

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

**IN THE MATTER OF
RELIANCE INSURANCE COMPANY**

**AND IN THE MATTER OF THE
INSURANCE COMPANIES ACT, S.C. 1991, C.47, AS AMENDED**

**AND IN THE MATTER OF THE
WINDING-UP AND RESTRUCTURING ACT, R.S.C. 1985, C.W-11, AS AMENDED**

BETWEEN:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

**REPORT OF KPMG INC., THE LIQUIDATOR OF
RELIANCE INSURANCE COMPANY – CANADIAN BRANCH**

(Motion returnable April 8, 2008)

TABLE OF CONTENTS

I.	THE MOTION	1
II.	OVERVIEW OF THE ESTATE	2
	A. Policy Payments	2
	B. Proposed Fifth Distribution	4
	C. The Future of the Estate	4
III.	BACKGROUND	5
	A. General Background	5
	B. Reliance (Canada)'s Insurance Business	6
IV.	FINANCIAL STATUS OF THE ESTATE	7
	A. Overview	7
	B. Assets	9
	<i>Vested Assets</i>	9
	<i>Reinsurance</i>	10
	<i>Summary</i>	11
	C. Liabilities	12
	<i>No Call for Claims to Date</i>	12
	<i>Loss Claims</i>	13
	<i>Non-Booked Claims</i>	14
	<i>Liability Claims Projection Process</i>	15
V.	MAJOR ACTIVITIES OF THE LIQUIDATOR	16
	A. Administration	16
	B. Third Party Administrators	18
	C. Stakeholders	19
	<i>PACICC</i>	19
	<i>U.S. Liquidator</i>	19
	<i>Policyholders</i>	20
	D. Reinsurers	21
	<i>Ongoing Reinsurance Dealings</i>	21
	<i>Cavell Scheme of Arrangement</i>	22
	<i>Reinsurance Litigation</i>	23
	E. Summary of Activities	25
VI.	LIQUIDATOR'S ACCOUNTS AND PROFESSIONAL FEES	27
	A. Financial Statements	27
	B. Professional Fees	28
	<i>Goodmans LLP</i>	28
	<i>KPMG Inc.</i>	30
VII.	FIFTH DISTRIBUTION	31
	A. Scheme of Distribution	31
	B. Approach to Distribution	32
	C. Calculation of Dividends	33
	D. Related Matters	33

VIII. RECOMMENDATIONS.....34

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

**IN THE MATTER OF
RELIANCE INSURANCE COMPANY**

**AND IN THE MATTER OF THE
INSURANCE COMPANIES ACT, S.C. 1991, C.47, AS AMENDED**

**AND IN THE MATTER OF THE
WINDING-UP AND RESTRUCTURING ACT, R.S.C. 1985, C.W-11, AS AMENDED**

BETWEEN:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

**REPORT OF KPMG INC., THE LIQUIDATOR OF
RELIANCE INSURANCE COMPANY – CANADIAN BRANCH**

April 1, 2008

I. THE MOTION

- 1. This report is respectfully filed in support of a motion by KPMG Inc., the liquidator (the “Liquidator”) of the insurance business in Canada of Reliance Insurance Company (“Reliance (Canada)”) for an Order:
 - a) passing the accounts of the Liquidator for the period October 1, 2006 to December 31, 2007 (the “Period”), as reflected in the financial statements of Reliance (Canada);

- b) approving the professional fees of the Liquidator and of its counsel (the "Professional Fees") for the Period;
- c) approving and authorizing a fifth interim distribution of 20% of valid and allowed loss claims (the "Fifth Distribution"), bringing total distributions to 100% thereof, as claims are allowed, and related relief.

II. OVERVIEW OF THE ESTATE

A. Policy Payments

2. Pursuant to Orders of this Court, the Liquidator has paid policyholders and claimants the following benefits since the commencement of the liquidation of Reliance (Canada) in 2001:

- a) defence costs;
- b) valid claims up to the greater of \$250,000 or the amount, if any, of the voluntary compensation payment of the Property and Casualty Insurance Compensation Corporation ("PACICC") that may be paid under its Memorandum of Operations;
and
- c) valid claims not covered by PACICC, and claims under the Meridian program, up to \$25,000

(collectively, the "Policy Payments").

A copy of the Order appointing the Liquidator and authorizing the Policy Payments is attached as Schedule "A" (the "Appointment Order"). This Court has extended the date for making the Policy Payments from time to time, the latest extension being to further Order of the Court.

3. This Court further approved, on June 26, 2003, a first interim distribution (the "First Distribution") to policyholders and claimants of 25% of their valid and allowed claims.
4. On September 2, 2004, this Court approved a second interim distribution (the "Second Distribution") to policyholders and claimants of a further 25% of their valid and allowed claims, bringing the total distributions to 50%.
5. On December 21, 2005, this Court further approved a third distribution (the "Third Distribution") to policyholders and claimants of a further 15% of their valid and allowed claims, bringing the total distributions to 65%.
6. On December 15, 2006, this Court approved a fourth distribution (the "Fourth Distribution") to policyholders and claimants of a further 15% of their valid and allowed claims, bringing the total distributions to 80%.
7. The Liquidator therefore now pays policyholders and claimants the greater of (i) the Policy Payments and (ii) 80% of their valid and allowed claims, being the cumulative First, Second, Third and Fourth Distributions.

B. Development Since Fourth Distribution

8. The Liquidator has continued to make progress in the administration of the estate since the approval of the Fourth Distribution. Small claims continued to be closed during the Period on an efficient basis, with the use of third party administrators where appropriate, including on programs such as Meridian, Family and Groupe PPP (described below). Further complex claims have also been resolved during the Period. The collection of reinsurance from some markets continues to prove challenging for companies in run-off, however the Liquidator continues to pursue collection of reinsurance. The reinsurance market has generally been difficult, and collection problems are an industry-wide issue.

C. The Future of the Estate

9. The Liquidator will continue the run-off of Reliance (Canada)'s business in an orderly manner, dealing with policy liabilities and collection of reinsurance on a commercially reasonable basis. Given the nature of Reliance (Canada)'s business, the run-off process can be expected to take many years. The consulting actuary retained by the Liquidator to calculate actuarial liabilities estimates that the run-off will continue to 2019, but that the number of payments will decline going forward.
10. As previously reported, the Liquidator pursued in 2004 an intensive marketing program for the policy liabilities. This did not result in a transaction. The Liquidator has continued to monitor market conditions. The achievement of a 100% dividend rate will be a positive development in this regard, and the Liquidator contemplates soliciting bids for the balance of the business.

III. BACKGROUND

A. General Background

11. Reliance Insurance Company (“Reliance”) is a property and casualty insurer in the United States of America, domiciled in the Commonwealth of Pennsylvania. Reliance carried on business in Canada as a “foreign company”, within the meaning of the *Insurance Companies Act*, through a branch. In October 2000, Reliance (Canada) stopped issuing new policies and began “running off” (winding-down) its existing business.
12. Reliance was ordered liquidated by Order of the Commonwealth Court of Pennsylvania dated October 3, 2001, under the Pennsylvania *Insurance Department Act of 1921*. The Commissioner of Insurance for Pennsylvania (then M. Diane Koken) was appointed liquidator (the “U.S. Liquidator”).
13. By Orders of this Court made December 3, 2001, the insurance business of Reliance (Canada) was ordered wound-up pursuant to the provisions of the *Winding-up and Restructuring Act*, and KPMG Inc. was appointed provisional liquidator.
14. In the Appointment Order (Schedule “A” hereto), this Court appointed the U.S. Liquidator and PACICC as inspectors. By order dated January 30, 2002, this Court ordered that the Superintendent of Financial Institutions of Canada (the “Superintendent”) may attend meetings of inspectors, be included in the service list, and attend and be heard in matters before this Court.

15. The inspectors are not opposing this motion. Also, the Superintendent has advised that it takes no position on this motion.

B. Reliance (Canada)'s Insurance Business

16. Reliance (Canada) wrote a very diverse set of policies. Within the classes of liability insurance that it wrote, Reliance (Canada) specialized in providing coverage for professional liability, directors' and officers' liability, pollution and environmental liability and product liability. While some of Reliance (Canada)'s policies were "claims made", meaning that claims must be reported during the term of the policy or within a defined period thereafter, a substantial portion of its policies were "occurrence" based. These occurrence based policies cover liabilities incurred during the policy period that may not become manifest for years. This latter business is known as "long tail" insurance.

17. Reliance (Canada) also wrote policies with lengthy policy periods.

18. In addition, Reliance (Canada) acted as a reinsurer for other insurers. The resulting "assumed reinsurance" is treated as insurance under the *Insurance Companies Act*, and is accorded the same priority as policy loss claims under the *Winding-up and Restructuring Act*.

19. In October 2000, Reliance (Canada) voluntarily stopped writing new policies, effectively beginning the winding down of its business. At the beginning of the liquidation, excluding the warranty programs, there were 16 policies still in force, with all other

policies having expired or been cancelled, and there were over 1,100 outstanding claims. In addition, Reliance (Canada) had "incurred but not reported" ("IBNR") claims for which it may ultimately be put on notice and to which it will have to respond, primarily on the occurrence-based policies.

20. As at December 31, 2007 there were 208 open claims, and all policy terms have expired. The last certificates in the Meridian warranty program expired July 31, 2007, and as at December 31, 2007 there were no open claims under any of the warranty programs.

IV. FINANCIAL STATUS OF THE ESTATE

A. Overview

21. The First Distribution was based on the financial status of the estate at March 31, 2003. A copy of the Order of this Court dated June 26, 2003 approving and authorizing the First Distribution is attached as Schedule "B".
22. The Second Distribution was based on the financial status of the estate at June 30, 2004. A copy of the Order of this Court dated September 2, 2004 approving and authorizing the Second Distribution is attached as Schedule "C".
23. The Third Distribution was based on the financial status of the estate at September 30, 2005. A copy of the Order of this Court dated December 21, 2005 approving and authorizing the Third Distribution is attached as Schedule "D".

24. The Fourth Distribution was based on the financial status of the estate as at September 30, 2006. A copy of the Order of this Court dated December 15, 2006 approving and authorizing the Fourth Distribution is attached as Schedule "E".
25. This Court has also passed and approved the accounts of the Liquidator for the periods (i) from the winding-up order to September 30, 2003, (ii) from October 1, 2003 to June 30, 2004, (iii) from July 1, 2004 to September 30, 2005, and (iv) from October 1, 2005 to September 30, 2006, as respectively reflected in the Orders referenced above.
26. Attached as Schedule "F" are the unaudited financial statements for the estate as at December 31, 2007, prepared in a manner consistent with the financial statements before this Court as at September 30, 2006 and previously, and with the same system of internal controls to safeguard the accuracy and reliability of the financial reporting process.
27. In this Report, the Liquidator will generally compare the financial status of the estate at December 31, 2007 to its status at September 30, 2006, the date as of which this Court last reviewed the estate's status for the purpose of authorizing a distribution and passing accounts.
28. As noted in previous Reports, a key characteristic of the Reliance (Canada) claims profile has been its "lumpiness." That is, a significant number of its policies do not have frequent claims, but, if claims occur, they tend to be severe. As further progress is made in dealing with the claims and more information becomes available on which to assess them, the Liquidator adjusts the policy liabilities. In particular, where claims are resolved for amounts lower than the amounts reserved for them, the policy liabilities are reduced,

and where more information becomes available to indicate a higher exposure than has been reserved, the policy liabilities are increased. Increases normally also have the effect of increasing the reinsurance recoverables since these claims are generally reinsured at significant levels. Accordingly, fluctuations in the estimated level of surplus are to be expected, given the volatility of the portfolio.

