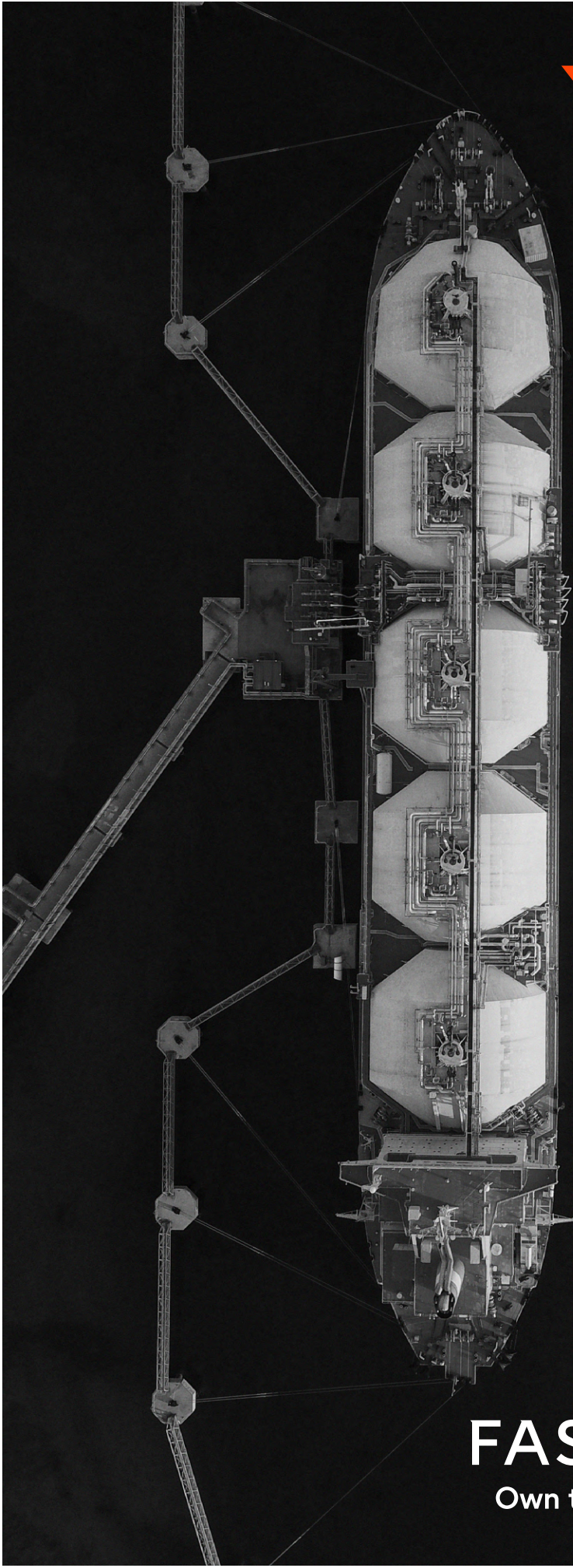


An aerial, black and white photograph of a large LNG carrier ship. The ship is oriented vertically, with its bow at the top. It features several large, white, spherical storage tanks along its length. The ship is being hoisted by a crane system, with thick cables and support structures visible on the left side. The background is dark, and a small orange triangle is visible in the upper right corner.

Investing in Canadian LNG

A GUIDE

FASKEN
Own tomorrow

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1. Overview

Interest in Canada's LNG export industry is growing. Recent LNG market disruptions in the Middle East, the heightened energy security concerns that have resulted, and continuing demand for lower emissions energy are focusing attention on Canadian LNG.

What, then, are the critical considerations around LNG investment and project development in Canada? To answer this question, this guide reviews the key features of Canadian LNG, from project structures and business models, to due diligence and risk allocation, to Indigenous consultation and equity investment. Reach out to any of the Fasken Partners on page 16 to discuss further.



