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Date: September 10, 2020

East End Storefront  
Cooperative (EESC)  
1034 Commercial Dr,  
Vancouver, BC V5L 3W9

Via: email

Dear Directors of EESC:

Re: Summary of proposed substantive amendments to Memorandum and Rules

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Thank you for requesting me to review the Rules and Memorandum of EESC with a focus on preparing EESC to raise community capital in the foreseeable future. I have also taken the liberty of proposing other changes that impact governance and director liability within EESC with the goal of facilitating decision-making while maintaining accountability to members. Accordingly, I enclose for members' consideration a proposed Addendum to the Memorandum of Association, and amended Rules.

### **Summary of Substantive changes**

#### **Memorandum**

I have drafted a proposed addendum to the memorandum to rephrase the section on membership shares which permits the Board to require a greater number of shares to be purchased by members. Reasons for this could include inflation, or a collective capital raise through membership shares. A section permitting a number of investment share classes has also been added that permits the Board to issue equity shares in the Association if deemed appropriate.

#### **Rules**

#### **Definitions**

Definitions to Board, Dividends, Ordinary Resolution, Good Standing, Member, patronage returns, surplus earnings, has been added to ensure clarity in meaning of these terms.

#### **Part II: Members and Investment Shareholders**

A Part has been added that corresponds with the amendments made to the Memorandum to distinguish between member requirements from shareholder requirements, and add in the discretion of the Board to adopt an Investment Policy to be ratified by Members.

### Part III: Joint Membership and Cessation Thereof

Part II becomes Part III with the following revisions:

Section 2 and 3 is moved to Part II within the definition of Member. Sub-Section 3 becomes a separate paragraph covering joint membership.

Section 12, 13, is added: Termination of Membership for cause if the Member is in default, not in good standing, breaks a law relevant to the business of the Association, fails to comply with the Rules, Memorandum, or policies of the Association, or for any other just cause.

### Part V

Section 25 is added to permit members to attend meetings electronically

### Part VI

Qualifications of Directors: Section 32 has been added to establish base qualifications for directors of being 18 years, of sound mind, not bankrupt, in good standing with the Association.

Removal of Directors: Section 33 has been added to establish the following conditions under which a Director may be removed: being in default to cooperative, failing to attend meetings, being convicted of an indictable offence subject to imprisonment, being found to be disloyal to the Association, being no longer qualified. Additionally, members may remove a Director by simple majority vote.

Minimum number of Directors: Section 34 has been added to eliminate the risk of a paralysis in decision-making in the event board membership falls below 7 (the previous minimum) but is more than the statutory minimum of 3. A range of membership has been added from a minimum of 3 to maximum of 12.

Duty of Directors: Section 39 and 40 have been removed and replace by Sections 43 and 49 which bring the duties of Directors to the explicit standard articulated in the Act, and indemnify the Directors for actions against them as long as they are acting in good faith and exercising reasonable care.

Raising money: Section 52, now Section 56: The restriction of the Board not permitting debentures (loans secured by general capital instead of specific assets) has been

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removed. This will make it easier for the Association to raise capital through member loans, or outside financing.

Surplus earnings: Sections 57 and 58 are removed and replaced by Sections 61 and 62, which provide more flexible language regarding disposition of surplus earnings to permit patronage and dividends if appropriate, and to set off payment against amounts that may be owed by a member or investor to the cooperative. Section 62 permits the Association to define an amount owed by the association that cannot be paid immediately, as an interest free loan to the association.

Compensation of Directors: Section 53 and 54 have been added to distinguish between approval requirements for compensation of Directors, and for reimbursement of expenses. Section 53 continues to require members to approve compensation, but permits directors to be reimbursed for reasonable expenses to attend meetings without member approval.

Dissolution; Section 76 added to prioritize distribution of any net assets remaining upon dissolution. The priority is to pay debts, pay member loans, third party investment shares, four pay out to Members.

I have also made a number of formatting changes to the Rules for consistency in language, and to correctly reference sections that have changed numbering. I have not specifically highlighted these changes because they are in the way of form and not substance.

Thank you again for having me assist on this proposed restructuring with the aim of facilitating capital-raising for the EESC. Please do not hesitate to contact me with any questions.

Yours truly,



***Elliot H. Bridgewater***  
***Barrister & Solicitor***

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