

SECTION 19 BONDING AND INSURANCE

A. Type of Bonding

Altimum has obtained and maintains the required insurance bonding as required by the MFDA in the form of a Financial Institution Bond (FIB). Altimum's insurance carrier is The Guaranty Company of North America.

The FIB insuring losses are as follows:

1. Clause A - Fidelity

Any loss resulting directly through any dishonest or fraudulent act of any of its employees or agents, committed anywhere and whether committed alone or in collusion with others, including loss of property through any such act of any of the employees.

Such dishonest or fraudulent acts must be committed by an employee with the manifest intent:

- i) To cause the Insured to sustain such loss; and
- ii) To obtain financial benefit for the Employee or another person or entity and which, in fact, result in obtaining such benefit, other than salaries, commissions, fees, bonuses, promotions, awards, profit sharing, pensions or other employee benefits earned in the normal course of employment.

2. Clause B - On Premises

Any loss of cash and securities or other property through robbery, burglary, theft, hold-up or other fraudulent means, mysterious disappearance, damage or destruction while within any of the insured's offices, the offices of any banking institution or clearing house or within any recognized place of safe deposit, as more fully defined in the Standard Form of Financial Institution Bond:

- i) Loss of Property resulting directly from:
 - a) robbery, burglary, misplacement, mysterious unexplainable disappearance and damage thereto or destruction thereof, or
 - b) theft, false pretences, common law or statutory larceny, committed by a person present in the office or on the premises of the Insured, while the Property is lodged or deposited within offices or premises located anywhere.
- ii) Loss of or damage to:
 - a) furnishings, fixtures, supplies or equipment, excluding computers and peripheral equipment, within an office of the Insured covered under this bond resulting directly from larceny or theft in, or by

- burglary or robbery of, such office, or attempt thereat, or by vandalism or malicious mischief, or
- b) such office resulting from larceny or theft in, or by, burglary or robbery of such office or attempt thereat, or to the interior of such office by vandalism or malicious mischief, provided that:
- the Insured is the owner of such furnishings, fixtures, supplies, equipment, or office, or is liable for such loss or damage, and
 - the loss is not caused by fire.

3. Clause C - In Transit and Mail

Any loss of cash and securities or other property through robbery, burglary, theft, hold-up, misplacement, mysterious disappearance, damage or destruction, while in transit or in the mail:

Loss of Property resulting directly from robbery, common law or statutory larceny, theft, misplacement, mysterious unexplainable disappearance, being lost or made away with, and damage thereto or destruction thereof, while the Property is in transit anywhere in the custody of:

- i) a natural person acting as a messenger of the Insured (or another natural person acting as messenger or custodian during an emergency arising from incapacity of the original messenger), or
- ii) a Transportation Company and being transported in an armoured motor vehicle, or
- iii) a Transportation Company and being transported in a conveyance other than an armoured motor vehicle provided that covered Property transported in such manner is limited to the following:
 - a) Records, whether recorded in writing or electronically, and
 - b) Certificated Securities issued in Registered Form and not endorsed, or Certificated Securities with restrictive endorsements, and
 - c) Negotiable Instruments not payable to bearer, or Negotiable Instruments not endorsed, or Negotiable Instruments with restrictive endorsements.

Coverage under this Insuring Agreement begins immediately upon receipt of such Property by the natural person or Transportation Company and ends immediately upon delivery to the designated recipient or its agent.

4. Clause D - Forgery or Alteration

Any loss through forgery or alteration of any cheques, drafts, promissory notes or other written orders or directions to pay sums in cash, excluding securities, as more fully defined in the Standard Form:

Loss resulting directly from:

- i) Forgery or alteration of, on, or in any Negotiable Instrument (except an Evidence of Debt), Acceptance, Withdrawal Order, receipt for the withdrawal of Property, Certificate of Deposit or Letter of Credit;
- ii) Transferring, paying, or delivering any funds or Property or establishing any credit or giving any value on the faith of any written instructions or advices directed to the Insured and authorizing or acknowledging the transfer, payment, delivery, or receipt of funds or Property, which instructions or advices purport to have been signed or endorsed by any customer of the Insured or by any financial institution but which instructions or advices either bear a signature which is a Forgery or have been altered without the knowledge and consent of such customer or financial institution.

A mechanically reproduced facsimile signature is treated the same as a handwritten signature.

