

Equity line financing: a strategic tool for large-scale projects in Canada



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Key Takeaways

- The equity line of credit model offers innovative financing solutions for large projects in Canada.
- Strong governance controls protect investors, ensuring consistency in decision-making and project oversight.
- This flexible structure enhances funding certainty and incentivizes management through equity-based rewards.

A defining moment for Canada

Canada stands at a pivotal juncture as the global economy undergoes profound transformation. Decisive action is required to secure Canada's long-term prosperity; this is a moment to act with ambition, confidence, and purpose.

This is Canada's opportunity to think big and deliver on projects that will define the next century. We must build critical nation-building projects at speeds not seen in generations. These projects will create the infrastructure to diversify our trading relationships, unlock new markets, and position Canada as both a clean-energy and conventional-energy superpower. – Major Projects Office of Canada

Introduction

As Canada focuses on building out its transportation, facilities, manufacturing and production infrastructure, the need for innovative financing solutions becomes paramount. One such solution is the equity line of credit model, which has been successfully utilized in Alberta's energy sector for decades. This article provides an overview of the equity line financing structure, its mechanics, governance controls, and the benefits it offers to project developers and companies seeking funding for medium to large-scale projects.

Understanding the equity line structure

An equity line is a committed equity financing facility that allows a sponsored company to

draw funds over time, typically a five-year period, through discrete capital calls, subject to predefined approvals and conditions. Unlike traditional revolving bank lines or one-time equity raises, an equity line is a staged equity commitment from one or more sponsoring equity investors, typically a private equity fund or pension fund. This structure aligns funding needs with project or corporate milestones while preserving governance controls and aligning management incentives.

Core mechanics: commitments, tranches, and closings

The equity line structure involves an aggregate equity commitment sized to a specific project's capital requirements or the sponsored company's multi-year plan. For a specific project, it will often be a portion of an overall equity and debt financing structure. The total equity line financing amount is capped, with an initial closing on a small percentage of total commitments, followed by capital calls during a defined capital call period. Draws are made only after defined approvals, ensuring disciplined use of capital. Failure to fund an approved capital call can result in loss of governance rights or other remedies which may include forfeiture or buyback of shares previously purchased.

Governance controls and investor protections

Equity lines are typically paired with strong governance frameworks to protect the sponsoring investors. These include board representation, observer rights, reporting obligations, and consent thresholds. Major investors, usually those owning over 20% of the sponsored company, hold robust consent rights over significant transactions, budget approvals, large expenditures, and changes to corporate documents or compensation arrangements. These rights are customarily detailed in a shareholder agreement entered into at the initial closing. Board nomination rights are tied to ownership thresholds and usually are set on a basis that is proportional to ownership.

Financing discipline: restrictions while uncalled balances remain

Equity line structures often include restrictions on external debt or equity financing while uncalled commitments remain available, absent approval by major investors, with limited exceptions (e.g., option and warrant programs or possibly M&A activity). This discipline protects the sponsors' expected pro rata ownership positions and prevents the sponsored company from bypassing the line in favor of opportunistic financing that could alter the expected ownership and economics of the project.

Alignment and incentives: options, warrants, and dollar vesting

Salaries for the founders tend to be more modest, with long-term equity incentives such as stock options and performance warrants providing participation in the success and upside of the enterprise, often at a higher percentage of the issued and outstanding share capital than is typical for public companies. Management and employee incentive programs often vest based on both time and the amount of capital actually called under the equity line, aligning interests with the long-term success of the project.

Liquidity, exits, and protective rights

Equity line structures typically define exit pathways and shareholder transfer controls. Shares of a sponsored company are customarily not transferable without consent. The shareholder

agreement implementing the structure may contemplate a liquidity event within a target timeframe, embed drag-along and tag-along rights, and provide major investors with post-anniversary liquidity rights to initiate a sales process. Registration rights agreements ensure coordinated access to public markets if the sponsored company goes public.

Reporting and oversight

Robust information rights support sponsor oversight across draw periods. Sponsored companies provide regular financial reporting to their major investors, coupled with board-level representation and observer rights. These reporting obligations include quarterly and annual financial statements with MD&A, notice of material events, and access to senior management, ensuring transparency as capital is deployed.

Conclusion

The equity line structure is a flexible, governance-rich approach to equity financing that benefits sponsors, sponsorees, and third-party counterparties requiring funding certainty for a project. It avoids the need for a large up-front capital investment as it aligns capital deployment with business plans, retains investor oversight, and incentivizes management through instruments keyed to actual funding. It relies on clear capital call mechanics, remedies for non-funding, limitations on external equity until commitments are drawn, and well-defined rights around transfers and liquidity. Multiple investors and tranches can be coordinated under consistent procedures, while providing flexibility for large draws connected to acquisitions or project financing requirements. This structure makes the equity line an effective tool for staged growth and disciplined capital formation.