

**ECONOMICAL MUTUAL INSURANCE COMPANY**  
**CONVERSION PLAN**

Under  
Section 237 of the *Insurance Companies Act* (Canada)  
and  
Section 13 of the *Mutual Property and Casualty Insurance Company with Non-mutual  
Policyholders Conversion Regulations* made thereunder

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## RECITALS:

1. On November 3, 2015, the Board passed a resolution recommending Demutualization.
2. At a special meeting of Eligible Mutual Policyholders held on December 14, 2015, the Eligible Mutual Policyholders voted by special resolution to commence negotiations of the Allocation with Eligible Non-Mutual Policyholders.
3. The Policyholder Committees were appointed by order of Justice Hailey of the Ontario Superior Court dated February 22, 2017, as amended.
4. The Policyholder Committees negotiated the Allocation and determined the Other Recipients, and the Allocation and Other Recipients were unanimously approved by the members of each Policyholder Committee on June 11, 2018.
5. The Company has prepared this Conversion Plan in accordance with the Demutualization Regulations to effect the Demutualization and the distribution of Demutualization Benefits in accordance with the Allocation.
6. In connection with the Demutualization, the Company has incorporated a holding corporation, which will own all of the Economical Insurance Common Shares following the Effective Time.

This Conversion Plan provides as follows:

## ARTICLE 1 INTERPRETATION

### 1.1 Definitions

As used in this Conversion Plan, the following terms have the following meanings:

**“Allocation”** has the meaning set out in Section 5.1.

**“Applicable In Force Date”** means: (i) in the case of a current or former policy that was in force on or after the Eligibility Date, the earlier of December 14, 2015 and the last date on which the policy was in force; and (ii) in the case of a former policy that was in force only before the Eligibility Date, the last date on which the policy was in force.

**“Appointed Actuary”** means Linda Goss or such other person appointed as the company actuary for the Company.

**“Authorized Person”** has the meaning given in the order of Hailey J. dated February 22, 2017, as amended, for the protection and maintenance of confidentiality of documents and information.

**“Board”** means the board of directors of the Company.

**“Business Day”** means any day other than a Saturday or Sunday or any other day that is a statutory holiday in the province of Ontario.

**“Calculation Dispute”** has the meaning set out in Article 8.

**“Calculation Disputant”** has the meaning set out in Article 8.

**“Calculation Dispute Notice”** has the meaning set out in Article 8.

**“Cash Portion”** has the meaning set out in Section 6.4.

**“Common Shares”** means the common shares of Holdco.

**“Company”** has the meaning set out in Section 1.2(1).

**“Company Parties”** means the Company, its affiliates, or any of their respective directors, officers, employees, financial advisors, counsel, accountants or other advisors, agents, brokers or representatives.

**“Conversion Plan”** means this Conversion Plan (including all schedules), as amended from time to time in accordance with Section 9.2, being a conversion proposal as contemplated in Section 237 of the ICA.

**“CTS Allocation”** means the allocations provided for in Sections 5.2(1)(b) and 5.2(3)(b), as more fully described in Schedule 1.

**“Default Election Policyholders”** means Eligible Policyholders for whom the Company did not receive a duly completed and executed Election Form by the Election Deadline.

**“Demutualization”** means the conversion of the Company from a Property and Casualty Company that is a Mutual Company into a Property and Casualty Company with common shares pursuant to Section 237.1 of the ICA and this Conversion Plan.

**“Demutualization Benefits”** means Common Shares and/or cash to be distributed to Eligible Policyholders and Other Recipients in connection with the Demutualization in accordance with this Conversion Plan.

**“Demutualization Regulations”** means the *Mutual Property and Casualty Insurance Company with Non-Mutual Policyholders Conversion Regulations*, SOR/2015-168, enacted on July 1, 2015 and issued pursuant to Sections 237(2) to 237(3) and Section 1021 of the ICA.

**“Depository Agent”** means the depository agent appointed by the Company or Holdco from time to time, as the case may be.

**“Disclaiming Person”** means a Person who elects to disclaim their entitlement to Demutualization Benefits in a manner satisfactory to the Company.

**“Economical Preferred Shares”** means the preferred shares of the Company, prior to the Effective Time.

**“Effective Date”** has the meaning set out in Section 3.1.

**“Effective Time”** has the meaning set out in Section 3.1.

**“Economical Insurance Common Shares”** means the common shares of the Company, after the Effective Time.

**“Economical Insurance Preferred Shares”** means the preferred shares of the Company, after the Effective Time.

**“Election Deadline”** means the date and time chosen by the Company as the deadline for receipt of the Election Form.

**“Election Form”** has the meaning set out in Section 6.1(1).

**“Eligibility Date”** means November 3, 2015.

**“Eligible Policyholder”** means an Eligible Mutual Policyholder or an Eligible Non-Mutual Policyholder.

**“Eligible Mutual Policyholder”** means a Person recorded in the Masterfile as an eligible mutual policyholder, but does not include a Disclaiming Person.

**“Eligible Non-Mutual Policyholder”** means a Person recorded in the Masterfile as an eligible non-mutual policyholder, but does not include a Disclaiming Person.

**“Family Insurance”** means Family Insurance Solutions Inc., which is a body corporate wholly-owned by the Company that distributes insurance policies issued by the Company.

**“Final Consideration Date”** means a date which will be (i) on or shortly after the IPO Date, or (ii) the date on which the Company, Holdco and the Underwriters determine that the IPO will not close.

**“First Special Meeting”** means the meeting of the Eligible Mutual Policyholders of the Company held on December 14, 2015 in accordance with Section 5 of the Demutualization Regulations.

**“Foreign Recipient”** means an Eligible Policyholder, or any one Person who together with one or more other Persons constitute a single Eligible Policyholder, pursuant to Section 4.3(1), who on the Election Deadline had any address listed in the Masterfile that is outside of Canada and did not certify on an Election Form or in some other manner acceptable to the Company in its sole discretion prior to the Election Deadline that they are a Canadian resident for the purposes of the *Income Tax Act* (Canada).

**“Former Lost Recipient”** has the meaning set out in Section 6.10(2).

**“Foundation”** means 10551635 Canada Foundation (to be renamed to Economical Insurance Heritage Foundation), a corporation incorporated under the Canada Not-for-profit Corporations Act with objects to receive and maintain a fund or funds and to apply all or part of the principal and income therefrom, from time to time, to qualified donees as defined in subsection 149.1(1) of the *Income Tax Act* (Canada), whose mission is to honour the Company’s policyholders and employees past and present by working to have the greatest impact on our communities.

**“Fractional Share”** has the meaning set out in Section 6.5.

**“Government”** means an Eligible Policyholder, or, in the case of two or more Eligible Policyholders who together constitute a single Eligible Policyholder pursuant to Section 4.3(1), all such Eligible Policyholders, that is Her Majesty in right of Canada or of a province or an agent (as that term is defined under section 406.1 of the ICA) or agency of Her Majesty in either of those rights, or the government of a foreign country or any political subdivision thereof, or any agent or agency thereof.

**“Historical Commitment Allocation”** means the allocations provided for in Section 5.2(1)(c), as more fully described in Schedule 2.

**“Holdco”** means a corporation incorporated under the ICA which will initially be wholly-owned by the Company and will, following the Effective Time and in accordance with this Conversion Plan, own all of the Economical Insurance Common Shares.

**“Holdco Board”** means the board of directors of Holdco.

**“ICA”** means the *Insurance Companies Act* (Canada), as amended.

**“Inception Date”** means the calculated inception date for a policy as recorded in the Masterfile.

**“Independent Actuary”** means William Weiland or such other person appointed as the independent actuary pursuant to the Demutualization Regulations for the Demutualization process initiated on the Eligibility Date.

**“Initial Public Offering” or “IPO”** means the initial public offering of Common Shares, as provided for in Article 7, but excluding the exercise of any over-allotment option granted to the Underwriters in the Underwriting Agreement.

**“IPO Date”** has the meaning set out in Section 3.1.

**“IPO Price”** means the price per share at which Common Shares will be sold to the Underwriters pursuant to the Underwriting Agreement and offered to the public in the Initial Public Offering (and for greater certainty, without regard to any fee or commission payable to the Underwriters by Holdco or any other Person in respect of the IPO).

**“Letters Patent of Conversion”** means the letters patent of conversion to be issued by the Minister to effect this Conversion Plan pursuant to Section 237(1)(b) of the ICA.

**“Lost Recipient”** means an Eligible Policyholder whose current address is unknown to the Company or for whom distribution of the Eligible Policyholder’s entitlement to Demutualization Benefits is not acted upon (including where any cheque is not negotiated) within six (6) months of the date on which such Demutualization Benefits are sent. For this purpose, an Eligible Policyholder’s current address is unknown if: (i) the Company mailed a notice or document to the Eligible Policyholder’s address in the Masterfile; (ii) such notice or document was returned from a postal or delivery service to the Company; and (iii) the Company did not subsequently update the Eligible Policyholder’s address in the Masterfile.

**“Lost Recipient Claim Deadline”** means 11:59 p.m. (Toronto time) on the 35th month anniversary of the Effective Date.

**“Market Stabilization Restrictions”** has the meaning set out in Section 6.9(1).

**“Market Stabilization Restrictions Exception”** has the meaning set out in Section 6.9(4).

**“Masterfile”** means the database of Eligible Policyholder information that the Company prepared for the purposes of the Demutualization, which was derived by commercially reasonable efforts from the Company’s policyholder records from various systems and which reflects the condition, sufficiency and reliability of historical policy and policyholder data. Schedule 3 sets out a summary description of the development of the Masterfile.

**“Minister”** means the Minister of Finance (Canada).

**“Minor”** means an Eligible Policyholder, or, in the case of two or more Eligible Policyholders who together constitute a single Eligible Policyholder pursuant to Section 4.3(1), all such Eligible Policyholders, who submitted a duly completed and executed Election Form and confirmed that he or she would be less than the age of majority in the jurisdiction in which he or she resides as of the Effective Date, or where the Company otherwise has knowledge that he or she is less than the age of majority in the jurisdiction in which he or she resides as of the Effective Date.

**“Mutual Company”** means a mutual company for the purposes of the ICA.

**“Mutual Policy”** means a policy, issued by a Mutual Company, which gives its holder the right to vote at all policyholder meetings of a Mutual Company.

**“Named Insured”** means the Person recorded in the Masterfile as the named insured on a policy. For the purposes of this Conversion Plan, and unless a different date is specified, the named insured(s) for a Qualifying Policy is/are the named insured(s) for that Qualifying Policy on the Applicable In Force Date.

**“Net IPO Proceeds”** means net proceeds remaining from the proceeds to Holdco from the sale of the Common Shares in the Initial Public Offering (and concurrent private placement closing at or about the IPO Date, if any) after payment of expenses of such offering(s) as provided in Section 7.2(1).

**“Non-Mutual Policy”** means a policy, other than a Mutual Policy, that is issued by a Mutual Company.

**“OSFI”** means the Office of the Superintendent of Financial Institutions.

**“OSFI Ruling”** means Ruling No. 2015-01 issued by OSFI entitled “Demutualization – Property and casualty companies – Eligible policyholders”.

**“Other Recipient”** means a Person listed in Section 4.4.

**“Person”** means an individual, corporation, joint venture, partnership, association, trust, trustee, unincorporated entity, organization or government or any department or agency thereof.

**“Policyholder Committees”** means the committee representing the Eligible Mutual Policyholders and the committee representing the Eligible Non-Mutual Policyholders, the members of which were appointed by order of Hailey J. dated February 22, 2017, as amended.

**“Policyholder Committee Parties”** means the members of the Policyholder Committees or any of their respective financial advisors, counsel, accountants or other advisors, agents, brokers or representatives.

**“Policyholder Rights”** means the rights, interests and entitlements described in Sections 3.1(2)(b) and 3.2.

**“Property and Casualty Company”** means a company incorporated or continued under the ICA, or to which the ICA applies pursuant to Section 13(1)(b) of the ICA, that is not a life company or a marine company, as those terms are defined under the ICA.

**“Qualifying Mutual Policy”** means a mutual insurance policy issued by the Company that was in force on the Eligibility Date, as recorded in the Masterfile.

**“Qualifying Non-Mutual Policy”** means a non-mutual insurance policy (including a surety bond) issued by the Company that was in force on the Eligibility Date, as recorded in the Masterfile.

**“Qualifying Policy”** means a Qualifying Mutual Policy or a Qualifying Non-Mutual Policy. For greater certainty, Qualifying Policies include policies issued under the Western General brand or through Family Insurance, but do not include policies issued by The Missisquoi Insurance Company, Perth Insurance Company, Waterloo Insurance Company, Federation Insurance Company of Canada, Sonnet Insurance Company or Petline Insurance Company.

**“Resolving Accountant”** means an accounting firm of recognized national standing in Canada as may be determined by the Company.

**“Response to Calculation Dispute Notice”** has the meaning set out in Article 8.

**“Restricted Period”** means the period beginning at the Effective Time and ending at 4:01 p.m. (Toronto time) on the day that is the 180th calendar day following the later of (i) the Effective Date and (ii) the closing date of any initial public offering of Holdco, subject to the right of Holdco to terminate the Restricted Period as provided in Section 6.9(2) and provided that notwithstanding the foregoing such Restricted Period shall terminate, at the latest, at 4:01 p.m. (Toronto time) on the one year anniversary of the Effective Date.

**“Restriction”** means, in respect of the Demutualization Benefits that have been allocated to an Eligible Policyholder pursuant to this Conversion Plan, any of the following restrictions or any other restriction on the Eligible Policyholder’s title as determined by the Company or Holdco, as applicable, in either case in its sole good faith discretion:

- (a) another Person, in addition to or in lieu of the Eligible Policyholder, who has an interest in or right to the Demutualization Benefits, including without limitation a trustee in bankruptcy, and such interest or right has been established by a court, regulatory authority or agency with statutory authority;
- (b) an Eligible Policyholder is subject to trust, fiduciary or other similar duties or obligations or is a nominee with respect to such Demutualization Benefits; or
- (c) a court, regulatory authority or agency with statutory authority has imposed terms and conditions on the distribution of the Demutualization Benefits and the Company or Holdco has reasonable grounds to believe that the Eligible Policyholder will not, may not, or does not intend to, comply with such duties, obligations, terms or conditions.

**“Second Special Meeting”** means the meeting of the Eligible Mutual Policyholders of the Company held in accordance with Section 14 of the Demutualization Regulations.

**“Share Portion”** has the meaning set out in Section 6.4.

**“Share Selling Service”** has the meaning set out in Section 7.3.

**“Stock Exchange”** means a recognized stock exchange in Canada.

**“Subject Common Shares”** has the meaning set out in Section 6.9(1)(a).

**“Subject Shareholder”** means each Person who receives a Common Share under this Conversion Plan and any permitted transferee thereof pursuant to a Market Stabilization Restrictions Exception, including any subsequent permitted transferee of a permitted transferee, and any of their respective successors, heirs, personal representatives and permitted assigns.

**“Superintendent”** means the Superintendent of Financial Institutions appointed to such office pursuant to the *Office of the Superintendent of Financial Institutions Act* (Canada) or such governmental officer, body or authority as may succeed such Superintendent in such appointment.

**“Target Number of Common Shares”** has the meaning set out in Section 6.7(3).

**“Third Special Meeting”** means the meeting of all Eligible Policyholders of the Company held for the purposes of the Demutualization in accordance with Section 237(1.1) of the ICA.

**“Transfer Agent”** means the registrar and transfer agent for the Common Shares, or its successors or assigns.

**“Underwriters”** means the investment dealers who enter into the Underwriting Agreement in respect of the Initial Public Offering.

**“Underwriting Agreement”** means the underwriting agreement to be entered into between the Company, Holdco and the Underwriters in respect of the Initial Public Offering, as amended, from time to time.

**“Units”** has the meaning set out in Section 5.1.

**“Unresolved Calculation Disputes”** has the meaning set out in Article 8.

**“Western General”** means the Western General brand that is used to sell farm policies issued by the Company.

## 1.2 Interpretation

### (1) Meaning of “Company”

Prior to the Effective Time, the Company was a Property and Casualty Company that was a Mutual Company, the Economical Mutual Insurance Company (a “converting company” for the purposes of the Demutualization Regulations). With effect from and after the Effective Time, the Company is a Property and Casualty Company with common shares resulting from the Demutualization. All references herein to the “Company” shall be construed accordingly.

### (2) Headings and Table of Contents

The inclusion of headings and a table of contents in this Conversion Plan is for convenience of reference only and shall not affect the construction or interpretation hereof.

### (3) Gender and Number

In this Conversion Plan, unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders.

(4) Currency

Except where otherwise expressly provided, all amounts in this Conversion Plan are stated in Canadian currency.

