



Institute for Energy Economics  
and Financial Analysis

# LNG Canada Phase 2: After FID key questions remain

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## Key findings

**As Phase 2 of LNG Canada's export facility in Kitimat, B.C., reaches FID, key questions remain.**

**The investment case for Phase 2 is somewhat different from Phase 1 and should be considered on its own terms.**

**LNG Canada Phase 2 is approaching FID with potentially 50% of the combined project for sale and possible new ownership.**

**Phase 2 must contend with greater uncertainty around construction costs, economic inflation, potential global oversupply, and a turbulent trade environment.**



## Executive summary

The investment case for LNG Canada Phase 2 warrants careful scrutiny on its own merits and should not merely be assumed from the execution of Phase 1. Both phases share the same site, overlapping ownership, and broad commercial characteristics. But the economic and market conditions prevailing before FID are noticeably different. This briefing outlines some key risks facing investors, policymakers, and other project stakeholders. Construction of Phase 2 will have to contend with volatility and increases in the prices of labour, steel, equipment, debt and other input costs. Statistics Canada's non-residential construction price index has risen sharply since 2019-20, and the current construction cost base is substantially above that prevailing in 2018. Investors in Phase 1 were able to partially insulate themselves from the effects of cost overruns by transferring this risk to contractors via lump sum, fixed-payment contracts. However, it is uncertain if Phase 2 can secure comparably favorable commercial terms in today's volatile cost environment. Pre-FID commercial agreements are already signaling a new reality leaving investors more exposed to inflationary risks. The requirement for incremental feed gas must also be assessed against expected production levels in western Canada. The projects ownership structure is also shifting. Potential shareholder divestments and changes in project ownership at a critical time when new capital is needed to fund the expansion raise critical questions. The U.S.-Canada trade war also introduces another element of risk that was absent in earlier stages of the project. While a more favorable regulatory environment will help expedite approvals, it also flattens the first-mover advantage that Phase 1 enjoyed, increasing competition for labour, contractors and construction capacity from other proposed LNG projects. Phase 1's environmental record may also weigh on community support for the expansion effort. Lastly, Phase 2 is seeking FID and offtake commitments just as a historically large volume of competing LNG supply is approaching the market. Current supply disruptions from the conflict in the middle east are unlikely to offset this impending supply glut. LNG Canada Phase 2 is not simply a duplication/twinning of Phase 1; it faces a materially different risk environment. Investors, policymakers, and industry stakeholders are exposed to significant uncertainties and face critical questions as the project reaches FID.

## Introduction

LNG Canada is entering a new phase of development. Phase 1, a two-train, 14 million tonnes per annum (MTPA) export facility in Kitimat, British Columbia, reached final investment decision (FID) in 2018 and began commercial operations after shipping its inaugural cargo in June 2025.<sup>1</sup> Phase 2, which aims to add two additional trains and expand capacity to approximately 28 MTPA, is now under consideration.

The investment case for LNG Canada Phase 2 warrants careful scrutiny on its own merits and should not be assumed from the execution of Phase 1. Both phases share the same site, overlapping

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<sup>1</sup> CBC. [Gas flaring at LNG Canada far exceeds permitted volume, documents show](#). April 9, 2026.

ownership, and broad commercial characteristics. But the economic and market conditions prevailing before FID are noticeably different. Phase 1 benefitted from an established cost base, contractual protections, and long-term offtake commitments. Phase 2 requires a fresh commitment of capital at a time when borrowing and construction costs have risen, buyer preferences are evolving, and some sponsors are looking to divest their stake in the project.

By exploring the relative risk profiles facing both phases, this briefing outlines critical questions facing investors, policymakers, and other project stakeholders.

## **Phase 2 faces uncertain construction costs with proponents more exposed to associated risks.**

Phase 2 construction is likely to be easier than Phase 1. First, Phase 2 is not an entirely new greenfield development. The LNG Canada site, marine infrastructure, and utilities already are in place. Second, the critical Coastal GasLink Pipeline (CGL) has already been built (even though it requires expansion). It is likely that the same contractors who delivered Phase 1 will be responsible for Phase 2, so they may be able to leverage construction and execution lessons from the first project.<sup>2</sup> Still, a critical question facing investors today is whether Phase 2 can be delivered without encountering the cost overruns and inflation that characterized parts of Phase 1.

At FID in 2018, LNG Canada estimated total investment for Phase 1 of the project at approximately CAD\$40 billion.<sup>3</sup> This included construction costs for the liquefaction facility, the marine terminal, and the Coastal GasLink (CGL) pipeline—which had an initial cost of CAD\$6.2 billion—as well as upstream investments.