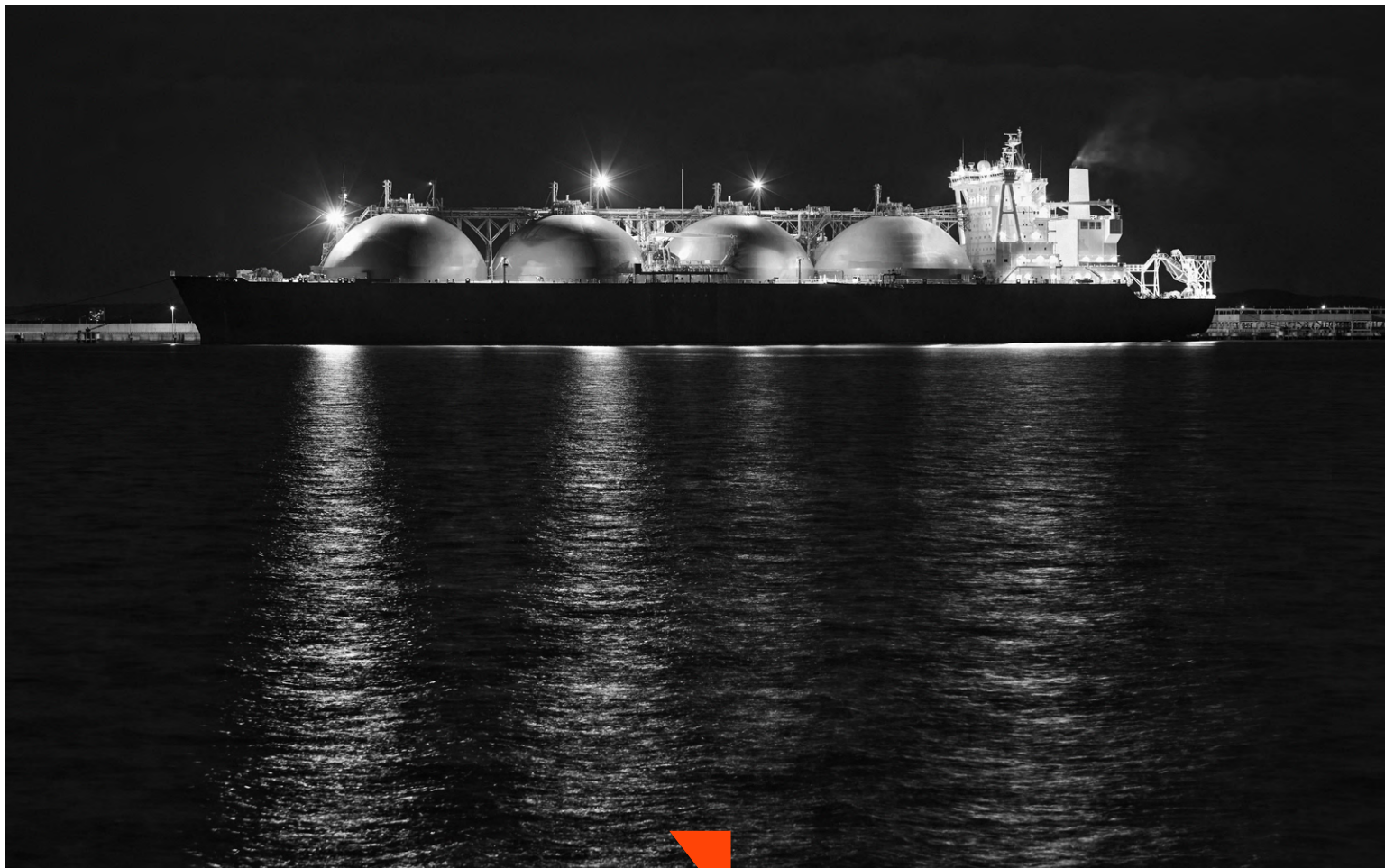
2. Key Features of Canadian LNG Projects

LNG export projects and their value chains can have very different characteristics depending on where they are located. Canadian LNG export projects represent a mix of conditions and potential value chain participants that is somewhat unique on the global stage. We note:

- Many LNG export projects are located in countries that do not have a robust domestic natural gas industry or network. Examples include Papua New Guinea, Angola and Mozambique. By contrast, Canada boasts a longstanding and robust domestic natural gas industry, including almost 600,000 kilometers of transmission and distribution pipelines. Similarly, whereas LNG export projects in some jurisdictions rely almost entirely on the entry of foreign oil and gas companies, Canada hosts the full spectrum of market players, from locally headquartered junior and senior producers through to the local subsidiaries of vertically integrated global oil and gas majors.
- Many LNG export projects are based on a single or small number of large new dedicated exploration and production concessions granted by the host state (e.g., offshore licenses). By contrast, natural gas production in Canada is characterized by many relatively smaller production leases that can be aggregated (i.e., bought, sold and exchanged) to supply an LNG export project. Western Canada's robust domestic natural gas industry and infrastructure also means that the dedication of, or the sale of, natural gas produced from such leases to an LNG export project is only one of numerous different potential monetization strategies. This infrastructure and regional market also create the possibility (absent in many other LNG exporting countries) of stripping out and selling natural gas liquids such as butane and propane from the natural gas before it is liquefied into LNG, potentially increasing a project's economic viability.

