

PLAN OF COMPROMISE OR ARRANGEMENT



**PURSUANT TO
THE *COMPANIES' CREDITORS ARRANGEMENT ACT***

CONCERNING

**CONFEDERATION TREASURY SERVICES LIMITED,
a bankrupt**

**PROPOSED BY
CONFEDERATION FINANCIAL SERVICES (CANADA) LIMITED**

**FILED MAY 19, 1998
As amended pursuant to Orders
of the Court dated June 12, 1998**

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**PLAN OF COMPROMISE OR ARRANGEMENT CONCERNING
CONFEDERATION TREASURY SERVICES LIMITED, A BANKRUPT**

**ARTICLE 1
INTERPRETATION**

1.1 **Definitions**

In this Plan, unless otherwise stated or unless the subject matter or context otherwise requires:

- (a) **“Accepted Claim for Voting Purposes”** means the Claim of a Creditor which is accepted for voting purposes pursuant to section 4.2;
- (b) **“Administrator”** means the Trustee in its capacity as administrator pursuant to the Initial Order;
- (c) **“ALC Allocation”** has the meaning set out in section 5.8;
- (d) **“ALC Creditor Approval”** means the approval of this Plan by the Arm’s Length Creditors’ Class in accordance with the CCAA and subsection 3.3(a) hereof;
- (e) **“ALC Dividend”** means the amount, in Canadian Dollars, which is equal to the product of $\frac{ALCC}{ALCC + RC + LC}$ AA, where ALCC means the aggregate amount of the Proven Claims of all of the Arm’s Length Creditors, LC means the Liquidator’s Claim, RC means the Rehabilitator’s Claim and AA means the Available Assets;
- (f) **“ALC Distribution”** means the amount, in Canadian Dollars, which is equal to the sum of the ALC Dividend plus the Remainder Amount plus the ALC Share;
- (g) **“ALC Minimum”** means the amount, in Canadian Dollars, which is the greater of:
(a) \$371,500,000; and (b) the sum of \$2,500,000 plus the amount representing 70 cents per Canadian Dollar of the aggregate amount of the Proven Claims of all the Arm’s Length Creditors;

- (h) **“ALC Share”** means any entitlement of the Arm’s Length Creditors to payments out of the Contribution Amount, as set out in section 5.5;
- (i) **“Arm’s Length Creditors”** means the CTSUK Claimants, the General Creditors and the Noteholders;
- (j) **“Available Assets”** means, on any given day, all Liquid Assets vested in the Trustee pursuant to the CTSL Bankruptcy minus any reserves maintained by the Trustee for Trustee Costs;
- (k) **“BIA”** means the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3;
- (l) **“Bankruptcy Proof”** means a proof of claim filed with the Trustee in the CTSL Bankruptcy on or before June 5, 1998;
- (m) **“Business Day”** means a day, other than a Saturday or a Sunday, on which banks are generally open for business in Toronto, Ontario, Canada;
- (n) **“CCAA”** means the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36;
- (o) **“CCAA Proceedings”** means the present proceedings concerning CTSL commenced by an application made by CFSC under the CCAA and within which the Plan has been filed;
- (p) **“CFSC”** means Confederation Financial Services (Canada) Limited;
- (q) **“CFSL”** means Confederation Financial Services Limited;
- (r) **“CTSL”** means Confederation Treasury Services Limited and, as the context requires, Confederation Treasury Services Limited, a bankrupt;
- (s) **“CTSL Bankruptcy”** means those proceedings in respect of CTSL pursuant to the BIA having Court File No. 31-205-220-T wherein a receiving order was made and the

Trustee was appointed on December 15, 1995 and which commenced on September 6, 1994 by the issuance of a petition for a receiving order;

- (t) **“CTSL Remaining Assets”** means those assets of CTSL which on the Plan Implementation Date are not Available Assets;
- (u) **“CTSUK”** means Confederation Treasury Services (U.K.) plc;
- (v) **“CTSUK Claimants”** means Persons having claims against CTSUK and who have claims under the CTSUK Guarantee;
- (w) **“CTSUK Credit”** has the meaning set out in section 5.15(b);
- (x) **“CTSUK Deed of Covenant”** means the deed of covenant made on April 26, 1991 by CTSUK in favour of the Relevant Account Holders;
- (y) **“CTSUK Definitive Notes”** means commercial paper in definitive form into which CTSUK Global Notes become exchangeable in accordance with their terms;
- (z) **“CTSUK Global Notes”** means the global notes issued by CTSUK pursuant to its Eurocommercial paper programme, guaranteed by CTSL pursuant to the CTSUK Guarantee and outstanding as unpaid on August 23, 1994;
- (aa) **“CTSUK Guarantee”** means the guarantee dated April 26, 1991 issued by CTSL in connection with the CTSUK Deed of Covenant;
- (bb) **“CTSUK Liquidator”** means Peter J. Beirne and Anthony J. McMahon, in their capacities as the joint liquidators of CTSUK;
- (cc) **“Canadian Approval Order”** means the order of the Court in the Winding-up Proceedings to be sought by the Liquidator prior to the Sanction Order approving and authorizing (i) the Liquidator’s entry into the settlement to be effected by the implementation of this Plan; and (ii) the taking of such steps and doing of such things

by the Liquidator as appear reasonable to it to facilitate and participate in the implementation of this Plan;

- (dd) **“Canadian Dollar Agreement”** means the fiscal and paying agency agreement dated as of June 10, 1992 among CTSL, Confed, Hambros Bank Limited as fiscal agent and principal paying agent and Kredietbank N.V. and Banque et Caisse d’Épargne de L’État, Luxembourg, as paying agents, relating to the Canadian Dollar Notes, as such agreement may be amended up to the Creditors’ Meeting Date;
- (ee) **“Canadian Dollar Notes”** means the \$100,000,000 9_ percent guaranteed notes due 1997 and any coupons relating thereto issued by CTSL and contemplated by the Canadian Dollar Agreement;
- (ff) **“Canadian Dollar Noteholders”** means the bearers from time to time of Canadian Dollar Notes;
- (gg) **“Canadian Dollars”** or **“\$”** means dollars denominated in the lawful currency of Canada;
- (hh) **“Claim”** means any right or claim of a Person against CTSL or the Trustee in connection with any indebtedness, liability or obligation of any kind of CTSL or the Trustee in existence at the Valuation Date or arising thereafter, and any interest which may accrue thereon, whether or not reduced to judgment, direct, indirect, liquidated, unliquidated, fixed, absolute, contingent, matured, unmatured, choate, inchoate, disputed, undisputed, legal, beneficial, equitable, statutory, common law, proprietary, secured, unsecured, past, present, future, known, unknown, by or by way of or based in whole or in part upon guarantee, surety, contribution, indemnity, subrogation, trust, agency, contract, tort, restitution, *quantum meruit* or otherwise, including, without limitation any claims that have been accepted as proven claims, or that would have been claims provable, in the CTSL Bankruptcy;

- (ii) **“Claims Schedule”** means the Schedule to the Initial Order listing the Claims and their amounts which the Administrator is willing to accept for the purposes of the Plan without additional filing by the respective Arm’s Length Creditors;
- (jj) **“Claim-over”** means a Claim of a Person, including, without limitation, the former directors and officers of CTSL and/or Confed, the former auditors of CTSL and/or Confed, rating agencies and Harris Trust and Savings Bank, arising either as a result of a claim against that Person by a Creditor, CTSL or the Trustee (whether or not it has been asserted) or as a result of a cross-claim against that Person by another Person resulting from a claim by a Creditor, CTSL or the Trustee (whether or not it has been asserted);
- (kk) **“Claim-over Judgment”** means a judgment obtained by a Third Party against CTSL or the Trustee on account of a Claim-over;
- (ll) **“Class”** means each group of Creditors designated as a class in section 3.1;
- (mm) **“Clearing Systems”** means Cedel Bank, société anonyme and Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System;
- (nn) **“Commissioner”** means the Commissioner of Insurance for the State of Michigan;
- (oo) **“Confed”** means Confederation Life Insurance Company and includes, for the purposes of this Plan, the Confederation Life Real Estate Fund, a segregated fund managed by Confed;
- (pp) **“Confed Note Guarantees”** means the guarantees issued by Confed in respect of the Sterling Notes and the Canadian Dollar Notes;
- (qq) **“Confed Policyholders”** means all Persons having claims or rights under contracts issued by Confed which under the laws of the jurisdiction in which they are issued are considered to be contracts of insurance, including all subrogees and assignees of such claims or rights;

- (nr) **“Confed Residue”** means the “Canadian Assets” and the “U.S. Assets” in the control of the Liquidator and available for distribution after all “Canadian Prior-Ranking and *Pari Passu* Claims”, “U.S. Prior-Ranking and *Pari Passu* Claims”, the claims of “Canadian Policyholders” under their “Policies”, the claims of “U.S. Policyholders” under their “U.S. Policies” and that portion, if any, of the costs of “CompCorp” which the Court has ordered be paid or reimbursed in priority to the claims of ordinary creditors as contemplated by section 6.4 of the U.S. Settlement Agreement have been satisfied in full, all as contemplated by section 6.3 of the U.S. Settlement Agreement. The defined terms used in this paragraph and not otherwise defined herein have the meaning ascribed to them in the U.S. Settlement Agreement. For ease of reference, such definitions and sections from the U.S. Settlement Agreement are appended hereto as Appendix A;
- (ss) **“Contribution Amount”** means the sum of \$25,000,000 to be paid to the Administrator for distribution to the Arm’s Length Creditors and the Rehabilitator in accordance with the terms hereof;
- (tt) **“Conversion Rate”** has the meaning set out in section 4.4;
- (uu) **“Court”** means the Ontario Court (General Division);
- (vv) **“Creditor”** means a Person having one or more Claims other than (i) a Claim-over or (ii) a Claim which is a Trustee Cost, and for greater certainty, includes the Liquidator, the Rehabilitator, the Noteholders, the CTSUK Claimants and the General Creditors, and may, if the context requires, mean a trustee, receiver, receiver-manager, liquidator, rehabilitator or other Person acting on behalf of such Person;
- (ww) **“Creditors’ Meeting”** means the meeting of the Class of Arm’s Length Creditors held pursuant to the CCAA for the purpose of considering and voting upon this Plan, or any adjournment thereof agreed to by the Administrator and a majority in number of the Arm’s Length Creditors present in person, by Proxy or by Voting Certificate at the meeting or pursuant to subsection 3.2(c);

- (xx) **“Creditors’ Meeting Date”** means 10:00 a.m., Friday, June 19, 1998 or such later time and/or date to which the Creditors’ Meeting is adjourned;
- (yy) **“Crown”** means Her Majesty the Queen in right of Canada or of any province or territory of Canada;
- (zz) **“Deemed Filed Claim”** means a Claim of a Noteholder or a Claim which is listed on the Claims Schedule;
- (aaa) **“Deemed Proven Claim”** means a Claim which is deemed to be a Proven Claim under this Plan without the requirement of any further filing, and includes every Claim of the Noteholders, the Liquidator’s Claim, the Rehabilitator’s Claim and any Claim listed in the Claims Schedule in the amount as set out in the Claims Schedule;
- (bbb) **“Direct Rights”** means, in respect of any CTSUK Global Note, all those rights to which a Relevant Account Holder would have acquired had, prior to such CTSUK Global Note becoming void, CTSUK Definitive Notes been issued in its favour by CTSUK in exchange for its interest in such CTSUK Global Note, all as provided in the CTSUK Deed of Covenant;
- (ccc) **“Disallowance Notice”** has the meaning set out in section 4.2;
- (ddd) **“Dispute Application”** has the meaning set out in section 4.3;
- (eee) **“Dispute Notice”** has the meaning set out in section 4.3;
- (fff) **“Disputed Claim”** means a Claim in respect of which the Administrator has delivered a Disallowance Notice pursuant to section 4.2 and in respect of which the Person advancing such Claim has delivered a Dispute Notice and commenced a Dispute Application pursuant to section 4.3;
- (ggg) **“Final Cut-Off Date”** means June 5, 1998, being the last date for submitting Proofs of Claim under this Plan;