Investors in Phase 1 were able to partially insulate themselves from the effects of cost overruns by transferring this risk to contractors via lump sum, fixed-payment contracts. LNG Canada awarded the engineering, procurement, and construction (EPC) contract for the LNG facility to the JGC-Fluor joint venture for \$14 billion, while construction of the CGL pipeline was handled by TC Energy.<sup>4</sup> The hybrid, lump sum arrangement transferred substantial construction cost and execution risks to contractors, with Fluor acknowledging at the time that such lump sum arrangements carried considerable risks.<sup>5</sup> While the final cost of construction for most components of the project is not publicly available, the JGC/Fluor JV states that it was able to limit overruns by completing most of its procurement before the onset of the COVID-19 inflationary wave and by utilizing project labour agreements (PLA) to temper the escalation of labour costs.<sup>6</sup>

<sup>2</sup> JGC Fluor BC LNG II. [JGC Fluor Joint Venture Receives Limited Notice to Proceed for Proposed Phase 2 Expansion of LNG Canada Facility](#). Accessed September 2026.

<sup>3</sup> Government of Canada. [Government of Canada confirms support for largest private investment in Canadian history](#). June 24, 2019.

<sup>4</sup> JGC Holdings Corporation. [Finalization of Contract for EPC of Large-Scale Canadian LNG Plant](#). October 2, 2018. Also see: Trans Canada. [TransCanada to Construct Coastal GasLink Pipeline Project](#). October 2, 2018.

<sup>5</sup> JGC Corporation. [JGC Report 2018](#). March 31, 2018, p. 16.

<sup>6</sup> Fluor Corporation. [Q3 2022 Fluor Corp Earnings Call](#). November 4, 2022, p. 15.

TC Energy, however, was not as lucky. The CGL pipeline experienced significant cost inflation and was ultimately delivered at CAD\$14.5 Billion – more than double initial estimates. TC Energy was forced to shoulder most of this overrun, and in 2024, it recorded a cumulative pretax impairment of \$5.14 billion related to the project.<sup>7</sup>

Can LNG Canada Phase 2 secure comparably favourable commercial terms for its construction contracts in today's volatile cost environment? Contractors at this point are undoubtedly more aware of their exposure to higher risks, given how the post-COVID wave of inflation has manifested in the broader economy. Statistics Canada's non-residential construction price index has risen sharply since 2019-20, and the current construction cost base is substantially above that prevailing in 2018.<sup>8</sup> Contractors for Phase 2 will have to contend with not just volatility and increases in the prices of labour, steel, equipment and other input costs. They will also have to deal with expectations that such increases may persist or even accelerate over the course of construction. Such contractors are likely to demand a premium to compensate for taking on additional risks and may demand greater contingency or risk-sharing mechanisms.

Pre-FID commercial agreements for Phase 2 may already be signaling this new reality. Recently, LNG Canada and TC Energy signed a commercial agreement to expand the CGL pipeline—a critical requirement for transporting an additional 2.9 billion cubic feet per day (Bcf/d) of feedgas to the second train. Under the new arrangement, TC Energy will take a reduced role with limits on its capital commitments and overall liability for cost overruns.<sup>9</sup> TC Energy will now act primarily in an advisory role, while LNG Canada will take the lead in building the expanded CGL pipeline. The new arrangement materially increases LNG Canada proponents' exposure to any surprises that occur during construction.

<sup>7</sup> TC Energy. [Annual report 2024](#). February 2025, p. 171.

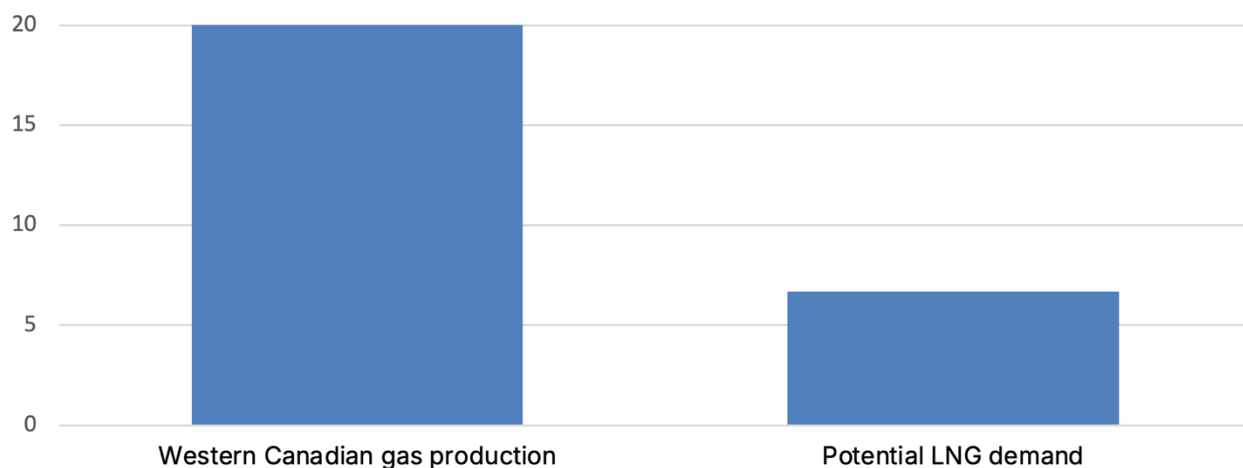
<sup>8</sup> Government of Canada. [Building construction price indexes](#). July 24, 2026.

