

April 15

Economical Mutual Members: VC & Co. Offers You Nothing

No Alternative to the Board's Demutualization Plan
No Reason To Change the Board
No Indication They Understand Demutualization
No Added Value –only added costs – for Members

VOTE ONLY THE BLUE PROXY: DISCARD THE YELLOW PROXY

Dear Member;

By now, you should have received Circulars and related materials from Economical – including the BLUE proxy - and from VC & Co. Advisory Limited, the leader of the dissident mutual policyholders. These documents provide information related to your crucial vote at the Company's Annual and Special Meeting on May 26th, 2011. At that meeting, you will be asked to vote on a Dissident Proposal calling for the removal of the entire board and its replacement with nominees selected by VC & Co., a change that serves no purpose other than delaying demutualization and delivering millions of dollars in member value to VC & Co.

Every member of the Board of Directors is fully committed to an open process towards an expedited demutualization that provides the greatest possible value to all mutual policyholders as owners of the Company. By its actions, it is clear that VC & Co. does not have that commitment.

Because the Dissident Proxy contains some significant errors and omissions, we want to set the record straight:

The Dissidents Provide No Alternative to the Board's Demutualization Process, Already Well Underway:

- If you have had a chance to review these documents, you will have seen Economical's arguments in favour of the demutualization process undertaken by the Board and well underway. You will also see that VC & Co. has no other idea on alternate ways to deliver value to Members. So the only real question to be decided is whether the process should be guided by the Board that knows the Company, has made significant progress towards demutualization, and is committed to achieving the best value for Members – or by the dissident nominees who are motivated only by delivering fees to VC & Co.

The Dissident Proposal is a Change with No Benefit to Members:

- Since VC & Co. supports the demutualization that is already well advanced under the guidance of the Board and its Special Committee, it simply wants to put the Company into the hands of new

**Vote only the BLUE proxy to reject the Dissident Proposal. Discard the Yellow proxy.
Contact the Company's information agent, Georgeson, for more information at 1-866-909-6468**

directors, a change that would only delay demutualization and has no purpose other than the financial benefit of VC & Co.

- The dissident nominees to the Board, selected by VC & Co. have no experience with Economical or its business. That lack of operating experience can undermine the value of the Company at this crucial time. It also means the dissident nominees, if elected, would have to take time to learn about the business and the demutualization process to date – in particular the discussions with regulators. That would result in delays that do not serve the interests of Members.

VC & Co. Reveals How Little It Knows about Demutualization – and about the Company:

- VC & Co.'s criticism of value creation at Economical is simply wrong. Economical's Board has doubled the size of the Company's surplus in 10 years to \$1.3 billion, providing significant growth in value for mutual policyholders. VC & Co. fails to acknowledge that it is this very growth in value that it hopes to exploit for itself.
- It is also wrong to question the progress the Board has made in demutualization which has, in fact, been very positive. When we first announced the demutualization, we said it was our intention to present a recommendation to mutual policyholders by the time of the annual meeting, although there would not be a vote on it at the meeting. At that time, and in the subsequent Progress Reports to members, we also noted that the progress towards demutualization would be largely dependent on the development of regulations to permit it by the Federal government. It is naïve to suggest that demutualization can be completed more quickly than regulations can be put in place.
- The Company is pushing forward with all aspects of the demutualization that are under our control. As we have told you through our regular updates, Economical has identified two routes to demutualization that hold the best potential for members. One is an initial public offering. Here we have identified potential underwriters and expect to announce shortly that one has been engaged. In preparation for that, of course, we have had to change our financial reporting to be aligned with the best practices of public companies. You may have also seen that we greatly increased our financial and governance disclosure to, again, meet public company standards. The other route is the sponsored demutualization, which involves a transaction with a strategically aligned company. The Special Committee and its financial advisor have identified and signed non-disclosure agreements with several qualified third parties who are in the process of reviewing our confidential information and have been provided with directions for submitting transaction proposals. We have hired an actuarial consulting firm to help determine potential distributions to members, and an accounting firm to provide tax advice. All of this is described in more detail on pages 5 and 6 of our Proxy Circular. You can expect more announcements about milestones being reached in the next few weeks. The Special Committee has met frequently with the regulators in an effort to expedite the process, but it is not something we can control.
- No one – not VC & Co. and not the Company – can provide a value for individual policies until federal regulations are in place for the demutualization. To suggest otherwise – even to suggest an “average” – is misleading to mutual policyholders and betrays a troubling lack of understanding of insurance regulations and the demutualization process.