- (hhh) **“Final Order”** means an order by a court having jurisdiction over the parties and subject matter as to which: (i) all conditions expressed therein have been satisfied; (ii) the prescribed time to appeal or to seek review or rehearing has expired; and (iii) no appeal or any extension thereof or other proceedings for review or rehearing shall then be pending or, in the event that an appeal, review or rehearing has been sought, (1) such appeal, review or rehearing has been withdrawn, discontinued or dismissed with prejudice, or (2) such order shall have been affirmed by the highest court to which such order was appealed and the time to appeal or to seek review of such appellate order, or any extension thereof, shall have expired;
- (iii) **“Fiscal Agents”** means the fiscal and principal paying agents of CTSL under the Sterling Agreement and the Canadian Dollar Agreement;
- (ijj) **“General Creditor”** means a Creditor having a Claim arising in any capacity other than that of a Noteholder, a CTSUK Claimant, the Liquidator or the Rehabilitator;
- (kkk) **“Hees Litigation”** means CTSL’s claim and litigation against Hees International Bancorp Inc.;
- (lll) **“Indenture”** means the indenture made by CTSL in favour of the Indenture Trustee, in such form consistent with this Plan as approved by the Court at the hearing of the motion for the Sanction Order, pursuant to which the Residue Certificates are to be issued;
- (mmm) **“Indenture Trustee”** means the Person engaged to act as trustee pursuant to the Indenture;
- (nnn) **“Initial Order”** means the Order of the Court made on May 19, 1998 in the CCAA Proceedings pursuant to which, *inter alia*, CTSL was declared to be a company to which the CCAA applied;
- (ooo) **“Inspectors”** means the inspectors in the CTSL Bankruptcy;

- (ppp) **“KPMG”** means KPMG International and all member firms thereof, including, without limitation, KPMG Inc. in its personal capacity, its officers, directors, employees, affiliated or related corporations and partnerships and advisors, KPMG and KPMG Canada and their respective partners, associates, employees, affiliated or related corporations and partnerships and advisors;
- (qqq) **“Liquid Assets”** means cash and cash equivalents and, for the purposes of this Plan, includes the CTSUK Credit;
- (mr) **“Liquidator”** means KPMG Inc. in its capacity as the permanent liquidator of Confed as appointed by order of the Court made on September 10, 1997 in the Winding-up Proceedings and any predecessor (including the Superintendent of Financial Institutions in his capacity as provisional liquidator of Confed) or successor thereof and, except where the context does not permit such interpretation, also includes, for the purposes of this Plan, CFSC, CFSL and Confed, but does not mean or include KPMG Inc. in its personal capacity;
- (sss) **“Liquidator Tax Comfort”** means comfort in form and substance satisfactory to the Liquidator and its counsel from the appropriate Canadian federal and provincial tax authorities confirming that there will be no material adverse tax consequences to the Liquidator (which, for greater certainty, includes CFSL, CFSC and Confed) under any applicable Tax Act resulting from the implementation of the Plan;
- (ttt) **“Liquidator’s Claim”** means the single Claim in the amount of \$75,000,000 which the Liquidator is deemed to have under the Plan in respect of all Claims and possible Claims of the Liquidator in its various capacities, including (i) any property claims of Confed in respect of moneys received by CTSL from other Persons, (ii) an inter-company claim by Confed, and (iii) CFSC’s claim previously filed in the CTSL Bankruptcy in the amount of \$75,389,897;

- (uuu) **“Liquidator’s Dividend”** means the amount, in Canadian Dollars, which is equal to the product of $\frac{LC}{ALCC+RC+LC}$ AA, where AA, ALCC, LC and RC have the same meanings as in subsection 1.1(e) above;
- (vvv) **“Michigan Approval Order”** means an order of the Michigan Court approving the terms of the settlement described herein and the implementation thereof;
- (www) **“Michigan Court”** means the Circuit Court for the County of Ingham, State of Michigan;
- (xxx) **“Michigan Litigation Order”** has the meaning set out in section 5.14;
- (yyy) **“NOLHGA”** means the National Organization of Life and Health Insurance Guaranty Associations;
- (zzz) **“Noteholders”** means the Canadian Dollar Noteholders and the Sterling Noteholders;
- (aaaa) **“Noteholders’ Entitlement”** means an amount equal to three and three-quarters percent (3.75%) of the aggregate amount of the Proven Claims of all of the Noteholders;
- (bbbb) **“Noteholders’ Meetings”** means the meetings of the Noteholders held in London, England on March 15, 1995 at which, *inter alia*, the Noteholders’ Representative was appointed;
- (cccc) **“Noteholders’ Representative”** means the committees of the Sterling Noteholders and the Canadian Dollar Noteholders, consisting of UBS Limited and UBS Inc., appointed pursuant to the extraordinary resolutions of the Sterling Noteholders and the Canadian Dollar Noteholders passed at the Noteholders’ Meetings, in their capacities as Noteholders’ Representative and not in their personal capacities;
- (dddd) **“Notes”** means the Canadian Dollar Notes and/or the Sterling Notes;

- (eeee) **“Ontario Litigation Order”** has the meaning set out in section 5.14;
- (ffff) **“Order”** means any order of the Court made from time to time in the CCAA Proceedings;
- (gggg) **“Other Claim”** means any right or claim of CTSL or the Trustee in connection with any indebtedness, liability or obligation of any kind, by or by way of or based in whole or in part upon guarantee, surety, contribution, indemnity, subrogation, trust, agency, contract, tort, restitution, quantum meruit or otherwise, whether or not reduced to judgment, direct, indirect, liquidated, unliquidated, fixed, absolute, contingent, matured, unmatured, choate, inchoate, disputed, undisputed, legal, beneficial, equitable, statutory, common law, proprietary, secured, unsecured, past, present, future, known or unknown, but does not include the claims in the Hees Litigation, the Trustee’s claims for income tax refunds, CTSL’s entitlement to the ALC Allocation or the reserves maintained for Trustee Costs;
- (hhhh) **“Paying Agents”** means the paying agents of CTSL under the Sterling Agreement and the Canadian Dollar Agreement;
- (iiii) **“Person”** means any individual, partnership, joint venture, trust, incorporated body, bank, trust company, unincorporated organization, government or any agency or instrumentality thereof, including the Crown or any other juridical entity howsoever designated or constituted;
- (jjj) **“Plan”** means this plan of compromise or arrangement in respect of CTSL under the CCAA, as it may be amended, modified, supplemented and/or restated pursuant to section 7.1;
- (kkkk) **“Plan Implementation Date”** means the date by which the Sanction Order has become a Final Order and the Administrator has filed with the Court a report stating that the other conditions set out in section 6.2 have been satisfied or waived in accordance with the provisions hereof;

- (lll) **“Proof of Claim”** means a proof of claim form in the form prescribed under the BIA which has been duly completed;
- (mmmm) **“Proven Claim”** of a Creditor means the amount of the Claim of such Creditor as at the Valuation Date as conclusively determined, or deemed to have been determined, in accordance with the provisions of the CCAA and of this Plan and for greater certainty includes a Deemed Proven Claim;
- (nnn) **“Proxy”** means:
- (i) for General Creditors and CTSUK Claimants, a dated, English language instrument stating:
 - (1) that the Person appointed proxy is entitled to attend and vote at the Creditors’ Meeting or any adjournment thereof in respect of Proven Claim or Accepted Claim for Voting Purposes of the General Creditor appointing the proxy; and
 - (2) if applicable, the manner in which such Person is to vote on any resolution or other matter which comes before the Creditors’ Meeting; or,
 - (ii) for Noteholders, a dated, English language instrument issued by the relevant Fiscal Agent or Paying Agent stating:
 - (1) that on the date thereof Notes (not being Notes in respect of which a Voting Certificate has been issued and is outstanding) have been deposited with, or to its satisfaction are held for the account of, such Fiscal Agent or Paying Agent and that no such Notes will be released until the earlier of:
 - (A) the conclusion of the Creditors’ Meeting and any adjournments thereof; and

- (B) the surrender of such Proxy not less than forty-eight (48) hours prior to the time the Creditors' Meeting, including any adjournments thereof, is convened to the Fiscal Agent or Paying Agent who issued such Proxy and the giving of notice by such Fiscal Agent or Paying Agent to the Administrator of the surrender of the Proxy;
 - (2) that the Person appointed proxy is entitled to attend and vote at the Creditors' Meeting and any adjournments thereof in respect of the Notes represented by such Proxy; and
 - (3) if applicable, the manner in which such Person is to vote on any resolution or other matter that comes before the Creditors' Meeting;
- (oooo) **“Rehabilitator”** means the Commissioner, in his capacities as rehabilitator of Confed (U.S.) in Rehabilitation, and liquidator of the United States branch of Confed, and any predecessor or successor thereof;
- (pppp) **“Rehabilitator Tax Comfort”** means comfort in form and substance satisfactory to the Rehabilitator and its counsel: (i) from the appropriate tax authorities confirming that no deduction or withholding will be required on account of tax under any applicable Tax Act from the Rehabilitator's Distribution and that there will otherwise be no material adverse tax consequences to the estate of the United States branch of Confed under any applicable Tax Act resulting from the implementation of the Plan; and (ii) from the Administrator confirming that it will not deduct or withhold any amount from the Rehabilitator's Distribution under section 5.11;
- (qqqq) **“Rehabilitator's Claim”** means the single Claim which the Rehabilitator is deemed to have under the Plan in respect of all of the claims the Rehabilitator has asserted or may have against CTSL, including a claim for damages, and which single Claim is deemed to be in the amount equal to the aggregate amount of the Proven Claims of all of the Arm's Length Creditors;

- (mm) **“Rehabilitator’s Dividend”** means the amount, in Canadian Dollars, which is equal to the product of $\frac{RC}{ALCC+RC+LC}$ AA, where AA, ALCC, LC and RC have the same meanings as in subsection 1.1(e) above;
- (ssss) **“Rehabilitator’s Distribution”** means the amount, in Canadian Dollars, which is equal to the sum of the Rehabilitator’s Dividend plus the Rehabilitator’s Share;
- (tttt) **“Rehabilitator’s Minimum”** means \$305,000,000;
- (uuuu) **“Rehabilitator’s Share”** means any entitlement of the Rehabilitator to payments out of the Contribution Amount, set out in section 5.5;
- (vvvv) **“Relevant Account Holder”** means such account holder with a Clearing System which, according to the records of the Clearing System, as at the opening of business on August 23, 1994, had credited to its securities account with such Clearing System Direct Rights in respect of a CTSUK Global Note, excluding such Clearing System to the extent to which it is an account holder with the other Clearing System for purposes of operating the “bridge” between them;
- (wwww) **“Remainder Amount”** means the amount obtained by subtracting the Noteholders’ Entitlement from the Liquidator’s Dividend;
- (xxxx) **“Residue Certificate Holders”** means the holders from time to time of issued and outstanding Residue Certificates;
- (yyyy) **“Residue Certificate Holders’ Representative”** means the representative of the Residue Certificate Holders appointed pursuant to section 5.9 and any successor thereof;
- (zzzz) **“Residue Certificates”** means the instruments evidencing an entitlement to share in the CTSL Remaining Assets (which, for greater certainty, includes any ALC Allocation

received by CTSL) to be issued by CTSL to the Arm's Length Creditors on the Plan Implementation Date under the Indenture;

- (aaaaa) **“Richters”** means Richter & Partners Inc. in its personal capacity, its officers, directors, employees, affiliates and advisors and Richter, Usher & Vineberg and its partners, associates, employees, affiliates and advisors;
- (bbbb) **“Sanction Order”** means the Order to be made pursuant to section 6 of the CCAA, *inter alia*, sanctioning this Plan;
- (cccc) **“Sterling”** or **“£”** means the lawful currency of the United Kingdom of Great Britain and Northern Ireland;
- (dddd) **“Sterling Agreement”** means the fiscal and paying agency agreement made as of July 30, 1992 among CTSL, Confed, Banque Générale du Luxembourg S.A. as fiscal and principal paying agent, and Morgan Guaranty Trust Company of New York as paying agent, relating to the Sterling Notes, as such agreement may be amended up to the Creditors' Meeting Date;
- (eeee) **“Sterling Notes”** means the £100,000,000 9_ percent guaranteed notes due 1997 and any coupons relating thereto issued by CTSL and contemplated by the Sterling Agreement;
- (ffff) **“Sterling Noteholders”** means the bearers from time to time of Sterling Notes;
- (gggg) **“Tax Act”** means any taxation statute in force in Canada or the United States;
- (hhhh) **“Third Party”** means any Person against whom a Third Party Claim has been or may be asserted;
- (iiii) **“Third Party Claim”** means any right or claim of a Person in connection with any indebtedness, liability or obligation of any kind, by or by way of or based in whole or in part upon guarantee, surety, contribution, indemnity, subrogation, trust, agency,

contract, tort, restitution, quantum meruit or otherwise, whether or not reduced to judgment, direct, indirect, liquidated, unliquidated, fixed, absolute, contingent, matured, unmatured, choate, inchoate, disputed, undisputed, legal, beneficial, equitable, statutory, common law, proprietary, secured, unsecured, past, present, future, known or unknown, where the right or claim may give rise to a Claim-over;