- The Canadian government generally does not seek or require direct involvement in LNG export projects, whether through an equity interest or otherwise. This stands in contrast to the many LNG exporting jurisdictions in which the host state requires direct participation in project ownership, development and operations, typically through a state-owned entity (SOE) and using a joint venture or similar structure. Canadian government involvement is generally limited to its role as regulator. Nor does Canada generally prohibit foreign investors from owning upstream oil and gas production rights, as occurs in some other LNG exporting jurisdictions. The absence of direct host-state involvement in Canada can mean greater freedom in structuring an LNG project relative to other jurisdictions.
- Canadian LNG export projects have generally required more new pipeline infrastructure to transport natural gas from its point of production to the associated coastal liquefaction facility than is the case in other LNG export jurisdictions. In western Canada, this challenge is made more complex by the mountainous terrain between natural gas production in northeastern BC and Alberta, on the one hand, and BC's Pacific coast, on the other hand. That said, the completion of the 670-kilometer Coastal GasLink Pipeline feeding LNG Canada (and to also feed Cedar LNG) demonstrates the viability of such infrastructure.
- Natural resource and infrastructure development in Canada, and particularly in BC, requires appreciation of the constitutional rights of Canada's Indigenous peoples, including regarding consultation and accommodation. The practical result is that developing LNG infrastructure in Canada requires early, meaningful and sustained consultation with potentially impacted Indigenous groups to ensure alignment. Indigenous groups in Canada are also increasingly seeking active participation in energy projects, including through equity ownership. Government-backed Indigenous loan guarantees and lending programs are facilitating this. Indigenous equity participation also serves as a strong bankability signal.





3. LNG Project Structures and Business Models

There is no standard structure for an LNG export project. Choice of structure occurs on a project-by-project basis and depends on a variety of factors such as (1) the business model(s) of the project parties, (2) regional natural gas production, infrastructure and markets, and (3) financing considerations.

That said, over the more than six-decade evolution of the LNG industry, LNG export projects have generally come to adopt one of four project structures or “economic models”. Importantly, a project’s economic model will inform potential investment in the project and what legal and commercial issues are raised.

We note:

- **Integrated Model.** The key feature of an integrated LNG export project is that the owner(s) of the export facility also own the associated natural gas reserves. The parties may also own any pipeline infrastructure joining the natural gas production with the export facility as well as infrastructure downstream of the facility (e.g., overseas regasification terminals). As such, the export facility generally operates less as a distinct profit centre and more as a component of a larger operational structure involving multiple affiliates and non-arm’s length arrangements. Stated differently, the purpose of a party’s participation in the export facility may not be revenues from operating the facility itself but securing feedstock for its overseas power generation (e.g., a foreign state-owned utility) or maximizing the value of its LNG sales (e.g., a vertically integrated global LNG company active across the LNG value chain from production and liquefaction to shipping and trading).

- **Merchant Model.** The owner(s) of a merchant model LNG export project do not have equity interests in the LNG value chain either upstream or downstream of the export facility. They purchase feedstock natural gas from unaffiliated upstream producers, liquify it at the facility for their own account, and then sell the LNG to third parties. This can be done on either an FOB basis (where the buyer takes title to the LNG at the export facility) or on a DAP or DAT basis (where the seller is responsible for maritime transportation and delivery of the LNG to the buyer at an overseas receiving facility). The profitability of the project is determined by the difference between the price paid for the natural gas (and its transportation and liquefaction) and the price paid by the LNG buyer.
- **Tolling Model.** Similar to a merchant model project, in a tolling model LNG export project the facility owners are not involved in the LNG value chain either upstream or downstream of the LNG facility. Their participation in the LNG value chain is limited to providing liquefaction services at the facility in exchange for a fee and typically involving a “use or pay” component. Third parties supply the feedstock natural gas and take possession of LNG post-liquefaction, either for onward sales (e.g., an LNG marketing company) or for their own purposes (e.g., a foreign state-owned utility). The export facility operates as a distinct profit centre driven primarily by the terms of the tolling agreements between the facility owner(s) and their customers, and (unlike under a merchant model) the facility owner(s) need not enter into either natural gas purchase agreements or LNG offtake agreements with third parties.
- **Hybrid Model.** Hybrid LNG export projects can combine various elements of integrated, merchant and tolling models to accommodate the needs of different project parties in the circumstances. This may be necessary where the proponents include a variety of business interests such as SOEs, private energy companies and financial investors. One example is a hybrid merchant/tolling model where the export facility owner(s) provide a marketing service to LNG buyers whereby they source and take title to the feedstock natural gas before delivering the LNG in exchange for fixed monthly charges regardless of whether the buyer offtakes the LNG. Another example is an LNG offtaker taking an ownership stake in a merchant or tolling project. This allows the offtaker to diversify its risk exposure (e.g., where the cost of LNG has risen, this will be partially offset by the offtaker’s equity stake). A third example is that equity investments in LNG projects by purely financial players are becoming more common, including as this can greatly reduce the amount of project financing necessary.