<sup>9</sup> TC Energy. [Coastal GasLink Phase 2 advances step forward with new commercial agreements](#). March 25, 2026.

## Gas supply and demand dynamics may increase volatility in feed gas prices

The requirement for incremental feed gas must be assessed against expected production levels in western Canada. Phase 1's two trains require 2.1 Bcf/d, and Phase 2 expansion would likely double the project's feed gas requirement to around 4.2 Bcf/d. Although western Canada has a large resource base and is supported by buoyant gas reserves, the combined demand from Phase 2, other LNG projects under construction, and potential increases in data centre energy use may entail new drilling and or higher utilization of existing infrastructure. Such initiatives in British Columbia will have to comply with recent Supreme Court rulings on oil and gas development.<sup>10</sup>

**Figure 1: Potential LNG demand vs. western Canadian gas production, Bcf/d**



Source: Canada Energy Regulator (CER); IEEFA.

If production growth keeps pace with rising demand and pipeline capacity expands ahead of demand, Phase 2 could continue to secure feed gas at relatively attractive prices. On the other hand, if incremental LNG demand grows faster than upstream production, this could tighten regional supply-demand balance—causing the Alberta Energy Company (AECO) and other regional gas price benchmarks to rise.<sup>11</sup> Higher gas prices would increase operating costs for both phases and pressure project margins. Investors will need to consider the cost and timing of expansion, the pace of upstream production growth, the development of other demand drivers, and the resulting regional gas price response.

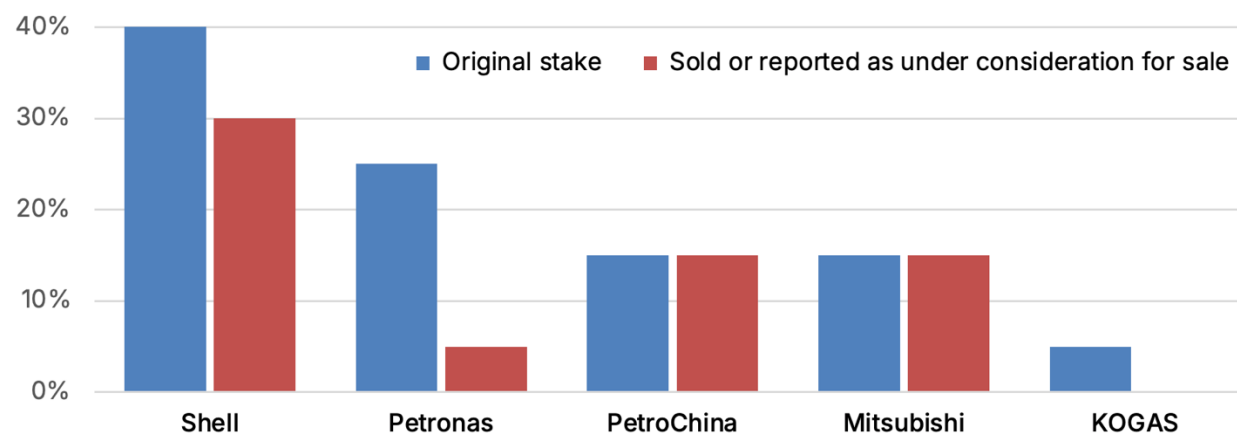
<sup>10</sup> BC Ministry of Energy, Mines and Low Carbon Innovation. [BRFN Agreement – Rules for Oil and Gas Development](#). January 1, 2023.

<sup>11</sup> Canadian Association of Petroleum Producers. [Pricing - Henry Hub vs AECO](#). Accessed September 2026.