29. During the Period, the Liquidator made substantial progress in the resolution of claims where the potential existed for there to be a material adverse impact on the estate.
30. The estate surplus has been increased from approximately \$78.8 million at September 30, 2006 to \$92.2 million at December 31, 2007. This is attributable to a number of factors, principally being progress in the reinsurance collections and positive developments in the policy liabilities. An actuarial review was completed in February 2008, as at December 31, 2007, and showed that the reported losses were less than expected over the preceding year, which resulted in a lower IBNR value.

B. Assets

Vested Assets

31. Reliance operated within Canada on a branch basis, with the approval of the Superintendent. The conditions for the Superintendent's approval of the operation of a branch in Canada include the vesting in trust with the Superintendent of assets having a prescribed value (the "Vested Assets"), and filings, at least annually, of financial information disclosing both assets for which the branch is entitled to take credit under the

Insurance Companies Act and liabilities that it is required to report as liabilities of the branch, also under the *Insurance Companies Act*.

32. As at December 31, 2007, the cash and investments total approximately \$140.9 million.

Reinsurance

33. The other major asset of Reliance (Canada) is reinsurance, consisting of:
- a) reinsurance covering only the liabilities of Reliance (Canada) ("Canadian Reinsurance"); and
 - b) reinsurance entered into through Reliance's head office ("International Reinsurance"), which reinsures both Reliance (Canada) policies as well as policies written through the U.S. operations.
34. The percentage of Reliance (Canada)'s case reserves that is reinsured changes over time as the composition of the case reserves changes. As at September 30, 2006 approximately 47% of Reliance (Canada)'s gross case reserves were reinsured. Of this amount, approximately 71% was Canadian Reinsurance and 29% was International Reinsurance. As at December 31, 2007, approximately 42% of Reliance (Canada)'s gross case reserves were reinsured, approximately 85% of which was Canadian Reinsurance and 15% International Reinsurance. These percentages do not reflect estimates for uncollectible reinsurance due to credit, collection or contractual risk. Over 76.6% of the reinsurance on the gross reserves as at December 31, 2007 is with reinsurers rated "A" or higher.

35. By December 31, 2007, the Liquidator had collected approximately \$89.5 million in reinsurance since the beginning of the liquidation, with approximately \$16.9 million of this since September 30, 2006. Reinsurance receivables (amounts billed to reinsurers), net of a provision for uncollectible reinsurance, were approximately \$9.6 million at December 31, 2007, down from \$11.97 million at September 30, 2006. Reinsurance recoverables (being amounts referable to (i) reported claims not yet billed and (ii) IBNR, net of a provision for uncollectible reinsurance), were approximately \$22.9 million as at December 31, 2007, down from approximately \$36.9 million at September 30, 2006. (Since December 31, 2007 the Liquidator has collected an additional sum of approximately \$2.8 million).

Summary

36. As at September 30, 2006, the value of Reliance (Canada)'s assets was approximately \$201.4 million, and cumulative claims and related expenses paid from the commencement of the liquidation to September 30, 2006 totalled \$112.5 million. As at December 31, 2007, the value of Reliance (Canada)'s assets was approximately \$178.7 million. Cumulative unpaid claims and related expenses totalled approximately \$76.7 million. Below is a summary breakdown for the estate as of December 31, 2007, September 30, 2006 and September 30, 2005:

	December 31, 2007 (in millions)	September 30, 2006 (in millions)	September 30, 2005 (in millions)
Cash or Investments	\$140.9	\$148.8	\$142.2
Reinsurance receivables and recoverables net of estimate for uncollectible reinsurance	\$32.6	\$46.9	\$71.1
Miscellaneous	\$5.2	\$5.7	\$5.7
Total	\$178.7	\$201.4	\$219.6
Cumulative unpaid claims and related expenses	\$76.7	\$112.5	\$94.7

C. Liabilities

37. The Liquidator retained a third party actuary to perform actuarial and claims reviews since the Fourth Distribution. At September 30, 2006, the estimated value of the policy liabilities was \$113.6 million. As at December 31, 2007, the estimated value was \$77.5 million, determined as described below.

No Call for Claims to Date

38. The Liquidator has not undertaken a call for policyholder claims to date and is not recommending one at this time because the Liquidator believes such a call would be disproportionately expensive and inefficient at this point, given the long tail nature of Reliance (Canada)'s policies, as policyholders would likely file contingent claims of a

magnitude that would make such a claims process effectively meaningless. As such, the Liquidator has relied on, and continues to rely on, actuarial projections to reach a view as to the total claims exposure of the estate.

Loss Claims

39. There are basically three categories of loss claims:

- a) claims that are settled or otherwise resolved (the "Resolved Claims"). Since the Fourth Distribution, the Liquidator has resolved approximately 265 claims having a total approximate value of \$15.1 million. As at December 31, 2007:
 - (i) approximately 18,300 claims having a total approximate value of \$130.4 million have been resolved, through settlement or otherwise, since the beginning of the liquidation;
 - (ii) of those, the Liquidator paid approximately 260 claims in full for approximately \$10.6 million since the Fourth Distribution, bringing the total claims paid in full in accordance with the Court authorized Policy Payments to approximately 18,240 claims, having a value of approximately \$65.97 million; and
 - (iii) the remaining 64 claims either do not qualify for PACICC coverage or exceed PACICC limits. Policy Payments (or, if greater, the cumulative distribution amount of 80%) have been made on account of these claims in the amount of approximately \$51.7 million, but a balance of approximately \$12.8 million remains outstanding;

- b) claims that have been reported but not yet resolved (the "Reported Claims"). As at December 31, 2007, there were 208 Reported Claims outstanding, down from 283 at September 30, 2006, but outstanding gross case reserves were reduced by approximately \$10.4 million, from approximately \$40.2 million to \$29.9 million. Case reserves are adjusted as additional information on the estimated amount of a claim becomes known during the course of its settlement. (As discussed earlier, this change reflects the volatility and "lumpiness" of Reliance (Canada)'s portfolio); and
- c) the provision for IBNR and for development in Reported Claims.

Non-Booked Claims

- 40. As described in previous reports, there is the potential that certain claims that were not reported in the books of Reliance Canada may be valid claims against Reliance (Canada) ("Non-Booked Claims"). The Non-Booked Claims would arise from policies written outside Canada, and which, arguably, should have been reported in the books of Reliance Canada.
- 41. The U.S. Liquidator agreed to advise the Liquidator if any Non-Booked Claims are identified in the liquidation of Reliance in the U.S., including as a result of the U.S. call for claims that expired on December 31, 2003.
- 42. Based on the information available, the Liquidator is of the view that the total value of the Non-Booked Claims, if any, would be immaterial and would not have an impact on the estate's ability to pay all Reliance (Canada)'s valid claims in full.

43. If necessary to resolve the issue, the Liquidator will be seeking the directions of this Court with respect to the bringing forward of any claim of a party who believes they have a Non-Booked Claim properly assertable against Reliance (Canada), and with respect to whether the alleged Non-Booked Claim should be allowed in the Canadian estate.

Liability Claims Projection Process

44. The Liquidator has applied the same methodology in projecting the policy liabilities for the purpose of this Report as for the Fourth Distribution. The Liquidator has undertaken an extensive review of the policy liabilities, including retaining the services of the consulting actuary who acted for Reliance (Canada) before it was ordered to be wound-up. Representatives of the U.S. Liquidator have also reviewed the actuarial projections as of December 31, 2007, and the case reserves on which there is significant volatility, and have shared their results, which the Liquidator has taken into account in establishing the policy liabilities.
45. Actuarial projections typically consider:
- a) the current level of reserves;
 - b) the history of claims development;
 - c) the nature of the liabilities underwritten and the terms of the policies;
 - d) industry experience and current developments with respect to similar kinds of policies and liabilities; and

e) the potential for adverse deviation (a provision against claims developing negatively in comparison to past experience).

46. Actuaries then reach a view as to the total policy liabilities to which the insurer will be exposed, including a provision for IBNR. While the actuaries generally provide a single best estimate, there is clearly a range for valuing the total liabilities, depending on the degree of certainty to be achieved. For instance, in some circumstances, it would be within accepted actuarial standards to indicate a best estimate with a 55% degree of confidence, meaning that the liabilities would exceed the estimate 45% of the time and be less 55% of the time. In going concern situations, this may be considered appropriate.

47. The Liquidator instructed the actuaries to confirm their best estimate of the policy liabilities in accordance with accepted actuarial standards. The Liquidator then carefully reviewed the analysis underlying the actuarial estimates in reaching the estimate of \$77.5 million for policy liabilities as at December 31, 2007.

V. MAJOR ACTIVITIES OF THE LIQUIDATOR

A. Administration

48. On being appointed, the Liquidator considered Reliance (Canada)'s complex claims, and the seniority and reputation of its employees, and consulted with the U.S. Liquidator and PACICC. The Liquidator determined that the best interests of the estate would be served by maintaining continuity, to the extent possible, through retaining existing Reliance (Canada) staff and that this would result in cost savings. At the beginning of the

liquidation there were 17 employees. As at December 31, 2007, 6 employees remained (two being part-time).

49. Reliance (Canada) employees perform day-to-day administration, including instructing defence counsel and outside adjusters, dealing with counsel on coverage issues, administering reinsurance collections, performing accounting and financial reporting with respect to claims and reinsurance functions, and liaising with PACICC and staff of the U.S. estate.
50. The Liquidator maintains responsibility for the conduct of the liquidation. The Liquidator is responsible for all strategic initiatives and major decisions and, as appropriate, is involved in supervising and augmenting, where necessary, the day-to-day activities performed by former Reliance (Canada) employees. The Liquidator performs the functions specific to the liquidation, including the development of policies and procedures for claims handling and authorities, the institution of internal controls, reporting to the Court and stakeholders, supervising and coordinating legal counsel, monitoring developments in the U.S. liquidation, and providing insureds with information. The Liquidator reviews all claims decisions involving claims that meet criteria established in co-operation with PACICC and the U.S. Liquidator, performs the financial reporting, is actively involved in reinsurance collections, makes all investment decisions, instructs and consults with the actuary, and assists on an as-needed basis with the process of resolving claims. A further summary of the Liquidator's activities is set out below.

B. Third Party Administrators

51. Reliance (Canada) also had arrangements with third party administrators who were responsible for the administration of claims in a number of programs, the major ones including:

- a) Meridian;
- b) Groupe PPP, a financial guarantee program underwritten in the U.S., covering automobile dealers in Quebec;
- c) Gap Program, a financial warranty program;
- d) Family Program, a personal lines program in British Columbia; and
- e) Environmental Program, administered by ECS Inc. in the U.S.