4. Project Risks, Risk Allocation and Due Diligence

As mentioned, an LNG export project's economic model will inform potential investment in the project. It will also inform what legal and commercial issues such investment raises, including the risks to which the different project parties are exposed. These should be carefully diligenced in connection with the proposed investment and should in turn inform negotiation strategy and the ultimate terms of investment.

LNG export projects – like any significant infrastructure investment project – are subject to numerous material risks. Working along the LNG value chain from upstream to downstream, these can include (1) exploration and production risk, (2) unplanned interruptions to pipeline capacity, (3) unplanned interruption to liquefaction capacity, (4) unavailability of maritime carriers, and (5) unplanned interruption to regasification capacity. Commodity price risk will apply to both natural gas purchases and LNG sales. Less industry-specific risks will include credit risk, completion risk, and political risk.

The different economic models an LNG export project can adopt provide examples of these risks and associated risk mitigation strategies in practice:

- In an **integrated model** project, ownership of the associated natural gas helps insulate the project party(s) against commodity price risk and supply risk but exposes them to exploration and production risk. The project parties enjoy a measure of flexibility in that they may be able to adjust LNG production in response to changing market conditions, e.g., ramp down liquefaction to instead sell produced gas into regional markets.
- The owner(s) of a **merchant model** project are directly exposed to commodity price risk both upstream and downstream of the facility, as well as to counterparty risk on either side. The latter risk can – depending on regional markets – be mitigated on the upstream side by diversifying supply sources, e.g., through a mixture of long-term, short-term and spot contracts with multiple producers.
- The owners of a **tolling model** project face demand risk for their liquefaction services. To address this, customers will typically pay a fixed tolling fee to reserve capacity at the facility and then pay a variable usage fee based on the quantity of liquefaction services provided. The reservation fee allows the project to recover fixed costs, including debt repayment, as well as a return on capital. The usage fee allows for recovery of the costs associated with liquefaction.

Investment in an LNG export facility should come with a clear understanding of the allocation of the project's various risks across the project parties and value chain. Such a holistic understanding will be particularly important to the project's lenders (if any). Key to this exercise is identification of each material project risk and on which party(s) such risk falls. For example, in the case of an unplanned interruption to the export facility, it may be that a majority of risk is allocated to the facility operator, but that a portion of risk is also allocated to the facility's LNG offtakers. Also key to this exercise will be ensuring that the interaction of the various contractual arrangements comprising the project's value chain are as seamless as possible. An example is the cohesive interface of force majeure clauses such that no gaps or inconsistencies result.

It is theoretically possible for a group of partners in an LNG export facility to be fully aligned in interest, e.g., where each party has the same equity stake in each component of an integrated project. In practice, it is more likely that different project parties will be invested in different parts of the project's value chain and have varying equity or contractual interests (e.g. where a natural gas supplier or LNG offtaker holds a minority equity interest in the export facility). This may in turn create material conflicting commercial interests depending on the circumstances. The potential for such tension should be anticipated from the inception of the negotiation of the project agreements, and may be particularly complex in the case of a hybrid model project.

LNG Export Project Structures and Risk Profiles Simplified and Compared

To facilitate the easy comparison of the different LNG project structures and risk profiles, we've prepared the following summary table.