- (iiii) **“Third Party Judgment”** means a judgment obtained or otherwise obtainable by the Rehabilitator, the Liquidator or the Vehicle, as the case may be, against a Third Party;
- (kkkkk) **“Trustee”** means Richter & Partners Inc., in its capacity as trustee of the estate of CTSL and not in its personal capacity, and any successor to such trustee;
- (lllll) **“Trustee Costs”** means any present or future Claims (including, for greater certainty, Claims under any applicable Tax Act and costs of the Trustee for implementing the Plan and completing the administration of the bankruptcy) which under the BIA have priority over unsecured creditors and, without limiting the foregoing, includes any levy that is found to be payable, or agreed by the Trustee, the Inspectors and the Liquidator to be payable, to the Superintendent of Bankruptcy pursuant to section 147 of the BIA in respect of the CTSL Bankruptcy;
- (mmmmm) **“Trustee Tax Comfort”** means comfort in form and substance satisfactory to the Trustee and its counsel from the appropriate Canadian federal and provincial tax authorities confirming that: (i) the Trustee will not incur liability, either personally or in its capacity as Trustee or in the Trustee’s capacity as Administrator, other than for Trustee Costs paid or provided for, under any applicable Tax Act in connection with the estate of CTSL or as a result of the implementation of the Plan; and (ii) the Trustee, in its capacity as Administrator, will not be required to deduct or withhold any amount from the Rehabilitator’s Distribution under section 5.11;
- (nnnnn) **“UBS Inc.”** and **“UBS Limited”** includes any legal entity which succeeds them following the merger of Union Bank of Switzerland and Swiss Bank Corporation and their respective subsidiaries and which become bound and entitled, whether by conduct,

operation of law or otherwise, to perform the obligations of UBS Inc. and UBS Limited, respectively, under this Plan;

(oooo) **“U.S. Dollars”** or **“U.S. \$”** means dollars denominated in the lawful currency of the United States of America;

(pppp) **“U.S. Settlement Agreement”** means the agreement made as of the 11th day of June, 1996 between the Rehabilitator and the Liquidator and approved by the Court and the Michigan Court;

(qqqq) **“Valuation Date”** means September 6, 1994;

(mm) **“Vehicle”** means any trust, corporation or other entity or relationship established by the Liquidator and the Rehabilitator for the purpose of pursuing Third Party Claims and Other Claims and sharing the proceeds between them;

(ssss) **“Voting Certificate”** means, in respect of the Noteholders, a dated, English language certificate issued by the relevant Fiscal Agent or Paying Agent stating:

(i) that on the date thereof Notes (not being Notes in respect of which a Proxy has been issued and is outstanding) were deposited with or to its satisfaction are held for the account of such Fiscal Agent or Paying Agent and that such Notes will not be released until the earlier of:

(1) the conclusion of the Creditors’ Meeting or any adjournment thereof (whichever is later); and

(2) the surrender of the Voting Certificate, not less than 48 hours prior to the time the Creditors’ Meeting, including any adjournments thereof, is convened, to the Fiscal Agent or Paying Agent who issued such Voting Certificate and the giving of notice by such Fiscal Agent or Paying Agent to the Trustee of the surrender of the Voting Certificate; and

- (ii) that the bearer thereof is entitled to attend and vote at the Creditors' Meeting and any adjournment thereof in respect of the Notes represented by such Voting Certificate; and

(tttt) **“Winding-up Proceedings”** means proceedings commenced in respect of Confed pursuant to the *Winding-up Act*, R.S.C. 1985, c. W-11 and the *Insurance Companies Act*, S.C. 1991, c. 47, formerly having Court File No. RE 4315/94 and presently having Commercial List File No. 97-BK-000543.

1.2 Accounting Terms

All accounting terms not otherwise defined herein shall have the meanings ascribed to them in accordance with Canadian generally accepted accounting principles including those prescribed by the Canadian Institute of Chartered Accountants.

1.3 Currency

Unless otherwise stated herein, all references to currency in this Plan are to Canadian Dollars.

1.4 Articles of Reference

The terms “hereof”, “hereunder”, “herein” and similar expressions refer to this Plan and not to any particular article, section, subsection, clause or paragraph of this Plan and include any documents supplemental hereto. In this Plan, a reference to an article, section, subsection, clause or paragraph shall, unless otherwise stated, refer to an article, section, subsection, clause or paragraph of this Plan.

1.5 Interpretation of Headings

The division of this Plan into articles, sections, subsections, clauses and paragraphs and the insertion of a table of contents and headings are for convenience of reference only and shall not affect the construction or interpretation of this Plan.

1.6 **Time**

Unless otherwise stated herein, all times expressed herein are local time in Toronto, Ontario, Canada and any reference to an event occurring on a day which is a Business Day shall mean prior to 5:00 p.m. on such Business Day.

1.7 **Date for Any Action**

In the event that any day (other than a day the date of which is specifically set out in this Plan) on which any action is required or permitted to be taken or payment to be made hereunder is not a Business Day, such action shall be required or permitted to be taken or such payment shall be made on the next succeeding Business Day. Unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day on which the period ends and by extending the period to the next succeeding Business Day if the last day of the period is not a Business Day.

1.8 **Number and Gender**

In this Plan, where the context requires, a word or phrase importing the singular number shall include the plural and vice versa; and a word or phrase importing gender shall include all genders.

1.9 **Statutory References**

Any reference in this Plan to a statute includes all regulations made thereunder, all amendments to such statute or regulations in force from time to time, and any statute or regulation that supplements or supersedes such statute or regulation.

1.10 **Governing Law**

This Plan shall be governed by and construed in accordance with the laws of Ontario and the federal laws of Canada applicable therein. Except as otherwise expressly stated herein, all questions as to the interpretation or application of this Plan and all proceedings taken in connection with this Plan and its provisions including, without limitation, the assertion of any Claims and the distribution of funds hereunder shall be subject to the exclusive jurisdiction of the Court in the CCAA Proceedings.

1.11 Actions to be taken by CTSL

Where this Plan, the CCAA or any Order contemplates (i) any action being taken by or against CTSL, or (ii) any matter or obligation to be binding on CTSL, such shall be read to include the Trustee, to the extent necessary to effect such action or for such matter or obligation to be binding.

1.12 Successors and Assigns

This Plan shall be binding upon and shall enure to the benefit of the heirs, administrators, executors, legal personal representatives, successors and assigns of any Person named or referred to in, or subject to, this Plan.

1.13 Appendix

The following Appendix annexed hereto is an integral part of this Plan:

Appendix A - Confed Residue - U.S. Settlement Agreement
References

**ARTICLE 2
PURPOSE AND EFFECT OF THE PLAN**

2.1 Purpose

The purpose of this Plan is to effect a compromise or arrangement concerning CTSL in order to complete a settlement of the Rehabilitator's Claim, the Liquidator's Claim and the Claims of the Arm's Length Creditors without terminating the CTSL Bankruptcy.

2.2 Unaffected Claims

Claims-over and Trustee Costs are not affected by this Plan and shall continue to be binding upon CTSL to the extent that they currently bind CTSL. During the period between the granting of the Initial Order and the Plan Implementation Date, the Trustee shall pay the Trustee Costs as they become finally due and payable or maintain reserves for the payment thereof.

2.3 Shareholders Unaffected

The rights attributable to a holder of shares in the capital of CTSL shall not be affected by this Plan or the Sanction Order.

**ARTICLE 3
CREDITORS: CLASSIFICATION OF CREDITORS,
VALUATION OF CLAIMS, AND PROCEDURAL MATTERS**

3.1 Classes

For the purposes of considering and voting upon this Plan, the Creditors shall be grouped into three Classes:

- (a) the Arm's Length Creditors shall be one Class;
- (b) the Rehabilitator shall be in its own Class; and
- (c) the Liquidator shall be in its own Class.

3.2 Creditors' Meeting

- (a) The Creditors' Meeting shall be convened in Toronto, Ontario at 10:00 a.m., Friday, June 19, 1998, with teleconference facilities available from London, England at the same time (3:00 p.m. London time) such that attendance at the London location shall constitute attendance at the Creditors' Meeting. Arm's Length Creditors wishing to vote on the Plan shall attend the Creditors' Meeting in person, by Proxy or by Voting Certificate.
- (b) The Creditors' Meeting shall be conducted and chaired by Persons to be designated by the Administrator.
- (c) A quorum at the Creditors' Meeting shall consist of at least one Creditor entitled to vote at the meeting who is present in person, by Proxy or by Voting Certificate. If the requisite quorum is not present at the Creditors' Meeting, then the Creditors' Meeting

shall be adjourned by the chair of that meeting to a date and to such time and place as may be appointed by the chair.

- (d) The Rehabilitator shall vote in its own Class prior to the Creditors' Meeting Date , by written resolution delivered to the Administrator, thereby waiving the requirement for a meeting for its Class and accepting or rejecting the Plan on behalf of its Class without further filing or voting.
- (e) The Liquidator shall vote in its own Class prior to the hearing of the motion for a Sanction Order, by written resolution delivered to the Administrator, thereby waiving the requirement for a meeting for its Class and accepting or rejecting the Plan on behalf of its Class without further filing or voting.

3.3 Approval by the Creditors

In order that this Plan be binding on the Creditors in accordance with the CCAA, it must first be accepted by each Class as follows:

- (a) for the class of Arm's Length Creditors, the Plan must be accepted by a majority in number of the Creditors in such Class who actually vote on this Plan (in person, by Proxy or by Voting Certificate) at the Creditors' Meeting, representing two-thirds in value of the Proven Claims and Accepted Claims for Voting Purposes of the Creditors in such Class who actually vote on this Plan (in person, by Proxy or by Voting Certificate);
- (b) the Liquidator must accept by written resolution to that effect; and
- (c) the Rehabilitator must accept by written resolution to that effect.

Except as otherwise permitted by section 4.1, any Arm's Length Creditor wishing to vote on this Plan other than in respect of a Deemed Filed Claim must submit a Proof of Claim as provided in section 4.1.

3.4 Procedure for Valuing Claims

The procedure for valuing Claims and resolving disputes shall be as set forth in Article 4 and in the Initial Order. The Administrator shall be entitled to seek the assistance of the Court in valuing the Claim of any Arm's Length Creditor and to ascertain the amount payable or to be distributed to any Creditor under this Plan, as the case may be. The Administrator shall be entitled to seek the assistance of the Court to ascertain the voting rights of any Arm's Length Creditor.

3.5 Claims for Voting Purposes

- (a) Each General Creditor and CTSUK Claimant having a Proven Claim shall be entitled to attend and to vote in person or by Proxy at the Creditors' Meeting.
- (b) Each Noteholder shall be entitled to attend and to vote at the relevant Creditors' Meeting where such Noteholder holds and presents to the scrutineers at such meeting (i) in the case of Noteholders, one or more Notes; or (ii) a valid Voting Certificate.
- (c) For the purposes of section 6 of the CCAA, the value of each Arm's Length Creditor's Claim for voting purposes shall be the amount of such Creditor's Proven Claim. In the event that the Proven Claim of an Arm's Length Creditor is not conclusively determined prior to the Creditors' Meeting Date in accordance with this Plan or any Order, such Creditor shall be entitled to vote at the Creditors' Meeting based on its Accepted Claim for Voting Purposes without prejudice to the Administrator's or such Creditor's rights to require the final determination of such Creditor's Proven Claim for distribution purposes.
- (d) The Administrator shall determine the form of the Voting Certificate and Proxy and establish procedures for their issue by the Fiscal Agents and/or Paying Agents. The Administrator shall consult with the Fiscal Agents and Noteholders' Representative in respect of such forms and procedures.