52. Each of the programs is unique in respect of the volume, magnitude and complexity of its claims, and with respect to the discretion accorded the third party administrators. In each case, the Liquidator reviewed the program and the nature of the relationship between the administrator and Reliance (Canada). In assessing the continued use of the third party administrators, the Liquidator considered their cost, the potential prejudice if the administration were disrupted and the quality of their work. As previously reported, the Liquidator determined that it was appropriate to maintain the relationships, but introduced additional controls and reporting requirements, as it considered necessary, and regularly reviews the status of the administrations. The Meridian, Groupe PPP and Gap Programs all expired during the Period.

C. Stakeholders

PACICC

53. The Liquidator entered into a loan and services agreement with PACICC on December 3, 2001, approved by this Court in the Appointment Order.
54. PACICC reviews for its approval payments in excess of \$25,000 in respect of claims to which it responds, in accordance with its Memorandum of Operations. The Liquidator regularly consults with PACICC concerning the progress of the estate.

U.S. Liquidator

55. By virtue of ss. 161(9) of the *Winding-up and Restructuring Act*, the U.S. Liquidator has an on-going interest in the administration of Reliance (Canada). Furthermore, before the liquidation, Reliance (Canada) depended on Reliance for many services, including information services and technology. In addition Reliance underwrote insurance policies which were later allocated to Reliance (Canada), entered into reinsurance treaties which also covered Reliance (Canada) liabilities and collected reinsurance proceeds on its behalf, and had ultimate decision-making power for setting Reliance (Canada)'s claims reserves and for settlements.
56. Accordingly, to prevent disruption to the administration of Reliance (Canada) and in recognition of the U.S. Liquidator's interest in the Canadian estate, the U.S. Liquidator, the Superintendent and the Liquidator entered into a protocol, dated November 28, 2001, providing for cooperation with respect to use of information systems, collection of

reinsurance, administration of claims, and the sale process for the policy liabilities. The protocol remains in force and close co-operation between the two Liquidators has continued. However, the Liquidator remains cognizant at all times of balancing the interests of all stakeholders.

Policyholders

57. The Liquidator has been in regular contact with policyholders, third party claimants and relevant counsel concerning the financial status of the estate, particularly with respect to both the timing and quantum of future distributions. The Liquidator recognizes the difficulties the liquidation poses, particularly at the time of claims settlement discussions, and has been as open and helpful as appropriate in the circumstances.
58. One of the most significant resolutions of policyholder claims in the administration of Reliance (Canada) took place in the Period. There had been numerous, and extensive, claims with respect to the Fredericton Moncton Toll Highway Project (also known as the Fredericton-Moncton Highway Project), a significant construction endeavour to build a road link from Fredericton to Moncton. Reliance (Canada) had issued insurance to Maritime Road Development Corporation ("MRDC") and other participants in the project. Numerous claims had been made with respect to the insurance by MRDC and others relating to a complex set of litigation and other asserted claims, amounting to a massive insurance claim of tens of millions of dollars.
59. After extensive examinations for discovery and document review, and expert opinions having been exchanged, the Liquidator was ultimately successful in directly negotiating

with the claimants a full and final settlement and release of the insureds and Reliance (Canada), among others.

60. The resolution, in the Liquidator's view, was highly favourable to the estate of Reliance (Canada) and has played a large role in the decision of the Liquidator to recommend at this time the Fifth Distribution.

61. The settlement was completed just prior to the end of the Period.

D. Reinsurers

Ongoing Reinsurance Dealings

62. With respect to its efforts to collect reinsurance proceeds, the Liquidator has also been in regular contact with reinsurers, either directly, through Reliance or through reinsurance brokers.

63. Through extensive efforts, including meetings with U.K. reinsurers in London, the Liquidator has continued to make progress in reinsurance collections. This is evidenced by the increase in reinsurance collections discussed in this Report. However, the Liquidator continues to expend significant effort in the collection of reinsurance, so as to maximize the ongoing collection of reinsurance recoveries. An ongoing issue in reinsurance collections is the inter-relationship between the Canada and U.S. estates.

Cavell Scheme of Arrangement

64. The Liquidator previously reported that it responded to a very significant development in the reinsurance market, namely the first importation into Canada of a “solvent scheme of arrangement” by Cavell Insurance Company Limited (“Cavell”), a U.K. reinsurer of Reliance (Canada).
65. The Liquidator has previously reported on the significance of solvent schemes of arrangement on reinsureds such as Reliance (Canada). As also discussed previously, the Liquidator took care to attempt to respond to Cavell’s scheme of arrangement appropriately, including participating in the application brought by Cavell in this Court for an Order to recognize, and give other relief in respect of, the U.K. Court’s proceeding. The Liquidator also participated in the appeal to the Court of Appeal of the disposition of the application, which appeal upheld recognition of the scheme of arrangement but confirmed the several important conditions that had been imposed on the recognition of the U.K. Court’s proceeding, including that the recognition would not fetter the powers of the office of the Superintendent of Financial Institutions with respect to vested assets of Cavell in Canada.
66. The Liquidator also contemporaneously spent considerable effort in an attempt to reach agreement with Cavell as to the commutation value of Reliance (Canada)’s reinsurance with Cavell.
67. However, during the Period, the Liquidator became aware of a belief in the market that Cavell was not going to pursue the scheme of arrangement after all. The Liquidator

accordingly made inquiries and confirmed that this was indeed the case, and requested that Cavell take steps to effect a formal termination of the recognition proceedings.

68. Cavell ultimately sought and, on May 25, 2007 obtained this Court's dismissal of its recognition proceedings and the lifting of the stay that initially had been granted by this Court in support of the recognition proceedings.

Reinsurance Litigation

69. In May 2007, following the refusal by several reinsurers to pay, the Liquidator commenced a motion for directions within this winding-up proceeding seeking the Court's direction as to whether the respondent reinsurers were entitled to withhold payments to Reliance (Canada) in respect of Reliance (Canada) policy liabilities that had been reinsured by them. These reinsurers were asserting that they had claims against Reliance (but not Reliance (Canada)) in their capacity as reinsureds of Reliance, and that they could set-off such claims against what they owed as reinsurers of Reliance (Canada) policies. The Liquidator took the position that there was no entitlement by these reinsurers to such set-off as against Reliance (Canada).

70. The Liquidator named as respondents to its motion for directions numerous reinsurers from which the Liquidator claimed reinsurance payments under numerous treaties.

71. Various Lloyd's Syndicates as well as two Swiss Re entities opposed the Liquidator's motion. The balance of the respondent reinsurers paid what was owed to Reliance

(Canada) following service of the motion, with the exception of one reinsurer that is in arrangement proceedings in the U.K. and did not oppose the motion.

72. In the first instance, the opposing Lloyd's Syndicates and the Swiss Re entities moved for a stay of the Liquidator's motion, on the basis that they had an entitlement to force the Liquidator to arbitration of the issues.

73. The stay motion came on for hearing before the Honourable Madam Justice Pepall of this Court.

74. By Order dated October 5, 2007, Justice Pepall dismissed the reinsurers' stay motion.

75. The parties had earlier agreed to a hearing date for the Liquidator's motion for directions on its merits. Following Justice Pepall's dismissal of their stay motion, the reinsurers initially sought an adjournment of the previously agreed hearing date for the Liquidator's motion for directions. However, at a scheduling hearing, before the Honourable Mr. Justice Cumming, they agreed to a hearing date of October 29, 2007 for that motion.

76. The Lloyd's Syndicates that had unsuccessfully brought the motion to stay the Liquidator's proceeding then settled their reinsurance obligations with the Liquidator. The Swiss Re entities, however, proceeded to serve both a Notice of Appeal of Justice Pepall's October 5, 2007 Order (i.e., purportedly appealing as of right) and a motion for leave to appeal that Order. (In the meantime, the Liquidator's motion for directions as against the remaining respondents proceeded to be heard by Justice Pepall, as scheduled, on October 29, 2007.)

77. The Liquidator was of the view that there was no appeal as of right, and that leave to appeal Justice Pepall's dismissal of the stay motion was indeed required on the part of Swiss Re, under the *Winding-up and Restructuring Act*. The Liquidator therefore brought a motion to quash the appeal that had been brought by way of notice of appeal. The Liquidator also opposed the motion for leave to appeal by Swiss Re.
78. On January 25, 2008 the Court of Appeal quashed the appeal brought by Swiss Re's notice of appeal, and dismissed Swiss Re's motion for leave to appeal, with costs.
79. On February 29, 2008, Justice Pepall released her Reasons for Decision on the Liquidator's motion for directions and granted the relief sought by the Liquidator, ruling that the remaining respondent reinsurers were not entitled to set-off. The Swiss Re entities have since moved for leave to appeal of Her Honour's decision, and the Liquidator will be opposing that motion.

E. Summary of Activities

80. In summary, the Liquidator's major activities for the Period included:
- a) Claims adjudication and administration including:
 - (i) overseeing payment of defence and adjustment costs;
 - (ii) overseeing a comprehensive review of all claims including estimating range of possible outcomes;

- (iii) engaging in extensive discussions with policyholders, claimants and their counsel concerning the estate, including its financial status; and
 - (iv) settling or otherwise resolving approximately 265 claims having a value of approximately \$15.1 million, including the largest claim in the estate.
- b) Reinsurance, including:
- (i) reconciling accounts;
 - (ii) enforcing liquidation clauses;
 - (iii) dealing with the claim of Reliance (Canada) in the Cavell solvent scheme of arrangement, and Cavell's withdrawal of the scheme;
 - (iv) proceedings in this Court and in the Court of Appeal for Ontario to enforce reinsurance obligations and challenge alleged rights of set-off asserted by various reinsurers;
 - (v) entering into agreements with reinsurers and the U.S. Liquidator to facilitate collection of both the Canadian and the International Reinsurance; and
 - (vi) collecting receivables, including direct communication with reinsurers, several visits with U.K. reinsurers in London, and cooperative efforts with the U.S. Liquidator;
- c) reviewing and amending as necessary the investment policy and managing investments in consultation with its investment manager;

- d) reporting regularly to PACICC and the U.S. Liquidator;
- e) performing extensive review of policy liabilities as at December 31, 2007;
- f) maintaining the external website; and
- g) continuing to monitor the U.S. liquidation, and discussions with the U.S. Liquidator, with respect to cross-border issues and other matters that impact the Canadian estate, including the significant issues with respect to reinsurance collections.

VI. LIQUIDATOR'S ACCOUNTS AND PROFESSIONAL FEES

A. Financial Statements

81. As in the past, the Liquidator does not consider that a traditional statement of receipts and disbursements would provide a meaningful and informative reflection of the financial position of the estate. The Liquidator has therefore prepared the financial statements (unaudited), attached as Schedule "F".
82. The financial statements have been prepared in a manner consistent with the statements approved previously by this Court. The Liquidator maintains a system of internal controls to safeguard the accuracy and the reliability of the financial reporting process.

