

The Subscription agreement.

The agreement really has four purposes:

1. It acknowledges that the subscriber has been given adequate information to make a sound decision
2. It contains statements by the subscriber (representations and warranties) that indicate that the co-op has acted within the Securities Act in selling the shares, and
3. It provides an agreement whereby the subscriber agrees to buy the single membership share, and the co-op agrees to issue it.
4. It provides the legal support the co-op needs to sell the shares without preparing and issuing a prospectus.

This is done as follows:

Section 1 contains statements by the co-op to the member regarding the purchase of the shares. This is a series of statements that help to ensure that the buyer is fully informed of the risks involved with the share purchase. For example

- c) there is no government or other insurance covering the Securities;
or
- i) the Securities are speculative investments which involve a substantial degree of risk;

Most of the things in Section 1 would have been said during one of the many information sessions and so on done with potential shareholders. This is just to be sure that all the terms required by the Securities Act are taken care of. The Securities Act allows a cooperative to sell membership shares up to an aggregate value of \$5,000 per member without having to prepare a prospectus. A prospectus is a long and complicated (read expensive) document that requires the participation of lawyers, auditors and others to prepare. In the absence of a prospectus, the Act still requires that a member (buyer of a share) is fully informed of the risks before buying the share.

By signing the subscription agreement, the member is agreeing that they are aware of and agree with the statements and descriptions of the risks, and are prepared to buy the shares under these conditions. Section 1.1 (a), states that the co-op is acting under one of the exemptions to the securities act, which allows it to sell shares without issuing a prospectus, then lays out some of the implications – "you as the subscriber may not be as well informed as you would be if a prospectus were available" (1.1 (a) ii), for example, and "the co-op doesn't have to issue a prospectus, which it otherwise would have to" (1.1 (a) iii). The remaining sections contain statements like c) and i) above, aimed at advising the buyer of the share of the risks involved, and ensuring that each member is doing his or her due diligence in buying the share in the co-op. The final section 1.1 (k) sums it all up by saying that the co-op is relying on the information contained in the other statements to meet the requirements of the Act and the exemption, which gives it the right to sell the shares without issuing a prospectus.

Section 2 is a series of statements by the member to the co-op, which again ensures that the co-op can issue and sell the shares without resorting to a prospectus. It says (2.1) "I know that the co-op is selling these shares without issuing a prospectus", (2.2) "I don't already have any shares in the co-op", and (2.3) "altogether, I will have invested \$5,000 in the co-op".

Section 3 is a set of statements that are jointly made by the member and the co-op. The member says (3.1) "because I believe the statements in sections 1 and 2 are true, I agree to buy a

share in the co-op valued at \$5,000, (3.2) the share to be made out in my name." In 3.3, the co-op says "okay, we'll issue the share in your name".

Prepared in 2006 by Marty Frost, the co-op developer working on the HLCFC project with TLC.