(5) Timing

Each action set out in this Conversion Plan is to take place on a Business Day and, if any such action would otherwise take place on a non-Business Day, it shall take place on the next-following Business Day.

(6) Statutory References

Any reference in this Conversion Plan to a statute includes all regulations made thereunder, all amendments to that statute and the regulations made thereunder, and any statute or regulation that supplements or supersedes that statute and/or the regulations made thereunder.

## **ARTICLE 2 CREATION AND PROPOSED ACTIVITIES OF HOLDCO**

### **2.1 Creation of Holdco**

Prior to the Effective Date, the Company incorporated Holdco under the ICA as a Property and Casualty Company. Holdco is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares, in different series. Upon incorporation, Holdco issued one Holdco Common Share to the Company. Pursuant to Section 3.1(2)(f), at the Effective Time, the Company is a wholly-owned subsidiary of Holdco.

### **2.2 Activities of Holdco**

Holdco directly and/or indirectly holds all of the issued and outstanding Economical Insurance Common Shares as well as the shares of the Company's existing subsidiaries. Holdco may also raise capital, borrow money, and provide services to its subsidiaries. Holdco may carry on other activities as the Holdco Board may approve from time to time and as may be permitted pursuant to the ICA or other applicable law. Holdco has no present intention to issue insurance policies or otherwise to directly insure risks.

## **ARTICLE 3 THE DEMUTUALIZATION**

### **3.1 Demutualization**

The following steps shall occur in connection with the Demutualization, in the following order:

(1) The effective date of the Conversion Plan shall be the effective date stated in the Letters Patent of Conversion (the "**Effective Date**"). The Conversion Plan shall be deemed to have become effective at 12:01 a.m. (Toronto time) on the Effective Date (the "**Effective Time**"). The Conversion Plan shall be legally binding on the Company, its policyholders, the Eligible Policyholders, the Other Recipients and Holdco as of the Effective Time.

(2) As of the Effective Time, the following shall occur simultaneously:

- (a) the Company shall cease to be a Property and Casualty Company that is a Mutual Company and shall become a Property and Casualty Company with common shares. The Company's corporate existence as a Property and Casualty Company with common shares shall be a continuation of its existence as a Property and Casualty Company that is a Mutual Company;
- (b) pursuant to Section 237.1(1)(b) of the ICA, all of the Company's policyholders shall cease to have any rights with respect to, or any interest in, the Company as a Mutual Company;
- (c) amended and restated by-laws of the Company as a Property and Casualty Company with common shares shall come into force, including a by-law authorizing the issuance of Economical Insurance Common Shares, the form of which is attached hereto as Schedule 4, which remains subject to variations as may be approved by the Board of Directors of the Company;
- (d) the Company shall issue Economical Insurance Common Shares to Holdco in consideration for Holdco issuing Common Shares to Eligible Policyholders;
- (e) Holdco shall issue Common Shares in accordance with Article 6;
- (f) Holdco shall redeem the issued and outstanding Common Share held by the Company; and
- (g) if any Economical Preferred Shares are issued and outstanding such Economical Preferred Shares shall be converted into Economical Insurance Preferred Shares or Economical Insurance Common Shares in accordance with the Economical Preferred Share terms and conditions to the extent, if any, that such conversion is provided for therein.

(3) The IPO is expected to close as soon as reasonably practicable following the Effective Time (the "**IPO Date**"), subject to the satisfaction of the conditions in the Underwriting Agreement.

(4) On or shortly after the Final Consideration Date, subject to Section 6.8, cash payments shall be initiated by the Company in accordance with Article 6.

### **3.2 Effect of Demutualization**

(1) The allocation of Units and the entitlement to and distribution of Demutualization Benefits is conclusively determined by this Conversion Plan. As of the Effective Time, this Conversion Plan releases any claim or causes of action and discharges any duty or obligation of any nature whatsoever of Policyholder Committee Parties, Company Parties and any other Authorized Person to any Eligible Policyholder or Other Recipient arising from or in respect of the Demutualization and any matter contemplated by this Conversion Plan, other than to execute each of their obligations hereunder. No claim or cause of action arises or may be maintained in respect of such matters, including in respect of any entitlement this Conversion Plan may provide.

(2) Following the Effective Time, an Eligible Policyholder may commence a Calculation Dispute in accordance with Article 8, but may not commence or assert any other challenge or claim in respect of the Demutualization.

(3) Following the Effective Time, no insurance policies issued or renewed by the Company shall be classified as “mutual” or “non-mutual”. With respect to Mutual Policies and Non-Mutual Policies that are in force on the Effective Date, such policies will continue in force after the Effective Time subject to and in accordance with their terms, but:

- (a) Mutual Policies are no longer classified as “mutual” for any purpose, and such policies no longer give their holders the right to vote at meetings of policyholders or any other governance rights or benefits that were previously associated with Mutual Policies; and
- (b) Non-Mutual Policies are no longer classified as a “non-mutual” for any purpose.

## **ARTICLE 4 RECIPIENTS OF DEMUTUALIZATION BENEFITS**

### **4.1 General**

Demutualization Benefits will be distributed only to:

- (a) Eligible Policyholders; and
- (b) the Other Recipients determined by the Policyholder Committees in accordance with the Demutualization Regulations and listed in Section 4.4 below.

### **4.2 Masterfile**

(1) The Company undertook to identify eligible policyholders in accordance with the Demutualization Regulations and the OSFI Ruling, and developed the Masterfile to record policy and policyholder information for Eligible Policyholders.

(2) The contents of the Masterfile are deemed for the purposes of the Conversion Plan to be a complete, true and accurate representation of the information regarding all Eligible Policyholders. An Eligible Policyholder, as reflected in the Masterfile or as determined in good faith by the Company, is conclusively presumed to be the Eligible Policyholder, and the Company shall not be required to examine or consider any other facts or circumstances which bear on a Person’s entitlement to receive Demutualization Benefits otherwise than in accordance with the Allocation set out in Article 5.

(3) In dealing with an Eligible Policyholder that is represented by a person with purported authority to make decisions on the Eligible Policyholder’s behalf, the Company is not obliged to inquire into or verify the existence, validity or scope of such authority and the Company may assume without inquiry that there is such authority until the Company receives written notice to the contrary.

(4) Notwithstanding any other information that may appear in the Company’s policyholder records about the effective date of a policy change, for the purposes of this Allocation, the applicable dates are deemed to be the dates as recorded in the Masterfile.

### **4.3 Eligible Policyholders**

Allocation and the distribution of Demutualization Benefits to Eligible Policyholders is made on the basis of the relevant policyholder and policy attributes up to December 31, 2015 according to the contents of the Masterfile, subject to the following:

(1) If there were two or more Eligible Policyholders identified in the Masterfile as eligible policyholders for the same Qualifying Policies, they collectively constitute one Eligible Policyholder.

For example if A and B were both Named Insureds on a Qualifying Policy giving rise to eligibility, A & B are treated collectively as one Eligible Policyholder.

(2) Each unique combination of Eligible Policyholders identified in the Masterfile constitutes and is deemed to be a distinct Eligible Policyholder. As a result, one Person may receive more than one allocation of Units.

For example, if A was the sole Named Insured on one Qualifying Policy and also a joint Named Insured with B on a separate Qualifying Policy both of which gave rise to eligibility, A and A&B are treated as two distinct Eligible Policyholders, and A may receive two allocations of Units: (i) one as A; and (ii) one together with B.

(3) An Eligible Policyholder may be identified in the Masterfile as both an Eligible Mutual Policyholder and Eligible Non-Mutual Policyholder. For the avoidance of doubt, in that circumstance, the Eligible Policyholder is both an Eligible Mutual Policyholder and Eligible Non-Mutual Policyholder.

#### 4.4 Other Recipients

The Policyholder Committees approved the following as Other Recipients pursuant to Section 12(4) of the Demutualization Regulations, and approve the allocation of Units to such Persons in accordance with Article 5:

- (1) the Foundation; and
- (2) for the avoidance of doubt, the Persons referenced in Section 3(3) of Schedule 3.

For the purposes of this Conversion Plan, any Other Recipient referred to in Section 4.4(2) above shall be deemed to be an Eligible Mutual Policyholder or Eligible Non-Mutual Policyholder according to whether the Qualifying Policy or Qualifying Date-Adjusted Policy in question is a Mutual Policy or a Non-Mutual Policy, and all references to Eligible Policyholder, Eligible Mutual Policyholder and Eligible Non-Mutual Policyholder in this Conversion Plan shall include such Other Recipient, as applicable.

### ARTICLE 5 ALLOCATION

#### 5.1 Method of Allocation

As required by the Demutualization Regulations, the Policyholder Committees have negotiated and approved the method of allocating the value of the Company, which is set out in this Article 5 (the “**Allocation**”). This method provides for the allocation of an aggregate of 100,000,000 notional allocation units (the “**Units**”) to all Eligible Policyholders and Other Recipients for the purposes of allocating the amount of Demutualization Benefits each Eligible Policyholder and Other Recipient is entitled to receive under Article 6. The Units are being allocated only for the purpose of determining entitlement to Demutualization Benefits. The Units are notional only and the allocation of Units does not represent a legal issuance of a share. The allocation of Units to an Eligible Policyholder or Other Recipient does not grant the Eligible Policyholder or Other Recipient any legal rights.

#### 5.2 Allocations to Eligible Policyholders and Foundation

The Units are allocated in the following order, subject to Section 4.3:

- (1) first, the Eligible Mutual Policyholders are allocated, in aggregate as a class, 20% of the Units, broken down as follows:
    - (a) first, 6% of the aggregate Units are allocated to Eligible Mutual Policyholders as a class, allocated in equal amounts to each Eligible Mutual Policyholder;
    - (b) second, each Eligible Mutual Policyholder is allocated a number of Units for each Qualifying Mutual Policy that is attributed to that Eligible Mutual Policyholder in the Masterfile as determined in accordance with the CTS Allocation described in Schedule 1;
    - (c) third, each Eligible Mutual Policyholder is allocated a number of Units as determined in accordance with the Historical Commitment Allocation described in Schedule 2; and
    - (d) fourth, the balance of the aggregate allocation to Eligible Mutual Policyholders as a class is allocated in equal amounts to each Eligible Mutual Policyholder;
  - (2) second, the Foundation is allocated the number of Units that is \$100,000,000 divided by the IPO Price; and
  - (3) third, the balance of the Units, being the total Units less the allocations provided in Sections 5.2(1) and (2), is allocated to the Eligible Non-Mutual Policyholders, in aggregate as a class, broken down as follows:
    - (a) first, 6% of the aggregate Units are allocated to Eligible Non-Mutual Policyholders as a class, allocated in equal amounts to each Eligible Non-Mutual Policyholder;
    - (b) second, each Eligible Non-Mutual Policyholder is allocated a number of Units for each Qualifying Non-Mutual Policy that is attributed to that Eligible Non-Mutual Policyholder in the Masterfile as determined in accordance with the CTS Allocation described in Schedule 1; and
    - (c) third, the balance of the aggregate allocation to Eligible Non-Mutual Policyholders as a class is allocated in equal amounts to each Eligible Non-Mutual Policyholder.
  - (4) Notwithstanding the foregoing, if there are insufficient Units to complete the Allocation as contemplated in any paragraph of any of subsection 5.2(1)-(3) above, then automatically and without any further action required on the part of any party:
    - (a) the aggregate Allocation in respect of the first paragraph in which the Units are insufficient shall be reduced to the value of the remaining Units, and the individual allocation in respect of that paragraph shall be reduced accordingly on a pro rata basis; and
    - (b) the aggregate Allocation in respect of each following paragraph in the same subsection shall be reduced to zero.
- For example, if there are insufficient Units to complete the Allocation as contemplated in paragraph 5.2(3)(b) (being the total of all individual CTS Allocations as would have been calculated in respect of Qualifying Non-Mutual Policies in accordance with Schedule 1), then
- (i) the aggregate Allocation in respect of paragraph 5.2(3)(b) shall be reduced to the number of Units that remain following the completion of the Allocation contemplated in paragraph 5.2(3)(a),



- (ii) the individual Allocation in respect of paragraph 5.2(3)(b) shall be reduced pro rata from what it would otherwise have been to the number of such remaining Units, and
- (iii) the aggregate Allocation in respect of paragraph 5.2(3)(c) shall be reduced to zero Units.

### 5.3 Policyholder Committees' Rationale for the Allocation

The Allocation was the result of a negotiation between the Policyholder Committees with the assistance of counsel for the eligible policyholder classes and consulting experts, and based on information provided by the Company, the Appointed Actuary and the Independent Actuary. The following is the Policyholder Committees' rationale for the Allocation.

(1) The allocation of the value of the Company is intended to:

- (a) be fair and equitable to the Eligible Policyholders, having regard to the different classes and contributions of Eligible Policyholders, including unique rights of Eligible Mutual Policyholders and to the provisions of the Demutualization Regulations;
- (b) take into account historical Canadian and international demutualizations and corporate transactions (where applicable and relevant);
- (c) be based on objective, determinable criteria, which reflect the Company's data limitations;
- (d) be simple, rational and understandable;
- (e) be negotiated with the best long term interests of the Company in mind, including its strategic goal of demutualization; and
- (f) recognize the contribution to the success of the Company of policyholders past and present.

The CTS Allocations in Sections 5.2(1)(b) and 5.2(3)(b) are variable allocations and are based on the contribution of Eligible Policyholders to the Company's surplus, specifically the underwriting and investment profits from Qualifying Policies and Linked Similar Policies attributable to the Eligible Policyholders as calculated by the Appointed Actuary. This aggregate allocation is then subdivided by Policy Type with individual allocations made according to the Premium and Policy Duration for each Qualifying Policy, all as more precisely set out in Schedule 1. These variable allocations reflect the factors described in Section 12(3) of the Demutualization Regulations.

This form of variable allocation takes into account and is similar to earlier demutualizations, including the demutualization of Canadian life insurers in the late 1990s. It also recognizes that the Company's profits varied depending on the line of business, acknowledges that premiums varied significantly among policyholders and recognizes policyholders who have been customers of the Company for many years. In general, a policyholder of many years should receive more than a short-term policyholder whose circumstances are otherwise similar.

Section 5.2(1) provides for a 20% aggregate allocation to Eligible Mutual Policyholders. This 20% allocation is divided as follows:

- 6% is allocated for transactional consent rights in the Demutualization (i.e. 6% of total allocation and reflected in Section 5.2(1)(a)). These are the unique rights of Eligible Mutual Policyholders in the Demutualization Regulations to vote at (i) the First Special Meeting as to whether to negotiate with the Eligible Non-Mutual Policyholders the method of allocating the value of the Company and to establish the list of Other Recipients, (ii) the Second Special Meeting as to whether to amend the Company's by-laws to allow Eligible Non-Mutual Policyholders to vote for the purposes of the Third Special Meeting; and (iii) the Third Special Meeting to approve the Conversion Plan and to authorize the Company to apply to the Minister for Demutualization;
- an allocation for the contribution of Qualifying Mutual Policies of Eligible Mutual Policyholders to the Company's surplus (described above and reflected in Section 5.2(1)(b));
- an allocation to reflect the historical commitment of Eligible Mutual Policyholders to the Company (as reflected in Section 5.2(1)(c)). This allocation varies based on how long an Eligible Mutual Policyholder has held a Qualifying Mutual Policy; and
- the balance is allocated to reflect the governance rights and benefits of Eligible Mutual Policyholders (as reflected in Section 5.2(1)(d)). These are the unique rights and benefits of mutual policyholders that apply outside of Demutualization (e.g. in the Company's by-laws), which the Appointed Actuary characterizes as the "inherent rights" of Eligible Mutual Policyholders. They include, among other things, a right to vote at annual general or special meetings of the Company (such as election of directors and appointment of auditors), to put forward policyholder proposals and to approve fundamental changes. It also includes unique benefits of mutual policyholders, specifically, the opportunity to receive dividends from earnings (called premium rebates by the Company).

The allocations for rights and benefits as reflected in Sections 5.2(1)(a) and 5.2(1)(d) provides an equal base number of Units to each Eligible Mutual Policyholder. No one Eligible Mutual Policyholder has more of these rights than others and any differences in benefits are immaterial – they are equal and thus it is appropriate to allocate the Units that are attributable to such rights and benefits equally.

The allocation in Section 5.2(2) is to the Foundation. Charitable allocation is permitted by the Demutualization Regulations and is contemplated in the federal government's Regulatory Impact Analysis Statement that accompanied the Demutualization

Regulations. The Policyholder Committees recognized the unique opportunity to make a meaningful and lasting philanthropic contribution. It is a legacy for policyholders past and present who have contributed to the Company's past success over many years and respects its history as a community-minded mutual insurer. The Company has suggested allocating Demutualization Benefits to the Foundation pursuant to Section 12(4) of the Demutualization Regulations.