Model	Core Characteristics	Key Advantages	Key Risks	Revenue Profile and Predictability	Typical Investor Profile
Integrated Model	Vertical integration across upstream production, liquefaction and potentially downstream infrastructure.	Natural hedge against commodity price volatility; control over feedstock supply; operational flexibility across the value chain.	Exposure to upstream exploration and production risk; capital intensity; concentration risk across the value chain.	Revenues may be less transparent at the facility level as value is realized across the integrated chain; predictability depends on downstream sales strategy.	State owned enterprises and utilities; vertically integrated international LNG/energy companies.
Merchant Model	Facility owners procure gas from third parties and sell LNG on their own account.	Potential for margin upside in favourable commodity price environments; flexibility in sourcing and marketing.	Full exposure to commodity price risk on both input and output; counterparty risk on gas supply and LNG offtake.	Revenue predictability can be lower absent long term back-to-back contracts; subject to market volatility.	Independent LNG developers; midstream energy companies; portfolio players; commodity traders.
Tolling Model	Facility owners provide liquefaction services for a fee; customers supply gas and offtake LNG.	Stable fee-based revenue; limited exposure to commodity price risk; strong alignment with project financing.	Demand risk for liquefaction capacity; reliance on credit quality of customers.	Higher degree of predictability driven by fixed capacity reservation fees, often supported by "use or pay" commitments.	Midstream energy companies; infrastructure investment funds; lenders favouring contracted cash flows.
Hybrid Model	Combines elements of integrated, merchant and tolling structures.	Flexibility to accommodate diverse investor and commercial objectives; potential to balance risk and return.	Increased structural complexity; potential misalignment of interests among stakeholders.	Revenue profile varies depending on mix of merchant and contracted revenues; may enhance predictability relative to pure merchant exposure.	Consortia of typical investors from integrated, merchant and tolling models; offtakers; financial investors.

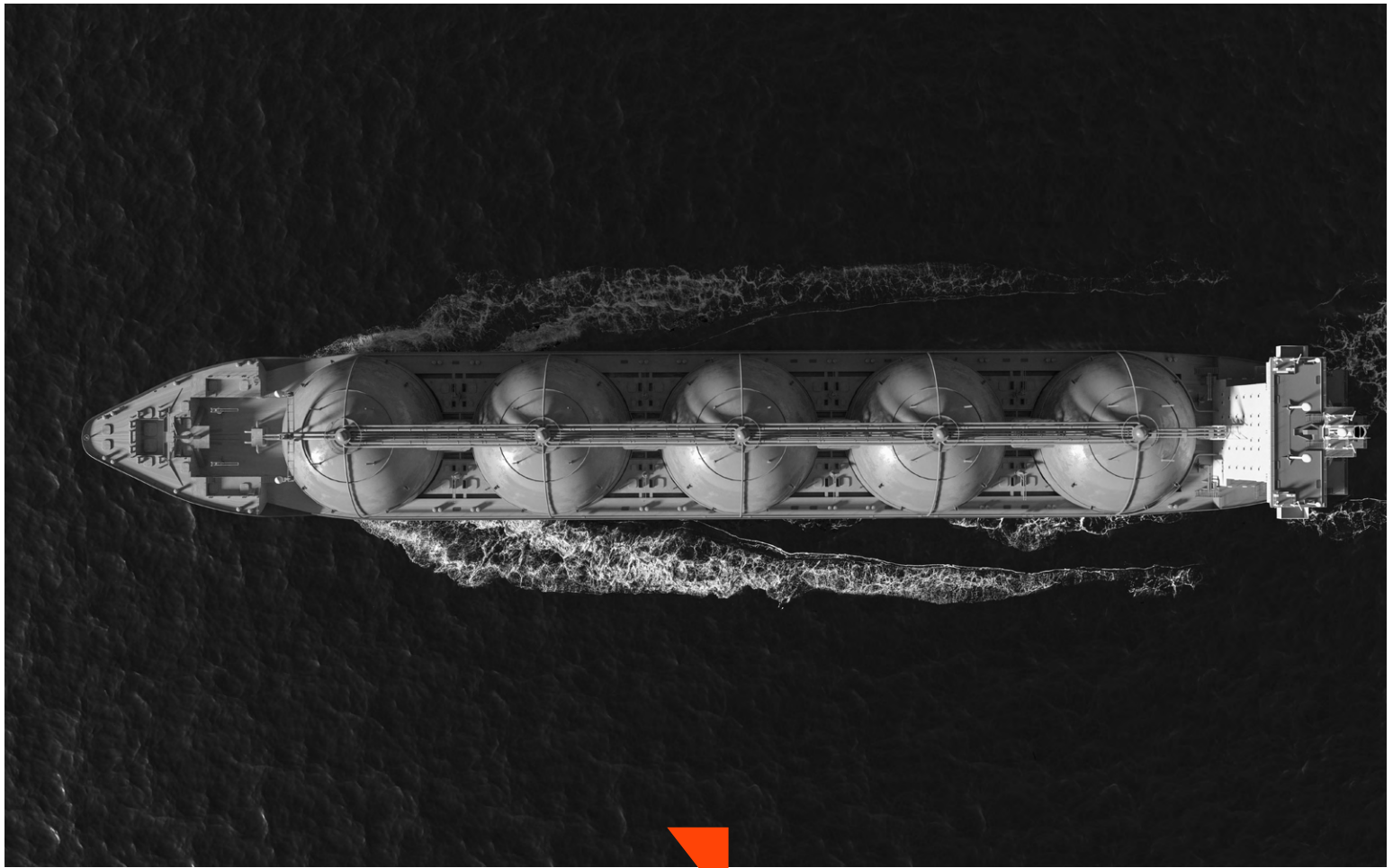


5. Indigenous Consultation and Equity Investment

Advancing material energy, infrastructure and resource projects in Canada requires early, thorough and meaningful consultation with impacted Indigenous groups. Canadian LNG projects are no different.