3.6 Transfer of Claims

- (a) If after the Valuation Date an Arm's Length Creditor (other than a Noteholder) transfers or has transferred full ownership of its Claim and the transferee requests in writing, by no later than the Final Cut-Off Date, that it be entitled to vote at the Creditors' Meeting, such transferee (other than a Creditor listed in the Claims Schedule in respect of such Claim) upon satisfying the Administrator that it is the owner of such Claim shall be entitled to attend and vote at the Creditors' Meeting, provided that such Claim is a Proven Claim or an Accepted Claim for Voting Purposes.

- (b) Where at any time subsequent to the Valuation Date, and prior to the Creditors' Meeting Date, a portion of the Claim of an Arm's Length Creditor (other than a Noteholder or a Creditor listed on the Claims Schedule in respect of such Claim) is transferred, then in determining whether the Plan has been approved by a majority in number of the Class of the Arm's Length Creditors, only the vote of whichever of the transferor or the transferee holds the highest dollar value of the Proven Claim or the Accepted Claim for Voting Purposes shall be counted and if equal in value, only the vote of the transferor shall be counted.

3.7 Barring of Claims

Any Arm's Length Creditor who has not submitted or been deemed to have submitted a Proof of Claim by the Final Cut-Off Date, or whose Claim has been rejected by the Administrator pursuant to section 4.2 and in respect of which such Creditor has not delivered a Dispute Notice and commenced a Dispute Application in accordance with section 4.3, shall not be entitled to any distribution under the Plan or from the CTSL estate and such Creditor shall be forever barred from asserting that Claim.

ARTICLE 4 PROCEDURE FOR VALUATION OF CLAIMS

4.1 Proofs of Claim

- (a) The Administrator shall on or before May 29, 1998 send to all Arm's Length Creditors who are known to the Administrator a notice of the Creditors' Meeting, a proof of

claim form in the form prescribed under the BIA and instructions for the completion and filing thereof (except that proof of claim forms need not be sent to Creditors with Deemed Filed Claims), a Proxy (in the case of General Creditors and CTSUK Claimants), an information package in respect of the Plan, a copy of the Plan, a copy of the Initial Order (without schedules) and the Claims Schedule.

- (b) All Arm's Length Creditors other than those with Claims that are Deemed Filed Claims hereunder shall file Proofs of Claim with the Administrator no later than 5:00 p.m. on the Final Cut-Off Date in order to vote at the Creditors' Meeting and to receive a distribution under this Plan.
- (c) The Administrator shall publish one notice, in each of the Financial Times of London, in England, The Wall Street Journal, in New York, New York, the Luxemburger Wort, in Luxembourg, and the national edition of The Globe and Mail (in the Report on Business), during the seven day period commencing on May 23, 1998, containing the time, date and places of the Creditors' Meeting for the Arm's Length Creditors and specifying the manner in which Arm's Length Creditors may obtain copies of this Plan and any other documentation, and that any Arm's Length Creditor (other than Arm's Length Creditors with Deemed Proven Claims) must file with the Administrator a Proof of Claim by no later than the Final Cut-Off Date in order to vote at the Creditors' Meeting and in order to receive a distribution under this Plan, after which the Claim of any Arm's Length Creditor who has not filed or been deemed to have filed a Proof of Claim with the Administrator shall not be entitled to receive any distribution under the Plan or from the CTSL estate and such Creditor shall be forever barred from asserting that Claim.
- (d) The amount of the Claim for which an Arm's Length Creditor may prove or be deemed to have proven in its Proof of Claim and in respect of which it shall be entitled to vote and receive a distribution under this Plan, shall be limited to (though not necessarily equal to) the amount of its Claim as at the Valuation Date (converted to Canadian Dollars, if applicable, at the Conversion Rate) which, for greater certainty, shall not include any interest or other amount accruing or arising thereafter.

- (e) With respect to the Noteholders, the Administrator shall send all notices and other materials to be delivered in relation to this Plan including a Memorandum on Voting Procedures to the Noteholders' Representative and the Fiscal Agents. The Noteholders shall not be entitled or required to file Proofs of Claim but each Noteholder shall be deemed to have separately filed a Proof of Claim in accordance with the provisions of the Claims Schedule.
- (f) With respect to the CTSUK Claimants, the Administrator shall send all notices and other material to be delivered or served in relation to this Plan to all CTSUK Claimants who are known to the Administrator at the addresses or telecopier numbers indicated in their respective Bankruptcy Proofs. The CTSUK Claimants who do not have Deemed Filed Claims must file Proofs of Claim in order to vote or receive a distribution hereunder. The amount of a Proven Claim of a CTSUK Claimant shall be or be deemed to be \$259,863 for each U.S. \$1,000,000 under a CTSUK Definitive Note or CTSUK Global Note of the CTSUK Claimant, with the aggregate of all Proven Claims of the CTSUK Claimants not to exceed \$51,452,874.
- (g) In addition to sending the notices and other materials to the Noteholders' Representative pursuant to subsection 4.1(e), the Administrator may send any such notices and materials directly to any Noteholders of whom the Administrator is aware, including through the Clearing System.
- (h) With respect to the Arm's Length Creditors listed on the Claims Schedule other than the Noteholders and the CTSUK Claimants, the Administrator shall send any notices and other materials to the respective Arm's Length Creditors at the addresses or telecopier numbers provided on their Bankruptcy Proofs. Such Arm's Length Creditors will not be entitled or required to file a Proof of Claim in order to vote at the Creditors' Meeting and to receive a distribution under this Plan in accordance with the amount of the Claim shown on the Claims Schedule. If a Creditor having a Claim listed on the Claims Schedule other than a Noteholder or a CTSUK Claimant wishes to dispute the amount of such Claim, the Creditor must deliver to the Administrator a Dispute Notice, as defined in section 4.3 hereof, on or before the Final Cut-Off-Date,

failing which, the Creditor will have a Deemed Proven Claim in the amount listed on the Claims Schedule.

- (i) The Rehabilitator shall not be entitled or required to file a Proof of Claim but shall be deemed to have filed a Proof of Claim in the amount of the Rehabilitator's Claim in accordance with the provisions hereof.
- (j) The Liquidator shall not be entitled or required to file a Proof of Claim but shall be deemed to have filed a Proof of Claim in the amount of the Liquidator's Claim in accordance with the provisions hereof.

4.2 Claim Acceptance and Disallowance Procedure

- (a) For the purpose of determining whether to accept, revise, reject or otherwise agree to a Proof of Claim or a Dispute Notice delivered pursuant to section 4.1(h), the Administrator shall:
 - (i) provide copies of the Proofs of Claim and Dispute Notices submitted by the Arm's Length Creditors to the Inspectors and to representatives of the Noteholders' Representative and the Rehabilitator by June 8, 1998;
 - (ii) meet with the Inspectors and representatives of the Noteholders' Representative and the Rehabilitator at or before 11:00 a.m. June 9, 1998 to review the Proofs of Claim and Dispute Notices filed on or before the Final Cut-off Date; and
 - (iii) seek the assistance and direction of the Inspectors and representatives of the Noteholders' Representative and the Rehabilitator with respect to the Claims of the Arm's Length Creditors, including without limitation with respect to the matters referred to in this subsection 4.2 and in subsection 4.3 hereof, and such direction shall be provided in a timely fashion, failing which the Administrator shall be entitled to act without the direction of the party failing to provide such direction. For greater certainty, if any one of the Inspectors, the Noteholders'

Representative or the Rehabilitator shall direct the Administrator to dispute or disallow a claim, the Administrator shall do so.

(b) By no later than June 9, 1998, the Administrator shall review the Proofs of Claim or Dispute Notice submitted to it by each Creditor and:

- (i) the Administrator shall accept the Claim and the amount claimed in the Proof of Claim or Dispute Notice for voting and distribution purposes, in which event such Claim shall be a Proven Claim in such amount; or
- (ii) the Administrator shall accept the Claim and the amount claimed in the Proof of Claim or Dispute Notice for voting purposes only, in which event such Claim shall be an Accepted Claim for Voting Purposes in such amount and the Administrator shall reject or revise such Claim and/or the amount claimed in the Proof of Claim or Dispute Notice for distribution purposes only, in which event such Claim and the amount thereof shall be for distribution purposes:
 - (1) a Proven Claim, as revised, where the Administrator revises such Claim and/or the amount thereof; or
 - (2) nil where the Administrator rejects such Claim;

unless such Creditor delivers to the Administrator a Dispute Notice and commences a Dispute Application within the time periods set out in section 4.3; or

- (iii) the Administrator shall reject or revise the Claim and/or the amount claimed in the Proof of Claim or Dispute Notice for voting and distribution purposes, in which event such Claim and the amount thereof shall be:
 - (1) a Proven Claim, as revised, where the Administrator revises such Claim and/or the amount thereof; or

(2) nil where the Administrator rejects such Claim;

unless, with respect to the amount for distribution purposes, such Creditor delivers to the Administrator a Dispute Notice and commences a Dispute Application within the time periods set out in section 4.3.

- (c) Where the Administrator revises or rejects a Claim and/or the amount claimed in the Proof of Claim or Dispute Notice for voting and/or distribution purposes, the Administrator shall send to the Creditor who submitted such Proof of Claim notice of such revision or rejection (a **“Disallowance Notice”**) by courier delivery or telecopier transmission, in either case being sent no later than 11:59 p.m. on June 9, 1998.
- (d) Where the Administrator revises a Claim and/or the amount claimed in the Proof of Claim or Dispute Notice therein, such revised Claim shall be deemed to be an Accepted Claim for Voting Purposes in such amount.
- (e) For greater certainty, any Proofs of Claim received subsequent to the Final Cut-Off Date shall be deemed to be rejected and Creditors submitting such Proofs of Claim shall have no right to dispute such rejection in the manner provided for in section 4.3 or otherwise.

4.3 Disallowance Dispute Procedure

- (a) An Arm’s Length Creditor to whom a Disallowance Notice is sent and who intends to dispute the revision or rejection of its Claim or the amount claimed in its Proof of Claim may dispute such revision and/or rejection for distribution purposes only.
- (b) The procedure for disputing such revision and/or rejection shall be as follows:
 - (i) such Creditor shall deliver to the Administrator by no later than 10:00 a.m. on June 11, 1998 a written notice that it does not accept the Administrator’s revision and/or rejection of the Claim and/or the amount claimed in such

Creditor's Proof of Claim for distribution purposes (the "**Dispute Notice**");
and

- (ii) such Creditor shall commence a summary application to the Court (the "**Dispute Application**") returnable on June 15, 1998 for a determination of the validity and amount of its Claim;

in which event the amount of such Creditor's Proven Claim, if any, for distribution purposes, shall be the amount determined by the Court.

- (c) At any time, and notwithstanding section 4.2(d), the Administrator and such Creditor may agree upon the amount of such Creditor's Accepted Claim for Voting Purposes or Proven Claim, provided that, for greater certainty, such Creditor has submitted its Proof of Claim by no later than the Final Cut-Off Date.

4.4 Foreign Currency Obligations

For purposes of voting and distribution under this Plan, Claims denominated in a currency other than Canadian Dollars shall be regarded as having been converted to Canadian Dollars as at September 6, 1994, notwithstanding any agreement to the contrary. For greater certainty, the rate of exchange (the "**Conversion Rate**") applicable to converting:

- (a) U.S. Dollar denominated Claims into Canadian Dollars is 1.3677; and
- (b) Sterling denominated Claims into Canadian Dollars is 2.1247.

ARTICLE 5 TREATMENT OF CREDITORS' CLAIMS

5.1 Treatment of the Arm's Length Creditors

The Arm's Length Creditors shall receive the ALC Distribution and the Residue Certificates. Each Arm's Length Creditor shall receive a *pro rata* share of the ALC Distribution based upon the proportion which the Proven Claim of the Arm's Length Creditor is of the aggregate amount of the Proven Claims of all of the Arm's Length Creditors. Each Arm's Length Creditor shall receive Residue Certificates in the proportion provided in section 5.6.

5.2 Treatment of the Rehabilitator's Claim

The Rehabilitator shall receive the Rehabilitator's Distribution.

5.3 Treatment of the Liquidator's Claim

The Liquidator shall be entitled to the Liquidator's Dividend. The Liquidator's Dividend shall be divided into the Noteholders' Entitlement and the Remainder Amount and provided to the Noteholders and the Arm's Length Creditors (including the Noteholders), respectively, in accordance with this Plan.