After the allocations in Sections 5.2(1) and 5.2(2) (under Section 12(4) of the Demutualization Regulations), Section 5.2(3) provides that the balance of Units is allocated to Eligible Non-Mutual Policyholders as follows:

- 6% of total allocation is allocated for transactional consent rights in the Demutualization (as reflected in Section 5.2(3)(a)). While all Eligible Policyholders may vote at the Third Special Meeting to approve the Conversion Plan and to authorize the Company to apply to the Minister for Demutualization, this allocation recognizes that Eligible Non-Mutual Policyholders as a class hold an overwhelming majority of the voting rights for the meeting and thus may effectively control the outcome of the vote;
- an allocation for the contribution of Qualifying Non-Mutual Policies of Eligible Non-Mutual Policyholders to the Company's surplus (described above and reflected in Section 5.2(3)(b)); and
- the balance is allocated to otherwise recognize the participation of Eligible Non-Mutual Policyholders in the Demutualization process (as reflected in Section 5.2(3)).

The allocations in Sections 5.2(3)(a) and 5.2(3)(c) provide an equal base number of Units to each Eligible Non-Mutual Policyholder. Just as for the Eligible Mutual Policyholders, these allocations reflect rights and participation of Eligible Non-Mutual Policies that do not vary within their class.

For both Eligible Mutual and Non-Mutual Policyholders, the size of allocations for transactional consent rights and for participation are significant in order to recognize that they are receiving Demutualization Benefits because of their eligibility under the Demutualization Regulations, and not an entitlement built up over time as insurance customers.

The allocations in Sections 5.2(1)(a), 5.2(1)(c), and 5.2(1)(d), 5.2(3)(a) and 5.2(3)(c) do not vary based on whether there are joint or single policyholders. This recognizes that such rights or benefits do not vary based on the number of policyholders on a Company policy or the number of policies held by the same policyholders. Accordingly, joint policyholders will collectively receive the same as a single policyholder in corresponding circumstances. However, each unique combination of Eligible Policyholders identified in the Masterfile constitutes and is deemed for the purposes of this Allocation to be a distinct Eligible Policyholder. Accordingly, it is possible that one Person may receive more than one allocation of Units, for example if they hold or held one policy solely and a different policy jointly.

## **ARTICLE 6**

### **DISTRIBUTION OF DEMUTUALIZATION BENEFITS**

#### **6.1 Demutualization Benefits**

(1) After the Third Special Meeting, election forms (which may have been in different formats for different groups of Eligible Policyholders and may have been a notice for deemed Cash Recipients) were sent to Eligible Policyholders (each, an "**Election Form**") that pertained to the Demutualization and the Demutualization Benefits. The Company determined, in its sole discretion, whether an Election Form was properly completed and executed, which determination is final and binding on all Persons.

(2) Subject to this Section 6.1 and Sections 6.5, 6.6, 6.7 and 6.8, Eligible Policyholders were entitled to elect through the Election Form to receive Demutualization Benefits in the form of cash ("**Cash Recipients**"), shares ("**Share Recipients**") or a combination of cash and shares ("**Mixed Recipients**"). Demutualization Benefits will be issued in the form of:

- (a) cash, in the case of a Cash Recipient;
- (b) Common Shares, in the case of a Share Recipient; or
- (c) some cash and some Common Shares, in the proportion elected by the Eligible Policyholder, in the case of a Mixed Recipient,

as further described below.

(3) The proposed form of by-law of Holdco authorizing the issuance of Common Shares is attached as Schedule 5, which remains subject to variations as may be approved by the Board of Directors of the Holdco.

(4) Default Election Policyholders are deemed to be Share Recipients for the purposes of this Conversion Plan.

(5) Foreign Recipients, Governments and Minors are deemed to be Cash Recipients for the purposes of this Conversion Plan, regardless of any election they may have made.

(6) Where an Eligible Policyholder who was not a Foreign Recipient submitted a duly completed and executed Election Form by the Election Deadline, electing to be a Share Recipient or a Mixed Recipient, and the Company becomes aware of a foreign address (or other information that, in the reasonable discretion of the Company, suggests that the Eligible Policyholder is not a resident of Canada) between the Election Deadline and the Effective Date, such Eligible Policyholder is treated as a Foreign Recipient and is deemed to be a Cash Recipient for the purposes of this Conversion Plan, regardless of any election they may have made.

(7) Where the Company becomes aware that a Default Election Policyholder who received Common Shares under this Conversion Plan is a Government, Holdco shall, for no consideration, cancel all Common Shares issued to such Default Election Policyholder and all such Common Shares shall be deemed to have been surrendered to Holdco.

## 6.2 Cash Recipients and Foundation

Subject to Sections 6.6 and 6.8:

- (1) in consideration for the surrender of Policyholder Rights, each Cash Recipient will receive a cash payment equal to the number of Units allocated to the Cash Recipient pursuant to Article 5 multiplied by the IPO Price; and
- (2) the Foundation will receive a cash payment of \$100,000,000 in respect of the allocation set out in Section 5.2(2).

## 6.3 Share Recipients

Subject to Sections 6.5 and 6.7, in consideration for the surrender of Policyholder Rights, on the Effective Date each Share Recipient will receive a number of Common Shares equal to the number of Units allocated to the Share Recipient pursuant to Article 5.

## 6.4 Mixed Recipients

Mixed Recipients elected on their Election Form to receive a portion of their Demutualization Benefits in cash (the “**Cash Portion**”) and a portion in common shares (the “**Share Portion**”), each expressed as percentages of the total amount of their Demutualization Benefits.

In consideration for the surrender of Policyholder Rights, each Mixed Recipient will receive:

- (1) subject to Sections 6.5 and 6.7, a number of Common Shares equal to the number of Units allocated to the Mixed Recipient pursuant to Article 5 that reflects the Share Portion; and
- (2) subject to Sections 6.6 and 6.8, cash in an amount equal to the number of Units allocated to the Mixed Recipient pursuant to Article 5 that reflects the Cash Portion, multiplied by the IPO Price.

## 6.5 Fractional Shares and Small Distributions

- (1) Holdco shall not issue a fraction of a Holdco Common Share (a “**Fractional Share**”), nor shall any Person hold a Fractional Share. If a distribution under this Article 6 would result in any Person receiving a Fractional Share, including as a result of any adjustments made to distribution in accordance with Sections 6.6, 6.7(3), and 6.8, the distribution to such Person may be adjusted by the Company such that such Fractional Share is: (i) distributed in cash, or (ii) rounded up or down to a whole common share, with decimals of “.500” or higher being rounded up and decimals of “.499” or lower being rounded down.
- (2) If a distribution under this Article 6 would result in any Person receiving fewer than 200 Common Shares, including as a result of any adjustments made to distribution in accordance with Sections 6.6, 6.7(3), and 6.8, such Person is deemed to be a Cash Recipient for the purposes of this Conversion Plan.
- (3) If a distribution under this Article 6 would result in any Person receiving less than \$20 in cash, including as a result of any adjustments made to distribution in accordance with Sections 6.6 and 6.7(3), no cash will be distributed to such Person.

## 6.6 Distribution of Cash Payments

- (1) The IPO Price will be determined at the time that the Underwriting Agreement is entered into, and at that time the amount of cash to be distributed to each Cash Recipient can be determined and will constitute an obligation of the Company to pay such amounts.
- (2) All cash payments will be paid by the Company out of the Net IPO Proceeds. Subject to Section 6.8, a cash payment will be made to each of the following groups and such cash payments shall be initiated sequentially, on or after the Final Consideration Date, in the following order:
  - (a) first, to the Foundation, pursuant to Section 6.2(2);
  - (b) second, to those deemed Cash Recipients who are Foreign Recipients, Governments or Minors, pursuant to Section 6.2(1);
  - (c) third, to those deemed Cash Recipients pursuant to Section 6.5(2);
  - (d) fourth, to Cash Recipients who elected to receive cash and who are not Foreign Recipients, Governments or Minors, pursuant to Section 6.2(1), and to Mixed Recipients (in respect of their Cash Portion), pursuant to Section 6.4(2); and
  - (e) last, to Share Recipients and Mixed Recipients (in respect of their Share Portion), pursuant to Section 6.7(3), if applicable.
- (3) Notwithstanding the foregoing, if there are insufficient Net IPO Proceeds to fund the cash payments as contemplated in any of paragraphs (a)-(d) above, then automatically and without any further action required on the part of any party:
  - (a) the amount of cash to be distributed in respect of the first paragraph in which the Net IPO Proceeds are insufficient shall be reduced to the value of the remaining Net IPO Proceeds, the distribution of cash in respect of that paragraph shall be reduced accordingly and the balance of any Demutualization Benefits to be distributed in respect of that paragraph shall be distributed in the form of Common Shares, to be issued on or after the Final Consideration Date. If the first paragraph in which the Net IPO Proceeds are insufficient is paragraph (c), then distribution of cash is made in order of recipients with the smallest allocation in that group to the largest in that group (and in the case where recipients have identical allocation, then in order from the earliest inception date to the latest inception date). Otherwise, distribution for the first paragraph in which the Net IPO Proceeds are insufficient shall be on a *pro rata* basis; and

- (b) the Demutualization Benefits to be distributed in respect of each following paragraph shall be distributed in the form of Common Shares, to be issued on or after the Final Consideration Date.

### 6.7 Distribution of Common Shares

(1) All Common Shares distributed pursuant to this Article 6 will be issued and registered in the name of the applicable Share Recipient or Mixed Recipient in the direct registration system maintained by the Transfer Agent of Holdco. Except as may be required by law, the Company is not obligated to issue physical share certificates. The Company may, in its sole discretion, make commercially reasonable alternative arrangements in respect of the registration and holding of any shares to be issued hereunder.

(2) As soon as reasonably practicable after the Final Consideration Date, Holdco will send, or cause to be sent, evidence of ownership of Common Shares distributed pursuant to this Article 6 to all Share Recipients and Mixed Recipients.

(3) The number of Common Shares (the “**Target Number of Common Shares**”) to be issued to Share Recipients and Mixed Recipients in connection with the Demutualization is based on the completion of the Initial Public Offering (and concurrent private placement, if any) and the expected Net IPO Proceeds, which in turn are based on the IPO Price and the number of Common Shares to be sold in the IPO determined by negotiation between Holdco and the Underwriters and set out in the Underwriting Agreement (and, if applicable, the number of Common Shares to be sold in, and the net proceeds of, any concurrent private placement). Consequently, based on the completed Election Forms received by the Company, if the total number of Common Shares that would be issued to Share Recipients and Mixed Recipients (in respect of their Share Portion) is greater than the Target Number of Common Shares, then the number of Common Shares to be received by Share Recipients and Mixed Recipients (in respect of their Share Portion) shall be reduced to the extent possible to eliminate such excess (*pro rata* among Share Recipients and Mixed Recipients, based on the number of Common Shares they otherwise would have received absent proration) and Share Recipients and Mixed Recipients shall receive cash from the Company in an amount that corresponds to such reduction in Common Shares, in accordance with Section 6.6.

### 6.8 Adjustment if IPO is not Completed

In the event that the IPO is not completed (see Section 7.5 below), then:

(1) Eligible Policyholders (other than those who are Foreign Recipients, Governments or Minors) will not receive Demutualization Benefits in the form of cash; and

(2) the Foundation will not receive Demutualization Benefits in the form of cash;

instead, all such Demutualization Benefits will be distributed in the form of Common Shares which will be issued on or after the Final Consideration Date, and the distribution of such Common Shares shall satisfy the Company’s obligations hereunder to pay Demutualization Benefits in the form of cash.

Eligible Policyholders who are Foreign Recipients, Governments or Minors will receive Demutualization Benefits in the form of cash even if the IPO is not completed.

### 6.9 Market Stabilization Restrictions

(1) As a condition of the Demutualization, during the Restricted Period, subject to Section 6.9(4):

- (a) each Common Share distributed to a Subject Shareholder under this Conversion Plan as a result of the Demutualization (such Common Shares, the “**Subject Common Shares**”) may not be transferred; and
- (b) no Subject Shareholder shall, directly or indirectly: (i) sell, offer to sell, grant any option, warrant or other right to purchase or otherwise lend, secure, pledge, transfer, assign, dispose of or monetize any Subject Common Shares (including, without limitation, by way of a short sale, put option or call option), (ii) enter into any swap or any form of agreement or arrangement the consequence of which is to transfer to another, in whole or in part, any of the economic consequences of ownership of any Subject Common Shares, whether any such swap, agreement or arrangement is to be settled by delivery of Subject Common Shares, in cash or otherwise, (iii) agree to or publicly announce any intention to do any of the foregoing, or (iv) act jointly or in concert with any third party with respect to any of the foregoing matters,

(such restrictions, the “**Market Stabilization Restrictions**”).

(2) Holdco may, in its sole discretion, terminate the Restricted Period at any time, provided that at least 10 days prior to the effective date of such termination, Holdco shall disseminate a press release over a national wire service announcing the effective date of the termination of the Restricted Period.

(3) Holdco and the Transfer Agent shall be entitled to take all necessary action to enforce the Market Stabilization Restrictions. Any transfer or purported transfer of a Subject Share in contravention of the Market Stabilization Restrictions shall be voidable by Holdco. In the event of a contravention or attempted contravention of the Market Stabilization Restrictions, Holdco shall be entitled to the remedy of specific performance and preliminary and permanent injunctive and other equitable relief in addition to any other remedy to which it may be entitled, at law or in equity.

(4) The Market Stabilization Restrictions shall not apply to any category of transfer as Holdco may determine from time to time in its sole discretion (each a “**Market Stabilization Restrictions Exception**”), provided that in the case of any transfer of

Subject Common Shares pursuant to a Market Stabilization Restrictions Exception, unless waived by Holdco in its sole discretion, the transferor must, prior to such transfer, provide evidence satisfactory to Holdco or its designated agent, in form and substance satisfactory to Holdco in its sole discretion, that: (i) the Market Stabilization Restrictions Exception applies to the proposed transfer; (ii) the transferee has agreed with Holdco to be bound by the Market Stabilization Restrictions as if it was a Subject Shareholder; and (iii) the transfer complies with any applicable securities law requirements. Holdco may refuse to approve any transfer pursuant to a Market Stabilization Restrictions Exception at its sole discretion.

#### **6.10 Restrictions on Distribution of Benefits—Lost Recipients**

(1) Demutualization Benefits that have been allocated to Lost Recipients pursuant to Article 5 shall, on the Effective Date, be issued to and held by the Depositary Agent on behalf of the Lost Recipients and otherwise dealt with in the same manner as Default Election Policyholders. The Depositary Agent will hold both Common Shares and cash for the benefit of the Lost Recipients until the Lost Recipient Claim Deadline.

(2) A Lost Recipient may cease to be a Lost Recipient (a “**Former Lost Recipient**”) by taking one or more of the following steps prior to the Lost Recipient Claim Deadline to confirm the current address at which the Former Lost Recipient may be reached by mail, such confirmation to be to the satisfaction of the Company:

- (a) responding to a letter from the Depositary Agent, the Company or Holdco requesting confirmation of the current address;
- (b) contacting the Depositary Agent, the Company or Holdco and confirming the current address;
- (c) informing the Depositary Agent, the Company or Holdco of a change of address; or
- (d) otherwise confirming the current address with the Depositary Agent, the Company or Holdco in a manner satisfactory to the Company or Holdco, as applicable.

(3) A Former Lost Recipient may, to the extent permitted by law and this Section 6.10, claim the Former Lost Policyholder’s Demutualization Benefits at any time prior to the Lost Recipient Claim Deadline. In the case of a valid claim being made by a Former Lost Recipient to the satisfaction of the Company, the Depositary Agent shall transfer the Demutualization Benefits to the Former Lost Recipient as soon as reasonably practicable following the claim date (such transfers may take up to 30 days to be processed). Former Lost Recipients entitled to Common Shares shall also be entitled to receive all accrued dividends or other distributions in respect of such Common Shares since the Effective Date up until the date of their claim but without any interest that may have accrued thereon and less any taxes and other expenses borne by the Depositary Agent in connection therewith. Former Lost Recipients entitled to cash (including as a result of dividends or as a result of any cash payment arising as a result of transactions contemplated in Section 6.10(4)), shall be paid the cash amount by the Depositary Agent by cheque or bank transfer, net of any applicable withholding taxes and other applicable fees.

(4) The property transferred to a Former Lost Recipient pursuant to Section 6.10(3) shall reflect any subdivision, consolidation, reclassification or other similar change to the Common Shares which occurs prior to the claim date. If, prior to the claim date, any reorganization, amalgamation, arrangement, merger, statutory right to acquire or similar transaction has occurred involving Holdco or to which Holdco is a party and which results in the holders of Common Shares receiving securities, cash or other property in exchange for, in conversion of, or in respect of their Common Shares, then, upon a Former Lost Recipient making a valid claim for Common Shares, he or she shall be issued the securities, property or cash substituted for the Common Shares that he or she was entitled to.

