ENGLOBE LLP

Business Law Insight – August 2026

When Can a Shareholder Sue a Director in Ontario?

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READING TIME **6 MINUTE READ**

Why This Matters

A director's decision can harm both a corporation and an individual shareholder. But those are not always the same legal injury. A shareholder cannot usually recover personally simply because the company lost money or its shares declined in value.

The key question is: who was legally harmed — the shareholder, the corporation, or both? The answer determines who may sue, which procedure applies, and where any recovery goes. Choosing the wrong route can lead to delay, added cost, or a claim being struck before the merits are decided.

This Insight focuses on corporations governed by Ontario's *Business Corporations Act* (OBCA). Federally incorporated companies have comparable remedies under the federal legislation.

1. The Common Problem We See in Practice

In an owner-managed business, the same people are often shareholders, directors, officers, and employees. When the relationship breaks down, those roles blur.

Common allegations include:

- company money is paid to a director or a related business;
- the majority approves unusually high salaries, bonuses, or management fees for itself;
- a minority shareholder is denied records, meetings, dividends, or meaningful participation; and
- new shares are issued to dilute voting power, or a director makes a false statement that causes a shareholder to invest or sell.

The shareholder may say, "The director cost me money." The law still requires the claim to be placed in the correct category.

Clark v. Cen-Ta Real Estate Ltd., 2025 ONSC 5759

The applicant was the largest shareholder in two closely held companies. He alleged that the directors awarded themselves and their personal companies excessive compensation while company revenues and profitability declined.

He asked the court for leave under *section 246 of the OBCA* to bring a derivative action in the companies' names. He sought recovery of the allegedly excessive payments and limits on future director compensation. He was already pursuing a personal oppression claim seeking damages and a share buyout.

The Ontario Superior Court granted leave. It accepted that the corporate claim could proceed despite the overlapping oppression claim: the same conduct can harm a corporation and a shareholder in different ways.

The Court did not decide that the compensation was excessive or that the directors were liable. It decided only that the proposed corporate claim was sufficiently legitimate and arguable to proceed.

Bottom line: money allegedly taken from the companies supported a derivative claim; alleged unfair treatment of the shareholder supported a separate oppression claim.

2. The Three Main Routes Against a Director

A. Oppression remedy - personal harm to a shareholder or other protected stakeholder

Under *section 248 of the OBCA*, a shareholder may seek relief where they establish an objectively reasonable expectation, assessed in the particular corporate context, and show that the expectation was violated by conduct that was oppressive, unfairly prejudicial, or unfairly disregarded their interests. The governing framework comes from *BCE Inc. v. 1976 Debentureholders*, 2008 SCC 69. Depending on the corporation's structure, governing documents, past practice, and the shareholder's reasonable expectations, examples may include a freeze-out, unfair dilution, selective dividends or compensation, misuse of control for personal benefit, or denial of information.

A director is not personally liable merely because the corporation acted oppressively. Under *Wilson v. Alharayeri*, 2017 SCC 39, the conduct must be properly attributable to the director and personal liability must be fair and fit. Personal benefit and bad faith are important indicators, but neither is an absolute prerequisite. Remedies may include compensation, a buyout, an order reversing or restraining conduct, or changes to corporate governance.

B. Derivative action - harm to the corporation

Directors' fiduciary and care duties under *section 134 of the OBCA* are owed to the corporation. If a director diverts funds, takes a corporate opportunity, or causes an overpayment to a related party, the corporation normally owns the claim.

If those controlling the corporation will not bring or diligently prosecute the corporate claim, a shareholder may seek leave to proceed in the corporation’s name. Subject to exceptions, including where all directors are defendants, the complainant must give the directors 14 days’ notice and satisfy the court that: (1) the directors will not bring, diligently prosecute, defend, or discontinue the action; (2) the complainant is acting in good faith; and (3) the action appears to be in the corporation’s interests. Recovery ordinarily belongs to the corporation.

C. Direct claim - a separate duty and direct loss

A shareholder may also have an ordinary direct claim where the director owed the shareholder an independent legal duty and caused a distinct personal loss, for example, through a personal fraudulent or negligent misrepresentation that induced an investment, or a contractual promise personally made by the director. Whether the claim is framed in contract, tort, securities law, or oppression depends on the facts and the source of the duty.

A decrease in share value caused by harm to the company is usually not enough. As the Ontario Court of Appeal explained in *Rea v. Wildeboer*, 2015 ONCA 373, an oppression claim is personal, while a derivative action seeks corporate relief. The label does not change who suffered the injury.

3. A Real Case: Two Different Claims From the Same Conduct

In *Clark v. Cen-Ta Real Estate Ltd., 2025 ONSC 5759*, a shareholder alleged that the directors of two closely held companies paid excessive salaries and fees to themselves and to businesses they controlled.
The shareholder said those payments harmed the companies because corporate money was used for the directors' benefit. He also said the same conduct harmed him personally as a shareholder, because it reduced the value of his shares and deprived him of the return he reasonably expected from his investment.

He was already pursuing an oppression claim for his personal harm, including damages and an order requiring the other shareholders to buy his shares.

He also wanted to pursue a separate claim for the companies to recover the allegedly excessive payments. Because that claim belonged to the companies, not to him personally, he first needed the Court's permission to bring it in their names. That is called a derivative action.

The Court granted permission for the derivative action to proceed. It held that the shareholder could pursue both routes because the same alleged conduct could cause two different injuries:
Corporate injury: money allegedly paid improperly from the companies; and
Personal shareholder injury: alleged unfair treatment and a resulting loss in the value or benefit of the shareholder's investment.

The Court did not decide whether the directors’ compensation was excessive or whether they were liable. It decided only that the proposed corporate claim was sufficiently arguable and in the companies’ interests to proceed.

Key point: one course of conduct can sometimes support both a derivative action for the corporation and an oppression claim for the shareholder. The remedy sought must match the injury alleged.

4. Why These Claims Commonly Fail

Shareholder claims often run into difficulty because:

- the shareholder seeks personal damages for money that was actually lost by the corporation;
- a corporate duty is pleaded as though it were owed personally to every shareholder;
- ordinary disagreement with a business decision is treated as oppression;
- the allegations do not identify what the individual director personally did; or
- the requested remedy does not match the injury.

5. Practical Checklist

When a shareholder-director dispute develops:

- Identify the loss: was the shareholder's right affected, was corporate property lost, or both?

- Preserve the shareholders' agreement, articles, minutes, financial records, emails, and evidence of past practice.
- Put requests for records, explanations, meetings, or corrective action in writing.
- Define the desired outcome: repayment to the company, a buyout, compensation, an injunction, or a governance order.
- Act promptly; delay can affect limitation periods, evidence, and available remedies.

For directors, practical risk controls include disclosing conflicts, using independent approval where appropriate, documenting compensation and related-party transactions, respecting information and voting rights, and obtaining advice before issuing shares or moving value among related companies.

Final Thought

A shareholder can sue a director in Ontario, but "the director harmed me" is only the starting point. Personal unfairness may support oppression or another direct claim; harm to the company usually requires a derivative action. Identifying the correct injury, claimant, and remedy at the outset can avoid an expensive procedural detour.