5.4 Payment to Noteholders by Liquidator

The Liquidator authorizes and directs that the Noteholders' Entitlement be paid to the Noteholders. Such payment shall not in any way reduce the entitlement of the Noteholders to share in the ALC Distribution pursuant to section 5.1. The Administrator shall pay a portion of the Noteholders' Entitlement to the Noteholders' Representative on behalf of the Noteholders in accordance with the order of the Court to that effect dated December 12, 1997. Each Noteholder shall receive a *pro rata* share of the balance of the Noteholders' Entitlement based upon the proportion which the Proven Claim of the Noteholder is of the aggregate amount of the Proven Claims of all of the Noteholders.

5.5 Sharing of Contribution Amount

The Liquidator shall pay the Contribution Amount to the Administrator on or before the Plan Implementation Date, subject to and conditional upon the Plan being implemented. The Administrator shall divide the Contribution Amount into the ALC Share and the Rehabilitator's Share as follows:

- (a) Firstly, amounts will be paid to the Arm's Length Creditors and/or the Rehabilitator sufficient to enable the sum of the ALC Distribution plus the Noteholders' Entitlement to equal the ALC Minimum and the Rehabilitator's Distribution to equal the Rehabilitator's Minimum;

- (b) Out of the amounts remaining after paying the amounts in section 5.5(a), the next \$1 million of Contribution Amount will be paid to the Arm's Length Creditors;
- (c) Any remaining funds out of the Contribution Amount, after paying the amounts in section 5.5(a) and (b), shall be divided between the Arm's Length Creditors and the Rehabilitator by paying 53% to the Arm's Length Creditors and paying 47% to the Rehabilitator.

The ALC Share of payments under this section 5.5 shall be paid and distributed in the same manner as the ALC Dividend. The Rehabilitator's Share of payments under this section 5.5 shall be paid to the Rehabilitator in the same manner as the Rehabilitator's Dividend.

5.6 Residue Certificates

CTSL shall issue the Residue Certificates to the Arm's Length Creditors in proportion with their Proven Claims. No Person other than CTSL shall have any obligations or liability to the Residue Certificate Holders in respect of the Residue Certificates. The Residue Certificates shall not constitute debt obligations. The Residue Certificate Holders shall have recourse only to (i) the ALC Allocation paid to CTSL from the Confed Residue, if any, and (ii) the CTSL Remaining Assets, if any, after deduction for the payments due to the Residue Certificate Holders' Representative pursuant to section 5.9. The Residue Certificates and the rights of the Residue Certificate Holders shall be subject to the terms of this Plan and the Residue Certificates shall so state.

5.7 Disclaimer

None of the Administrator, Richters, the Rehabilitator, the Liquidator, KPMG, the Noteholders' Representative, the Indenture Trustee or the Trustee or any director, officer, employee or agent thereof makes or shall be required to make any representation or gives or shall be required to give any warranty with respect to the issuance or ability to transfer Residue Certificates or as to the existence of a secondary market or the value of the Residue Certificates or the amount, if any, to be paid with respect thereto or the compliance with applicable laws, if any, in the creation, issuance and/or transfer of the Residue Certificates. Each of the Rehabilitator and the Liquidator disclaims any and shall have no responsibilities or obligations by reason hereof with respect to the creation, issuance and/or transfer of Residue Certificates or the creation of Confed Residue. The Residue Certificate

Holders shall have no rights of recourse to, and waive any claims they may now or hereafter have against, the Administrator, Richters, the Rehabilitator, the Liquidator, KPMG, the Noteholders' Representative, the Indenture Trustee, UBS Inc. as the representative of the Residue Certificate Holders appointed under section 5.9, or the Trustee or any director, officer, employee or agent thereof by way of statute, common law, equity or otherwise, other than, in the case of the Indenture Trustee and CTSL, to or in respect of payments, if any, paid under the Residue Certificates.

5.8 Sharing of the Confed Residue

Upon implementation of the Plan, CTSL shall become entitled to share in distributions of the Confed Residue, if any, as and when they are made, in the following manner:

- (a) none of the first \$20 million of Confed Residue shall be payable to CTSL;
- (b) of the next \$155 million of Confed Residue, 75% shall be payable to CTSL; and
- (c) of any Confed Residue in excess of \$175 million, 50% of such excess shall be payable to CTSL;

provided, however, that the maximum total amount of Confed Residue to be paid to CTSL shall be equal to the excess of (i) the aggregate amount of the Proven Claims of all of the Arm's Length Creditors, plus interest on the Proven Claims calculated in a manner consistent with section 143 of the BIA, plus all costs associated with the administration of the Residue Certificates other than those prepaid on or prior to the Plan Implementation Date, which would otherwise be payable from the funds available for distribution to the Arm's Length Creditors, over (ii) the sum of the ALC Distribution plus the Noteholders' Entitlement plus any distribution of CTSL Remaining Assets made to Residue Certificate Holders as provided in section 6.5.

The amounts payable to CTSL out of the Confed Residue in accordance with this section 5.8 shall be referred to herein as the "**ALC Allocation**".

5.9 Residue Certificate Holders' Representative

- (a) Upon implementation of the Plan, UBS Inc. shall be and be deemed to be appointed as the sole Residue Certificate Holders' Representative for the purpose of liaising with the Liquidator with respect to the financial condition of the Confed estate and assisting and advising, as would an inspector of the Confed estate, the Liquidator in a manner to be agreed with the Liquidator and to be subject to Court approval in the Winding-up Proceedings. In seeking such Court approval, the Liquidator will seek the nomination of the Residue Certificate Holders' Representative. as an inspector of the Confed estate if so requested by the Residue Certificate Holders' Representative. The Residue Certificate Holders' Representative shall be the only Person with responsibility for making disclosure to the Residue Certificate Holders of information respecting the Confed estate and may disclose such information which it has received on a non-confidential basis and which it is permitted to disclose to the extent that it considers such disclosure appropriate. The Liquidator shall have no liability for the disclosure made by the Residue Certificate Holders' Representative or for the failure of the Residue Certificate Holders' Representative to make any disclosure. The Residue Certificate Holders' Representative will have no liability whatsoever to any party bound by this Plan, including without limitation any Residue Certificate Holder, for the manner in which its duties are performed, including acts of omission, unless it has acted in bad faith.

- (b) The sum of \$2,500,000.00 shall be withheld from the ALC Distribution by the Administrator and paid to the Indenture Trustee in trust, to be held for payment to the Residue Certificate Holders' Representative of the amounts to which it is entitled hereunder. The Residue Certificate Holders' Representative shall be entitled to the following amounts:
 - (i) U.S. \$100,000, in advance, for each three-month period or part thereof during which it performs the role of Residue Certificate Holders' Representative, which fee shall be paid on the Plan Implementation Date and on the 15th day of October, January, April and July in each calendar year commencing October 15, 1998;

- (ii) all reasonable out-of-pocket expenses and professional fees incurred by the Residue Certificate Holders' Representative will be reimbursed by the Indenture Trustee upon presentation of invoices supporting such expenses and fees. The Indenture Trustee will pay such invoices promptly after presentation thereof using any remaining amounts withheld by it from the ALC Distribution or any proceeds received on account of the Residue Certificates;
- (iii) 5% of all amounts attributable to the ALC Allocation and 3% of all amounts attributable to recoveries from the Hees Litigation and other CTSL Remaining Assets available to be distributed on account of the Residue Certificates shall be withheld from the distributions and be payable as a fee to the Residue Certificate Holders' Representative at the time of any such distributions provided, however, that the amount of such fee shall be reduced by the amount if any by which any amount theretofore paid to the Residue Certificate Holders' Representative pursuant to clause (i) above exceeds US\$500,000.00.

5.10 Distributions

- (a) If by the Plan Implementation Date the Proven Claims of the Arm's Length Creditors have been determined in accordance with ARTICLE 4, then on or as soon as reasonably possible subsequent to the Plan Implementation Date, the following shall occur:
 - (i) the Administrator shall calculate the ALC Dividend in accordance with the provisions hereof and such amount shall be paid to the Arm's Length Creditors in accordance with their entitlement under the Plan;
 - (ii) the Administrator shall calculate the Liquidator's Dividend and determine the division thereof into the Noteholders' Entitlement and the Remainder Amount, all in accordance with the provisions hereof;
 - (iii) the Noteholders' Entitlement shall be paid to the Noteholders and the Noteholders' Representative in accordance with their entitlement under the Plan;

- (iv) the Remainder Amount shall be paid to the Arm's Length Creditors in accordance with their entitlement under the Plan;
- (v) the Administrator shall calculate and pay the Rehabilitator's Dividend to the Rehabilitator or as the Rehabilitator may direct in writing;
- (vi) the Administrator shall calculate and pay the ALC Share to the Arm's Length Creditors in accordance with their entitlement under the Plan;
- (vii) the Administrator shall calculate and pay the Rehabilitator's Share to the Rehabilitator;
- (viii) the Administrator shall distribute the Residue Certificates to the Arm's Length Creditors in accordance with their entitlement under the Plan;

Upon the payment in full of the amounts described in paragraphs 5.10(a)(i), (ii), (iii), (iv) and (vi) and distribution of the Residue Certificates as referenced in 5.10(a)(viii) in accordance with the provisions hereof, the entitlement of the Arm's Length Creditors to distributions under the Plan shall be fully satisfied. Upon the payment in full of the amounts described in paragraphs 5.10(a)(v) and (vii) in accordance with the provisions hereof, the entitlement of the Rehabilitator to distributions under the Plan shall be fully satisfied.

- (b) If the Proven Claims of the Arm's Length Creditors have not all been determined by the Plan Implementation Date, then the Administrator shall determine, in consultation with the Inspectors, Noteholders' Representative and Rehabilitator, the interim distributions, and the appropriate amount of reserve, including the holding in escrow of Residue Certificates in respect of the Disputed Claims, to be held by the Administrator pending resolution of the Disputed Claims. Such interim distribution shall be paid in accordance with the provisions of paragraph 5.10(a).

- (c) With respect to the CTSUK Claimants, the payment and/or distribution by the Administrator to the CTSUK Claimants with Proven Claims of (i) their share of the ALC Distribution less the CTSUK Credit and (ii) their share of the Residue Certificates shall satisfy the obligations of CTSL to such Creditors under this Plan.
- (d) With respect to the Noteholders, the payment and/or distribution by the Administrator to the Fiscal Agents and to the Noteholders' Representative, in the manner contemplated by the Canadian Dollar Notes, the Canadian Dollar Agreement, the Sterling Notes and the Sterling Agreement and in accordance with the order of the Court dated December 12, 1997, of the Noteholders' Entitlement and the Noteholders' share of the ALC Distribution and the Residue Certificates shall satisfy the obligations of CTSL and the Administrator to the Noteholders under this Plan. For greater certainty, the Fiscal Agents shall distribute that portion of the Noteholders' Entitlement not paid to the Noteholders' Representative and the Noteholders' share of the ALC Distribution to the Noteholders except that in the case of the Sterling Notes, distribution shall be made by Canadian Dollar cheque drawn on or by transfer to, a Canadian Dollar account maintained with a bank in Canada and the Administrator and the Fiscal Agents may establish procedures for endorsing Notes for payments made in removing coupons from Notes or such other procedures, as the Administrator and the Fiscal Agents may establish.
- (e) For greater certainty, except as specifically provided for herein, all amounts payable hereunder and under the Residue Certificates shall be payable in Canadian Dollars.

5.11 Ordering of Payments and Withholding Taxes

The ALC Distribution, the ALC Share, the Noteholders' Entitlement, the Rehabilitator's Distribution and the Rehabilitator's Share shall be applied by CTSL and by the respective recipients in the following order until exhausted:

- (a) firstly, to payment of that portion of the recipient's Proven Claim which does not represent interest;

- (b) secondly, if any amount remains payable hereunder, to payment of that portion of the Proven Claim which represents any amount in respect of accrued, compounded or unpaid interest, other than any amount that would, if paid, be subject to any deduction or withholding on account of tax under any Tax Act; and
- (c) lastly, if any amount remains payable hereunder, to payment of that portion of the Proven Claim which represents any amount that is subject to any deduction or withholding on account of tax under any Tax Act in such order as the Administrator may designate.