(5) If a Former Lost Recipient is confirmed pursuant to Section 6.10(2) to be a non-resident of Canada for the purposes of the *Income Tax Act* (Canada), then to the extent that the Depositary Agent is holding Common Shares in trust for such Former Lost Recipient, the Depositary Agent shall sell such Common Shares and transfer the proceeds of such sale, together with accrued dividends, net of brokerage fees, to the Former Lost Recipient. The Depositary Agent shall use its reasonable commercial efforts to sell such Common Shares in the public market, but in doing so shall have discretion to sell the Common Shares on such stock exchange at such time and on such terms, including as to price, as the Depositary Agent shall determine from time to time.

(6) Following the Lost Recipient Claim Deadline, the entitlement of Lost Recipients to Demutualization Benefits will cease and:

- (a) Holdco shall, for no consideration, cancel all Common Shares issued to Lost Policyholders and all such Common Shares shall be deemed to have been surrendered to Holdco, together with all entitlements to dividends and distributions thereon, including any proceeds of dissolution pursuant to the ICA; and
- (b) the Depositary Agent shall transfer any cash being held on behalf of Lost Recipients to Holdco, for the account of Holdco.

(7) Notwithstanding the foregoing, following the Lost Recipient Claim Deadline, Holdco may, in its sole discretion, reissue Common Shares and pay an amount in respect of dividends or issue securities or pay cash or other property to a Person, as the case may be, whose Common Shares were cancelled in accordance with Section 6.10(6).

(8) If any Common Shares and/or cash to which a Lost Recipient is entitled were delivered or transferred by the Depositary Agent to a government or governmental agency, authority or official pursuant to escheat or abandoned or unclaimed property legislation, none of the Company, Holdco or the Depositary Agent shall have any obligation to (a) issue Common Shares or make a payment of cash to such Former Lost Recipient pursuant to this Section 6.10, or (b) recover for the benefit of such Former Lost Recipient any such Common Shares or cash from the government or governmental agency, authority or official.

### **6.11 Additional Restrictions on Distribution of Benefits**

Notwithstanding anything in Article 5 or this Article 6, if the Company or Holdco becomes aware of or has knowledge that an Eligible Policyholder, or any one Person who together with one or more other Persons, constitute a single Eligible Policyholder pursuant to Section 4.3(1), is subject to a Restriction, the Demutualization Benefits that have been allocated to that Eligible Policyholder shall, on the Effective Date, be issued to the Depositary Agent in accordance with Section 6.10 and shall be held and otherwise dealt with by the Depositary Agent in the manner set out in Section 6.10.

In such a case, when the Eligible Policyholder or another Person confirms, in a manner reasonably satisfactory to the Company or Holdco, as applicable, that the Restriction has been removed or that the Eligible Policyholder will comply with such Restriction, as the case may be, the Demutualization Benefits shall be transferred to the Eligible Policyholder together with accrued dividends but without interest, net of brokerage fees.

### **6.12 Multiple Recipients of Distributions**

For the purposes of distribution, an Eligible Policyholder who comprises of two or more Eligible Policyholders, as described in Section 4.3(1), will receive any cash payments as an indivisible payment by cheque or wire transfer made out to all such Persons as joint tenants and will receive any Common Shares registered in the names of all such Persons as joint tenants.

## **ARTICLE 7 VALUATION AND INITIAL PUBLIC OFFERING**

### **7.1 Valuation of the Company**

The Company retained BMO Nesbitt Burns Inc. and RBC Dominion Securities Inc. to provide a range of estimated equity market values for Holdco in an initial public offering. The valuation report, which is attached as Schedule 6 sets out the estimated range of equity market values of the Company on the basis that it is the same as the range of estimated public equity market values for Holdco set out therein, which is based solely on estimated prices at which the Common Shares could have been expected to be offered as of May 31, 2018 in an initial public offering conducted in a manner consistent with the Initial Public Offering described in this Article 7, as if the IPO Date was May 31, 2018.

The actual public equity market value of Holdco, and therefore the Company, at the Effective Time (and prior to the completion of the IPO) will be based on the IPO Price. All of that value will be distributed pursuant to this Conversion Plan as Demutualization Benefits.

### **7.2 Initial Public Offering**

Holdco shall use its reasonable commercial efforts to close the Initial Public Offering on the basis, and within the period, provided for in the Underwriting Agreement. Notwithstanding the foregoing and any other provision of this Conversion Plan, Holdco shall have no obligation to close the Initial Public Offering in the event that the Underwriting Agreement is terminated. The IPO Price and the number of Common Shares to be sold in the IPO shall be determined by negotiation between Holdco and the Underwriters. Holdco may proceed with the Initial Public Offering whether or not the IPO Price is within the range of market values specified in the valuation report. The IPO may also include an over-allotment option granted to the Underwriters in the Underwriting Agreement. At or about the time of the IPO Date, at the sole election of the Holdco Board and on such terms as it may determine in its sole discretion, Holdco may offer for sale Common Shares on a private placement basis.

As soon as reasonably practicable after the IPO Date, the proceeds to Holdco from the sale of Common Shares in the IPO and, if applicable, any concurrent private placement:

- (1) first will be used by Holdco to pay the expenses of the offering(s);
- (2) second will be used by Holdco to subscribe for additional Economical Insurance Common Shares, in order to fund cash distributions by the Company in accordance with Section 6.6; and
- (3) otherwise may be retained by Holdco for general corporate purposes.

### **7.3 Holdco Share Listing and Share Selling Service**

Holdco shall use its reasonable commercial efforts to arrange for the listing of the Common Shares on a Stock Exchange. Holdco shall use its reasonable commercial efforts to keep the Common Shares listed on a Stock Exchange for two years after the Effective Date. Such listing and efforts shall satisfy any duty the Company or Holdco may have to ensure that Eligible Policyholders who receive Common Shares will be able to sell the shares on a public market.

Subject to receipt of satisfactory regulatory approvals and the feasibility of offering the service on a commercially reasonable basis in each jurisdiction, as determined by Holdco, acting reasonably, Holdco shall arrange for the Transfer Agent to provide a service (the "**Share Selling Service**") to assist Eligible Policyholders to whom Common Shares are issued to sell their Common Shares. Holdco may decide that the Share Selling Service in certain jurisdictions will only be available to Persons who hold their shares through the Transfer Agent. The Share Selling Service shall be available from the 180<sup>th</sup> calendar day after the IPO Date, or from such other date as may be selected by Holdco, until two years after the IPO Date. The Share Selling Service may only be terminated in any jurisdiction prior to such date upon 90 days' written notice to the address on

record with the Transfer Agent of all persons who are eligible to use the Share Selling Service in that jurisdiction. Under the Share Selling Service, an Eligible Policyholder may sell Common Shares by instructing the Transfer Agent to do so for a fee. The Transfer Agent will arrange for the sale of shares through a dealer on the Stock Exchange.

#### **7.4 Effect of Additional Share Issuances on Access to Financial Markets**

The measures referred to in Section 7.3 will not be affected by the issuance of additional Common Shares or any other shares in the capital of Holdco during the two years following the Effective Date.

#### **7.5 Alternative Arrangements**

Notwithstanding any other provision of this Conversion Plan, in the event that the IPO Date does not occur within the period provided for in the Underwriting Agreement (or by such later date as the Holdco Board may in its discretion agree to in accordance with the Underwriting Agreement), then the following rules shall govern the manner of the distribution of the Demutualization Benefits:

- (1) Holdco shall continue to use its reasonable commercial efforts to list, and keep listed and posted for trading, the Common Shares on a Stock Exchange in accordance with Section 7.3.
- (2) Adjustments to the Demutualization Benefits shall be made in accordance with Section 6.8.

### **ARTICLE 8 DISPUTE RESOLUTION**

Following the distribution of Demutualization Benefits after the Final Consideration Date, if any Eligible Policyholder disputes any calculation made in respect of the allocation or distribution of Demutualization Benefits, including the policy or policyholder information in the Masterfile that formed the basis of that calculation (a “**Calculation Dispute**”), then the Eligible Policyholder (the “**Calculation Disputant**”) may, within 60 days after the Final Consideration Date, deliver a written notice (a “**Calculation Dispute Notice**”) to the Company setting forth a detailed description of the Calculation Dispute and statement of the basis on which the calculation in question is being disputed.

Eligible Policyholders shall be deemed to have accepted all calculations made in connection with this Conversion Plan in respect of which they do not deliver a Calculation Dispute Notice to the Company within such 60 day period.

Within 10 days of receipt of the Calculation Dispute Notice, the Company shall contact the Calculation Disputant in order to discuss or obtain more details about the Calculation Dispute. The Calculation Disputant and the Company shall use commercially reasonable efforts to promptly resolve any Calculation Dispute.

Within 45 days of the receipt of the Calculation Dispute Notice and any additional supporting documentation from the Calculation Disputant, the Company shall provide the Calculation Disputant with a written response (the “**Response to Calculation Dispute Notice**”) which shall provide the Company’s position in response to the Calculation Dispute Notice.

If the Calculation Disputant is dissatisfied after receiving the Response to the Calculation Dispute Notice, then within 30 days of the date of the Response to Calculation Dispute Notice the Calculation Disputant may request that the Company retain the Resolving Accountant to determine any unresolved matters set forth in the Calculation Dispute Notice (the “**Unresolved Calculation Disputes**”).

The Company shall direct the Resolving Accountant to render a written determination with respect to the Unresolved Calculation Disputes within 15 days of its retention. The Resolving Accountant shall consider only those items and amounts set forth in the Calculation Dispute Notice, the Response to Calculation Dispute Notice, and the terms of this Conversion Plan.

The Resolving Accountant shall determine only the quantum of the Demutualization Benefits to be paid to the Calculation Disputant, and such quantum shall be based on the Allocation, Schedules 1 and 3 and the IPO Price. Such Demutualization Benefits shall be distributed to a Calculation Disputant in the same form in which the Calculation Disputant would have received had they been distributed in accordance with Article 6, and for the purposes of such distribution, the Calculation Disputant shall be treated like a Former Lost Recipient and in accordance with Section 6.10(3).

The determination of the Resolving Accountant with respect to the Unresolved Calculation Disputes shall be conclusive and binding upon the Calculation Disputant and the Company. No appeal shall be permitted from the Resolving Accountant’s decision including on questions of law. The Company shall bear its own costs of participating in the Calculation Dispute resolution and shall pay the fees and expenses of the Resolving Accountant. The Calculation Disputant shall bear his or her own costs.

The Calculation Dispute resolution shall be confidential. Unless required to do so by law, the Calculation Disputant and the Resolving Accountant may not disclose to others the existence, content, or results of the Calculation Dispute resolution process without the prior written consent of the Company.

The Company may engage and rely on a third-party service provider to act on its behalf in the above process.

### **ARTICLE 9 ADDITIONAL PROVISIONS**

#### **9.1 Notices**

If the Company or Holdco complies substantially and in good faith with the terms of this Conversion Plan in respect of the giving of any required notice to any Person, the failure by the Company or Holdco (as the case may be) to give the notice to

any Person entitled thereto shall not impair the validity of the actions and proceedings taken pursuant to this Conversion Plan or entitle the Person to any injunctive or other equitable relief with respect thereto.

### 9.2 Authority to Remedy Errors

Subject to the terms of this Conversion Plan, the Company may issue additional Economical Insurance Common Shares, Holdco may issue additional Common Shares and the Company or Holdco may take any other actions deemed appropriate to remedy errors or miscalculations made in connection with this Conversion Plan, including errors or miscalculations in respect of the allocation or distribution of Demutualization Benefits.

Following prior written notice to the Superintendent, the Company or Holdco may make modifications to this Conversion Plan of a formal, minor or technical nature or to correct or rectify any ambiguities, defective provisions or omissions provided that, in the opinion of the Board, the rights of Eligible Policyholders are not in the aggregate materially prejudiced thereby.

### 9.3 No Payment of Interest

All amounts paid to Eligible Policyholders pursuant to this Conversion Plan shall be paid without interest, unless otherwise specified.

### 9.4 Governing Law

The terms of this Conversion Plan shall be governed by and construed in accordance with the laws of Ontario and the laws of Canada applicable therein.

### 9.5 Further Assurances

The Company and Holdco shall promptly do, make, execute, deliver or cause to be done, made, executed or delivered, all such further acts, documents and things as may reasonably be required from time to time for the purpose of giving effect to this Conversion Plan and shall use their reasonable commercial efforts and take all steps as may be reasonably within their power to implement to their full extent the provisions of this Conversion Plan.

**IN WITNESS WHEREOF**, Economical Mutual Insurance Company and Holdco have executed this Conversion Plan this [●] day of [●], [●].

**ECONOMICAL MUTUAL INSURANCE COMPANY**

**ECONOMICAL HOLDINGS CORPORATION**

## SCHEDULE 1

This schedule forms an integral part of the Allocation set out in Article 5 of the Conversion Plan.

## CTS ALLOCATION

### 1. Definitions

The following terms are used in this Schedule 1. Capitalized terms used in this Schedule 1 and not defined here are defined in Section 1.1 of the Conversion Plan.

“**Adj Duration**” equals  $\text{Policy Duration} \times (1 + 0.05 \times (\text{Policy Duration} - 1))$

“**Adj Premium**” equals

If Policy Type is personal auto policy, the sum of  
(1 x the lesser of Premium and \$400) +  
If Premium > \$400, (0.2 x the lesser of (Premium – \$400) and \$1,500) +  
If Premium > \$1,900, (0.02 x (Premium – \$1,900))

If Policy Type is personal property policy, the sum of  
(1 x the lesser of Premium and \$300) +  
If Premium > \$300, (0.2 x the lesser of (Premium – \$300) and \$400) +  
If Premium > \$700, (0.02 x (Premium – \$700))

If Policy Type is commercial auto policy, the sum of  
(1 x the lesser of Premium and \$1,300) +  
If Premium > \$1,300, (0.5 x the lesser of (Premium – \$1,300) and \$8,500) +  
If Premium > \$9,800, (0.1 x (Premium – \$9,800))

If Policy Type is commercial property policy, the sum of  
(1 x the lesser of Premium and \$1,500) +  
If Premium > \$1,500, (0.2 x the lesser of (Premium – \$1,500) and \$800) +



If Premium > \$2,300, (0.05 x the lesser of (Premium – \$2,300) and \$4,900) +  
If Premium > \$7,200, (0.01 x (Premium – \$7,200))

If Policy Type is mutual policy, the sum of  
(1 x the lesser of Premium and \$300) +  
If Premium > \$300, (0.2 x the lesser of (Premium – \$300) and \$400) +  
If Premium > \$700, (0.02 x (Premium – \$700))

“**Linked Similar Policy**” means a policy issued by the Company that was not in force on the Eligibility Date, but which is nevertheless recorded in the Masterfile and used for the purposes of establishing eligibility in accordance with the November 3 Resolution (as described under the heading “Policy linking” in Section 8 of Schedule 3 to this Conversion Plan). These policies are a subset of Similar Policies.

“**Policy Duration**” means for a Qualifying Policy, the period of time in years ending on the Eligibility Date (rounded to the nearest one-hundredth) from and including the Inception Date of the Qualifying Policy or, if there is a Linked Similar Policy associated with the Qualifying Policy, the Inception Date of the Linked Similar Policy, up to a maximum of 23 years.

“**Policy Type**” means for a Qualifying Non-Mutual Policy, whether it is a personal property policy, personal auto policy, commercial property policy or commercial auto policy as recorded in the Masterfile, and for a Qualifying Mutual Policy, the Policy Type is a mutual policy.

“**Policy Type CTS**” equals, subject to Section 5.2(4) of the Conversion Plan, the number of Units that is:

\$490,041,000 divided by the IPO Price if the Policy Type is personal auto policy  
\$133,669,000 divided by the IPO Price if the Policy Type is personal property policy  
\$191,414,000 divided by the IPO Price if the Policy Type is commercial auto policy  
\$121,488,000 divided by the IPO Price if the Policy Type is commercial property policy  
\$2,018,000 divided by the IPO Price if the Policy Type is mutual policy

“**Premium**” means the average annual premium for a Qualifying Policy and any Linked Similar Policy as recorded in the Masterfile rounded to the nearest dollar, subject to a minimum of \$0.

“**Similar Policy**” has the meaning provided for in Section 3 of Schedule 3 to this Conversion Plan.