B. Professional Fees

83. The Liquidator retains professional advisors to assist in the administration of the liquidation from time to time. The Liquidator is familiar with the services provided by each of the professional advisors and has reviewed their invoices. Detailed invoices were timely received and carefully reviewed in detail by senior administrative and management level members of the Liquidator's staff. The invoices were reviewed for accuracy, adequate detailed information describing the work performed and by whom, the time spent and when it was spent, the rate and amount billed, possible redundant charges, reasonableness and overall compliance with the terms of retention. Clarifications and adjustments of items included in the invoices were requested where it appeared appropriate.
84. The Liquidator believes that the Professional Fees of its advisors are proper, fair and reasonable and were incurred in furtherance of the best interests of the estate of Reliance (Canada).

Goodmans LLP

85. Goodmans LLP ("Goodmans") has acted as counsel to the Liquidator from the commencement of the liquidation and has acted or advised on all matters described in this report. The Liquidator is familiar with their services and has reviewed their invoices in detail and with the care described above.

86. At the commencement of the liquidation, Goodmans agreed to a discount from its then current market rates of approximately 15% to 20%, with rates not to be increased for one year. In fact, rates were not increased for the first two years of the liquidation, but were raised by 4.79%, effective October 1, 2003, reflecting the change in the Consumer Price Index over the two year period. The discount from its current market rates is approximately 25% to 35%.

87. Attached as Schedules "G", "H" and "I", respectively, are:
 - a) a summary invoice from Goodmans to the Liquidator for the Period;
 - b) a summary of the hours and average hourly rates of each of Goodmans' personnel who dedicated more than 30 hours to the estate for the Period; and
 - c) a brief description of the areas of concentration of each of Goodmans' personnel who dedicated more than 30 hours to the estate for the Period.

88. Detailed supporting records, including time sheets, are available should this Court wish them produced. An affidavit attesting to the accuracy of the fees and disbursements is also being filed.

89. The Liquidator is satisfied that Goodmans' fees are proper, fair and reasonable, that time was appropriately spent and that Goodmans' fees were incurred in furtherance of the best interests of the estate.

KPMG Inc.

90. The Liquidator has kept careful and detailed records of all time spent by Liquidator personnel on the estate. The Liquidator has instituted internal controls to ensure no redundant or inappropriate charges are made. The Liquidator applied the same standard for review to its accounts as to accounts of other professionals, described above. As discussed above, the Liquidator maximized efficiency and reduced costs by retaining former Reliance (Canada) employees and third party administrators where prudent and appropriate.
91. At the commencement of the liquidation, the Liquidator agreed to a discount from its then current market rates of approximately 15% to 20%, with rates not to be increased for one year. In fact, rates were not increased for the first two years of the liquidation, but were raised by 4.79%, effective October 1, 2003, and an additional 2.4% effective October 1, 2004, 3.4% effective October 1, 2005, 3% effective October 1, 2006, and 2.6% effective October 1, 2007, reflecting the changes in the Consumer Price Index. The discount from current market rates is approximately 15% to 25%.
92. Attached as Schedules "J", "K" and "L", respectively, are:
- a) an invoice from the Liquidator to the estate for the Period;
 - b) a summary of the hours and average hourly rates of each of the Liquidator's personnel who dedicated more than 30 hours to the estate for the Period; and

- c) a brief description of the areas of concentration of each of such of the Liquidator's personnel for the Period.

93. Detailed supporting records, including time sheets, are available should this Court wish them produced. An affidavit attesting to the accuracy of the fees and disbursements is also being filed.

94. The Liquidator respectfully requests that this Court pass the accounts of the Liquidator, as reflected in the financial statements, and approve the Professional Fees.

VII. FIFTH DISTRIBUTION

A. Scheme of Distribution

95. Section 161 of the *Winding-up and Restructuring Act* sets out the scheme of priorities in the liquidation of insurance companies. Since Reliance (Canada) was a branch, regard must be had to the foreign insurance company provisions, being subsections 161(6) through (9). Because Reliance (Canada) wrote only property and casualty insurance and not life insurance, subsections 161(7) and (8) are not relevant. For purposes of this distribution, the relevant priorities are:

- a) costs of the liquidation;
- b) policyholders for loss claims. (The policies in force at the commencement of the liquidation have not been cancelled, so it is not necessary to address the ranking of unearned premium at this time);

- c) ordinary creditors.

B. Approach to Distribution

96. As with all the previous distributions, the Liquidator has introduced further elements of conservatism, beyond those in the loss projection methodology, for purposes of reaching its recommendations with respect to this distribution, including:

- a) all costs for the completion of the liquidation have been estimated on a very conservative basis;
- b) reserves have been taken for certain policies at their full limits, and notwithstanding that claims have not been asserted at limits; and
- c) two major sources of uncertainty remain in the estate: reinsurance and Non-Booked Claims. To deal with these uncertainties in this distribution, the Liquidator is ascribing no value to reinsurance that has not been collected, and is building into the assumptions conservative values for the Non-Booked Claims.

97. The Liquidator is also taking into account \$2.8 million collected on reinsurance since December 31, 2007.

98. Based on the foregoing, and the actuarial projections of the estate's total claims exposure, referenced earlier in this Report, the Liquidator recommends authorization for a further distribution at this time of 20% of valid policyholder loss claims, bringing the total distributions to 100% of valid and allowed claims. The Liquidator is of the view that there is no realistic scenario under which this distribution would prejudice any party.

Since some of the Resolved Claims that exceed Policy Payments are substantial, the Liquidator considers that this dividend is now appropriate.

C. Calculation of Dividends

99. If the Fifth Distribution is approved by the Court, each claimant's dividend will be calculated by deducting, from the amount to which it would otherwise be entitled, any Policy Payments it received before the date of the Fifth Distribution, in accordance with paragraph 12 of the Appointment Order. In effect, those Policy Payments are treated as advances on the distribution.

100. PACICC compensated claims are assigned to PACICC under paragraph 15 of the Appointment Order. However, the Liquidator has in fact made the PACICC Policy Payments, which were treated as a loan to PACICC under the loan agreement dated the December 3, 2001 and approved by this Court in the Appointment Order. The distributions accordingly reduce the amount outstanding thereunder, and the Fifth Distribution, if authorized, will reduce the amount outstanding under the loan to nil. Further, as a consequence of reaching a 100% distribution level, the loan agreement terminates.

D. Related Matters

101. At a later date, the Liquidator anticipates recommending to this Court a call for claims process in respect of potential claims of former Reliance (Canada) brokers and agents, whose claims would rank after policyholder claims. Further, the Liquidator anticipates

seeking this Court's direction and advice as to the entitlement to, calculation of and terms of post-liquidation interest from the ultimate surplus available with respect to, and as among, the claims of various stakeholders, including policyholders, the US Liquidator and ordinary claimants (such as the agents and brokers).

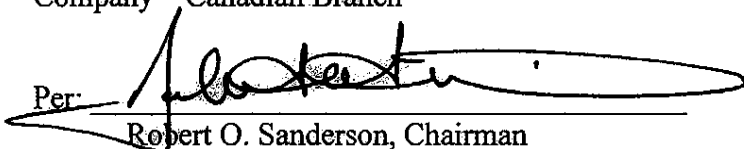
VIII. RECOMMENDATIONS

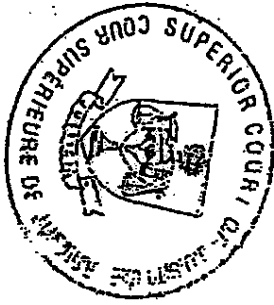
102. The Liquidator therefore respectfully recommends that this Court approve the Fifth Distribution of 20% on all valid and allowed loss claims, to be calculated as set out above, bringing total distributions to 100%, as claims are allowed, and the related relief sought.

ALL OF WHICH IS RESPECTFULLY SUBMITTED,

**KPMG INC., the Liquidator of Reliance Insurance
Company - Canadian Branch**

Per: _____


Robert O. Sanderson, Chairman



Court File No. 01-CL-4313

**ONTARIO
SUPERIOR COURT OF JUSTICE**

COMMERCIAL LIST

THE HONOURABLE) MONDAY THE 3RD DAY
MR. JUSTICE FARLEY) OF DECEMBER, 2001
)
)
)

**IN THE MATTER OF
RELIANCE INSURANCE COMPANY**

**AND IN THE MATTER OF THE
INSURANCE COMPANIES ACT, S.C. 1991, C.47, AS AMENDED**

**AND IN THE MATTER OF THE
WINDING-UP AND RESTRUCTURING ACT, R.S.C. 1985, C.W-11, AS AMENDED**

BETWEEN:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

ORDER

THIS APPLICATION made by the Applicant was heard this day without a jury at Toronto; in the presence of counsel for the Applicant, for the Respondent, for KPMG Inc., and for the Property and Casualty Insurance Compensation Corporation ("PACICC"), no one opposing.

ON READING the Notice of Application and the evidence filed by the parties, and on hearing submissions of counsel for the parties:

1. THIS COURT ORDERS that the service of the Notice of Application and the materials herein be and it is hereby good and sufficient notice thereof and that any further service of the Notice of Application and materials herein be and it is hereby dispensed with.

2. THIS COURT ORDERS that KPMG Inc. be and is hereby appointed as provisional liquidator (the "Liquidator") of the insurance business in Canada of the Respondent, including the assets in Canada of the Respondent, together with its other assets held in Canada under the control of its chief agent, including, without limitation, all amounts received or receivable in respect of its insurance business in Canada ("Reliance (Canada)").

3. THIS COURT ORDERS that the giving of security by the Liquidator upon its appointment as liquidator be dispensed with.

4. THIS COURT ORDERS that all moneys belonging to Reliance (Canada) received by or on behalf of the Liquidator and its agents shall be paid into a chartered bank to the account of the Liquidator immediately after the receipt thereof and an account or accounts shall be opened immediately, provided, however, that the Liquidator shall have the discretion to deposit funds to and use the bank accounts currently in the name of or operated by Reliance (Canada).

5. THIS COURT ORDERS that any cheques or drafts in respect of policies, issued by Reliance (Canada) prior to the making of the winding-up order herein and which are presented for payment thereafter, may be paid out of the estate and effects of Reliance (Canada).

6. THIS COURT ORDERS that the amount recoverable from, due or owed by any reinsurer to Reliance (Canada) shall be paid to the Liquidator and shall not be reduced as a result of this Order or the winding-up order, notwithstanding any terms or contractual agreement to the contrary, and that any payment made directly by a reinsurer to an insured or other creditor or claimant of Reliance (Canada) or Reliance Insurance Company shall not diminish or reduce or affect such reinsurer's obligation to Reliance (Canada).

7. THIS COURT ORDERS that the Liquidator is authorized to cure such defaults and effect such arrangements as may be required to reinstate such reinsurance affecting the operations of Reliance (Canada), as the Liquidator deems to be in the interest and for the protection of policyholders, creditors and claimants of Reliance (Canada).

8. THIS COURT ORDERS that the Liquidator may pay all valid policyholder claims, including claims in respect of unearned premiums, to the amount of \$25,000 or the amount, if any, of the voluntary compensation payment of PACICC which may be paid under the terms of its Memorandum of Operations (the "PACICC Voluntary Compensation Payment") until April 30, 2002 or such later date as this Court may order, subject to paragraph 9 hereof, and such payments shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada).