**Vote only the BLUE proxy to reject the Dissident Proposal. Discard the Yellow proxy.
Contact the Company's information agent, Georgeson, for more information at 1-866-909-6468**

- The Dissident Circular misstates other key facts. Economical has publicly stated that there are 943 valid mutual policies in force as of December 14, 2010, the day the demutualization decision was announced. That number required confirmation to ensure the policies were eligible to participate in the proceeds of demutualization. The Company has also been very clear that it regards the mutual policyholders as the owners of the Company and it has argued this position strenuously on behalf of the mutual policyholders with the Department of Finance as it prepares the necessary regulations.

VC & Co.'s tactics are questionable and reduce value for Members

- While questioning the transparency of the Board, VC & Co. fails to explain why it did not disclose its pre-existing relationship with The Westaim Corporation when that company approached Economical about a transaction, or its secret dealings with Economical's former chief financial officer, Sandeep Uppal, who is now facing legal action from the Company over allegations of breach of trust and misappropriation of funds.
- VC & Co. admits it will expect the Company to pay it millions of dollars in fees and expenses, a substantial cost that would be borne by all mutual policyholders, not just those who signed agreements with VC & Co. That will constitute a significant dilution of value for members. It claims the millions of dollars it stands to gain is fair compensation for its efforts – but those efforts do nothing to advance the demutualization that is already well underway and that it supports. In effect, VC & Co. hopes to collect a windfall profit from the work undertaken by the Board.
- Most recently, VC & Co. asked the Company to circumvent the decision of the Ontario Superior Court of Justice which dismissed the dissidents' cross-application seeking to replace the chairman of the Annual and Special Meeting, require a secret ballot, and require Economical to provide personal information about Members to VC & Co. The Company is committed to obeying the Court's decision and has refused this request. We believe this attempt is inappropriate and is designed primarily to distract the Company from its essential work on behalf of mutual policyholders.

Protecting your privacy:

- The Dissident Materials were sent to you by Economical. Although we were not required to do so, Economical facilitated the distribution of the dissident proxy circular to mutual policyholders, while maintaining the privacy of our members. We arranged to do this so we could protect your privacy. Your personal information has not been provided to VC & Co and the Dissidents. If they are contacting you directly without your permission, they have gained access to your personal information improperly. We advise you not to speak to them and to advise us of any breach. **Do not use the Yellow proxy since doing so will provide VC & Co. with your private information.**

**Vote only the BLUE proxy to reject the Dissident Proposal. Discard the Yellow proxy.
Contact the Company's information agent, Georgeson, for more information at 1-866-909-6468**

How to Vote:

The Board of Directors of Economical continues to recommend that mutual policyholders use the BLUE proxy included in the mailing to vote:

- FOR Resolution 1 - the election of the Company's nominees to the Board of Directors;
- FOR Resolution 2 - the appointment of the auditors, Ernst & Young LLP, and;
- AGAINST Resolution 3 - the Dissident Proposal to replace the Board of Directors with Nominees selected by VC & Co. Advisory Limited, the Toronto firm that organized the dissident mutual policyholders.

Use ONLY the BLUE proxy. Do not be confused by the dissident Yellow Proxy. Discard it.

Conclusion:

The Dissident Proposal would be a backward step for Economical and its mutual policyholders. It would result only in the delay and the possible derailment of the demutualization process that is already underway.

The Board of Economical has made a public commitment to demutualizing the Company, if approved by Members . That commitment remains in place and is not in question – *there is no turning back.*

VC & Co. is making promises it knows, or should know, it cannot keep. The Dissident Proposal reveals a remarkable ignorance of the Company and the clearly defined demutualization process where the Board has made significant progress. It ignores the fact that the pace of demutualization and the amount of proceeds to go to each member are largely dictated by the development of regulations by the Department of Finance. To promise that a Board hand-picked by VC & Co can accelerate the process or change the financial outcome for members is misleading and irresponsible.

Information about the Annual and Special Meeting as well as demutualization is available at the company website, www.economicalinsurance.com or by calling us at 519-570-8500 x 42997. We would be pleased to answer any questions you may have. Thank you for your continued support.

Sincerely,



Gerald Hooper
Chairman of the Board
Phone 519-570-8280
Email: gerald.hooper@teig.com



Karen Gavan
Chair of the Special Committee
Phone: 519-570-8500 x 42997
Email: karen.gavan@teig.com

**Vote only the BLUE proxy to reject the Dissident Proposal. Discard the Yellow proxy.
Contact the Company's information agent, Georgeson, for more information at 1-866-909-6468**