Indigenous consultation and accommodation are critical for two principal reasons. First, to fulfil constitutionally protected rights and other regulatory obligations under Canadian law, most importantly the duty to consult. Second, and equally importantly, to foster trust, collaboration and mutual benefit with local and other potentially impacted Indigenous communities. The goal is to align a project's plans with the rights, interests and long-term ambitions of these communities, typically by prioritizing environmental stewardship, cultural preservation and economic empowerment. By committing to Indigenous involvement from the outset, project proponents can build stronger partnerships and boost project certainty.

Towards this end, recent years have seen Indigenous groups increasingly seeking greater participation in Canadian energy, infrastructure and resource projects. A longstanding approach has revolved around “impact and benefit agreements” (IBAs) between project proponents and Indigenous groups. These focus on financial support and compensation for cultural and environmental impacts while also guaranteeing economic benefits such as training and employment. IBAs remain a cornerstone of Indigenous engagement for resource project proponents in Canada. However, more and more, Indigenous groups are also seeking an equity interest in projects to provide them with direct economic benefits, decision-making influence, and a long-term investment in the project's success.



6. Indigenous Loan Guarantees and Project Bankability

A key development in facilitating Indigenous equity investment in Canadian resource projects has been the recent emergence and growth of significant government-backed Indigenous loan guarantees and equity lending programs.

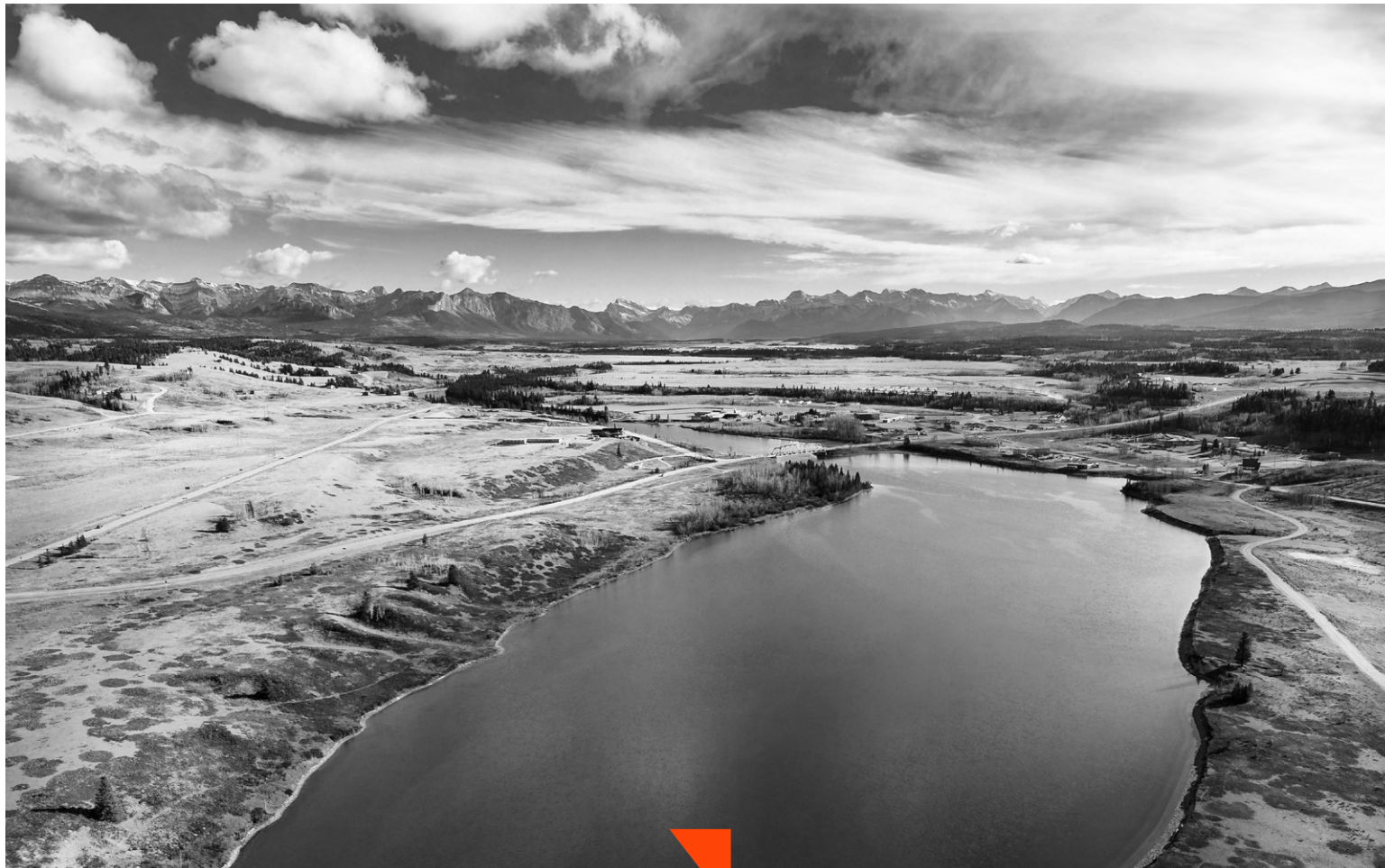
For many Indigenous communities, the hurdle has not been a lack of interest in partial project ownership, but access to sufficient affordable financing to support the investment of capital. Because on-reserve land and assets generally cannot be pledged as security, traditional project lenders have often viewed Indigenous equity as higher risk or required guarantees that were not available. The result was that Indigenous participation was frequently limited to a small or carried equity interest rather than meaningful ownership.