## Shareholder divestments and changes in project ownership raise questions

LNG Canada Phase 2 is approaching FID with potentially 50% of the combined project for sale and possible new ownership. Phase 1 was sanctioned by a relatively stable group of strategic investors with substantial upstream resources: Shell held 40%, Petronas 25%, PetroChina 15%, Mitsubishi 15%, and Kogas 5%. Each partner was responsible for its own gas supply and independently marketed its share of LNG.<sup>12</sup> That ownership picture, however, is changing. In 2025, Petronas sold a 20% interest in the entity holding its 25% LNG Canada stake to Midocean Energy, giving it a 5% ownership share in LNG Canada.<sup>13</sup> Shell is considering selling 30% of its 40% stake, while Mitsubishi is also reviewing options for its 15% stake.<sup>14</sup>

**Figure 2: LNG Canada ownership divestments**



Sources: Shell; Upstream Online; Reuters; IEEFA.

The motives behind these divestments are unknown, but the shift in ownership—with core members of the original consortium reducing their stakes at a critical time when new capital is needed—raises questions. Are existing investors merely freeing up capital for other investments, and are new partners capable of strengthening the project's balance sheet? Or are these divestments evidence of a changing appetite for the project's risks, and does a reshuffled ownership base complicate governance and capital-raising, signaling additional risks for the expansion effort?

<sup>12</sup> Shell. [2018 Shell corporate press releases: Shell gives green light to invest in LNG Canada](#), p. 70. October 2, 2018.

<sup>13</sup> Upstream Online. [Petronas sells stake in LNG Canada to EIG-backed company](#). September 30, 2025.

<sup>14</sup> Reuters. [Shell, Mitsubishi exploring sale options for their stakes in LNG Canada, sources say](#). January 16, 2026.

## Trade war turbulence poses additional risks and costs

The U.S.-Canada trade war introduces an element of risk that was absent during the execution of Phase 1 of the project. The U.S. has imposed tariffs of as much as 50% on Canadian steel and aluminum imports, while Canada has placed retaliatory tariffs on U.S. steel, aluminum, and other goods.<sup>15</sup> The Bank of Canada estimates the average tariff rate on Canadian exports rose from 0.1% at the start of 2025 to approximately 5.0% by July 2026, and notes that trade restrictions are putting upward pressure on domestic production costs.<sup>16</sup> Contractors have to grapple with uncertainty about the future cost and availability of construction inputs, steel-fabricated components, and other equipment. Major procurement and contracting decisions for Phase 2 have not been finalized, so any contractor bidding today must consider not only current prices but also potential tariffs, trade dispute escalations, supplier markups, and logistics costs, which may be volatile over a multi-year construction period.

The cost of financing is also higher. The Bank of Canada's policy rate was 1.75% in October 2018 versus 2.25% today, while the 10-year Government of Canada yield has risen from roughly 2.4% to 3.6%—an increase of 120 basis points.<sup>17</sup> Assuming Phase 2 has CAD\$30 billion of capital costs with 30% debt financing, each additional 100 bps in borrowing costs would result in approximately CAD\$90 million in additional annual interest expense.

## Regulatory fast-tracking may expedite Phase 2 but also boost resource competition

The regulatory landscape in Canada has shifted and is arguably more favourable for LNG expansion. LNG Canada Phase 1 underwent a conventional, multistage regulatory process, securing approval for its environmental assessment in 2015. This was subject to 50 legally binding conditions followed by additional federal and provincial permits and approvals.<sup>18</sup> By contrast, Phase 2 has been explicitly designated as a project of national significance and was referred to the Major Projects Office (MPO) in September 2025. The MPO is designed to act as a single point of coordination across federal departments, provinces, and Indigenous communities to fast-track such projects. The federal government has also introduced measures aimed at improving LNG economics by extending export licenses from 40 to 50 years and allowing for more favourable accounting treatment for certain LNG equipment.<sup>19</sup>

<sup>15</sup> The White House. [Adjusting Imports of Aluminum and Steel into the United States](#). June 3, 2025. Also see: Government of Canada. [Canada's tariffs: Steel and aluminum](#). June 19, 2026.

<sup>16</sup> Bank of Canada. [Monetary Policy Report—October 2025—Canadian economy](#). Accessed September 2026.

<sup>17</sup> Bank of Canada. [Summary of key monetary policy variables](#). Accessed September 2026.

<sup>18</sup> Government of Canada. [Government of Canada's Decision on the Environmental Assessment of the LNG Canada Export Terminal Project](#). June 17, 2015.