9. THIS COURT ORDERS that the Liquidator may pay all valid claims including claims in respect of unearned premiums under the Meridian and other warranty and surety programs to the amount of \$5,000 or the amount, if any, of the PACICC Voluntary Compensation Payment until January 31, 2002 or such later date as this Court may order, and such payments shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada).

10. THIS COURT ORDERS that the Liquidator may, after consultation with the Inspectors, make such other payments as the Liquidator in the Liquidator's discretion deems advisable in the circumstances in respect of policies of Reliance (Canada) and such payments shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada).

11. THIS COURT ORDERS that in addition to the payments referred to in paragraphs 8 and 10, until April 30, 2002 or such later date as this Court may order, the Liquidator may pay and continue to pay all reasonable legal and other costs, incurred to and including April 30, 2002, which Reliance (Canada) is obligated to pay for defending any insureds against losses under Reliance (Canada)'s policies in accordance with the applicable policy ("Defence Costs"), subject to the applicable terms and limits of such policies. For greater certainty, all payments of Defence Costs shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada) and to form part of the expenses of the liquidation as a first charge on the assets of the estate. However, if the applicable policy so provides, such payments shall be taken into account in determining the amount which would otherwise be distributed to the respective policyholders and claimants, or otherwise paid on account of Defence Costs, as the case may be, at such time as any further distributions or similar arrangements are made in respect of their policies.

12. THIS COURT ORDERS that any payments made by the Liquidator pursuant to paragraphs 5, 8, 9, 10 and 11 hereof, other than payments made pursuant to clerical errors (the "Payments"):

- (a) shall be deemed to be payments made on account of claims in the liquidation of Reliance (Canada) and shall be deducted from the amount which would otherwise

be distributed at such time as further distributions or similar arrangements are made in respect of such claims;

- (b) shall be deemed to have been made in accordance with this Order;
- (c) in respect of any policy shall not obligate the Liquidator to make further payments in respect thereof; and
- (d) which may have exceeded the ultimate amount which the Liquidator determines is available for distribution to the respective policyholders and claimants, or available for payment of Defence Costs, as the case may be, (collectively, the "Overpayments") shall be deemed not to be preferences and shall not be repayable by the recipients or policyholders.

Neither the Liquidator nor the Liquidator's agents, advisers or employees shall be liable to any person in respect of the Overpayments.

13. THIS COURT ORDERS that PACICC, which shall designate from time to time one or more persons as its representative, and the Insurance Commissioner of the Commonwealth of Pennsylvania in her capacity as Liquidator of the Respondent or her designee are appointed inspectors (collectively the "Inspectors") to assist and advise the Liquidator in the winding-up of Reliance (Canada).

14. THIS COURT ORDERS that the Inspectors may apply to this Court on motion for directions concerning any matter relating to the liquidation of Reliance (Canada).

15. THIS COURT ORDERS that each claim in respect of which PACICC makes a PACICC Voluntary Compensation Payment (a "Compensated Claim") shall be deemed to be and

shall hereby be assigned in its entirety to PACICC without specific assignment or further steps required. PACICC shall be entitled to assert each Compensated Claim in the Liquidation. Reliance (Canada) is hereby deemed to have acquiesced to the assignment of Compensated Claims provided for herein and to have received a copy of the deed of assignment. PACICC and the Liquidator shall be deemed to be and shall hereby be released and forever discharged from any and all claims, actions, losses and liabilities which any person has or may have at present or in the future with respect to each Compensated Claim.

16. THIS COURT ORDERS that, notwithstanding the provisions of paragraph 15, the Liquidator may make funds in the estate available to PACICC from time to time to be used by PACICC to make PACICC Voluntary Compensation Payments pursuant to the terms and conditions of the loan and services agreement made effective as of the date hereof between the Liquidator and PACICC, which is hereby approved.

17. THIS COURT ORDERS that the Liquidator is authorised and empowered to act as administrator of insurance coverage on behalf of third parties who assume all or part of the insurance risk, and to be paid the fees earned by Reliance (Canada), pursuant to the terms of the contracts between Reliance (Canada) and such third parties.

18. THIS COURT ORDERS that the Liquidator is entitled forthwith to possession of all of Reliance (Canada)'s books, accounts, securities, documents, papers, computer programs and data, registers and records of any kind ("Books and Records") and that Reliance (Canada), its present and former shareholders, directors, officers, employees, salespeople and agents, accountants, auditors, solicitors, trustees, and every person having knowledge of this Order and having possession or control of such Books and Records, do forthwith deliver over to the Liquidator or to the Liquidator's agent all such Books and Records.

19. THIS COURT ORDERS that all persons, including, without limitation, employees, brokers, legal counsel, insurance agents, third party administrators, or salespeople having access to or knowledge of the affairs of Reliance (Canada) do co-operate with the Liquidator in providing information or documents necessary or incidental to the liquidation of Reliance (Canada).

20. THIS COURT ORDERS that any entity which has custody or control of any data processing information and records (including but not limited to source documents, all types of electronically stored information, master tapes or any other recorded information) relating to Reliance (Canada), shall transfer custody and control of such records in a form readable by the Liquidator to the Liquidator as of the date of this Order, unless instructed to the contrary by the Liquidator.

21. THIS COURT ORDERS that any entity furnishing claims processing or data processing services to Reliance (Canada) shall maintain such services and transfer any such accounts to the Liquidator as of the date of this Order, unless instructed to the contrary by the Liquidator.

22. THIS COURT ORDERS that Reliance (Canada) and its Chief Agent, officers, trustees, employees, consultants, agents, and legal counsel shall: surrender peacefully to the Liquidator the premises where Reliance (Canada) conducts its business; deliver all keys or access codes thereto and to any safe deposit boxes; advise the Liquidator of the combinations or access codes of any safe or safekeeping devices of Reliance (Canada) or any password or authorization code or access code required for access to data processing equipment; and shall deliver and surrender peacefully to the Liquidator all of the assets, books, records, files, credit cards, and other property of Reliance (Canada) in their possession or control, wherever located,

and otherwise advise and cooperate with the Liquidator in identifying and locating any of the foregoing.

23. THIS COURT ORDERS that all persons, firms, corporations and other entities having agreements, whether written or oral, with Reliance (Canada) for the supply of goods or services, be and they are hereby enjoined from terminating, accelerating, suspending, modifying, determining or cancelling such agreements without the written consent of the Liquidator or leave of this Court, and that all such parties shall continue to comply with their obligations under such agreements or otherwise on terms currently provided so long as the Liquidator pays the normal prices or charges for such goods or services incurred after the date of this Order in accordance with usual payment terms or as may hereafter be negotiated by the Liquidator from time to time.

24. THIS COURT ORDERS that all persons, firms, corporations and other entities be and they are hereby enjoined from disturbing or interfering with the occupation, possession or use by the Liquidator of any premises occupied or leased by Reliance (Canada) as at November 8, 2001 except upon further Order of this Court. From November 8, 2001 and for the period of time that the Liquidator occupies any leased premises, the Liquidator shall pay occupation rent to each lesser based upon the regular monthly base rent that was previously paid by Reliance (Canada) in respect of the premises so occupied or as may hereafter be negotiated by the Liquidator from time to time.

25. THIS COURT ORDERS that all persons, firms, corporations and other entities be and they are hereby enjoined from disturbing or interfering with computer software, hardware, support and data services or with utility services, including, but not limited to, the furnishing of oil, gas, heat, electricity, water, telephone service (including at present telephone numbers used by Reliance (Canada)) or any other utilities of like kind furnished to Reliance (Canada) and they

are hereby enjoined from discontinuing or altering any such utilities or services to the Liquidator except upon further order of this Court, so long as the Liquidator pays the normal prices or charges for such goods and services incurred after November 8, 2001 as the same become due in accordance with usual payment terms or as may hereafter be negotiated by the Liquidator from time to time.

26. THIS COURT ORDERS that, without limiting the generality of the foregoing, and except upon further order of this Court having been obtained on at least 7 days' notice to the Liquidator:

- (a) all persons, firms, corporations and other entities be and they are hereby restrained from terminating, cancelling or otherwise withdrawing any licences, permits, approvals or consents with respect to or in connection with Reliance (Canada) as they were on November 8, 2001;
- (b) any and all proceedings or steps taken or that may be taken, wheresoever taken, by any person, firm, corporation or entity, including, without limitation, any of the policyholders or creditors of Reliance (Canada), suppliers, co-insurers, reinsurers, contracting parties, depositors, lessors, tenants, co-venturers or partners (hereinafter, in this paragraph "Claimants") against or in respect of Reliance (Canada) shall be and hereby are stayed and suspended;
- (c) the right of any Claimant to make demands for payment on or in respect of any guarantee or similar obligation or to make demand or draw down under any letters of credit, bonds or instruments of similar effect, issued by or on behalf of Reliance (Canada), to take possession of, to foreclose upon or to otherwise deal

with any property, wheresoever located, of Reliance (Canada) whether held directly or indirectly, as principal or nominee, beneficially or otherwise, or to continue any actions or proceedings in respect of the foregoing, is hereby restrained;

(d) the right of any Claimant to assert, enforce or exercise any right (including, without limitation, any right of dilution, buy-out, divestiture, forced sale, acceleration, termination, suspension, modification or cancellation or right to revoke any qualification or registration), option or remedy available to it including a right, option or remedy arising under or in respect of any agreement (including, without limitation, any contract, debt instrument, guarantee, option, co-ownership agreement or any agreement of purchase or sale but not including any eligible financial contract, as defined in the *Winding-up and Restructuring Act*) to which Reliance (Canada) is a party, arising out of, relating to or triggered by the occurrence of any default or non-performance by Reliance (Canada) or the making or filing of these proceedings, or any allegation contained in these proceedings, is hereby restrained; and

(e) all Claimants are restrained from exercising any extra judicial remedies against Reliance (Canada), including, without limitation, the registration or re-registration of any securities owned by Reliance (Canada) into the name of such persons, firms, corporations or entities or their nominees, the exercise of any voting rights attaching to such securities, the retention of any payments or other distributions made in respect of such securities, any right of distress, repossession, or consolidation of accounts in relation to amounts due or accruing due in respect of

or arising from any indebtedness or obligation of Reliance (Canada) as of the date hereof.

27. THIS COURT ORDERS that no action lies against the Liquidator, any of its affiliates (the "Affiliates") any director, officer, agent, representative or employee of the Liquidator or of the Affiliates, any entity or person (or director, officer, agent, representative or employee of any such entity or person) acting under the direction of the Liquidator, or the Inspectors or any director, officer, agent, representative or employee thereof, for anything done or omitted to be done in good faith in the administration of the liquidation of Reliance (Canada) or in the exercise of the Liquidator's powers under this Order or otherwise.

28. THIS COURT ORDERS that no suit, action or other proceeding shall be proceeded with or commenced against the Liquidator, the Affiliates, any director, officer, agent, representative or employee of the Liquidator, or of the Affiliates, any entity or person (or director, officer, agent, representative or employee of any such person) acting under the direction of the Liquidator, or the Inspectors or any director, officer, agent, representative or employee thereof, except with leave of this Court and subject to such terms as this Court may impose.