With government support through loan guarantees and equity loan programs, this dynamic is changing significantly. These programs help bridge financing gaps by reducing lender risk when conventional collateral is limited or unavailable. They can also lower financing costs, extend loan terms, and make it feasible for communities to finance larger equity stakes in assets such as LNG facilities, pipelines, power generation and transmission infrastructure, and related projects.

As these programs have expanded at both the federal and the provincial level in many provinces, they are reshaping how large projects are financed and structured in Canada. Initiatives such as the federal Indigenous Loan Guarantee Program, the Canada Infrastructure Bank's Indigenous Equity Initiative, and similar provincial programs are enabling Indigenous groups to come to the table as long-term equity partners.

Numerous benefits flow from this for investors and project proponents. The project's sustainability and reconciliation credentials are enhanced. The project is made more resilient to regulatory and societal scrutiny. Risks related to legal challenges and community opposition are often mitigated. All in all, Indigenous loan guarantees and financing support programs are increasingly viewed as a practical way to unlock capital, reduce project risk, increase project certainty and improve project bankability.





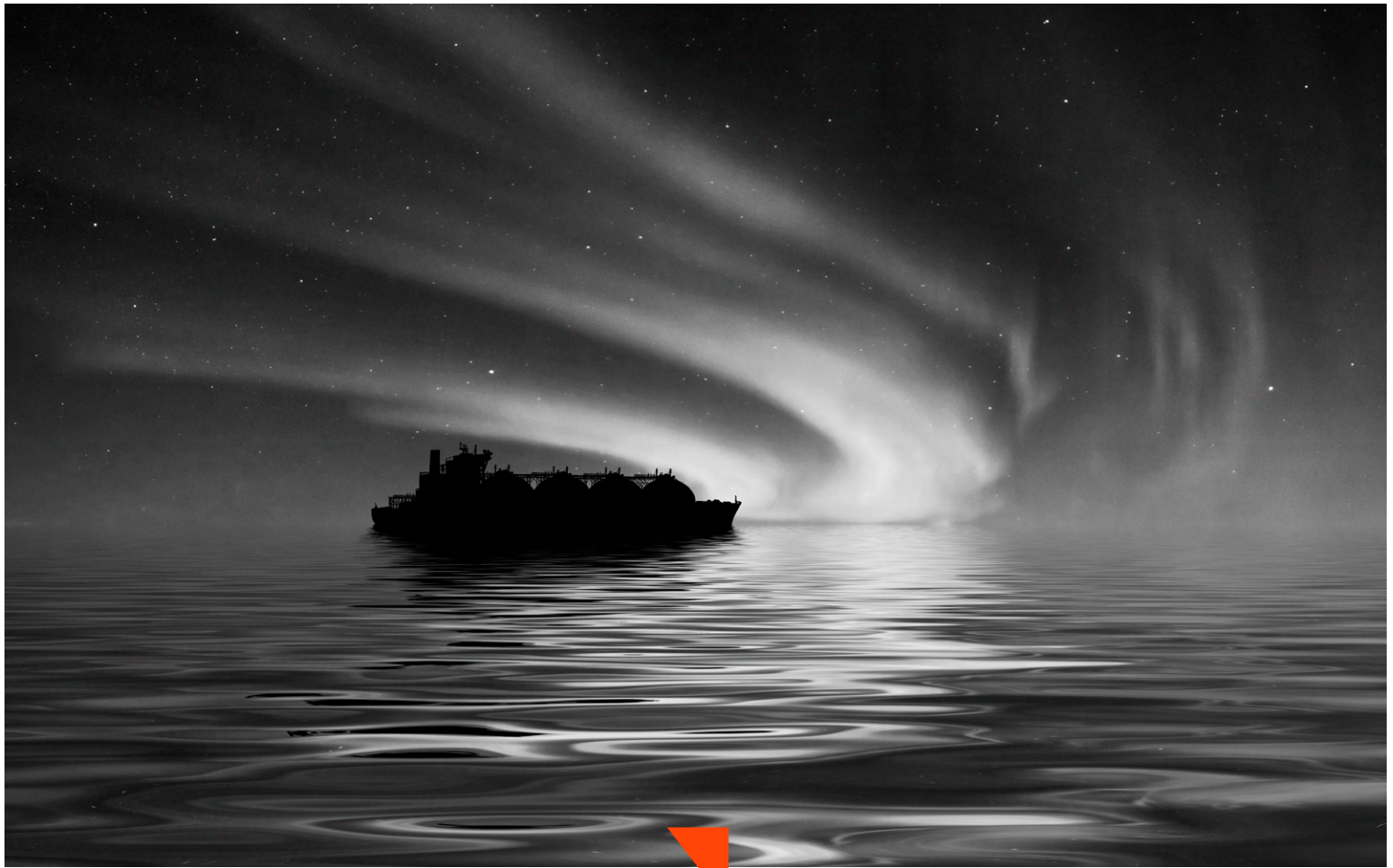
7. Indigenous Investment and Canada's Major Project Office