## 2. CTS Allocation for a Qualifying Policy

CTS Allocation for a Qualifying Policy is a number of Units calculated as follows:

*CTS Allocation for a Qualifying Policy*

$$= \text{Policy Type CTS} \times \frac{(\text{Adj Premium} \times \text{Adj Duration}) \text{ for the Qualifying Policy}}{\text{Sum of } (\text{Adj Premium} \times \text{Adj Duration}) \text{ for Qualifying Policies of Eligible Policyholders of that Policy Type}}$$

## SCHEDULE 2

This schedule forms an integral part of the Allocation set out in Article 5 of the Conversion Plan.

### HISTORICAL COMMITMENT ALLOCATION

#### 1. Definitions

The following terms are used in this Schedule 2. Capitalized terms used in this Schedule 2 and not defined here are defined in Schedule 1 to the Conversion Plan.

“**HC Allotment**” equals, subject to Section 5.2(4) of the Conversion Plan, the number of Units that is \$2,000,000 divided by the IPO Price.

“**Mutual Policyholder Duration**” means the period of time in years ending on the Eligibility Date (rounded to the nearest one-hundredth) from and including the earliest Inception Date for a Qualifying Mutual Policy attributed to an Eligible Mutual Policyholder.

#### 2. Historical Commitment Allocation for a Qualifying Mutual Policy

The Historical Commitment Allocation of an Eligible Mutual Policyholder is a number of Units calculated as follows:

*Historical Commitment Allocation for an Eligible Mutual Policyholder*

$$= \text{HC Allotment} \times \frac{(\text{Mutual Policyholder Duration}) \text{ for the Eligible Mutual Policyholder}}{\text{Sum of } (\text{Mutual Policyholder Duration}) \text{ for all Eligible Mutual Policyholders}}$$

## SCHEDULE 3

This schedule forms an integral part of the Allocation set out in Article 5 of the Conversion Plan.

### SUMMARY DESCRIPTION OF DEVELOPMENT OF MASTERFILE

The Masterfile contains policyholder and policy attributes up to December 31, 2015. The following is a summary description of the development of the Masterfile.

## 1. Definitions

The following terms are used in this Schedule 3. Capitalized terms used in this Schedule 3 and not defined here are defined in Schedule 1 or Section 1.1 of the Conversion Plan.

**“Fronting Policy”** means a policy issued by the Company pursuant to an arrangement between the Company and a third party whereby the Company has agreed to issue such policy on the condition that it is 100% reinsured by the third party. The third party is typically an insurer in another jurisdiction that is not licensed to sell insurance in the particular jurisdiction where the policy was issued. The Company is technically the insurer, but the third party administers the policy and pays any claims.

**“Master-Certificate Policies”** means policies that have been issued to related groups of insureds under umbrella arrangements, for example where a franchisor (notionally referred to as the “master”) has arranged with a broker for a number of franchisees (notionally referred to as “certificate holders”) to use the same insurer. Each “certificate holder” holds its own separate insurance policy.

**“November 3 Resolution”** means the resolution of the Board passed on the Eligibility Date recommending Demutualization.

**“Qualifying Date-Adjusted Policy”** means a Qualifying Policy that the Named Insured cancelled with notice received by the Company on or after December 14, 2015 where the effective date of cancellation was recorded as a date prior to December 14, 2015.

**“Subscription Policy”** means a policy where the Company is one among several insurers on risk. The Company’s exposure is limited to a certain percentage of the risk insured, with other insurers bearing the remaining risk insured.

## 2. Masterfile

(1) The Masterfile is a secure database of policy and policyholder information for Eligible Policyholders. It was created using information from various Company policy administration systems and the Company’s corporate data warehouse.

(2) Adjustments were made to this information to reflect the sufficiency and reliability of historical policy and policyholder data, the OSFI Ruling and the manner in which an Eligible Non-Mutual Policyholder may have been qualified as an eligible non-mutual policyholder pursuant to Section 3(b) of the Demutualization Regulations and the November 3 Resolution. This Schedule 3 seeks to outline and explain the material adjustments.

(3) The Company has not made any changes to the Masterfile since the date that the Allocation was approved by the Policyholder Committees, except to correct clerical or calculation errors subsequently discovered before the Effective Time.

## 3. Eligible Policyholders

(1) An Eligible Mutual Policyholder is a Named Insured for a Qualifying Mutual Policy that was in force until December 14, 2015.

(2) An Eligible Non-Mutual Policyholder is a Named Insured for a Qualifying Non-Mutual Policy

- (a) who was a Named Insured for the Qualifying Non-Mutual Policy or Similar Policy on December 14, 2015; and
- (b) who was a Named Insured for the Qualifying Non-Mutual Policy and any Similar Policies, which, when taken together, were in force for the period from the Eligibility Date to December 14, 2015 (inclusive of both dates) with no gap in coverage between the policies greater than 30 days; and
- (c) for which, either or both
  - (i) the Inception Date for the Qualifying Non-Mutual Policy was on or before November 4, 2014; or
  - (ii) the Named Insured was a Named Insured for Similar Policies and, when taken together, the Qualifying Non-Mutual Policy and the Similar Policies were in force for the period from November 4, 2014 to the Eligibility Date (inclusive of both dates) with no gap in coverage between such policies greater than 30 days.

For these purposes, **“Similar Policy”** means, with reference to a Qualifying Non-Mutual Policy, a different mutual or non-mutual insurance policy of the Company that is Similar to that Qualifying Non-Mutual Policy. A policy issued by the Company is “Similar” to another policy issued by the Company if both policies are personal property policies, both policies are auto policies or both policies are commercial property policies, regardless of whether one of the policies is a mutual policy.

(3) A Person falling into any of the following categories and who is recorded as an eligible policyholder in the Masterfile, regardless of purported errors in the identification of eligible policyholders in the Masterfile or in respect of conformity with the definition of “eligible policyholder” in the Demutualization Regulations, is treated as an Eligible Policyholder for the purposes of the Demutualization:

- (a) the named principal on the Eligibility Date on a surety bond that is a Qualifying Policy;
- (b) the Named Insured on a Qualifying Date-Adjusted Policy;
- (c) the named or notional “certificate holder” on the Eligibility Date on a Master- Certificate Policy that is a Qualifying Policy;

- (d) the Named Insured on a Fronting Policy that is a Qualifying Policy;
- (e) the Named Insured on a Subscription Policy that is a Qualifying Policy; and
- (f) any Named Insured on a Qualifying Policy that is no longer in force, but who meets the definition of “eligible policyholder” in the Demutualization Regulations as interpreted by OSFI in the OSFI Ruling.

#### **4. Determination of Named Insured**

The named insured field in the Masterfile was based on any persons that the Company treats as named insureds for the purposes of its policies, including principals on surety bonds and the Person named on a Master-Certificate Policy as the certificate holder.

#### **5. Qualifying Policies**

The Masterfile records information for policies issued by the Company. This includes:

- (a) policies issued by the Company under the Western General brand or through Family Insurance;
- (b) Subscription Policies; and
- (c) Fronting Policies.

These kinds of policies may not necessarily have the Company’s branding, but the policy states that the Company is the insurer, or is one of several insurers for Subscription Policies. The Company bears liability as an insurer. This is in contrast to policies issued by The Missisquoi Insurance Company, Perth Insurance Company, Waterloo Insurance Company, Federation Insurance Company of Canada, Sonnet Insurance Company or Petline Insurance Company, which are policies issued by separate legal entities and not by the Company.

#### **6. Transaction Date Adjustments**

In the normal course of its insurance business, the Company will occasionally adjust the effective date of transactions in its systems to reflect the events that triggered the transactions. For example, it is common for policyholders to sell their house (effectively leaving nothing to be insured), but only inform the Company a few weeks later that they are canceling their home policy. In this circumstance, the effective date of cancellation would be the date of the sale and the Company would refund any premiums applicable to the time after the sale. However, for the purposes of the Demutualization, the policy would still in fact have been in force until the Company was informed of the policy change. Accordingly, for Qualifying Date-Adjusted Policies, the Company used the dates on which its systems indicated there was notice of the policy change received by the Company rather than the adjusted effective date.

#### **7. Calculated Inception Date**

Calculated inception date for a policy was based on the effective date that the Company recorded in its systems as when it first issued the policy with one modification. The November 3 Resolution allowed for gaps in coverage of no more than 30 days. To implement this requirement, the calculated inception date was adjusted if there were any gaps of more than 30 days so that it would be the first date of coverage after the gap.

#### **8. Policy Linking**

(1) The November 3 Resolution provided that a policyholder could be eligible if a combination of “Similar” policies, when viewed as one, provided coverage for the 12-month period before the Eligibility Date. For example, if a policyholder moved from Alberta to Ontario partway through the 12-month period, there would be two policy numbers (one for their home in Alberta and a new one for their home in Ontario) even though the policyholder continued to insure their home with the Company.

(2) While the calculated inception date would still be policy-specific, policy “linking” was used for Similar Policies to determine eligibility, as well as premium and duration for the purposes of CTS Allocation.

#### **9. Premium**

(1) Premium reflects the average annual premium of a policy payable to the Company for the time when coverage was in effect in the period from January 1, 2006 to December 31, 2015 (inclusive of both dates). It incorporated premiums payable with respect to the Qualifying Policy and any Linked Similar Policies, based on the ratio of the time passed on the policies.

(2) There were also certain unique policy situations where the Appointed Actuary determined it was appropriate to adjust the premium:

- (a) Fronting Policies: Under a Fronting Policy, the Company will only face exposure in the unlikely event the third party becomes insolvent. There were several of these policies, but there was one such policy where the documentation is clear that there is a third party involved and the premiums were disproportionately large when compared to other Eligible Non-Mutual Policyholders. As a result, for that particular policy, premium was set at \$0.

- (b) Subscription Policies: Premium for Subscription Policies was set at the proportion of premium attributable to the Company, and not the total premium in respect of all of the insurers.
- (c) If there was a refund of premium on a Qualifying Date-Adjusted Policy, the refunded amount was not included in premium.
- (d) Where there was policy linking (a Qualifying Policy was linked to a Similar Policy to give rise to eligibility), the premium for the Similar Policy (after any applicable adjustments) was divided equally among the named insureds for the Similar Policy and then their respective components were added to the Qualifying Policies of those named insureds.

#### **10. Disclaimer of Participation and Benefits**

(1) The Company has received a nominal number of requests from Eligible Policyholders who do not wish to participate in Demutualization. The reasons given for these requests vary based on individual circumstances. An example is where one Eligible Policyholder has died and his or her estate representatives do not want to re-open the estate and deal with the administrative costs and challenges it creates. These Eligible Policyholders (or their personal representative) signed an Eligible Policyholder Disclaimer & Release form and as a result they were removed from the Masterfile. They are not accounted for in the Allocation and will not receive Demutualization Benefits. There may be other Eligible Policyholders who wish to disclaim their Demutualization Benefits, and may do so in a form acceptable to the Company.

(2) Certain members of the Policyholder Committee representing the Eligible Mutual Policyholders (the “Mutual Policyholder Committee”) who were both an Eligible Mutual Policyholder and an Eligible Non-Mutual Policyholder disclaimed their rights to Demutualization Benefits as an Eligible Non-Mutual Policyholder, in a form that was acceptable to the Company, as a condition of their appointment to the Mutual Policyholder Committee so as to avoid any perception of any potential conflict of interest. As a result, they are not accounted for in the Allocation and will not receive Demutualization Benefits as Eligible Non-Mutual Policyholders. For the avoidance of doubt, their data in the Masterfile, allocation and entitlement to Demutualization Benefits as an Eligible Mutual Policyholder is not affected by this disclaimer.

#### **11. Trusts, Estates, and Third Parties with Potential Interests in Policies**

(1) In general, the identity of an Eligible Policyholder was determined without giving effect to any interest of any other Person in a policy. This includes circumstances where there may have been an assignment or pledge of rights or benefits under a policy to secure a debt or other obligations. While those circumstances may affect payout of insurance claims under the policy, for Demutualization, the Named Insured on relevant policies are Eligible Policyholders.

(2) In the case of a trust or deceased policyholder, the Company’s records typically record the trustee or estate of the deceased as the named insured and thus they are the Named Insured in the Masterfile.

### **SCHEDULE 4**

#### **ECONOMICAL MUTUAL INSURANCE COMPANY**

#### **BY-LAW NO. B.2**

#### **A by-law creating classes of shares of Economical Mutual Insurance Company**

WHEREAS in connection with the conversion of the Company pursuant to the Conversion Plan (as defined herein) into a company with common shares in accordance with the provisions of the *Mutual Property and Casualty Insurance Company with Non-mutual Policyholders Conversion Regulations* under the Act (as defined herein), it is necessary to create authorized classes of shares in the Company.

AND WHEREAS concurrently at the time this By-law comes into force, By-law No. B.1 of the Company shall come into force to repeal and replace By-law No. A.1 of the Company, as amended by By-law No. A.3, By-law No. A.4, By-law No. A.5 and By-law No. A.6;

NOW THEREFORE, BE IT ENACTED as a by-law of the Company as follows:

#### **SECTION 1 INTERPRETATION**

##### **1.1 Definitions**

In this By-law No. B.2:

- (a) “Act” means the *Insurance Companies Act* (Canada), enacted by the Parliament of Canada, as amended from time to time, and every statute that may be substituted therefor;
- (b) “Board” means the Board of Directors of the Company;

- (c) “Common Shares” means the common shares in the capital of the Company, without nominal or par value, now existing or hereafter created;
- (d) “Conversion Plan” means the conversion proposal of Economical Mutual Insurance Company as approved by the Minister which constitutes a conversion proposal as contemplated by the Act;
- (e) “Company” means Economical Mutual Insurance Company;
- (f) “Effective Date” means the effective date specified in the Letters Patent of Conversion;
- (g) “Letters Patent of Conversion” has the meaning ascribed thereto in the Conversion Plan;
- (h) “Preferred Shares” means the preferred shares in the capital of the Company, without nominal or par value, now existing or hereafter created;

## **1.2 Interpretation**

In this By-law No. B.2, all terms which are not defined herein shall have the meanings ascribed to those terms in the Act.

## **SECTION 2 AUTHORIZED CAPITAL**

### **2.1 Authorized Capital**

The authorized capital of the Company consists of:

- (a) an unlimited number of Common Shares; and
- (b) an unlimited number of Preferred Shares issuable in series.

## **SECTION 3 COMMON SHARES**

The Common Shares shall have attached thereto the following rights, privileges, restrictions and conditions:

### **3.1 Dividends**

Subject to the prior rights of the holders of any series of Preferred Shares and any other shares ranking senior to the Common Shares with respect to priority in payment of dividends, the holders of Common Shares shall be entitled to receive dividends if, as and when declared by the Board out of monies properly applicable to the payment of dividends, in such amounts and in such forms as the Board may from time to time determine, and all dividends which the Board may declare on the Common Shares shall be declared and paid in equal amounts per share, net of any applicable withholding taxes, on all Common Shares outstanding at the time.

### **3.2 Participation upon Liquidation, Dissolution or Winding-up**

In the event of the liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the specific purpose of winding up its affairs, subject to the prior rights of the holders of any series of Preferred Shares and any other shares ranking senior to the Common Shares with respect to priority in the distribution of assets in the event of the liquidation, dissolution or winding up of the Company, the holders of the Common Shares shall be entitled to receive the remaining property of the Company that pertains to shareholders, in equal amounts per share, without preference or priority of one share over another.

### **3.3 Voting Rights**

The holders of Common Shares shall be entitled to receive notice of and to attend all meetings of the shareholders of the Company and shall have one vote for each Common Share held at all meetings of the shareholders of the Company, except for meetings at which only holders of another specified class or series of shares of the Company are entitled to vote separately as a class or series.

### **3.4 Amendment with Approval of Holders of Common Shares**

The rights, privileges, restrictions and conditions attached to the Common Shares as a class may be added to, changed or removed but only with the approval of the holders of the Common Shares given as hereinafter specified.

### **3.5 Approval of Holders of Common Shares**

The approval of the holders of the Common Shares to add to, change or remove any right, privilege, restriction or condition attaching to the Common Shares as a class may be given in such manner as may then be required by law, subject to a minimum requirement that such approval be given by resolution signed by all the holders of the Common Shares or passed by the affirmative vote of at least two-thirds (2/3) of the votes cast at a meeting of the holders of the Common Shares duly called for that purpose.

The formalities to be observed with respect to the giving of notice of any such meeting or any adjourned meeting, the quorum required therefor and the conduct thereof shall be those from time to time required by the Act as in force at the time of the meeting and those, if any, prescribed by the by-laws or the administrative resolutions of the Company with respect to

meetings of shareholders. On every poll taken at every meeting of the holders of the Common Shares as a class, each holder of Common Shares entitled to vote thereat shall have one vote in respect of each Common Share held.