Notwithstanding the ordering set out above, if any portion of the ALC Distribution, the ALC Share, the Noteholders' Entitlement, the Rehabilitator's Distribution or the Rehabilitator's Share determined to be payable to an Arm's Length Creditor or the Rehabilitator, as the case may be, is determined by the Administrator to be subject to deduction or withholding on account of the tax under any Tax Act, then the Administrator shall withhold or deduct from such payment any amount required to be so withheld or deducted on account of tax under that Tax Act and remit the amount so withheld or deducted to Revenue Canada or such other governmental authority that is empowered to receive such amount in the manner required by that Tax Act. For these purposes, any Arm's Length Creditor claiming any exemption from deduction or withholding on account of tax under any Tax Act otherwise applicable in respect of any payment made by the Administrator must establish its entitlement to such relief in a manner satisfactory to the Administrator before the Plan Implementation Date. Any amount so withheld or deducted and remitted shall be considered to have been paid to that Arm's Length Creditor or the Rehabilitator, as the case may be, pursuant to this Plan. The amount applied to payment of any particular portion of the Proven Claims pursuant to this provision shall be applied to each Proven Claim included in that portion *pro rata*.

5.12 Third Party Claims and Other Claims

CTSL, the Trustee and each of the Arms' Length Creditors shall assign and, from and after the Plan Implementation Date, be deemed to have assigned to the Rehabilitator and the Liquidator jointly or to the Vehicle as directed by the Rehabilitator and the Liquidator any and all Third Party Claims and Other Claims which they have or which, but for the Plan, they may have pursued and

thereafter shall have no further Third Party Claims and Other Claims and shall be prohibited and forever barred from asserting any Third Party Claims and Other Claims.

5.13 Releases

On the Plan Implementation Date, the following releases and bars shall become, and be deemed to become, effective:

- (a) The Rehabilitator, the Liquidator, NOLHGA, KPMG, CFSL, CFSC, Confed and the Arm's Length Creditors shall release and be deemed to have released the Trustee, Richters, the Noteholders' Representative, the Inspectors and their respective agents and advisors from any and all claims arising in respect of claims against Confed or CTSL and in respect of any conduct in connection with the insolvency of Confed and CTSL.

- (b) The Arm's Length Creditors, the Trustee (which term shall, for the purposes of this paragraph, exclude CTSL), Richters, the Inspectors and the Noteholders' Representative shall release and be deemed to have released the Rehabilitator, NOLHGA, the Liquidator (subject to payment of the Contribution Amount in accordance with the Plan), KPMG, Confed, CFSC and CFSL and their respective agents and advisors from any and all claims arising in respect of claims against Confed or CTSL and in respect of any conduct in connection with the insolvency of Confed or CTSL. In the case of the Trustee this release shall apply, without limitation, to claims assigned to the Trustee by the CTSUK Liquidator.

- (c) CTSL shall release and be deemed to have released, and shall be released and be deemed to be released by, the Rehabilitator, NOLHGA, the Liquidator, KPMG, CFSC and CFSL and their respective agents and advisors from any and all claims.

- (d) Without limiting the generality of any other release herein, the Noteholders shall release and be deemed to have released the Liquidator, KPMG, Confed, CFSC and CFSL and their respective agents and advisors from any and all claims arising in respect of the postponement language in the Confed Note Guarantees.

- (e) Creditors of CTSL, Confed Policyholders and creditors of Confed shall be and be deemed to be forever barred from seeking any recovery or pursuing any right, action or claim against CTSL or the Trustee or their respective agents and advisors other than as specifically provided for in this Plan.
- (f) The Arms' Length Creditors shall be and be deemed to be forever barred from seeking any recovery or pursuing any right, action or claim against the Noteholders' Representative, the Rehabilitator, NOLHGA, the Liquidator, KPMG, Confed, CFSC or CFSL or their respective agents and advisors other than as specifically provided for in this Plan.
- (g) The CTSUK Liquidator, CTSUK and the CTSUK Claimants (in addition to any releases given under the foregoing provisions) shall release and be deemed to have released the Liquidator, KPMG, Confed and their respective agents and advisors from any and all claims arising in respect of or relating to CTSUK, Confed or CTSL.
- (h) CTSL shall not have released Confed, but shall be and be deemed to be forever barred from seeking any recovery or pursuing any right, action or claim against Confed other than any right, action or claim to the ALC Allocation.

5.14 Litigation Matters

- (a) Effective upon the Plan Implementation Date, the Rehabilitator will indemnify the Trustee and CTSL against (i) any Claim-over Judgment obtained by Third Parties who are sued, or are being sued, by the Rehabilitator or the Vehicle in respect of a Third Party Claim by the Rehabilitator or the Vehicle, to the extent of the full amount which such Third Party may become entitled to be paid out of the CTSL estate, which amount shall be calculated by reference to the following formula $\frac{COJ}{ALCC + LC + RC + TCOJ}$ AA, where COJ means the Claim-over Judgment, TCOJ means the total of all Claim-over Judgments, ALCC, LC and RC have the same meanings as in subsection 1.1(e) above, and AA means the Available Assets as at the Plan Implementation Date, or such larger amount that the Third Party shall be entitled to receive as a result of applying, on notice

to the Rehabilitator, to the Court in the CTSL Bankruptcy for a determination that the entitlement would have been larger than that derived from the above formula; and (ii) all forms of costs incurred by the Trustee in respect therewith and with respect to any cross-claims or counterclaims and any other costs for which the CTSL estate may become liable in connection therewith, whether or not the Claim is being defended by the Trustee or the estate;

- (b) Effective upon the Plan Implementation Date, the Rehabilitator will assume and be deemed to have carriage of the defence of any Claims brought by Third Parties who are being sued by the Rehabilitator and the prosecution of any cross-claims or counterclaims in connection therewith;
- (c) The deficiency to the Confed Policyholders of the United States branch of Confed will be deemed to be reduced by the amount of the Rehabilitator's Distribution;
- (d) Effective upon the Plan Implementation Date, the Liquidator will indemnify the Trustee and CTSL against (i) any Claim-over Judgment obtained by Third Parties who are sued, or are being sued, by the Liquidator or the Vehicle in respect of a Third Party Claim by the Liquidator or the Vehicle, to the extent of the full amount which such Third Party may become entitled to be paid out of the CTSL estate, which amount shall be calculated by reference to the following formula $\frac{\text{COJ}}{\text{ALCC} + \text{LC} + \text{RC} + \text{TCOJ}}$ AA, where COJ means the Claim-over Judgment, TCOJ means the total of all Claim-over Judgments, ALCC, LC and RC have the same meanings as in subsection 1.1(e) above, and AA means the Available Assets as at the Plan Implementation Date, or such larger amount that the Third Party shall be entitled to receive as a result of applying, on notice to the Liquidator, to the Court in the CTSL Bankruptcy for a determination that the entitlement would have been larger than that derived from the above formula; and (ii) all forms of costs incurred by the Trustee in respect therewith and with respect to any cross-claims or counterclaims and any other costs for which the CTSL estate may become liable in connection therewith, whether or not the Claim is being defended by the Trustee or the estate;

- (e) Effective upon the Plan Implementation Date, the Liquidator will assume and be deemed to have carriage of the defence of any Claims brought by Third Parties who are being sued by the Liquidator or the Vehicle on behalf of the Liquidator;
- (f) The obligations of the Rehabilitator and the Liquidator under subparagraph 5.14(a)(i) and (d)(i), respectively, shall be a liability of the Rehabilitator or Liquidator to such Third Parties, who may directly enforce that obligation against the Rehabilitator or Liquidator, as the case may be;
- (g) Each of the Rehabilitator and the Liquidator will seek to obtain orders of the Michigan Court and Ontario Court, respectively, (such orders to be referred to herein as the **“Michigan Litigation Order”** and the **“Ontario Litigation Order”**, respectively) to become effective upon the Plan Implementation Date, providing that:
 - (i) any Claim-over Judgment and any judgment, order or award of costs which the Third Parties have or to which they may become entitled will be satisfied by a credit against any Third Party Judgment. The credit shall operate to decrease any such Third Party Judgment by the amount of any distribution to which such Third Parties would otherwise have been entitled out of the CTSL estate with respect to any Claim-over Judgment and any judgment, order or award of costs arising from the action relating to the Third Party Judgment. The credit with respect to a Claim-over Judgment is the amount, in Canadian Dollars, which is equal to the product of $\frac{\text{COJ}}{\text{ALCC} + \text{RC} + \text{LC} + \text{TCOJ}}$ AA, where COJ means the Claim-over Judgment, TCOJ means the total of all Claim-over Judgments, ALCC, LC and RC have the same meanings as in subsection 1.1(e) above, and AA means the Available Assets as at the Plan Implementation Date, provided, however, that the Third Party shall be entitled to apply, on notice to the Rehabilitator or the Liquidator, as the case may be, to the Court in the CTSL Bankruptcy for a determination that the entitlement would have been larger than that derived from the above formula. The credit with respect to a judgment, order or award of costs shall be equal to that judgment, order or award of costs on a dollar for dollar basis;

- (ii) There shall be no personal liability of the Trustee or Richters to such Third Parties in connection with such Claim-over Judgments and with respect to any cross-claims or counterclaims associated therewith;
- (iii) Any judgment, order or award of costs obtained by a Third Party against CTSL or the Trustee not satisfied by the credit provided for in subparagraph (i) above shall be satisfied by the Rehabilitator in connection with claims made against Third Parties by the Rehabilitator and by the Liquidator in connection with claims made against Third Parties by the Liquidator and any cross-claims or counterclaims associated therewith. Such obligation shall be a liability of the Rehabilitator or Liquidator to such Third Parties, who may directly enforce that obligation against the Rehabilitator or Liquidator, as the case may be;
- (iv) The obligations of each of the Rehabilitator and the Liquidator, respectively, herein arising from the indemnification of the Trustee for costs shall constitute costs of administration in each of their respective estates;
- (v) From and after 12:01 a.m. on Plan Implementation Date, the Rehabilitator, the Liquidator and/or the Vehicle shall have carriage of and be responsible for all costs associated with defending any Claims-over against CTSL and/or the Trustee and any cross-claims or counterclaims associated with defending such Claims-over;
- (h) Forthwith after the Plan Implementation Date, the Rehabilitator, the Trustee and the Liquidator shall take such steps as necessary in order that the proceedings involving the trial of the issues among the Rehabilitator, as plaintiff, the Trustee, as defendant, and third party claimant and the Liquidator, as third party defendant, within the CTSL Bankruptcy shall be dismissed without costs;
- (i) Forthwith after the Plan Implementation Date, the Trustee and CFSL shall take such steps as necessary in order that the action by the Trustee against CFSL shall be dismissed without costs;

- (j) Forthwith after the Plan Implementation Date, the Trustee and the Liquidator shall take such steps as necessary in order that the Liquidator shall have no further obligation to the Trustee in respect of investments within the Confederation Life Real Estate Fund.

5.15 CTSUK Credit

The CTSUK Liquidator has accepted CTSL's claim in the liquidation of CTSUK in the amount of £8 million and has agreed to pay a dividend thereon in the amount of £3.5 million. Upon implementation of the Plan, the dividend which would otherwise be payable to CTSL pursuant to this Claim will be distributed to the CTSUK Claimants by the CTSUK Liquidator on the following basis:

- (a) The CTSUK Claimants will be allowed to claim in the CTSL estate in the amount of 19% of the principal amount outstanding under the CTSUK Definitive Notes and CTSUK Global Notes as at the Valuation Date calculated using the Conversion Rate (which calculation is reflected in paragraph 4.1(f)); and
- (b) £3.5 million, converted into Canadian Dollars at the spot rate of pounds Sterling to Canadian Dollars published by the Bank of Canada as at the close of business on the last Business Day before payment will be credited to CTSL (the "CTSUK Credit") against the distribution otherwise payable to the CTSUK Claimants by CTSL under this Plan.

ARTICLE 6 PLAN IMPLEMENTATION DATE AND EFFECT OF THE PLAN

6.1 Motion for Sanction Order

Forthwith after the Creditors' Meeting has been completed, the Administrator shall report in writing to the Liquidator, the Rehabilitator, the Noteholders' Representative and the Inspectors on the results of voting on the Plan, and such report shall be filed with the Court as soon as practicable and in any event prior to or at the hearing of the motion for the Sanction Order. If the Administrator reports that ALC Creditor Approval has been obtained, CFSC shall be deemed to have brought a motion for the Sanction Order returnable at 10:00 a.m. on Thursday, June 25, 1998. If the Creditors' Meetings are adjourned past June 19, 1998, CFSC shall bring a motion for a Sanction

Order returnable on the earliest possible date after the Administrator reports that ALC Creditor Approval has been obtained. The written resolutions of the Liquidator and the Rehabilitator pursuant to section 3.3 hereof shall be filed with the Court prior to or at the hearing of the motion for the Sanction Order.