29. THIS COURT ORDERS that the Liquidator may, without the approval, sanction or intervention of this Court and without previous notice to the policyholders or creditors of Reliance (Canada) or any other person,

- (a) take control of the estate and effects of Reliance (Canada) or such part thereof as the Liquidator shall determine;

- (b) ~~bring or defend any action, suit or prosecution or other legal proceeding, civil or criminal, in the Liquidator's own name as liquidator or in the name or on behalf of Reliance (Canada), as the case may be;~~
- (c) carry on the business of Reliance (Canada) so far as it is necessary or incidental to the winding-up of Reliance (Canada);
- (d) lease or mortgage or otherwise realize upon the undertaking, property and assets of Reliance (Canada) or any part or parts thereof;
- (e) sell the real and personal property, effects, intangibles and choses in action of Reliance (Canada), including all or any portion of Reliance (Canada)'s contracts and products and related assets, including, without limitation, Reliance (Canada)'s lists of policyholders and customers, by public auction or private contract, and transfer the whole thereof to any person or company, or sell them in parcels;
- (f) do all acts and execute, in the name of and on behalf of Reliance (Canada), all deeds, receipts, and other documents, and for that purpose use, when necessary, the seal of Reliance (Canada), and file any elections (tax or otherwise), objections or registrations, and file any notices, all as may be necessary or desirable in the opinion of the Liquidator for the better liquidation of Reliance (Canada);
- (g) prove, rank, claim and draw dividends in the matter of the bankruptcy, insolvency or sequestration of any contributory, for any sum due to Reliance (Canada) from the contributory, and take and receive dividends in respect of the bankruptcy, insolvency or sequestration, as a separate debt due from that contributory and rateably with the other separate creditors;

- (h) draw, accept, make and endorse any bill of exchange or promissory note in the name of and on behalf of Reliance (Canada);
- (i) give discharges of mortgages and other securities, partial discharges of mortgages and other securities, and pay property taxes and insurance premiums on mortgages and other securities taken in favour of Reliance (Canada);
- (j) pay such debts of Reliance (Canada) as may be necessary to be paid in order to properly preserve and maintain the undertaking, property and assets of Reliance (Canada) or to carry on the business of Reliance (Canada);
- (k) surrender possession of any premises occupied by Reliance (Canada) and disclaim any leases entered into by Reliance (Canada);
- (l) apply for any permits, licences, approvals or permissions as may be required by any governmental or regulatory authority;
- (m) re-direct Reliance (Canada)'s mail;
- (n) enter into any eligible financial contracts, as defined in the *Winding-up and Restructuring Act*;
- (o) take possession and control of all securities in which Reliance (Canada) has an interest (directly or indirectly) and exercise all rights that may be enjoyed by a holder of such securities including, without limitation, rights (i) that may arise by virtue of the holder being a party to a shareholder or similar agreement that may, by way of example, restrict the powers of the directors to manage or supervise the management of the business and affairs of the corporation, (ii) to receive

information, (iii) to attend at and cause to be held meetings of holders of such securities, (iv) to vote such securities for the removal or election of directors and approval of significant transactions (such as the sale or disposition of all or substantially all of the assets of such company or the winding-up, liquidation, rehabilitation, bankruptcy, receivership, restructuring or amalgamation of such company), and (v) to sell or otherwise dispose of such securities;

- (p) compromise all calls and liabilities to calls, debts and liabilities capable of resulting in debts; and all claims, demands and matters in dispute in any way relating to or affecting the assets of Reliance (Canada) or the winding-up of Reliance (Canada), on the receipt of such sums, payable at such times, and generally on such terms as are agreed on by the Liquidator;
- (q) make such compromise or other arrangements with creditors or persons claiming to be creditors of Reliance (Canada) as the Liquidator deems expedient; and
- (r) do and execute all such other things as are necessary for, or incidental to the winding-up of the affairs of Reliance (Canada), including without limitation entering into agreements incurring obligations.

30. THIS COURT FURTHER ORDERS that the Liquidator may, with the approval of this Court and on such notice as the Court may direct:

- (a) arrange for the transfer or reinsurance of all or a portion of the policies of Reliance (Canada); and
- (b) cancel all or a portion of the outstanding policies of Reliance (Canada).

31. THIS COURT ORDERS that the Liquidator and any of the Liquidator's agents, officers, directors, representatives or employees shall be deemed not to be an employer or a successor employer of the employees of Reliance (Canada) within the meaning of the *Pension Benefits Act* (Ontario), *Employment Standards Act* (Ontario), the *Labour Relations Act* (Ontario) or any other Federal, Provincial or Municipal legislation governing employment or labour standards or any other statute, regulation or rule of law or equity for any purpose whatsoever and, further, that the Liquidator and any of the Liquidator's agents, directors, officers, representatives or employees shall not be and shall be deemed not to be, in possession, charge or control of the property or business or affairs of Reliance (Canada) pursuant to any Federal, Provincial or Municipal legislation, statute, regulation or rule of law or equity which imposes liability on the basis of such status including, without limitation, the *Environmental Protection Act* (Ontario), the *Canadian Environmental Protection Act*, or the *Ontario Water Resources Act*, and this shall be binding on all tribunals and administrative bodies.

32. THIS COURT ORDERS that the Liquidator may retain, employ or engage such actuaries, accountants, financial advisors, investment dealers, solicitors, attorneys, valuers or other expert or professional persons as the Liquidator deems necessary or desirable to assist the Liquidator in fulfilling the Liquidator's duties, and all reasonable and proper expenses which the Liquidator may incur in so doing shall be costs of liquidation of Reliance (Canada).

33. THIS COURT ORDERS that the Liquidator may act on the advice or information obtained from any actuary, accountant, financial advisor, ~~investment dealer~~, solicitor, attorney, valuer or other expert or professional person, and the Liquidator shall not be responsible for any loss, depreciation or damage occasioned by acting in good faith in reliance thereon.

34. THIS COURT ORDERS that the Liquidator shall be paid such remuneration as the Court Orders.

35. THIS COURT ORDERS that the Liquidator shall be at liberty to apply reasonable amounts against its remuneration, expenses and disbursements on a monthly basis and that such amounts shall constitute advances against its remuneration and expenses on, but subject to, the passing of its accounts.

36. THIS COURT ORDERS that this Order and any other orders in these proceedings shall have full force and effect in all Provinces and Territories in Canada.

37. THIS COURT SEEKS AND REQUESTS the aid and recognition of any Court or administrative body in any Province or Territory of Canada and any Canadian Federal Court or administrative body and any Federal or State Court or administrative body in the United States of America and any Court or administrative body in the United Kingdom or elsewhere to act in aid of and to be complementary to this Court in carrying out the terms of this Order.

38. THIS COURT ORDERS that the costs of this application, including the costs of the Inspectors, are to be assessed on a solicitor and his own client basis and shall be costs of liquidation of Reliance (Canada).

39. THIS COURT ORDERS that interested parties may apply to the Court for advice and directions on 7 days' notice to the Liquidator and the Inspectors, and that the Liquidator may at any time apply to this Court for advice and directions.

DEC 10 2005
RECEIVED
[Signature]

Viktoria Leubner

Registrar

THE ATTORNEY GENERAL OF
CANADA
Applicant

RELIANCE INSURANCE COMPANY
and Respondent

Court File No: 01-CL-4313

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

ORDER

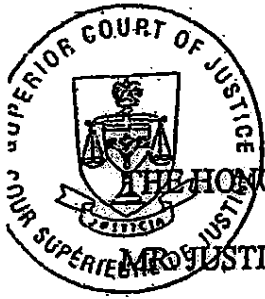
LAX O'SULLIVAN SCOTT LLP
Suite 1920
145 King Street West
Toronto, Ontario M5H 1J8

Charles F. Scott LSUC# 14534N
Brooke Shulman LSUC # 41032N
Tel: (416) 646-7997
Fax: (416) 598-3730

Solicitors for the Applicant

Court File No. 01-CL-4313

ONTARIO SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST



THE HONOURABLE

)

THURSDAY, THE 26th DAY

)

MR. JUSTICE FARLEY

)

OF JUNE, 2003

IN THE MATTER OF
RELIANCE INSURANCE COMPANY

AND IN THE MATTER OF THE
INSURANCE COMPANIES ACT, S.C. 1991, C.47, AS AMENDED

AND IN THE MATTER OF THE
WINDING-UP AND RESTRUCTURING ACT, R.S.C. 1985, C.W-11, AS AMENDED

BETWEEN:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

ORDER

THIS MOTION, brought by KPMG Inc., liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance (Canada)"), was heard this day at 393 University Avenue, Toronto, Ontario.

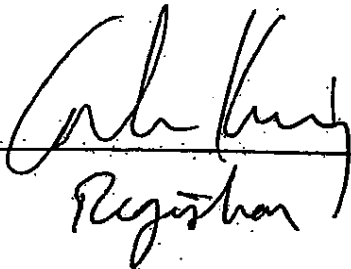
ON READING the Report of the Liquidator dated June 20, 2003, filed, the Order of this Court dated December 3, 2001 appointing the Liquidator (the "Appointment Order") and the Orders of this Court dated January 30, 2002, April 29, 2002, May 8, 2002, December 6, 2002

and March 26, 2003 (collectively the "Extension Orders"), and on hearing submissions of counsel for the Liquidator and counsel for Maritime Road Development Corporation, no one else appearing although properly served as appears from the proof of service filed:

1. **THIS COURT ORDERS** that the service of the Notice of Motion and materials herein is good and sufficient service of this motion, that the motion is properly returnable before this Court and that further service thereof upon any interested party other than those parties served be and is hereby dispensed with.

2. **THIS COURT ORDERS** that paragraphs 8, 9 and 11 of the Appointment Order, amended by the Extension Orders, are hereby further amended *nunc pro tunc* to extend the date of June 30, 2003 to December 31, 2003 or such later date as this Court may order.

3. **THIS COURT ORDERS** that the Liquidator is hereby authorized to pay a first interim distribution from the estate of Reliance (Canada) in the amount of 25% of valid and allowed policyholder loss claims, where such amount exceeds the payments authorized by paragraphs 8 and 9 of the Appointment Order.



Registrar

ENTERED AT/INSCRIT À TORONTO
ON/BOOK NO:
LE/DANS LE REGISTRE NO:

JUN 26 2003

PER/PAR:

NB

THE ATTORNEY GENERAL OF CANADA
Applicant

RELIANCE INSURANCE COMPANY
Respondent

Court File No: 01-CL-4313

ONTARIO SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

ORDER

GOODMANS LLP
Barristers & Solicitors
250 Yonge Street
Suite 2400, Box 24
Toronto, Ontario
M5B 2M6

Gale Rubenstein\LSUC # 17088E

Tel: (416) 597-4148
Fax: (416) 979-1234

Solicitors for KPMG Inc.,
Liquidator of Reliance (Canada)

G26RUBENSTGM4486124.2

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

THE HONOURABLE) THURSDAY, THE 2nd DAY
)
MR. JUSTICE FARLEY) OF SEPTEMBER, 2004

**IN THE MATTER OF
RELIANCE INSURANCE COMPANY**

**AND IN THE MATTER OF THE
INSURANCE COMPANIES ACT, S.C. 1991, C.47, AS AMENDED**

**AND IN THE MATTER OF THE
WINDING-UP AND RESTRUCTURING ACT, R.S.C. 1985, C.W-11, AS AMENDED**

BETWEEN:

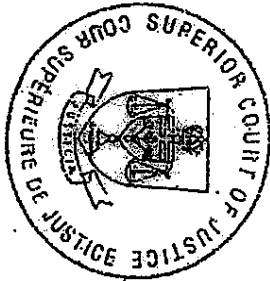
THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent



ORDER

THIS MOTION, brought by KPMG Inc., liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance (Canada)"), was heard this day at 393 University Avenue, Toronto, Ontario.