### **3.6 Notice to the Holders of the Common Shares**

Any notice, document or other communication from the Company provided for herein or by the Act shall be sent to the holders of the Common Shares:

- (i) by mail, postage prepaid at their respective addresses appearing on the securities register of the Company or, in the event of the address of any such holder not so appearing, then at the last address of such holder known to the Company; or
- (ii) by any other method permitted (or not prohibited) by the Act and other applicable law from time to time, including by electronic means.

Accidental failure to give any such notice, document, or other communication to one or more holders of Common Shares shall not affect the validity thereof, but, upon such failure being discovered, a copy of the notice, document or other communication, as the case may be, shall be sent or delivered forthwith to such holder or holders. Unless otherwise provided herein or by the Act, any notice, request, certificate or other communication from a holder of Common Shares herein or by the Act provided for shall be either sent to the Company by mail, postage prepaid, or delivered by hand to the Company at its head office, or sent or delivered by any other means acceptable to the Company.

## **SECTION 4 PREFERRED SHARES**

The Preferred Shares, as a class, shall have attached thereto the following rights, privileges, restrictions and conditions:

### **4.1 One or More Series**

The Preferred Shares may at any time and from time to time be issued in one or more series.

### **4.2 Terms of Each Series**

Subject to the Act, the directors may fix, before the issue thereof, the number of Preferred Shares of each series, the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of each series, including, without limitation, any voting rights, any right to receive dividends (which may be cumulative or non-cumulative and variable or fixed) or the means of determining such dividends, the dates of payment thereof, any terms and conditions of redemption or purchase, any conversion rights, and any rights on the liquidation, dissolution or winding-up of the Company, any sinking fund or other provisions, the whole to be subject to the issue of a certificate of amendment setting forth the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of the series.

### **4.3 Ranking of the Preferred Shares**

The Preferred Shares shall be entitled to a preference over the Common Shares and any other shares ranking junior to the Preferred Shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the specific purpose of winding up its affairs.

If the Board exercises its powers referred to in Section 4.2 hereof, Preferred Shares of each series shall rank on a parity with the Preferred Shares of every other series with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the specific purposes of winding up its affairs.

If any cumulative dividends, whether or not declared, or declared non-cumulative dividends or amounts payable on return of capital are not paid in full in respect of any series of Preferred Shares, then the Preferred Shares of all series participate rateably in respect of such dividends in accordance with the sums that would be payable on such shares if all such dividends were declared and paid in full, and in respect of such return of capital in accordance with the sums that would be payable on such return of capital if all sums so payable were paid in full; provided, however, that if there are insufficient assets to satisfy in full all such claims as aforesaid, the claims of the holders of the Preferred Shares with respect to return of capital shall be paid and satisfied first and any assets remaining thereafter shall be applied towards the payment and satisfaction of claims in respect of dividends. The Preferred Shares of any series may also be given such other preferences not inconsistent with the rights, privileges, restrictions and conditions attached to the Preferred Shares as a class over the Common Shares and any other shares ranking junior to the Preferred Shares as may be determined in the case of such series of Preferred Shares.

### **4.4 Voting Rights**

Except as hereinafter referred to or as required by law or as specified in the rights, privileges, restrictions and conditions attached from time to time to any series of Preferred Shares, the holders of the Preferred Shares as a class are not entitled as such to receive notice of, to attend or to vote at any meeting of the shareholders of the Company.

#### **4.5 Amendment with Approval of Holders of Preferred Shares**

The rights, privileges, restrictions, and conditions attached to the Preferred Shares as a class may be added to, changed or removed but only with the approval of the holders of the Preferred Shares given as hereinafter specified.

#### **4.6 Approval of the Holders of the Preferred Shares**

The approval of the holders of the Preferred Shares to add to, change, or remove any right, privilege, restriction, or condition attaching to the Preferred Shares as a class or series or in respect of any other matter requiring the consent of the holders of the Preferred Shares as a class or series may be given in such manner as may then be required by law, subject to a minimum requirement that such approval be given by resolution signed by all the holders of the Preferred Shares as a class or series or passed by the affirmative vote of at least two-thirds (2/3) of the votes cast at a meeting of the holders of the class or series duly called for that purpose. Except as hereinafter referred to or as required by law or as specified in the rights, privileges, restrictions and conditions attached from time to time to any series of Preferred Shares, notwithstanding anything else in this Section 4, the approval of the holders of a series of Preferred Shares, voting separately as a class or series, is not required on a proposal to amend the by-laws of the Company to:

- (a) increase or decrease the maximum number of authorized Preferred Shares or such series, or increase the maximum number of authorized shares of a class or series of shares having rights or privileges equal or superior to the Preferred Shares;
- (b) effect the exchange, reclassification or cancellation of all or any part of the Preferred Shares or any series thereof; or
- (c) create a new class or series of shares equal to or superior to the Preferred Shares or any series thereof.

The formalities to be observed with respect to the giving of notice of any such meeting or any continuation of an adjourned meeting, the quorum required therefor and the conduct thereof shall be those from time to time required by the Act as in force at the time of the meeting and those, if any, prescribed by the by-laws or the administrative resolutions of the Company with respect to meetings of shareholders. On every poll taken at every meeting of the holders of the Preferred Shares as a class or series, or at any joint meeting of the holders of two or more series of Preferred Shares, each holder of Preferred Shares entitled to vote thereat shall have one vote in respect of each Preferred Share held.

#### **4.7 Notice to Holders of Preferred Shares**

Any notice, document, notice of redemption or other communication from the Company provided for herein or by the Act shall be sent to the holders of the Preferred Shares:

- (i) by mail, postage prepaid at their respective addresses appearing on the securities register of the Company or, in the event of the address of any such holder not so appearing, then at the last address of such holder known to the Company; or
- (ii) by any other method permitted (or not prohibited) by the Act and other applicable law from time to time, including by electronic means.

Accidental failure to give any such notice, document, notice of redemption or other communication to one or more holders of Preferred Shares shall not affect the validity thereof, but, upon such failure being discovered, a copy of the notice, document, notice of redemption or other communication, as the case may be, shall be sent or delivered forthwith to such holder or holders. Unless otherwise provided herein or by the Act, any notice, request, certificate or other communication from a holder of Preferred Shares herein or by the Act provided for shall be sent to the Company by mail, postage prepaid, or delivered by hand to the Company at its head office, or sent or delivered by any other means acceptable to the Company.

### **SECTION 5 EFFECTIVE DATE**

By-law No. B.2 shall come into force on the Effective Date in accordance with the terms of the Conversion Plan.

### **SCHEDULE 5 ECONOMICAL HOLDINGS CORPORATION BY-LAW NO. 2**

#### **A by-law creating classes of shares of Economical Holdings Corporation**

### **SECTION 1 INTERPRETATION**

#### **1.1 Definitions**

In this By-law No. 2:

- (a) "Act" means the *Insurance Companies Act* (Canada), enacted by the Parliament of Canada, as amended from time to time, and every statute that may be substituted therefor;

- (b) “Board” means the Board of Directors of the Corporation;
- (c) “Cancellation Time” means 11:59 p.m. Toronto time on the 35<sup>th</sup> month anniversary of the Effective Date;
- (d) “Common Shares” means the common shares in the capital of the Corporation, without nominal or par value, now existing or hereafter created;
- (e) “Conversion Plan” means the conversion proposal of Economical Mutual Insurance Company as approved by the Minister which constitutes a conversion proposal as contemplated by the Act;
- (f) “Corporation” means Economical Holdings Corporation;
- (g) “Economical Insurance” means the share corporation that resulted from the conversion of Economical Mutual Insurance Company with effect from the Effective Date;
- (h) “Effective Date” means the effective date specified in the Letters Patent of Conversion;
- (i) “Letters Patent of Conversion” has the meaning ascribed thereto in the Conversion Plan;
- (j) “Lost Policyholder” has the meaning ascribed thereto in the Conversion Plan;
- (k) “Preferred Shares” means the preferred shares in the capital of the Corporation, without nominal or par value, now existing or hereafter created;
- (l) “Regulations” means the regulations made under the Act, as amended or replaced from time to time; and
- (m) “Share Constraint Regime” means the provisions of the Act and the Regulations, if any, which establish rules restricting the purchase or other acquisition, issue, transfer and voting of shares of the Corporation, as those provisions may be amended from time to time.

## **1.2 Interpretation**

In this By-law No. 2, the terms “control”, “entity”, “person”, and “significant interest” and all other terms which are not defined herein shall have the meanings ascribed to those terms in the Act.

## **SECTION 2 AUTHORIZED CAPITAL**

### **2.1 Authorized Capital**

The authorized capital of the Corporation consists of:

- (a) an unlimited number of Common Shares; and
- (b) an unlimited number of Preferred Shares issuable in series.

## **SECTION 3 COMMON SHARES**

The Common Shares shall have attached thereto the following rights, privileges, restrictions, and conditions:

### **3.1 Dividends**

- (a) Subject to the prior rights of the holders of any series of Preferred Shares and any other shares ranking senior to the Common Shares with respect to priority in payment of dividends, the holders of Common Shares shall be entitled to receive dividends if, as and when declared by the Board out of monies properly applicable to the payment of dividends, in such amounts and in such forms as the Board may from time to time determine, and all dividends which the Board may declare on the Common Shares shall be declared and paid in equal amounts per share, net of any applicable withholding taxes, on all Common Shares outstanding at the time.
- (b) Any dividend (other than a stock dividend) unclaimed after a period of thirty-five months from the date on which the same has been declared to be payable shall be forfeited and shall revert to the Corporation.

### **3.2 Participation upon Liquidation, Dissolution, or Winding-up**

In the event of the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the specific purpose of winding up its affairs, subject to the prior rights of the holders of any series of Preferred Shares and any other shares ranking senior to the Common Shares with respect to priority in the distribution of assets in the event of the liquidation, dissolution or winding up of the Corporation, the holders of the Common Shares shall be entitled to receive the remaining property of the Corporation that pertains to shareholders, in equal amounts per share, without preference or priority of one share over another.

### **3.3 Voting Rights**

The holders of Common Shares shall be entitled to receive notice of and to attend all meetings of the shareholders of the Corporation and shall have one vote for each Common Share held at all meetings of the shareholders of the Corporation,



except for meetings at which only holders of another specified class or series of shares of the Corporation are entitled to vote separately as a class or series.

Approval of (i) a special resolution of the Corporation or (i) any amendment to the quorum requirement for meetings of holders of Common Shares shall require the affirmative vote of not less than [75]% of the votes cast at a meeting of the holders of the Common Shares of the Corporation; provided that the foregoing approval thresholds must be reconfirmed by special resolution at the [fourth] annual meeting following the Effective Date and following any such reconfirmation, if applicable, at every [second] annual meeting thereafter; and provided further that if the foregoing approval thresholds are not so reconfirmed or are not presented for reconfirmation at an annual meeting at which they are required to be so presented, the approval thresholds shall revert to those specified by the Act.

### **3.4 Constrained Shares**

- (a) On and after the date upon which the Corporation becomes the holding body corporate of a company that has converted from a mutual company into a company with common shares, the Corporation shall not issue or allot any Common Shares to any person, or any entity controlled by a person, the Corporation shall refuse to allow the entry in the securities register of the Corporation of an issue or transfer of any Common Shares to any person, or any entity controlled by a person, and no person, or any entity controlled by a person, shall purchase or otherwise acquire any Common Shares, if such issue, transfer or purchase or other acquisition (i) would cause the person to have a significant interest in the Common Shares or (ii) where the person has a significant interest in the Common Shares, would increase the significant interest of the person in the Common Shares. No person who has a significant interest in any class of shares of the Corporation, or entity controlled by a person who has a significant interest in any class of shares of the Corporation, shall, in person or by proxy, exercise any voting rights attached to Common Shares beneficially owned by, or that are subject to agreement pertaining to the exercise of voting rights entered into by, that person, or entity. In accordance with the authority granted to the Board under the Act and the Regulations, the Board is hereby authorized to make such arrangements as the Board deems necessary to carry out the intent of the acquisition, issue, transfer and voting restrictions contained in the Act, the Regulations and the by-laws.
- (b) If the purchase or other acquisition, issue, transfer, or voting of any Common Shares would be permitted under the Act and the Regulations, notwithstanding the provisions of subsection 3.4(a), the Board is hereby authorized, in its discretion, to permit by resolution of the Board, any such purchase or other acquisition, issue, transfer, or exercise of voting rights with respect to such Common Shares.
- (c) Subject to subsection 3.4(d), if, after the date of incorporation of the Corporation, the Share Constraint Regime is amended, replaced or deleted, such that the provisions of subsection 3.4(a) are inconsistent with the Share Constraint Regime resulting from such amendment, replacement or deletion, then the Board is hereby authorized to amend, replace or delete subsection 3.4(a) such that it will be consistent with the Share Constraint Regime then in effect. The action of the Board to amend, replace or delete subsection 3.4(a) shall be by resolution of the Board and such amendment, replacement or deletion of subsection 3.4(a) shall be effective without the approval of the holders of any of the Preferred Shares or the Common Shares. Promptly following any amendment, replacement or deletion of subsection 3.4(a) by the Board, the Corporation shall give notice to the holders of the Common Shares of the amendment, replacement or deletion thereto.
- (d) If, after the date of incorporation of the Corporation, the Share Constraint Regime is amended or replaced and the Share Constraint Regime then in effect allows the Corporation to determine the application to it and its shareholders of all or any part of such Share Constraint Regime then the provisions of subsection 3.4(a) may only be amended or replaced with approval of the holders of the Preferred Shares and the Common Shares as provided in the Act.

### **3.5 Amendment with Approval of Holders of Common Shares**

The rights, privileges, restrictions and conditions attached to the Common Shares as a class may be added to, changed or removed but only with the approval of the holders of the Common Shares given as hereinafter specified.

### **3.6 Approval of Holders of Common Shares**

The approval of the holders of the Common Shares to add to, change or remove any right, privilege, restriction or condition attaching to the Common Shares as a class may be given in such manner as may then be required by law, subject to a minimum requirement that such approval be given by resolution signed by all the holders of the Common Shares or passed by the affirmative vote of at least two-thirds (2/3) of the votes cast at a meeting of the holders of the Common Shares duly called for that purpose.

The formalities to be observed with respect to the giving of notice of any such meeting or any adjourned meeting, the quorum required therefor and the conduct thereof shall be those from time to time required by the Act as in force at the time of the meeting and those, if any, prescribed by the by-laws or the administrative resolutions of the Corporation with respect to meetings of shareholders. On every poll taken at every meeting of the holders of the Common Shares as a class, each holder of Common Shares entitled to vote thereat shall have one vote in respect of each Common Share held.

### **3.7 Notice to the Holders of the Common Shares**

Any notice, document or other communication from the Corporation provided for herein or by the Act shall be sent to the holders of the Common Shares:

- (i) by mail, postage prepaid at their respective addresses appearing on the securities register of the Corporation or, in the event of the address of any such holder not so appearing, then at the last address of such holder known to the Corporation; or
- (ii) by any other method permitted (or not prohibited) by the Act and other applicable law from time to time, including by electronic means.

Accidental failure to give any such notice, document or other communication to one or more holders of Common Shares shall not affect the validity thereof, but, upon such failure being discovered, a copy of the notice, document or other communication, as the case may be, shall be sent or delivered forthwith to such holder or holders. Unless otherwise provided herein or by the Act, any notice, request, certificate or other communication from a holder of Common Shares herein or by the Act provided for shall be either sent to the Corporation by mail, postage prepaid, or delivered by hand to the Corporation at its head office, or sent or delivered by any other means acceptable to the Corporation.

## **SECTION 4 PREFERRED SHARES**

The Preferred Shares, as a class, shall have attached thereto the following rights, privileges, restrictions and conditions:

### **4.1 One or More Series**

The Preferred Shares may at any time and from time to time be issued in one or more series.

### **4.2 Terms of Each Series**

Subject to the Act, the directors may fix, before the issue thereof, the number of Preferred Shares of each series, the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of each series, including, without limitation, any voting rights, any right to receive dividends (which may be cumulative or non-cumulative and variable or fixed) or the means of determining such dividends, the dates of payment thereof, any terms and conditions of redemption or purchase, any conversion rights, and any rights on the liquidation, dissolution or winding-up of the Corporation, any sinking fund or other provisions, the whole to be subject to the issue of a certificate of amendment setting forth the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of the series.

### **4.3 Ranking of the Preferred Shares**

The Preferred Shares shall be entitled to a preference over the Common Shares and any other shares ranking junior to the Preferred Shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the specific purpose of winding up its affairs.

If the Board exercises its powers referred to in Section 4.2 hereof, Preferred Shares of each series shall rank on a parity with the Preferred Shares of every other series with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the specific purposes of winding up its affairs.

