security obligations and breach consequences.
- Policies for secure facilities, access controls, incident response, and flow-downs to subcontractors.

F. IP, data rights, and sovereign control contracting

- Building an IP strategy that balances Canadian ownership expectations, exportability, background and foreground IP, licensing, escrow and access rights, and open-source risk.
- Negotiating data rights and cybersecurity obligations in supply and sustainment contracts.

G. Investment, M&A, and foreign investment review

Structuring strategic partnerships and acquisitions, including *Investment Canada Act* risk triage and deal-timing strategies, given the DIS focus on supply chain security, hostile actor screening, and sovereign control of critical IP and capabilities.

H. Export controls, sanctions, and cross-border supply chains.

- Export-control classification, end-use and end-user diligence, sanctions screening, and contract clauses for re-export, audits, and termination.
- Supporting partner scenarios, such as joint production with allies, without losing control of key IP or violating compliance restrictions under the new EU SAFE framework.

I. Disputes and performance risk

Advising on contract delivery, change management, remedies, limitations of liability, and dispute resolution frameworks, especially for long-term sustainment and serviceability commitments where the DIS creates higher expectations of domestic performance.

A Few Things to Watch in the Coming Months

Several DIS deliverables are still pending that will shape the rest of 2026:

- Updated ITB Policy and Terms and Conditions, committed for early 2026 and still outstanding.
- Strategic Partner Framework, setting out how select Canadian defence firms will be identified and onboarded as key government partners, due by summer 2026.
- BOREALIS roadmap, expected Q3 2026, along with its first round of funded research projects.
- Defence-critical minerals strategy, expected Q2 2026.
- DIA enabling legislation, introduced in Spring 2026, with the timeline to Royal Assent remaining uncertain.
- Federal budget, which will provide the fiscal architecture for the post-2% spending path toward the 5% commitment by 2035.

Each of these will generate legal and commercial work. Companies that are already engaged with counsel, the DIA, ISED, and their ITB advisors will have a structural advantage over those who wait for the policy documents to drop before starting.

Need help navigating Canada's Defence Industrial Strategy?

If you are pursuing defence or security opportunities in Canada, or looking to invest, partner, or scale within the DIS framework, we can help you move forward with confidence.

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This article is intended as general information only and does not constitute legal advice. The DIS framework involves complex and rapidly evolving legal, regulatory, and commercial considerations. If you are pursuing defence or security opportunities in Canada, or assessing how the DIS may affect your business, investment plans, or existing contracts, we encourage you to get specific advice early.