ON READING the Report of the Liquidator dated August 25, 2004 (the "Report"), the Affidavit of Gale Rubenstein sworn August 25, 2004 and the Affidavit of Robert O. Sanderson sworn August 25, 2004, filed, and on hearing submissions of counsel for the

Liquidator, no one else appearing (except for counsel for Maritime Road Development Corporation) although properly served as appears from the proof of service, filed:

1. THIS COURT ORDERS that the service of the Notice of Motion and materials herein is good and sufficient service of this motion, that the motion is properly returnable before this Court and that further service thereof upon any interested party other than those parties served be and is hereby dispensed with.

2. THIS COURT ORDERS that the accounts of the Liquidator for the period October 1, 2003 to June 30, 2004, as reflected in the financial statements of Reliance (Canada) attached to the Report, be and they are hereby passed and approved as submitted.

3. THIS COURT ORDERS that the fees and disbursements of the Liquidator and of its counsel, Goodmans LLP, for the period October 1, 2003 to June 30, 2004 be and they are hereby approved as submitted.

4. THIS COURT ORDERS that the Liquidator is hereby authorized to pay up to \$25,000 on valid claims under the Meridian program, until further order of this Court.

5. THIS COURT ORDERS that the Liquidator is hereby authorized to pay a second interim distribution from the estate of Reliance (Canada) in the amount of 25% of valid and allowed policyholder loss claims, where, and to the extent that, such amount combined with the amount of payment by way of the first interim distribution exceeds the payments authorized by either paragraph 8 of the Order of this Court dated December 3, 2001 *inter alia* appointing the Liquidator or paragraph 4 hereinabove.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

SEP 07 2004



DAVID EVANS
REGISTRAR

PER/PAR: 

THE ATTORNEY GENERAL OF CANADA
Applicant

and RELIANCE INSURANCE COMPANY
Respondent

Court File No: 01-CL-4313

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

Proceeding commenced at Toronto

ORDER

GOODMANS LLP
Barristers & Solicitors
250 Yonge Street
Suite 2400, Box 24
Toronto, Ontario
M5B 2M6

Gale Rubenstein\LSUC # 17088E

Tel: (416) 597-4148

Fax: (416) 979-1234

Solicitors for KPMG Inc.,
Liquidator of Reliance (Canada)

GOODMANS\PAQUETT\5046595.1

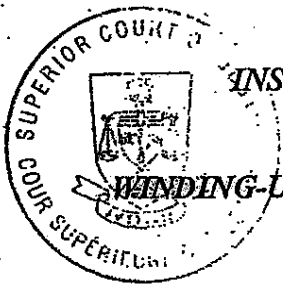
**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

THE HONOURABLE) WEDNESDAY, THE 21st DAY
)
MR. JUSTICE FARLEY) OF DECEMBER, 2005

**IN THE MATTER OF
RELIANCE INSURANCE COMPANY**

**AND IN THE MATTER OF THE
INSURANCE COMPANIES ACT, S.C. 1991, C.47, AS AMENDED**

**AND IN THE MATTER OF THE
WINDING-UP AND RESTRUCTURING ACT, R.S.C. 1985, C.W-11, AS AMENDED**



BETWEEN:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

ORDER

THIS MOTION, brought by KPMG Inc., liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance (Canada)"), was heard this day at 393 University Avenue, Toronto, Ontario.

ON READING the Report of the Liquidator dated December 14, 2005 (the "Report"), the Affidavit of Gale Rubenstein sworn December 14, 2005 and the Affidavit of I. George Gutfreund sworn December 14, 2005, filed, and on hearing submissions of counsel for

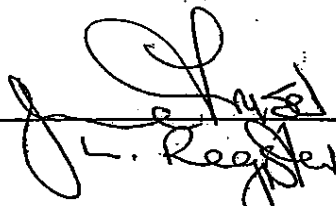
the Liquidator, and Maritime Road Development Corporation, although properly served as appears from the proof of service, filed:

1. **THIS COURT ORDERS** that the service of the Notice of Motion and materials herein is good and sufficient service of this motion, that the motion is properly returnable before this Court and that further service thereof upon any interested party other than those parties served be and is hereby dispensed with.

2. **THIS COURT ORDERS** that the accounts of the Liquidator for the period July 1, 2004 to September 30, 2005, as reflected in the financial statements of Reliance (Canada) attached to the Report, be and they are hereby passed and approved as submitted.

3. **THIS COURT ORDERS** that the fees and disbursements of the Liquidator and of its counsel, Goodmans LLP, for the period July 1, 2004 to September 30, 2005 be and they are hereby approved as submitted.

4. **THIS COURT ORDERS** that the Liquidator is hereby authorized to pay a third interim distribution from the estate of Reliance (Canada) in the amount of 15% of valid and allowed loss claims, where, and to the extent that, such amount, combined with the amount of payment by way of the first and second interim distributions, exceeds the payments authorized by paragraph 8 of the Order of this Court dated December 3, 2001 *inter alia* appointing the Liquidator.



ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

DEC 21 2005

PER/PAR: 

THE ATTORNEY GENERAL OF CANADA
Applicant

and
RELIANCE INSURANCE COMPANY
Respondent

Court File No: 01-CL-4313

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

Proceeding commenced at Toronto

ORDER

GOODMANS LLP
Barristers & Solicitors
250 Yonge Street
Suite 2400, Box 24
Toronto, Ontario
M5B 2M6

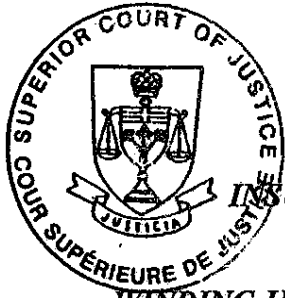
Gale Rubenstein (LSUC # 17088E)
Tel: 416-597-4148
Fax: 416-979-1234

Graham Smith (LSUC # 26377D)
Tel: 416-597-4161
Fax: 416-979-1234

Solicitors for KPMG Inc.,
Liquidator of Reliance (Canada)

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

THE HONOURABLE MR.) FRIDAY, THE 15th DAY
)
JUSTICE CUMMING) OF DECEMBER, 2006



**IN THE MATTER OF
RELIANCE INSURANCE COMPANY**

**AND IN THE MATTER OF THE
INSURANCE COMPANIES ACT, S.C. 1991, C.47, AS AMENDED**

**AND IN THE MATTER OF THE
WINDING-UP AND RESTRUCTURING ACT, R.S.C. 1985, C.W-11, AS AMENDED**

BETWEEN:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

ORDER

THIS MOTION, brought by KPMG Inc., liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance (Canada)"), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Report of the Liquidator dated December 8, 2006 (the "Report"), the Affidavit of Gale Rubenstein sworn December 7, 2006 and the Affidavit of Robert O. Sanderson sworn December 8, 2006, filed, and on hearing submissions of counsel for the

Liquidator, and for Maritime Road Development Corporation, no other party appearing, although properly served as appears from the proof of service, filed:

1. **THIS COURT ORDERS** that the service of the Notice of Motion and materials herein is good and sufficient service of this motion, that the motion is properly returnable before this Court and that further service thereof upon any interested party other than those parties served be and is hereby dispensed with.

2. **THIS COURT ORDERS** that the accounts of the Liquidator for the period October 1, 2005 to September 30, 2006, as reflected in the financial statements of Reliance (Canada) attached to the Report, be and they are hereby passed and approved as submitted.

3. **THIS COURT ORDERS** that the fees and disbursements of the Liquidator and of its counsel, Goodmans LLP, for the period October 1, 2005 to September 30, 2006 be and they are hereby approved as submitted.

4. **THIS COURT ORDERS** that the Liquidator is hereby authorized to pay a fourth interim distribution from the estate of Reliance (Canada) in the amount of 15% of valid and allowed loss claims, where, and to the extent that, such amount, combined with the amount of payment by way of the first, second and third interim distributions, exceeds the payments authorized by paragraph 8 of the Order of this Court dated December 3, 2001 *inter alia* appointing the Liquidator.

Dec 15/06 Peter A. Cumming J.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

DEC 15 2006

PER/PAR: 

THE ATTORNEY GENERAL OF CANADA
Applicant

RELIANCE INSURANCE COMPANY
Respondent

Court File No: 01-CL-4313

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

Proceeding commenced at Toronto

ORDER

GOODMANS LLP
Barristers & Solicitors
250 Yonge Street
Suite 2400, Box 24
Toronto, Ontario
M5B 2M6

Gale Rubenstein (LSUC # 17088E)
Tel: 416-597-4148
Fax: 416-979-1234

Graham Smith (LSUC # 26377D)
Tel: 416-597-4161
Fax: 416-979-1234

Solicitors for KPMG Inc.,
Liquidator of Reliance (Canada)

GOODMANS\SMITH\G5372367.2
File No. 016699

Unaudited Financial Statements of

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

In our capacity as Liquidator, we have prepared the Balance Sheet of Reliance Insurance Company, Canadian Branch (in liquidation) as at December 31, 2007, September 30, 2006, September 30, 2005, June 30, 2004, September 30, 2003 and December 3, 2001, the Statement of Earnings and Changes in Surplus for the fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004, and twenty-two months ended September 30, 2003, and the Statement of Cash Flows for the fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004, and twenty-two months ended September 30, 2003 in our capacity as liquidator. These financial statements have not been audited or reviewed.

In view of the uncertainties surrounding a branch in liquidation, the ultimate realization of the assets and liabilities will differ from the recorded amounts and the differences may be material (see notes).

Readers are cautioned that these statements may not be appropriate for their purposes.

