



CORPORATE · GUIDE

Bringing on a co-owner or investor

Share issuances, dilution, and the documents that should be in place before money changes hands.

Posted Apr 30, 2026 · Updated Jul 7, 2026

At some point a growing business often brings someone else into the ownership: a co-founder who has been there in spirit and now wants it in writing, a key employee you want to lock in with equity, or an investor putting in money to fuel growth. Sharing ownership can be exactly the right move. But founders give away equity far too casually, on a handshake or a rushed email, and then spend years untangling what that actually meant. The order of operations matters: get the structure and the paper right first, then let the money and the shares change hands. Here is how to think about it.

Two ways someone gets shares

There are two basic mechanisms, and they are not the same:

- Issuing new shares. The corporation creates and issues new shares to the new owner. The money (if any) goes into the company. This is the usual route for an investor putting capital into the business, because the point is to fund the company.
- Transferring existing shares. An existing shareholder sells or gives some of their shares to the new owner. The money goes to the selling shareholder, not the company. This is how an existing owner cashes out part of their stake or hands some to someone else.

Which one you use changes who gets the money and what happens to everyone's ownership percentage, so decide deliberately.

Dilution: the thing founders underestimate

When the corporation issues new shares, everyone's existing percentage of the company goes down, because the same business is now divided into more pieces. This is dilution, and it is not necessarily bad, owning a smaller slice of a bigger, better-funded company can be worth far more, but you need to understand it before you agree to it.

The questions to be clear on before issuing shares:

- How much of the company is the new owner getting, and what does that do to your percentage and everyone else's?

- What is the company worth? Issuing shares requires some view of value, because that determines how much ownership the new money or new person should get. Valuation is part legal, part financial, and often part negotiation, and getting it wrong, especially giving away too much too early, is one of the most common founder regrets.
- Is this a one-time event or the first of several? If you expect more rounds of investment, each one may dilute you further. Think a step ahead.

The documents that should come first

This is the heart of it. Before money changes hands and shares are issued or transferred, the paperwork should be in place. Doing it afterward, or not at all, is how disputes are born.

- A shareholder agreement. If you are going from one owner to more than one, this is the single most important document. It governs how decisions get made, what happens when an owner wants out, dies, or has to be removed, how shares can be sold, and how disputes get resolved. We have a whole article on why this matters. The time to put it in place is as the new owner comes in, while everyone is aligned, not later when there is something to argue about.
- Subscription or share purchase documents. The actual agreement under which the shares are issued or transferred, setting out the price, the number and class of shares, and the terms and conditions.
- Proper corporate authorization and records. The issuance or transfer has to be properly approved and recorded in the corporation's minute book and share register. A share issuance that is not properly documented creates exactly the kind of gap that derails a future sale or financing.
- Clarity on what the new owner actually gets. Voting rights, dividend rights, what class of shares, whether there are any conditions or vesting. "You get 10 percent" is not a complete deal until these are specified.

If you are raising money, securities law can be triggered

Here is a flag worth raising plainly. When you raise money by issuing shares to investors, you can engage securities law, which regulates how securities are sold and to whom. There are exemptions that small private companies commonly rely on, but they have conditions, and you cannot assume you are automatically exempt. Raising money from a wider circle, or from people who are not close insiders, increases the need to get this right. This is not a reason to panic, but it is a reason to get advice before you start taking money for shares, rather than after.

A sensible sequence

- Decide the structure: new shares or transferred shares, and roughly what ownership the new person or money should get.
- Get a view on valuation, with your accountant or advisor where money is involved.
- Get advice on securities law if you are raising money from investors.
- Put the shareholder agreement and purchase or subscription documents in place.
- Properly authorize and record the issuance or transfer in the corporate records.

- Then the money and the shares change hands.

The instinct is to do it in the opposite order, take the money or shake hands first and "do the paperwork later." Resist that. The paperwork is not a formality that follows the deal. It is the deal.

Bottom line

Bringing in a co-owner or investor means either issuing new shares (money into the company, everyone diluted) or transferring existing ones (money to the seller). Either way, understand the dilution and the valuation before you agree, and get the documents, above all a shareholder agreement, in place before any money or shares move. If you are raising money from investors, securities law may be in play, so get advice early. Done in the right order, sharing ownership strengthens the business. Done casually, it creates years of avoidable conflict. Talk to us before you bring someone in, not after.

This is general information about bringing owners into a corporation in Ontario, not legal advice for your situation. Share structures, valuation, and securities law depend on your specific facts. Talk to us, and your accountant, before money or shares change hands.

Questions about your own situation? Book a free consultation at lucianolegal.com/contact.html, call 647-479-4585, or email info@lucianolegal.com.

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