5. Clause E – Securities

Any loss through having purchased or acquired, sold or delivered, or acted upon securities or other written instruments which prove to have been forged, counterfeited, raised or altered, or lost or stolen, or through having guaranteed in writing or witnessed any signatures upon any transfers, assignments, or other documents or written instruments, as more fully defined in the Standard Form:

Loss resulting directly from the Insured having, in good faith, for its own account or for the accounts of others,

- i) Acquired, sold, or delivered, or given value, extended credit or assumed liability on the faith of, any original
 - a) Certificated Security,
 - b) Deed, mortgage, or other instrument conveying title to, or creating or discharging a lien upon, real property,
 - c) Evidence of Debt,
 - d) Instruction, or
 - e) Statement of Uncertificated Security,

Which

- i) Bears a signature of any maker, drawer, issuer, endorser, assignor, lessee, transfer agent, registrar, acceptor, surety, guarantor, or of any person signing in any other capacity which is a Forgery, or

- ii) is altered, or
- iii) is lost or stolen;
- iv) guaranteed in writing or witnessed any signature upon any transfer, assignment, bill of sale, power of attorney, Guarantee, or any items listed in a) through c) above;
- v) acquired, sold or delivered, or given value, extended credit or assumed liability, on the faith of any item listed in a) or b) above which is a Counterfeit.

A mechanically reproduced facsimile signature is treated the same as a handwritten signature.

6. Clause F – Counterfeit Currency

Loss resulting from the receipt by the insured, in good faith, of any Counterfeit Money.

7. Clause G – Redemption of Canada Savings Bonds

Loss resulting directly from the Insured paying or redeeming, or guaranteeing or witnessing any signature upon any Canada Savings Bonds which shall have been Forged, Counterfeited, raised or otherwise altered, or lost or stolen or on which the request for payment shall have been Forged.

B. Riders

Altimum also maintains an Agent Rider and a Notice of Termination To SROs by Registered Mail Rider.

The Agent rider reads as follows:

Loss resulting directly from dishonest or fraudulent acts committed by an agent acting alone or in collusion with others.

1. Such dishonest or fraudulent acts must be committed by the agent with the manifest intent:

- a) To cause the Insured to sustain such loss; and
- b) To obtain financial benefit for the Agent and which, in fact, result in obtaining such benefit, other than salaries, commission, fees, bonuses, promotions, awards, profit sharing, pensions, or other benefits earned in the normal course of the agency relationship.

2. As used in this rider Agent means a natural person, firm or corporation engaged or authorized by written agreement with the Insured to solicit applications on behalf of the Insured for products issued or distributed by the Insured. The term Agent shall be deemed to include the partners, officers and employees of such

Agent and all such persons shall collectively be deemed to be one person for the purposes of Sections 4 and 5 of this rider.

3. In the ON PREMISES Insuring Agreement any reference to an office of the Insured shall be deemed to include an office of an Agent.

C. Termination or Cancellation

Altimum is aware that in the event of the take-over of the Dealer by another institution or entity, Altimum will ensure that there is bond coverage which provides a period of twelve months from the date of such take-over within which to discover the losses, if any, sustained by Altimum prior to the effective date of such takeover and Altimum will pay, or cause to be paid, any applicable additional premium.

D. Insurance Amounts Required

Altimum currently maintains not less than the minimum amount of insurance required by the MFDA rules to be maintained (subsection 4.4.1 of the Rules).

1. Altimum is a Level 2 dealer who is required to have insurance coverage of \$50,000 per loss for each Approved Person up to a maximum of \$200,000.
2. Altimum is also required to add to its minimum coverage 1% of the base amount, ensuring that for each clause, the minimum amount does not exceed \$25,000,000.

Altimum is aware that if a dealer has insufficient coverage, Altimum shall be deemed to be complying with Rule 4 provided that any such deficiency does not exceed 10 percent of the insurance requirement and that evidence is furnished within two months of the dates of completion of the monthly operations questionnaires and the annual audit that the deficiency has been corrected. If the deficiency is 10% or more of the insurance requirement, then Altimum must take action to correct the deficiency within 10 days of its determination and Altimum shall immediately notify the MFDA.

Altimum's FIB contains a deductible amount of at least \$5,000 to which all claims made under the bond are subject. (The deductible is currently \$25,000.)

The Compliance Officer is the individual responsible for ensuring that Altimum has adequate insurance coverage by assessing current and future business conditions and examining the effect of outstanding claims, if and when they occur.

The Compliance Officer is also responsible for ensuring that Altimum's operating procedures are in compliance with terms of the insurance policy in order to prevent material breaches of insurance policies, which could lead to denial of coverage.

If a claim arises, the Compliance Officer will ensure that there is an investigation and documentation of the cause of such claim to reduce or eliminate future exposure to

similar losses. In addition to senior management of Altimum, the MFDA also has to be notified of any claims made against bonding and insurance coverage.

The Compliance Officer is aware that bonding and insurance are in addition to participation in the required contingency trust fund contributions. Altimum is currently a participant in the Ontario Contingency Trust Fund and the MFDA Investors Protection Corporation (MFDA IPC).

In addition to the types and amounts of insurance required, Altimum will consider what insurance and bonding should be obtained.