If any cumulative dividends, whether or not declared, or declared non-cumulative dividends or amounts payable on return of capital are not paid in full in respect of any series of Preferred Shares, then the Preferred Shares of all series participate rateably in respect of such dividends in accordance with the sums that would be payable on such shares if all such dividends were declared and paid in full, and in respect of such return of capital in accordance with the sums that would be payable on such return of capital if all sums so payable were paid in full; provided, however, that if there are insufficient assets to satisfy in full all such claims as aforesaid, the claims of the holders of the Preferred Shares with respect to return of capital shall be paid and satisfied first and any assets remaining thereafter shall be applied towards the payment and satisfaction of claims in respect of dividends. The Preferred Shares of any series may also be given such other preferences not inconsistent with the rights, privileges, restrictions and conditions attached to the Preferred Shares as a class over the Common Shares and any other shares ranking junior to the Preferred Shares as may be determined in the case of such series of Preferred Shares.

### **4.4 Voting Rights**

Except as hereinafter referred to or as required by law or as specified in the rights, privileges, restrictions and conditions attached from time to time to any series of Preferred Shares, the holders of the Preferred Shares as a class are not entitled as such to receive notice of, to attend or to vote at any meeting of the shareholders of the Corporation.

#### **4.5 Constrained Shares**

- (a) On and after the date upon which the Corporation becomes the holding body corporate of a company that has converted from a mutual company into a company with common shares, the Corporation shall not issue or allot any Preferred Shares to any person, or any entity controlled by a person, the Corporation shall refuse to allow the entry in the securities register of the Corporation of an issue or transfer of any Preferred Shares to any person, or any entity controlled by a person, and no person, or any entity controlled by a person, shall purchase or otherwise acquire any Preferred Shares, if such issue, transfer or purchase or other acquisition (i) would cause the person to have a significant interest in the Preferred Shares or (ii) where the person has a significant interest in the Preferred Shares, would increase the significant interest of the person in the Preferred Shares. No person who has a significant interest in any class of shares of the Corporation, or entity controlled by a person who has a significant interest in any class of shares of the Corporation, shall, in person or by proxy, exercise any voting rights attached to Preferred Shares beneficially owned by, or that are subject to agreement pertaining to the exercise of voting rights entered into by, that person, or entity. In accordance with the authority granted to the Board under the Act and the Regulations, the Board is hereby authorized to make such arrangements as the Board deems necessary to carry out the intent of the acquisition, issue, transfer and voting restrictions contained in the Act, the Regulations and the by-laws.
- (b) If the purchase or other acquisition, issue, transfer, or voting of any Preferred Shares would be permitted under the Act and the Regulations, notwithstanding the provisions of subsection 4.5(a), the Board is hereby authorized, in its discretion, to permit by resolution of the Board, any such purchase or other acquisition, issue, transfer, or exercise of voting rights with respect to such Preferred Shares.
- (c) Subject to subsection 4.5(d), if, after the date of incorporation of the Corporation, the Share Constraint Regime is amended, replaced or deleted, such that the provisions of subsection 4.5(a) are inconsistent with the Share Constraint Regime resulting from such amendment, replacement or deletion, then the Board is hereby authorized to amend, replace or delete subsection 4.5(a) such that it will be consistent with the Share Constraint Regime then in effect. The action of the Board to amend, replace or delete subsection 4.5(a) shall be by resolution of the Board and such amendment, replacement or deletion of subsection 4.5(a) shall be effective without the approval of the holders of any of the Preferred Shares or the Common Shares. Promptly following any amendment, replacement or deletion of subsection 4.5(a) by the Board, the Corporation shall give notice to the holders of the Preferred Shares of the amendment, replacement or deletion thereto.
- (d) If, after the date of incorporation of the Corporation, the Share Constraint Regime is amended or replaced and the Share Constraint Regime then in effect allows the Corporation to determine the application to it and its shareholders of all or any part of such Share Constraint Regime then the provisions of subsection 4.5(a) may only be amended or replaced with approval of the holders of the Preferred Shares and the Common Shares as provided in the Act.

#### **4.6 Amendment with Approval of Holders of Preferred Shares**

The rights, privileges, restrictions and conditions attached to the Preferred Shares as a class may be added to, changed or removed but only with the approval of the holders of the Preferred Shares given as hereinafter specified.

#### **4.7 Approval of the Holders of the Preferred Shares**

The approval of the holders of the Preferred Shares to add to, change or remove any right, privilege, restriction or condition attaching to the Preferred Shares as a class or series or in respect of any other matter requiring the consent of the holders of the Preferred Shares as a class or series may be given in such manner as may then be required by law, subject to a minimum requirement that such approval be given by resolution signed by all the holders of the Preferred Shares as a class or series or passed by the affirmative vote of at least two-thirds (2/3) of the votes cast at a meeting of the holders of the class or series duly called for that purpose. Except as hereinafter referred to or as required by law or as specified in the rights, privileges, restrictions and conditions attached from time to time to any series of Preferred Shares, notwithstanding anything else in this Section 4, the approval of the holders of a series of Preferred Shares, voting separately as a class or series, is not required on a proposal to amend the by-laws of the Corporation to:

- (a) increase or decrease the maximum number of authorized Preferred Shares or such series, or increase the maximum number of authorized shares of a class or series of shares having rights or privileges equal or superior to the Preferred Shares;
- (b) effect the exchange, reclassification or cancellation of all or any part of the Preferred Shares or any series thereof; or
- (c) create a new class or series of shares equal to or superior to the Preferred Shares or any series thereof.

The formalities to be observed with respect to the giving of notice of any such meeting or any continuation of an adjourned meeting, the quorum required therefor and the conduct thereof shall be those from time to time required by the Act as in force at the time of the meeting and those, if any, prescribed by the by-laws or the administrative resolutions of the Corporation with respect to meetings of shareholders. On every poll taken at every meeting of the holders of the Preferred Shares as a class or

series, or at any joint meeting of the holders of two or more series of Preferred Shares, each holder of Preferred Shares entitled to vote thereat shall have one vote in respect of each Preferred Share held.

#### **4.8 Notice to Holders of Preferred Shares**

Any notice, document, notice of redemption or other communication from the Corporation provided for herein or by the Act shall be sent to the holders of the Preferred Shares:

- (i) by mail, postage prepaid at their respective addresses appearing on the securities register of the Corporation or, in the event of the address of any such holder not so appearing, then at the last address of such holder known to the Corporation; or
- (ii) by any other method permitted (or not prohibited) by the Act and other applicable law from time to time, including by electronic means.

Accidental failure to give any such notice, document, notice of redemption or other communication to one or more holders of Preferred Shares shall not affect the validity thereof, but, upon such failure being discovered, a copy of the notice, document, notice of redemption or other communication, as the case may be, shall be sent or delivered forthwith to such holder or holders. Unless otherwise provided herein or by the Act, any notice, request, certificate or other communication from a holder of Preferred Shares herein or by the Act provided for shall be sent to the Corporation by mail, postage prepaid, or delivered by hand to the Corporation at its head office, or sent or delivered by any other means acceptable to the Corporation.

### **SECTION 5 LOST POLICYHOLDERS**

#### **5.1 Restriction on Voting Rights**

- (a) Subject to Subsection 5.1(b), no Lost Policyholder shall, in person or by proxy, exercise any voting rights that are attached to the Common Shares issued to such Lost Policyholder.
- (b) Subsection 5.1(a) shall cease to apply in respect of a Lost Policyholder once such Lost Policyholder ceases to be a Lost Policyholder in accordance with Section 5.2.

#### **5.2 Confirmation Criteria**

A Lost Policyholder shall cease to be a Lost Policyholder at any time from the Effective Date up to and including the Cancellation Time if at such time such Lost Policyholder confirms the current address at which such Lost Policyholder may be reached by mail by: (i) responding to a letter from the Corporation, the Corporation's depository agent or Economical Insurance requesting confirmation of the current address; (ii) contacting the Corporation, the Corporation's depository agent or Economical Insurance and confirming the current address; (iii) informing the Corporation, the Corporation's depository agent or Economical Insurance of a change of address; or (iv) otherwise confirming the current address with the Corporation, the Corporation's depository agent or Economical Insurance, in a manner satisfactory to the Corporation.

#### **5.3 Securities Register**

From the Effective Date up to and including the Cancellation Time, the Corporation shall record in its securities register the status of a person as a Lost Policyholder. If a Lost Policyholder ceases to be a Lost Policyholder in accordance with Section 5.2, the Corporation shall amend its securities register accordingly.

#### **5.4 Dividends and Distributions**

No payments in respect of dividends or distributions declared by the Corporation in respect of the Common Shares issued pursuant to the Conversion Plan shall be made in respect of Common Shares issued to a Lost Policyholder. However, the Corporation shall pay to a person who ceases to be a Lost Policyholder, in accordance with Section 5.2, all dividends or distributions, without interest and net of any applicable withholding taxes, to which such person was otherwise entitled as a shareholder of record of the Corporation, while such person was a Lost Policyholder. The payment of such dividends or distributions shall be in accordance with the other provisions of this By-law No.2.

#### **5.5 Cancellation of Shares and Dividends and Subsequent Reissuance**

Upon the Cancellation Time, the Corporation shall, for no consideration, cancel all Common Shares issued to Lost Policyholders who remain as such at the Cancellation Time, and all such Common Shares shall be deemed to have been surrendered to the Corporation, together with all entitlements to dividends and distributions thereon, including any proceeds of dissolution pursuant to the Act. Notwithstanding the foregoing, the Corporation may, from time to time in accordance with the Conversion Plan, subsequent to the Cancellation Time reissue Common Shares and pay an amount in respect of dividends or issue securities or pay cash or other property to a person, as the case may be, whose Common Shares were cancelled in accordance with this Section 5.5.

No amount shall be deducted from, or added to, the stated capital account maintained for Common Shares in respect of the Common Shares cancelled or reissued, respectively, pursuant to this Section 5.5.

## SCHEDULE 6 Valuation Report

June 18, 2018

The Board of Directors of Economical Mutual Insurance Company  
111 Westmount Road South  
P.O. Box 2000  
Waterloo, Ontario  
N2J 4S4

To the Board of Directors:

### **I. Valuation Overview**

BMO Nesbitt Burns Inc. (“BMO Capital Markets”) and RBC Dominion Securities Inc. (“RBC Capital Markets”) (collectively, “we” or “us”) understand that Economical Mutual Insurance Company (the “Company”) intends to submit to the Office of the Superintendent of Financial Institutions (“OSFI”) a conversion proposal required under the *Mutual Property and Casualty Insurance Company with Non-mutual Policyholders Conversion Regulations* (the “Demutualization Regulations”) made under the *Insurance Companies Act* (the “ICA”) (“Conversion Plan”). Under the Conversion Plan, as of the Effective Time, the Company will convert from a mutual property and casualty insurance company into a property and casualty insurance company with common shares (the “Demutualization”) and will become a direct, wholly-owned subsidiary of a holding company that is newly incorporated under the ICA (“Holdco”). Unless the context indicates otherwise, references to “Economical” herein refer to Holdco and its subsidiaries, including the Company, on a consolidated basis and as proposed to be effective following Demutualization. Other capitalized terms used but not defined herein shall have the meanings ascribed to them in the Conversion Plan. The Conversion Plan also provides, among other things, that: (i) all Eligible Policyholders and Other Recipients will receive Demutualization Benefits in the form of (x) common shares of Holdco (“Common Shares”), (y) cash proceeds or (z) some cash and some Common Shares; and (ii) Holdco will offer Common Shares pursuant to or in connection with an initial public offering of the Common Shares, as provided for in the Conversion Plan (the “Initial Public Offering”).

In connection with the Company’s obligation to deliver a report under section 13(1)(a) of the Demutualization Regulations setting out an estimated value of the Company, this valuation report (the “Report”) sets out the estimated range of equity market values of Holdco that we refer to as the IPO Valuation Range (as defined below). While the IPO Valuation Range has been estimated with respect to Holdco, we have assumed that the IPO Valuation Range is the same as the range of estimated equity market values of the Company. This Report will form a part of the Conversion Plan that will be included in (i) the submission to OSFI pursuant to section 14(2) of the Demutualization Regulations, (ii) the policyholder information circular to be sent to the Eligible Mutual Policyholders in respect of the Second Special Meeting under section 15 of the Demutualization Regulations (the “Second Meeting Circular”), (iii) the policyholder information circular to be sent to all Eligible Policyholders in respect of the Third Special Meeting under section 17 of the Demutualization Regulations (the “Third Meeting Circular”), and (iv) the application to the Minister of Finance (Canada) pursuant to section 20 of the Demutualization Regulations. This Report contains our estimate of the IPO Valuation Range and a description of how it was determined including the methodology used and the underlying assumptions made in estimating the IPO Valuation Range. For purposes of this Report, the term “IPO Valuation Range” means a range of estimated equity market values for Holdco based solely on estimated prices at which the Common Shares could have been expected to be offered as of May 31, 2018 (the “Valuation Date”) in an Initial Public Offering of the Common Shares conducted in a manner consistent with the terms of the Conversion Plan, as if the IPO Date was the Valuation Date. The views expressed in this Report are based on market, economic and other conditions as they exist and can be evaluated, and the information made available to us, as of the Valuation Date.

The Report represents the opinion of BMO Capital Markets and RBC Capital Markets, the form and content of which have been approved for release by a committee of officers of BMO Capital Markets and a committee of officers of RBC Capital Markets, respectively, who are collectively experienced in merger and acquisition, divestiture, restructuring, valuation, fairness opinion and capital markets matters. An opinion is an expression of professional judgment on the issues explicitly addressed. By rendering a professional opinion, we do not become an insurer or guarantor of the expression of professional judgment contained in this Report or of any transaction involving, or any future performance of, Economical. In particular, an opinion is not a prediction of future events and the rendering of this opinion does not guarantee the outcome of the matters opined upon or any other matter addressed in this Report.

### **II. Valuation Assumptions and Limitations on Methods**

The estimation of the IPO Valuation Range is a complex process involving professional judgment as to the most appropriate and relevant methods of financial analyses, and the application of those methods to Economical’s particular circumstances. This Report employs a variety of financial and comparative analyses but does not purport to be a complete description of the analyses underlying the IPO Valuation Range.

In estimating the IPO Valuation Range, professional judgment was applied to the significance and relevance of each analysis and factor considered. Accordingly, this Report should be considered as a whole and considering portions of the Report in isolation could create a misleading or incomplete view of the basis upon which the IPO Valuation Range has been determined. Quantitative and qualitative judgments and estimations were made with respect to Economical’s business,

industry performance, economic factors, market factors and other financial considerations, many of which are beyond the control of Economical. No company used in such analyses as a comparison is identical to Economical or its businesses and the evaluation of the results of such analyses is not entirely mathematical; rather, it involves complex considerations and judgments, both quantitative and qualitative, concerning financial and operating characteristics and other factors that could affect the public equity market values of the companies. The estimates contained in such analyses and the range of estimated public equity market values resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favourable than those suggested by such analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, such analyses and estimates are inherently subject to substantial uncertainty.

The IPO Valuation Range has been estimated based on the following assumptions:

1. the proceeds of the Initial Public Offering and, if applicable, any concurrent private placement, are to be distributed to Eligible Policyholders and Other Recipients who are to receive cash proceeds in accordance with the Conversion Plan after paying the underwriting fee and other expenses of the Initial Public Offering (and any such private placement); there will be no other treasury equity capital raised by Economical in connection with the sale of Common Shares in the Initial Public Offering, except Common Shares, if any, issued from treasury on exercise of an over-allotment option;
2. the dividend yield on the Common Shares will be comparable to the dividend yield of other North American publicly traded property and casualty insurance and financial services companies;
3. Economical's financial performance will be consistent with Economical's financial projections;
4. No legal, tax or regulatory changes occur after the Valuation Date that will have a material impact upon the business, operations, financial condition or prospects of Economical;
5. the Common Shares sold in the Initial Public Offering (excluding any Common Shares issued from treasury to satisfy the associated over-allotment option) will be a minimum of 10% of the total market capitalization of Economical and the Underwriters will be granted a customary over-allotment option;
6. the Initial Public Offering will not be so large as to negatively impact the IPO Price;
7. the distribution and redistribution of the Common Shares on and following the Initial Public Offering will result in a reasonable level of market liquidity in the Common Shares;
8. no person will have a "significant interest" (as defined in the ICA) in the Common Shares following the Initial Public Offering;
9. immediately following the Effective Time, Holdco's consolidated assets will be equivalent to the consolidated assets of the Company immediately prior to the Effective Time, and, as of the Effective Time and the IPO Date, Holdco will (on a consolidated basis) not have assets or liabilities additional to the assets and liabilities of the Company;
10. the closing of the Initial Public Offering will occur approximately five business days after the Effective Date and in accordance with the Conversion Plan; and
11. other than trading restrictions to impose lock-up terms as set out in the Conversion Plan and any seasoning period imposed by applicable securities laws, there will be no restrictions on the sale of Common Shares following the Initial Public Offering by Eligible Policyholders who elect to receive Common Shares.