<sup>19</sup> Major Projects Office. [LNG Canada Phase 2](#). Accessed September 2026.

LNG Canada, however, is not the only project to benefit from a shifting regulatory landscape. Ottawa has shortlisted 15 projects through the MPO process—including other competing LNG projects. While government support for the project reduces potential regulatory delays, it also flattens the first-mover advantage that Phase 1 previously enjoyed and increases the speed and certainty with which competing LNG capacity can enter the market. Will regulatory and government support materially improve Phase 2's economic potential? Or does fast-tracking multiple competing LNG projects create new execution risk for Phase 2 by increasing competition for labour, contractors, and construction capacity?

## Phase 1's environmental record could increase scrutiny, weaken Phase 2 social license

LNG Canada originally referred to its Kitimat facility as the “world’s cleanest” LNG project in terms of greenhouse gas emission intensity.<sup>20</sup> Earlier regulatory submissions stated that it would operate without routine flaring, but internal records reveal this commitment was removed from subsequent regulatory plans. Phase 1 went on to burn over 350 million cubic metres of gas in its first year of operation.<sup>21</sup>

The resulting flaring, pollution and associated disturbances generated multiple community complaints to the B.C. Energy Regulator, which identified non-compliance related to black-smoke emissions and recommended corrective actions.<sup>22</sup> These issues have laid bare the inherent challenges of bringing a large-scale LNG facility into operation and show that operational risks persist long after construction and commissioning are complete.

Phase 2—which would increase the project’s footprint—may now enjoy less benefit of the doubt from its community stakeholders and residents. The project may face increased suspicion and scrutiny of any subsequent environmental or operational mishaps, with increased reputational consequences.

<sup>20</sup> LNG Canada. [Living up to climate promises](#). March 23, 2020.

<sup>21</sup> The Narwhal. [LNG Canada dropped commitments to operate ‘without routine flaring,’ docs reveal](#). July 29, 2026.

<sup>22</sup> British Columbia Energy Regulator. [The British Columbia Energy Regulator \(BCER\) has issued an order to LNG Canada related to instances of non-compliance during flaring](#). April 22, 2026.

## Current supply disruptions not likely to offset impending supply glut

Lastly, a key difference is timing. Phase 1 secured its commercial foundation before the current wave of LNG capacity additions materialized. In contrast, Phase 2 is seeking FID and offtake commitments just as a historically large volume of competing LNG supply is approaching the market. Roughly 254 MTPA of new LNG export capacity is expected globally between 2026 and 2030.<sup>23</sup> Analysts expect this tidal wave of new supply to outpace demand growth, putting downward pressure on prices, and constricting project profitability. This scenario would give potential buyers greater negotiating leverage over terms like destination flexibility, contract duration, and volume commitments.

Today, more than 35% of LNG imports are conducted on a spot basis, reflecting a growing shift away from traditional long-term, fixed-volume contracts toward more flexible, shorter-term ones.<sup>24</sup> This trend may make it harder to lock in the long-term revenue certainty needed to secure financing for project development.

A key counterpoint to the impending glut is the closure of the Strait of Hormuz. As a result of the U.S.–Iran conflict, almost 20% of global LNG supply has been removed from the market, causing global benchmark prices to spike. For Phase 2 to benefit from this price hike, however, tight market conditions would have to persist until the early 2030s, when the project may be expected to come online. There is a chance that current market conditions may resolve before then.<sup>25</sup> This begs the question—Is the Phase 2 target start-up window positioned ahead of, into or after the anticipated supply glut, and will that materially affect its contracting strategy and pricing economics?

## Conclusion

LNG Canada Phase 2 is not simply a duplication/twinning of Phase 1; it faces a materially different risk environment. Phase 1 is now an operating asset, with construction, contracting, and infrastructure risks largely behind it. Phase 2 must contend with greater uncertainty around construction costs, economic inflation, potential global oversupply, divestments, and a turbulent trade environment. Stronger government backing for new Canadian LNG projects, as well as importers looking to diversify supply sources away from conflict-prone jurisdictions, may provide meaningful offsets. But these do not eliminate commercial risk. Investors, policymakers, and industry stakeholders are exposed to significant uncertainties and face critical questions as the project reaches FID.

<sup>23</sup> IEEFA. [Canadian LNG and Global Oversupply](#). July 28, 2026.

<sup>24</sup> GIIGNL. [2025 Annual Report](#). Accessed September 2026.

<sup>25</sup> IEEFA. [Potential implications of the Iran conflict for Canada's fossil fuel sector](#). June 3, 2026.

## About IEEFA

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