Any Person wishing to appear at the hearing of the motion for the Sanction Order shall file a notice of appearance on or before June 23, 1998.

If the Administrator reports that ALC Creditor Approval has not been obtained (all voting having been completed), if either the Liquidator or the Rehabilitator does not accept the Plan, or if the Court dismisses the motion for the Sanction Order, this Plan and every action or effect contemplated herein that is not otherwise enforceable by separate contract shall be null and void with no further force or effect. In such event, the CTSL Bankruptcy shall continue and all assets of CTSL shall remain vested in the Trustee.

6.2 Conditions of Implementation

This Plan shall be implemented upon the Administrator delivering to CFSC and to the Court a certificate attesting to the satisfaction of all of the following conditions:

- (a) The Sanction Order shall have been granted;
- (b) The Sanction Order shall have become a Final Order;
- (c) The aggregate amount of the Proven Claims of all Arm's Length Creditors and any remaining Disputed Claims of all Arm's Length Creditors shall not exceed \$534,000,000;
- (d) The sum of the ALC Distribution plus the Noteholders' Entitlement shall be no less than the ALC Minimum;
- (e) The Rehabilitator's Distribution shall be no less than the Rehabilitator's Minimum;

- (f) The Michigan Approval Order, the Michigan Litigation Order, the Canadian Approval Order and the Ontario Litigation Order shall have been granted and become Final Orders;
- (g) Receipt by the Liquidator of the Liquidator Tax Comfort, if required by the Liquidator;
- (h) Receipt by the Rehabilitator of the Rehabilitator Tax Comfort, if required by the Rehabilitator;
- (i) Receipt by the Trustee of the Trustee Tax Comfort;
- (j) Receipt by the Liquidator of releases satisfactory to the Liquidator and the Noteholders' Representative in respect of claims under guarantees issued by Confed in favour of the governments of Quebec and Ontario.

If the conditions contained in this section 6.2 are not satisfied on or before July 31, 1998, this Plan and the Sanction Order and every action or effect contemplated thereby that is not otherwise enforceable by contract shall cease to have any further force or effect. For greater certainty, the CTSL Bankruptcy will continue and all assets of CTSL shall remain vested in the Trustee. Notwithstanding the foregoing, any of the conditions contained in paragraphs 6.2(g), (h) and (i) may be waived, or the period to satisfy any one of such conditions on or before July 31, 1998 may be extended, in the first instance, for a period ending no longer than 30 days after July 31, 1998 and, in the second instance, from time to time for a period or periods ending no later than 120 days in the aggregate after the end of the period extended in the first instance, upon all of the Trustee, the Noteholders' Representative, the Rehabilitator and Liquidator agreeing thereto in writing.

6.3 Paramountcy

From and after 12:01 a.m. on the Plan Implementation Date, any conflict between the terms, conditions and provisions of this Plan and any covenants, warranties, representations, terms, conditions, provisions or obligations, express or implied, contained in any contract, agreement, indenture, trust indenture, loan agreement, commitment letter, agreement for sale, articles or by-laws of CTSL, lease or other agreement, written or oral and any and all amendments or supplements thereto

existing to which one or more of the Arm's Length Creditors, the Rehabilitator, the Liquidator and CTSL are party as at the Plan Implementation Date shall be deemed to be governed by the terms, conditions and provisions of this Plan, which shall in every respect take precedence and priority.

6.4 Compromise Effective for all Purposes

From and after 12:01 a.m. on the Plan Implementation Date:

- (a) each Creditor shall be deemed to have consented and agreed to all of the provisions of this Plan in its entirety; and
- (b) this Plan and any payment, compromise or other satisfaction of any Claim under this Plan shall be effective for all purposes, be binding upon and enure to the benefit of all Creditors, CTSL, the Administrator and the Trustee and their heirs, executors, administrators, legal personal representatives, successors and assigns.

6.5 Remaining Estate

- (a) After the granting of the Sanction Order and no later than five (5) days prior to the Plan Implementation Date, a nominee of each of the Rehabilitator, the Trustee and the Noteholders' Representative shall meet and determine a reasonable amount to be maintained as a reserve for Trustee Costs. In the event that agreement cannot be reached, the Trustee may determine the amount subject to Court approval to be obtained forthwith after the Plan Implementation Date.
- (b) In the event that the Hees Litigation is not settled or abandoned prior to the Plan Implementation Date:
 - (i) the Administrator shall withhold from the ALC Dividend (after the calculation relating to the ALC Minimum in Section 6.2(d);
 - (1) the amount of \$47,000 and pay such amount to the Rehabilitator coincidental with the payment of the Rehabilitator's Distribution; and

- (2) a further reasonable amount to be maintained as a reserve for costs to be incurred in continuing with the Hees Litigation, including costs which may be awarded against the Trustee or CTSL;
 - (ii) any amounts recovered by the Trustee under a settlement or successful prosecution of the Hees Litigation net of any costs incurred by the Trustee in pursuing it plus any unused reserves maintained by the Trustee under Subsection 6.5(b)(i)(1) and (2) shall be remitted to the Indenture Trustee for distribution to the Residue Certificate Holders.
- (c) From and after 12:01 a.m. on the Plan Implementation Date, apart from any obligations remaining to be completed in the implementation of the Plan including, without limitation, the payment of the dividends hereunder, the bankrupt estate of CTSL will continue under the CTSL Bankruptcy on the following basis:
 - (i) the Inspectors shall resign and be replaced by 2 (two) individuals nominated by the Residue Certificate Holders' Representative and the Rehabilitator and, if at any time the Liquidator so requests at its sole discretion, an individual nominated by the Liquidator; and
 - (ii) The CTSL Remaining Assets shall be distributed in one distribution prior to discharge of the Trustee to the Residue Certificate Holders and the Rehabilitator in the same manner as if such sums were added to the Contribution Amount such that the calculations in section 5.5(c) would be applicable thereto, but substituting Residue Certificate Holders for Arm's Length Creditors. The amounts allocated to the Residue Certificate Holders shall be paid by the Trustee to the Indenture Trustee for distribution.

6.6 Discharge and Release of Administrator

Any claim which may be asserted against the Administrator, except for the making of the distributions under the Plan, shall be asserted before the Plan Implementation Date with leave of the Court and, if not so asserted, shall be forever barred and released. Following the making of the

distributions under the Plan, the Administrator shall file a certificate with the Court that the Plan has been performed. Upon the filing of such certificate, the Administrator shall be discharged and all claims which may be made against the Administrator shall be released and forever barred.

ARTICLE 7 MISCELLANEOUS

7.1 Amendment of the Plan

At any time and from time to time prior to the Creditors' Meeting Date, any of the Trustee, the Noteholders' Representative, the Rehabilitator or the Liquidator may file with the Court any amendment, modification, supplement and/or restatement of this Plan, and upon the Court so ordering and upon all of the Trustee, the Noteholders' Representative, the Rehabilitator and the Liquidator agreeing thereto, then any such amendment, modification, supplement and/or restatement shall, for all purposes, be part of and incorporated into this Plan. After the Creditors' Meeting, any of the Trustee, the Noteholders' Representative, the Rehabilitator or the Liquidator may, with the consent of each of them, move before the Court at any time and from time to time to amend, supplement, modify and/or restate the Plan, if such amendment, supplement, modification or restatement is of a technical nature, or would not be materially prejudicial to the interests of the Creditors under this Plan or the Sanction Order, or is necessary to give effect to the substance of this Plan or the Sanction Order.

7.2 Deeming Provisions

In this Plan, the deeming provisions are not rebuttable and are conclusive and irrevocable.

7.3 Further Assurances

Notwithstanding that the transactions and events set out in this Plan shall be deemed to occur without any additional act or formality other than as set out herein, each of the Persons affected hereby shall make, do or execute, or cause to be made done or executed, all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may be reasonably required in order to better or more effectively implement this Plan.

7.4 Different Capacities

Creditors whose Claims are affected by this Plan may be affected in more than one capacity. Unless expressly provided herein to the contrary, each such Creditor shall be entitled to participate hereunder in each such capacity, provided that the Creditor shall only be counted as one Creditor for the purpose of any vote. Any action taken by a Creditor in any one capacity shall not affect the Creditor in any other capacity, unless expressly agreed by the Creditor in writing or unless the Claims overlap or are otherwise duplicative.

7.5 Notices

Any notice or communication to be made or given hereunder shall be in writing and may be made or given by personal or courier delivery or by telecopier transmission in the manner provided in this section, addressed to the respective parties as follows:

- (a) if to the Trustee and/or the Administrator:

Richter & Partners Inc.
90 Eglinton Avenue East
Suite 700
Toronto, Ontario M4P 2Y3

Attention: Peter Farkas and Robert Harlang

Telephone: (416) 932-8000

Telecopier: (416) 932-6200

with a copy to:

Osler, Hoskin & Harcourt
1 First Canadian Place
P.O. Box 50
Station First Canadian Place
Toronto, Ontario M5X 1B8

Attention: Rupert Chartrand and Frederick Myers

Telephone: (416) 362-2111

Telecopier: (416) 862-6666

if to the Noteholders' Representative:

Union Bank of Switzerland
299 Park Avenue
37th Floor
New York, New York 10171-0026
U.S.A.

Attention: Tom Sperry and Chris Ullrich

Telephone: (212) 821-3000

Telecopier: (212) 821-3008

with a copy to:

Davies, Ward & Beck
44th Floor
1 First Canadian Place
P.O. Box 63,
Station First Canadian Place
Toronto, Ontario M5X 1B1

Attention: Jay Swartz

Telephone: (416) 863-0900

Telecopier: (416) 863-0871

if to the Rehabilitator:

The Palmieri Company
575 Fifth Avenue
21st Floor
New York, New York 10017
U.S.A.

Attention: Victor Palmieri

Telephone: (212) 972-8060

Telecopier: (212) 972-7924

with a copy to:

McMillan, Binch
Royal Bank Plaza
Suite 3800, South Tower
Toronto, Ontario M5J 2J7

Attention: Daniel V. MacDonald

Telephone: (416) 865-7000

Telecopier: (416) 865-7048

if to the Liquidator:

KPMG Inc.
c/o Confederation Life Insurance Company,
in Liquidation
Fifth Floor
York Mills Centre
4101 Yonge Street
North York, Ontario M2P 1N6

Attention: Robert O. Sanderson, FCA

Telephone: (416) 228-7730

Telecopier: (416) 323-2253

with a copy to:

Goodman Phillips & Vineberg
Box 24, Suite 2400
250 Yonge Street
Toronto, Ontario M5B 2M6

Attention: Brian F. Empey

Telephone: (416) 979-2211

Telecopier: (416) 979-1234

if to a Creditor other than a Noteholder:

to the address or telecopier number for such Creditor specified in the Proof of Claim or Bankruptcy Proof filed by such Creditor

or to such other address as any party may from time to time notify the others in accordance with this section. Where a notice or communication is sent (i) by delivery or telecopier transmission on a Business Day prior to 5:00 p.m. (Toronto time), it shall be deemed to have been received on the day

sent, or (ii) by delivery or telecopier transmission on a day other than a Business Day or subsequent to 5:00 p.m. (Toronto time) on a Business Day, it shall be deemed to have been received on the next following Business Day. The unintentional failure by the Administrator or the Trustee to give a notice contemplated hereunder to any particular Creditor shall not invalidate this Plan or any action taken by any Person pursuant to this Plan.

Notwithstanding the foregoing, the Administrator may send this Plan to Arm's Length Creditors by prepaid mail, in which case it shall be deemed to have been received on the fifth (5th) Business Day following the date on which it is mailed. However, in the event of any strike, lock-out or other event which interrupts postal service in any part of Canada of which the Administrator is aware, during such interruption the Administrator may only send this Plan by personal or courier delivery or by telecopier transmission, and any Plan sent by prepaid mail within five (5) Business Days immediately preceding the commencement of such interruption shall be deemed not to have been given or made.

7.6 Directions by the Court

The Court in the CCAA Proceedings may give such further directions regarding the conduct of the proceedings described in this Plan as it deems appropriate and may extend or abridge any time periods or dates set forth in this Plan, other than the date set out in section 6.2 by which the conditions contained in section 6.1 are to be satisfied or waived, which date may not be extended except by the provisions of section 7.1.