The Initial Public Offering, if it occurs, will occur at least six months from the date of this Report. Changes in economic and market conditions and other changes in circumstances, including but not limited to legal, tax and regulatory changes, changes in Economical's operating performance, and changes in other factors described throughout this Report, may have a material effect on Economical's business, operations, financial condition and prospects, and therefore on the prices at which the Common Shares may initially be offered and sold to the public and otherwise trade. We assume no obligation to update, revise, reaffirm or withdraw this Report as a result of any subsequent events or developments or otherwise and disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting this Report that may come or be brought to our attention.

The assumptions and methodologies used in the estimation of the IPO Valuation Range are limited by the following:

1. Supply-demand factors are unknown: (i) it cannot be determined how many of the Company's Eligible Policyholders will elect to receive cash proceeds rather than retain their Common Shares at the time of the Initial Public Offering; (ii) institutional investors may have greater demand for shares available in large blocks if there is assurance of liquidity; (iii) Eligible Policyholders may elect to sell their Common Shares post-Initial Public Offering upon the expiration of the lock-up period set out in the Conversion Plan, thereby creating excess supply of Common Shares; and (iv) anticipation of excess supply, excess demand or lack of availability may impact the IPO Price.
2. Lack of companies that are directly comparable to Economical: (i) although a number of companies which share various characteristics with Economical were included in our analysis ("Comparable Companies"), no company, including the few other publicly traded Canadian property and casualty insurance companies, is directly comparable to Economical; (ii) other Canadian financial institutions that may be considered to be comparable to Economical have substantially different businesses and business compositions than those of Economical; and (iii) computations and analysis of the financial performance of Comparable Companies that are U.S. property and casualty insurers are based on U.S. GAAP (as defined below), while such computations and analysis for Economical are based on IFRS (as defined below).

3. IFRS vs. U.S. GAAP: the Company currently prepares, and, following the Demutualization, Holdco will prepare, its consolidated financial statements under International Financial Reporting Standards (“IFRS”), which differs from U.S. generally accepted accounting principles (“U.S. GAAP”); certain investors may value Economical based on U.S. GAAP or compare Economical’s financial results to companies that report in U.S. GAAP, and therefore determine a materially different value for Economical.
4. Historical volatility: (i) shares of North American publicly traded Comparable Companies have shown considerable price volatility over time; and (ii) this volatility underscores the fact that the IPO Valuation Range is estimated at a particular point in time and the public equity market value of Economical may vary significantly over time.
5. Other Considerations: (i) the Company has recently made significant investments in its digital direct distribution business and the replacement of its broker policy administration system for personal lines and individually rated commercial automobile insurance products, which have impacted the Company’s historical financial performance and are expected to impact Economical’s future financial performance; (ii) Economical’s ability to introduce debt to its capital structure is constrained by the *Borrowing (Property and Casualty Companies and Marine Companies) Regulations* of the ICA as a converted company; (iii) section 25 of the Demutualization Regulations prevents a shareholder from owning more than 20% of any class of voting shares, or 30% of any class of non-voting shares, of Holdco during the first two years following the Demutualization; (iv) section 24 of the Demutualization Regulations prevents Holdco or the Company from issuing or providing shares, share options or rights to acquire shares to present or past directors, officers or employees of Holdco or the Company, other than shares issued to Eligible Policyholders as a result of the Demutualization, for a period of one year after the listing of the Common Shares on a recognized stock exchange in Canada, and the market tends to view companies where the interest of management are clearly aligned with the company as represented by equity ownership in the company more favourably; and (v) circumstances in the future may dictate that it would be appropriate to apply different valuation methodologies for all or a portion of Economical’s operations.

We have relied upon and assumed the completeness, accuracy and fair presentation of all financial and other information, data, advice, opinions, representations and other material obtained by us from public sources or provided to us by or on behalf of Economical or otherwise obtained by us in connection with our engagement. The Report is conditional upon such completeness, accuracy and fair presentation. We have not been requested to, and have not assumed any obligation to, independently verify the completeness, accuracy or fair presentation of any of the foregoing. We have assumed that forecasts, projections, estimates and budgets provided to us and used in our analyses were reasonably prepared on bases reflecting the best, in the reasonable belief of management of the Company, available assumptions, estimates and judgments of management of the Company, having regard to Economical’s business, plans, financial condition and prospects as of the date that such forecasts, projections, estimates and budgets were prepared.

Senior officers of the Company have represented to BMO Capital Markets and RBC Capital Markets in a letter of representation delivered as of the date hereof, among other things, that:

1. the financial and other information, data, advice, opinions, representations and other material provided to us, including the Conversion Plan and related documents, orally by, or in the presence of, an officer or employee of the Company, or in writing by the Company or any of its subsidiaries (as defined in the ICA) in connection with our engagement (collectively, the “Company Information”), was at the date the Company Information was provided to us, and is as of the Valuation Date and the date hereof, complete, true and correct in all material respects, and did not and does not contain any untrue statement of a material fact or omit to state any material fact necessary to make such Company Information not misleading in light of the circumstances in which such Company Information was provided to us, provided that no representation was made or is made that the results of any forecasts, projections, estimates, budgets or plans will actually be achieved; and
2. since the dates on which the Company Information was provided to us, except as disclosed in writing to us, there has been no material change, financial or otherwise, in the financial condition, assets, liabilities (contingent or otherwise), business, operations or prospects of the Company or any of its subsidiaries, and no change has occurred in the Company Information or any part thereof which would have or which could reasonably be expected to have a material effect on the Report.

In preparing the Report, we have assumed that documents prepared by the Company and its advisors as part of its submission to OSFI and to the Eligible Policyholders, including the Conversion Plan and related documents, will not differ in any material respect from the drafts that we reviewed, and that the Demutualization will be consummated in accordance with the terms and conditions of the Conversion Plan without waiver of, or amendment to, any term or condition that is in any way material to our analyses.

We understand that, as required by Section 14(2)(b) of the Demutualization Regulations, the Independent Actuary and the Appointed Actuary have each provided an opinion to the Board of Directors. We are not actuaries and our services did not include any actuarial determination or evaluations or any attempt to evaluate actuarial assumptions. In addition, we are not legal advisors, accountants or tax experts and our services did not include any legal, accounting or tax determination or evaluation or any attempt to evaluate legal, accounting or tax assumptions. We have relied upon, without independent verification, the assessment by the Company and its advisors as to such matters.

### III. Scope of Review and Valuation Methodology

In connection with rendering this Report, we have reviewed, or carried out, among other things, the following:

1. Audited consolidated financial statements of the Company as at and for the years ended December 31, 2015, 2016 and 2017, including the Appointed Actuary's Report thereon;
2. Unaudited interim consolidated financial statements of the Company as at March 31, 2018 and for the three months ended March 31, 2018 and 2017;
3. Draft pro forma consolidated financial statements of Holdco giving effect to the Demutualization as at and for the year ended December 31, 2017;
4. Draft Conversion Plan dated June 8, 2018 and the schedules thereto;
5. Business plan and consolidated financial projections prepared by management of the Company in respect of the Company for the year ending December 31, 2018, and in respect of Economical for the years ending December 31, 2019 and 2020, dated December 6, 2017, and an update for the year ending December 31, 2018 after the three months ended March 31, 2018 provided May 25, 2018;
6. Certain internal financial reports or analysis prepared by management of the Company;
7. Information obtained from discussions with members of senior management regarding the Company's operations, financial condition and Economical's future prospects;
8. Market prices and other financial information for Comparable Companies based on publicly available information;
9. Results of operations for the most recent fiscal periods for Comparable Companies based on publicly available information;
10. Selected historical initial public offerings and demutualization transactions for Canadian life insurance companies based on publicly available information; and
11. Such other financial studies and analyses as we deemed necessary, including our assessment of general economic, market and monetary conditions.

No historical information in respect of periods or dates after the Valuation Date was taken into account in preparing this Report.

In estimating the IPO Valuation Range, we used primarily the comparable company valuation methodology to estimate the range of expected fully distributed trading values for Economical. This methodology involves comparing Economical to publicly traded Comparable Companies with reference to a number of factors, including but not limited to return on equity, earnings growth, capitalization levels, investment portfolio composition, geographic diversification, product diversification, market share and ranking, distribution channels and business strategy. In reviewing the trading performance of Comparable Companies, the Canadian and U.S. property and casualty insurers were considered as they provide the most comparable investment opportunities to prospective investors in Economical, though none of these companies is considered directly comparable to Economical. The principal valuation multiples and ratios used in our analysis included price-to-book, price-to-earnings multiples, and dividend yields, and we also performed a regression analysis based on price-to-book multiples vs. return on equity for Comparable Companies. To arrive at the IPO Valuation Range, we then applied an Initial Public Offering Discount (as defined below) to the estimated range of expected fully distributed trading values.

### IV. IPO Valuation Range versus IPO Price

The IPO Valuation Range is not necessarily the same as the valuation of Economical which will result from the actual Initial Public Offering process. In the actual Initial Public Offering process, important market information, including the number of Common Shares to be offered and the number of Common Shares retained by Eligible Policyholders and information relating to demand and pricing levels, will be solicited and received by the underwriters from prospective investors. This information may be material to the determination of the IPO Price. Such information also may lead to revision of the IPO Price during the marketing period. For the purposes of this Report it has not been possible to undertake a conventional IPO marketing process with respect to the Common Shares and such information is therefore not available. While the IPO Price will be determined through negotiations involving the Board of Directors of Economical and the underwriters, and no such negotiations have been undertaken as of yet, we note that the Board of Directors of Economical will approve the IPO Price for the purposes of the issuance and sale of the Common Shares in the Initial Public Offering at the time of the Initial Public Offering.

Furthermore, our experience with large distributions of equity securities, such as the proposed Initial Public Offering, leads us to believe that the proposed offering would require a discount from the expected range of fully distributed trading values for Common Shares (the "Initial Public Offering Discount"). In pricing the Initial Public Offering, the following factors, among others, could cause the IPO Price to differ from the expected fully distributed trading value: (i) the lack of a public market trading record; (ii) the lack of equity investors' familiarity with Economical; (iii) the amount of Common Shares owned by Eligible Policyholders who elect to receive Common Shares and the extent to which that "overhang" of supply may impact the IPO Price; (iv) the absolute size of the offering; (v) the size of the offering relative to the overall capitalization of Economical; (vi) the expectations as to Economical's performance; (vii) marketing considerations; (viii) timing considerations; and (ix) prevailing market conditions in the overall market, as well as the new issue market, at the time of the Initial Public Offering.

The actual price at which the Common Shares will trade in the public market may be higher or lower than the IPO Valuation Range per Common Share set forth in Section VI of this Report. In the course of actual trading of the Common Shares



following the Initial Public Offering, other factors may influence the actual public equity market value of Economical including, among others: (i) certain financial information and data of Economical; (ii) the history of, and the prospects for, Economical and the industry in which it competes; (iii) an assessment of Economical's management, management compensation and other incentives; (iv) Economical's past and present operations; (v) Economical's investment policies and the quality of its assets; (vi) the prospects for, and timing of, future revenues and earnings of Economical; (vii) Economical's reserving practices and reserve development; (viii) the impact of any acquisitions or divestitures by Economical; (ix) the geographic focus of its operations; (x) its product and services mix; (xi) its channels of distribution for such products and services; (xii) its dividend rate and yield; (xiii) its return on equity and earnings growth rates; (xiv) prevailing industry, economic, and equity and debt market conditions and expectations with respect thereto, including the number and size of the equity financings and initial public offerings that may be completed around the time of the Initial Public Offering; (xv) regulatory changes impacting the business segments that Economical operates in; (xvi) the amount of Common Shares owned by Eligible Policyholders who elect to receive Common Shares; and (xvii) the length of time which Eligible Policyholders who elect to receive Common Shares retain such Common Shares, and the other matters referred to in Sections II, III and IV above relating to factors relevant to the valuation of Economical. The valuation of non-publicly traded securities, and the estimation of the IPO Valuation Range for Economical, is inherently imprecise and subject to numerous uncertainties and contingencies, all of which are difficult to predict. Accordingly, the actual public equity market values for Economical from time to time after the Initial Public Offering could differ substantially from the IPO Valuation Range.

#### **V. Relationship with BMO Capital Markets and RBC Capital Markets**

The Company has retained us to provide investment banking and other financial advice in respect of the Demutualization and the Initial Public Offering for which we will receive a fee, will be reimbursed for our reasonable out-of-pocket expenses and will be indemnified by the Company in certain circumstances. In addition, we and our affiliates have in the past performed, and may continue in the future to perform, other investment banking, financial advisory or other financial services for the Company and certain of its affiliated entities and have received, and may in the future receive, compensation for the rendering of such services. In this regard, each of BMO Capital Markets and RBC Capital Markets have an affiliate which has been and continues to be a lender to the Company. In the ordinary course of our business as a broker/dealer, we may from time to time purchase securities and interests in loans from, and sell securities and interests in loans to, the Company and its subsidiaries, as a market-maker or otherwise. We may from time to time in the future have a long or a short position in, and buy or sell, securities of Economical for our own account and for the account of our customers. In this regard, in connection with the Initial Public Offering, we, as underwriters, expect to enter into an underwriting agreement providing for, upon the terms and subject to the conditions set forth therein, the sale by Holdco, and the purchase by us, as underwriters, of Common Shares pursuant to which we, as underwriters, will receive an underwriting fee, which fee is contingent upon the closing of the Initial Public Offering.

#### **VI. IPO Valuation Range**

We have not been asked for and we express no opinion or recommendation, and this Report should not be relied upon, as to the following:

1. The IPO Price;
2. The price at which the Common Shares issued in connection with the Conversion Plan or pursuant to the Initial Public Offering will trade;
3. The fairness of the IPO Price;
4. The fair market value of any of the Common Shares to be issued in connection with the Conversion Plan or pursuant to the Initial Public Offering;
5. The adequacy or sufficiency of the Second Meeting Circular, Third Meeting Circular or any other document to be sent or disclosure to be made to Eligible Policyholders in connection with the Demutualization;
6. Which of Economical's policyholders are appropriately included among the Eligible Policyholders;
7. The fairness of the Conversion Plan including its fairness to any individual Eligible Policyholder or Other Recipient or to any class of Eligible Policyholders or the fairness of any provisions of the Conversion Plan relating to which Eligible Policyholders and Other Recipients receive any particular form of the Demutualization Benefits or other provisions of the Conversion Plan which distinguish among Eligible Policyholders and Other Recipients;
8. Any matters relating to the reorganization of Economical described in the Second Meeting Circular or the Third Meeting Circular;
9. The likelihood of consummation of the Demutualization or any other aspect of the Conversion Plan;
10. The appropriateness of the Demutualization relative to any other transaction the Company could undertake; or
11. How Eligible Policyholders should vote in connection with the Conversion Plan or whether or not they should elect to receive Demutualization Benefits in the form of cash or Common Shares or a combination of cash and Common Shares or buy or sell Common Shares.

We note the following:

- we do not know the circumstances of any Eligible Policyholders or Other Recipients and therefore are not in a position to advise any Eligible Policyholders or Other Recipients; and
- the opinions expressed herein are subject to the assumptions, qualifications, limitations and uncertainties described herein.

Based upon and subject to the methods, assumptions, qualifications and limitations discussed herein, in our opinion as investment bankers, the estimated IPO Valuation Range as of the Valuation Date is approximately C\$1.3 billion to C\$1.9 billion and, assuming that 100 million Common Shares are outstanding at the time of the Initial Public Offering, approximately C\$13 to C\$19 per Common Share.

This Report is provided solely for the exclusive use of the Board of Directors of the Company in connection with the Conversion Plan and cannot be used or relied upon for any other purpose or by any other person and, without our prior written consent, this Report is not to be quoted, summarized, paraphrased, excerpted or referred to, in whole or in part, in any prospectus, registration statement, policyholder information circular or proxy statement, or in any other report, document, filing, release or other written or oral communication prepared, issued or transmitted by Economical, except that this Report may be included in its entirety in the Conversion Plan pursuant to section 13(1)(a) of the Demutualization Regulations, the Second Meeting Circular and the Third Meeting Circular to be sent to Eligible Policyholders, submissions to OSFI in respect of the foregoing and the application to the Minister of Finance (Canada) pursuant to section 20 of the Demutualization Regulations.

Yours truly,

*BMO Nesbitt Burns Inc.*

**BMO Nesbitt Burns Inc.**

*RBC Dominion Securities Inc.*

**RBC Dominion Securities Inc.**