Canada's federal government launched the Major Projects Office (MPO) in August 2025 to help advance nation building projects throughout the country. The symbolism behind the MPO's launch is important: it sends a clear signal to domestic and international investors that Canada's federal government is committed to supporting the expedited and successful development of important energy, infrastructure and resource projects, including LNG.

Importantly, the MPO is implementing a "one project—one review" framework for designated projects. The aim is to streamline federal decision-making, greatly shorten regulatory timelines, and coordinate Crown actions and approvals across governmental departments. Facilitating and improving a project's engagement with local Indigenous communities is central to the MPO's

mission. The MPO is putting an emphasis on Indigenous consultation, environmental assessments and sustainable development. The MPO also provides a centralized framework for Indigenous engagement, consultation and collaboration.

LNG proponents, along with their Canadian and international investors, stand to benefit from the MPO framework. By leveraging the MPO's streamlined process, stakeholders can pursue project designation early and more quickly and effectively engage in Indigenous consultations. From there, they can better negotiate and structure Indigenous partnerships and other arrangements. They can also more effectively address permitting, financing, and development challenges, all aligned on a coordinated path toward mutually beneficial Indigenous involvement, reduced project risk, and accelerated project completion.



8. Concluding Comments: Growth Going Forward

Canadian LNG is uniquely positioned to support the world's growing energy needs. The country enjoys abundant natural gas reserves, proximity to key Pacific basin markets, and political stability.

With successful examples of investments in Canadian energy and infrastructure such as LNG Canada, Woodfibre LNG and Cedar LNG, the country is building a proven track record of reliable energy partnerships. The benefits of Indigenous investment include greater project resilience, reduced project risk, and improved project bankability. By capitalizing on its resources, regulatory reforms, and commitment to reconciliation, Canada is well-positioned to advance LNG projects that meet the energy needs of global markets and attract substantial domestic and foreign investment.

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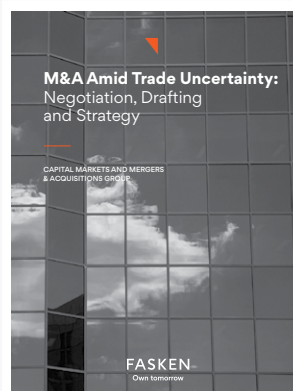
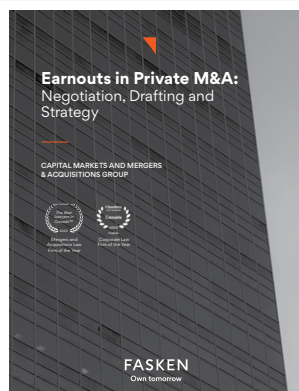


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