DATED at Toronto, Ontario as of May 19, 1998.

APPENDIX A

Confed Residue – U.S. Settlement Agreement References

References to schedules and appendices in this Appendix are to those attached to the U.S. Settlement Agreement.

1. Definitions

- (a) “**Canadian Assets**” means, from time to time, the Total Confederation Assets other than the U.S. Assets and assets in Segregated Funds, and includes, for greater certainty, Net U.K. Assets, and the assets listed in Schedule “E”.
- (b) “**Canadian Court**” means the Ontario Court of Justice (General Division).
- (c) “**Canadian Court Approval**” means a Final Order of the Canadian Court substantially in the form annexed hereto as Schedule “A”.
- (d) “**Canadian Estate**” means the legal estate under the control of the Liquidator pursuant to the *Winding-up Act* and the order of the Canadian Court appointing the Liquidator as provisional liquidator of Confederation, and for greater certainty excludes CLIC (U.S.).
- (e) “**Canadian Policyholders**” means all of the Policyholders other than U.S. Policyholders and Policyholders having claims or rights under the U.K. Policies.
- (f) “**Canadian Prior-Ranking and Pari Passu Claims**” means the costs and expenses incurred by, or on behalf of, the Liquidator in winding-up the Canadian Estate, including the actual and necessary costs of preserving or recovering the Canadian Assets, the cost of complying with all contractual obligations incurred by the Liquidator, all costs assessed against the insurance industry under Section 687 of the *Insurance Companies Act*, S.C. 1991, c.47, and claims for taxes which rank ahead of or pari passu with the claims of Canadian Policyholders, as well as claims which:
 - (i) are asserted or assertible against the Liquidator or the Canadian Estate; and
 - (ii) relate to events alleged to have occurred, or obligations alleged to have been incurred, on or prior to the Effective Date; and
 - (iii) if successful, would rank prior to or pari passu with the claims of Policyholders, or which have been asserted as ranking prior to or pari passu with such claims and which the

Liquidator, with the approval of the Canadian Court, has compromised with an agreement that they shall be treated as such.

For greater certainty, Canadian Prior-Ranking and Pari Passu Claims exclude Claim Costs, but include CompCorp's entitlement in respect of amounts which have been advanced by CompCorp to Confederation to fund Claim Costs.

- (g) “**Claim Costs**” means amounts paid by the Rehabilitator or the Liquidator to a Policyholder in full or partial satisfaction of a claim under a Policy, or to an assumption reinsurer in consideration of its assumption of any Policy Liabilities. For greater certainty, “Claim Costs” do not include the amounts paid under Section 6.1 hereunder.
- (h) “**CLIC (U.S.)**” means Confederation Life Insurance Company (U.S.) in Rehabilitation, as constituted pursuant to the Rehabilitation Order, and if such legal estate is ordered to be liquidated, “CLIC (U.S.)” shall also mean such estate in liquidation.
- (i) “**CLIC (U.S.) Plan**” means a Plan of Rehabilitation for CLIC (U.S.) which is presented to the U.S. Court for its approval.
- (j) “**CompCorp**” means Canadian Life and Health Insurance Compensation Corporation.
- (k) “**Effective Date**” means August 12, 1994.
- (l) “**Guaranty Association**” means a guaranty association organized pursuant to the statute of any state, commonwealth or territory of the United States or the District of Columbia which has obligations to U.S. Policyholders.
- (m) “**NOLHGA**” means the National Organization of Life and Health Insurance Guaranty Associations.
- (n) “**NOLHGA Costs**” means the costs incurred by NOLHGA and Guaranty Associations which are payable by or chargeable to CLIC (U.S.) pursuant to applicable

law or the CLIC (U.S.) Plan in priority to the claims of U.S. Policyholders. For greater certainty, “NOLHGA Costs” exclude Claim Costs.

- (o) “**Policies**” means all contracts issued by Confederation which under the laws of the jurisdiction in which they were issued are considered to be contracts of insurance. However, “Policies” shall exclude liabilities under contracts of insurance issued by Confederation which vary in amount depending on the market value of a Segregated Fund (but shall include, for greater certainty, the liabilities of Confederation under such contracts which do not so vary and any guaranteed benefit portion of such contract).
- (p) “**Policyholders**” means all Persons having claims or rights under Policies, including all subrogees and assignees of such claims or rights.
- (q) “**Rehabilitation Order**” means the Order of Rehabilitation dated August 12, 1994, of the U.S. Court, as amended and restated by orders of the U.S. Court dated August 16, 1994 and September 27, 1994, nunc pro tunc to August 12, 1994.
- (r) “**Segregated Fund**” means any segregated fund consisting of a specified group of assets which was established by Confederation for the benefit of Policyholders and reflected as segregated assets on Confederation’s financial statements filed prior to the Effective Date.
- (s) “**U.K. Policies**” means the Policies which were issued by Confederation’s United Kingdom branch, as shown on the list which has been initialled by the parties simultaneously with the execution of this Agreement.
- (t) “**U.S. Assets**” means:
 - (i) the assets enumerated in Schedules “D-1” and “D-2” attached hereto;
 - (ii) all other rights, contracts, causes of action, books, records, bank accounts, certificates of deposit, funds, securities (including the State Deposits) or other and all things of value, including all real and personal property of any nature of

Confederation in the United States on August 12, 1994, as contemplated by paragraph (4) of the Amended and Restated Order of Rehabilitation referred to in Recital C above; and

- (iii) all proceeds received from and after the Effective Date in respect of any such assets.

For greater certainty, and notwithstanding the foregoing, “U.S. Assets” shall exclude the assets listed on Schedule “E”, as well as such other assets as fall into one or both of the categories set forth in clauses (ii) and (iii) above but which the Liquidator can establish, or has established, to the satisfaction of the Rehabilitator, acting reasonably, were acquired by Confederation to support its liabilities to Canadian Policyholders.

- (u) **“U.S. Court”** means the Circuit Court for the County of Ingham, State of Michigan.
- (v) **“U.S. Court Approval”** means a Final Order of the U.S. Court approving a CLIC (U.S.) Plan which includes at least the following elements:
 - (i) approval of the execution and delivery by the Rehabilitator of this Agreement and the performance of his/her obligations hereunder, which approval shall be substantially in the form shown on Schedule “F-1”;
 - (ii) approval of the election of the Rehabilitator not to transfer all or any part of the U.S. Assets to the Liquidator in response to the Liquidator’s request for such transfer made pursuant to the Canadian Court Approval and Section 164 of the *Winding-up Act*, which approval shall be substantially in the form shown on Schedule “F-2”;
 - (iii) an injunction which would take effect upon receipt of the Liquidator’s payment described in Section 6.1 and the promissory note referred to in such Section and which would permanently enjoin all U.S. Claimants from pursuing against the Liquidator and/or the Canadian Estate in any court claims which, if successful, would rank equally with or prior to the claims of Canadian Policyholders in the

Canadian Estate, which injunction shall be substantially in the form shown on Schedule “F-3”;

- (iv) a declaration that this Agreement shall be binding upon any Person who may be appointed as liquidator of CLIC (U.S.), which declaration shall be substantially in the form shown on Schedule “F-4”;
- (v) confirmation that under the CLIC (U.S.) Plan, all instruments of the type listed in Schedule “F-5” are to be treated as U.S. Policies, which confirmation shall be substantially in the form shown on Schedule “F-5”; and
- (vi) a definition of the “Payment in Full” of claims under U.S. Policies substantially in the form attached as Schedule “F-6”;

and which contains no other provisions which are inconsistent with such provisions or the other provisions of this Agreement, or which would impair or hinder the implementation of the parties’ intentions as set out in this Agreement.

- (w) **“U.S. Policies”** means the Policies held by U.S. Policyholders.
- (x) **“U.S. Policyholders”** means all Persons claiming (as an owner, payee, insured or otherwise) under an insurance policy or contract that is shown on the list which has been initialled by the parties simultaneously with the execution of this Agreement, as well as all other Persons determined by the Rehabilitator to be a policyholder of Confederation’s U.S. Branch as of the Effective Date pursuant to the claims procedure set forth in the CLIC (U.S.) Plan, and all Persons having claims or rights under the Policies issued such Persons, including all subrogees or assignees of such claims or rights.
- (y) **“U.S. Prior-Ranking and Pari Passu Claims”** means the costs and expenses incurred by or on behalf of the Rehabilitator in rehabilitating or liquidating CLIC (U.S.), including the actual and necessary costs of preserving or recovering the U.S. Assets, the cost of complying with all contractual obligations incurred by the

Rehabilitator, all NOLHGA Costs and claims for taxes which rank ahead of or pari passu with the claims of U.S. Policyholders, as well as claims which:

- (i) are asserted or assertible against the Rehabilitator or CLIC (U.S.); and
- (ii) relate to events alleged to have occurred, or obligations alleged to have been incurred, on or prior to the Effective Date; and
- (iii) if successful, would rank prior to or pari passu with the claims of U.S. Policyholders (including, without limitation, any subrogation claim of a Guaranty Association), or which have been asserted as ranking prior to or pari passu with such claims and which the Rehabilitator, with the approval of the U.S. Court, has compromised with an agreement that they shall be treated as such.

For greater certainty, U.S. Prior-Ranking and Pari Passu Claims exclude Claim Costs, but include amounts owed Guaranty Associations in respect of Claim Costs funded by them.

- (z) “***Winding-up Act***” means the *Winding-up Act*, R.S.C. 1985, c.W.-11, as amended, and all references to the *Winding-up Act* shall mean the *Winding-up Act* as it read on the date hereof.

2. **Provisions**

- 6.3 **Payment of Residue.** If the Canadian Court Approval and the U.S. Court Approval are obtained, and all U.S. Prior-Ranking and Pari Passu Claims and the claims of U.S. Policyholders under their U.S. Policies (including, for greater certainty, subrogation claims (and such other claims as are specifically anticipated by the CLIC (U.S.) Plan) of Guaranty Associations) are thereafter satisfied in full prior to the satisfaction of the claims of Canadian Policyholders under their Policies, then all remaining U.S. Assets and Canadian Assets shall be applied to the satisfaction of the claims of Canadian Policyholders under their Policies until such claims have been satisfied in full. If the Canadian Court Approval and the U.S. Court Approval are obtained, and all Canadian Prior-Ranking and Pari Passu Claims and the claims of Canadian Policyholders under their Policies are thereafter satisfied in full prior to the satisfaction in full of the claims of U.S. Policyholders under their U.S. Policies, then all remaining Canadian Assets and U.S. Assets shall be applied to the satisfaction of the claims of U.S. Policyholders under their U.S. Policies until such claims have been satisfied in full. If the Canadian Court Approval and the U.S. Court Approval are obtained, and all Canadian Prior-Ranking and Pari Passu Claims, U.S. Prior-Ranking and Pari Passu Claims, the claims of Canadian Policyholders under their Policies and the claims of U.S. Policyholders under the U.S. Policies are thereafter satisfied in full, then all remaining Canadian Assets and U.S. Assets shall be placed under the control of the Liquidator and applied in accordance with the priority provisions of the *Winding-up Act*. For the purposes of this Section 6.3, Canadian Policyholders shall be deemed to have had their claims satisfied in full if the Liquidator declares a “Final Realization Percentage” of 100% under the assumption reinsurance agreement which the Liquidator has entered into with The Maritime Life Assurance Company (a copy of which has been provided to the Rehabilitator) and U.S. Policyholders shall be deemed to have had their claims satisfied in full if such claims have been “Paid in Full” under the terms of the CLIC (U.S.) Plan. The Liquidator will promptly notify the Rehabilitator upon his declaration of a “Final Realization Percentage” of 100% aforesaid, and the Rehabilitator will promptly notify the Liquidator upon U.S. Policyholders having had their claims “Paid in Full” as aforesaid.

- 6.4 **CompCorp Costs**. The Rehabilitator acknowledges and agrees that if after the date hereof the Canadian Court orders that all or any portion of the costs CompCorp has incurred or may incur in connection with the liquidation of the Canadian Estate be paid or reimbursed out of the assets of the Canadian Estate in priority to the claims of ordinary creditors, the costs covered by such order will be paid in full prior to the Canadian Assets being made available for the satisfaction of claims of U.S. Policyholders pursuant to Section 6.3.

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