KPMG Inc., Liquidator.
Reliance Insurance Company, Canadian Branch

March 31, 2008

(Unaudited - See Cover Page)

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)
Balance Sheet

As at December 31, 2007, September 30, 2006, September 30, 2005, June 30, 2004, September 30, 2003 and December 31, 2001

(\$000)

(Unaudited - see cover page)	December 31, 2007	September 30, 2006	September 30, 2005	June 30, 2004	September 30, 2003	December 31, 2001
Assets						
Cash and short term investments (note 4)	\$ 2,694	\$ 1,101	\$ 916	\$ 155,078	\$ 156,277	\$ 56,165
investments (note 4)	138,240	147,761	141,308	-	-	108,949
(market value: Dec/07 - \$138,632; Sep/06 - \$148,049; Sep/05 - \$140,919; Jun/04 - \$0; Sep/03 - \$0; Dec/01 - \$114,392)						
Receivable from other insurers/reinsurers	9,649	11,965	26,863	27,576	13,908	6,090
Income and premium taxes recoverable					3,070	3,446
Receivable from Reliance US (note 8)	4,848	4,848	4,848	4,848	4,181	-
Receivable from Reliance US - current balance due (note 8)	-	159	222	870	-	-
Other receivables	348	361	621	600	958	1,978
Reinsurers' share of provision for						
Unpaid claims	22,942	34,928	42,172	71,704	51,761	57,536
Unearned premiums	-	306	2,564	4,847	5,430	9,670
Estimate for deductibles on unpaid claims	-	-	78	106	1,444	2,527
Total assets	\$ 178,721	\$ 201,429	\$ 219,592	\$ 265,629	\$ 237,029	\$ 246,361

Liabilities and Surplus

Policy liabilities:						
Unpaid claims (note 5)	\$ 63,905	\$ 92,190	\$ 111,980	\$ 171,544	\$ 145,815	\$ 135,088
Unearned premiums (note 6)	-	421	3,989	8,216	9,177	15,189
Allowed claims (note 9)	12,802	20,340	24,163	33,106	17,269	-
Other liabilities	857	605	567	841	2,158	1,917
	77,564	113,556	140,699	213,707	174,419	152,194
Payables:						
Due to Reliance US (note 8)	4,848	4,848	4,848	4,848	4,848	-
Due to other insurers/reinsurers	539	576	260	142	189	192
Brokers	2,388	2,573	2,656	2,916	2,924	3,389
Taxes and other creditors	1,150	1,096	1,034	1,031	1,653	1,826
Reinsurance deposits	10	10	10	10	10	3,494
Total liabilities	86,499	122,659	149,507	222,654	184,043	161,095
Surplus (note 10)	92,222	78,770	70,085	42,975	52,986	85,266
Contingent liabilities (note 11)						
Total liabilities and surplus	\$ 178,721	\$ 201,429	\$ 219,592	\$ 265,629	\$ 237,029	\$ 246,361

The accompanying notes are an integral part of the financial statements

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

Statements of Earnings and Changes in Surplus

For the fifteen months ending December 31, 2007, the twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004, and twenty-two months ended September 30, 2003
(\$000)

(Unaudited - see cover page)	October 1, 2006 to December 31, 2007	October 1, 2005 to September 30, 2006	July 1, 2004 to September 30, 2005	October 1, 2003 to June 30, 2004	December 3, 2001 to September 30, 2003
Revenue					
Gross premiums written	\$ -	\$ (5)	\$ (8)	\$ (12)	\$ (508)
Less: reinsurance ceded	-	938	323	(9)	(509)
Net written premiums	-	(943)	(331)	(3)	1
Net premiums earned	116	366	1,613	375	1,772
Expenses					
Claims incurred	(12,514)	(8,722)	(19,974)	12,539	42,317
Commissions and premium taxes	(10)	20	49	21	5,115
General expenses (note 13)	4,963	2,022	2,789	1,212	6,656
Foreign exchange (net claims)	1,054	2,806	(3,466)	(656)	(62)
	(6,507)	(3,874)	(20,602)	13,116	54,026
Investment income					
Interest on cash and short term investments	120	80	1,991	2,807	5,188
Write-down of investments (note 4)	(444)	(1,058)			
Interest on investments	8,363	6,219	3,031	-	7,752
Investment expenses	(220)	(187)	(123)	(36)	(74)
Realized gain (loss) on disposal of investments	(246)	-	-	-	7,245
	7,573	4,454	4,899	2,771	20,111
Income (loss) before capital taxes	14,196	8,694	27,114	(9,970)	(32,143)
Capital and other taxes	744	9	4	41	137
Net income (loss)	13,452	8,685	27,110	(10,011)	(32,280)
Surplus beginning of period	78,770	70,085	42,975	52,986	85,266
Surplus end of period	\$ 92,222	\$ 78,770	\$ 70,085	\$ 42,975	\$ 52,986

The accompanying notes are an integral part of the financial statements

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

Statement of Cash Flows

For the fifteen months ending December 31, 2007, the twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004, and twenty-two months ended September 30, 2003
(\$000)

(Unaudited - see cover page)	October 1, 2006 to December 31, 2007	October 1, 2006 to September 30, 2006	July 1, 2004 to September 30, 2005	October 1, 2003 to June 30, 2004	December 3, 2001 to September 30, 2003
Operating activities					
Premiums received	\$ -	\$ -	\$ (17)	\$ 1	\$ (82)
Reinsurance collected	16,957	25,090	32,692	6,163	8,601
Salvage, subrogation & deductibles received	578	355	1,545	578	2,332
Reduction in other receivables	(12)	42	31	481	697
Total sources	17,523	25,487	34,251	7,223	11,548
Gross claims paid	22,759	15,146	48,056	8,663	23,073
Claim expenses paid	2,623	2,661	3,406	3,136	8,393
Uncashed claim/expense cheques	-	-	-	-	(96)
Reinsurance premiums paid	-	41	23	(14)	(108)
General expenses					
Salaries	839	748	943	1,364	3,109
Office expenses	311	228	351	369	641
Legal/professional	170	135	306	138	273
Head office services	217	172	244	210	465
Sale of business expense	-	-	-	-	770
Liquidation expenses					
KPMG Inc.	771	339	1,013	818	3,121
Goodmans LLP	664	182	497	266	885
Legal - UK Reinsurance collections	509	0	-	-	-
Foreign exchange (gain)/loss	2,943	845	624	(81)	56
Income & premium taxes (incl interest paid/rec'd)	352	6	(13)	(3,405)	(22)
Foreign exchange (gain)/loss(net claims)	1,054	2,806	(3,425)	(273)	(62)
Total uses	33,212	23,309	52,025	11,191	40,498
Net cash provided by (used) in operating activities	(15,689)	2,178	(17,774)	(3,968)	(28,950)
Investing activities					
Sale (purchase) of Investments	8,978	(8,111)	(141,308)	-	113,225
Investment expenses	(179)	(178)	(95)	(36)	(74)
Interest received	8,471	6,296	5,349	2,895	15,812
Investment income	12	0	(334)	(90)	99
Cash provided by (used in) investing activities	17,282	(1,993)	(136,388)	2,769	129,062
Increase in cash and short-term investments	1,593	185	(154,162)	(1,199)	100,112
Cash and short term investments, at beginning of period	1,101	916	155,078	156,277	56,165
Cash and short term investments, at end of period	\$ 2,694	\$ 1,101	\$ 916	\$ 155,078	\$ 156,277
Cash consists of:					
Cash	\$ 1,053	\$ 1,101	\$ 916	\$ 2,856	\$ 420
Short term investments (note 4)	1,641	-	-	152,222	155,857
	\$ 2,694	\$ 1,101	\$ 916	\$ 155,078	\$ 156,277

The accompanying notes are an integral part of the financial statements

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

Notes to Financial Statements for the fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June - 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

1. Nature of the business:

The Canadian Branch of Reliance Insurance Company, which was primarily engaged in the writing of commercial property and liability insurance in Canada, commenced a voluntary wind down of its operations in Canada effective August 2000. In May 2001, Reliance Insurance Company's U.S. operations ("Reliance US") were placed under an order of rehabilitation. On October 3, 2001, Reliance US was put into liquidation and declared insolvent by the Court of Pennsylvania.

On December 3, 2001, the Ontario Superior Court of Justice (the "Court"), on the application of the Attorney General of Canada, granted an order appointing KPMG Inc. as provisional liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company, including the assets in Canada of Reliance Insurance Company, together with its other assets held in Canada under the control of its chief agent ("Reliance Canada"). By further order of the same date, the Court ordered that Reliance Canada be wound up.

Since August 2000, existing insurance policies in force have been allowed to expire and Reliance Canada has neither renewed nor cancelled existing policies, nor has it written any new business. Reliance Canada continues to run off the existing policy and claims liabilities in an orderly fashion.

Pursuant to Orders of the Court the Liquidator has paid policy holders and claimants the greater of: 80% of valid and allowed loss claims pursuant to the fourth interim distribution approved by the Court in December 2006; or the greater of \$25, or the amount, if any, of the voluntary compensation payment of the Property and Casualty Insurance Compensation Corporation ("PACICC") that may be paid under its Memorandum of Operations.

2. Basis of preparation:

The accounting policies used in the preparation of these financial statements have been selected with a view to reflecting the financial position of an insurance company that is in liquidation.

The preparation of these financial statements requires the use of estimates and assumptions that affect the reported assets and liabilities as at the date of the financial statements and the reported amount of revenue and expenses for the reporting period. The actual results will differ from these estimates and, in view of the additional uncertainties surrounding a company in liquidation, the differences may be material. Changes in estimates are recorded in the accounting period in which they are determined.

No provision has been made for future liquidation costs. Interest income earned on the assets of Reliance Canada is likely to offset the unbooked future costs of the liquidation.

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

82

Notes to Financial Statements for the fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September-30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

3. Significant accounting policies:

(a) Investments and investment income:

Investments in RBC funds (see note 4) are carried at book value equal to the net invested proceeds. Income distributions and any interest received are reinvested back into the funds. When the carrying amount is greater than the fair market value and the market rate valuation is considered temporary in nature, the carrying amount of these financial instruments is not reduced to fair market value. Where the carrying amount is greater than the fair market value, and after considering such factors as the length of time the carrying value has exceeded the fair market value and the significance of the difference in the values, and if the market rate valuation is considered to be other than temporary in nature, the investment is written down to fair market value.

Investments in term deposits and treasury bills (see note 4) are carried at cost plus accrued interest of \$11 at December 31, 2007, \$334 at June 30, 2004, \$424 at September 30, 2003 and \$325 at December 3, 2001. Bonds, including accrued interest of \$3,128, at December 3, 2001 (see note 4), are carried at amortized cost, providing for the amortization of the discount or premium on an effective yield basis to maturity.

Investment income is recorded as it is earned. Gains and losses arising on disposal of investments are on a settlement date basis, and are calculated on the basis of amortized cost.

(b) Premium revenue and unearned premiums:

Unearned premiums represent the amount of premiums written which are applicable to the unexpired terms of the policies in force or to the remaining terms of certificates issued as part of program business. Accordingly, premiums written are taken into income when earned. Although policies were generally issued for one year, Reliance Canada also wrote some multi-year policies and some program business with underlying certificates, which are multi-year.

If unearned premiums are not sufficient to pay expected claims and expenses, a premium deficiency is said to exist. Any changes in estimates of premium deficiencies recorded as net premium earned in the period in which they are determined.

The reinsurers' share of any unearned premiums, net of a provision for doubtful amounts, is recognized as amounts recoverable from reinsurers at the same time using principles consistent with the method for determining the unearned premium liability.

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

Notes to Financial Statements for the fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

(c) Provision for unpaid claims:

The provision for unpaid claims includes adjustment expenses and represents an estimate for all costs of investigating and settling claims incurred on or before the balance sheet date. The provision estimates do not take into account the time value of money or make explicit provision for adverse deviation.

The provision includes case basis estimates, and an actuarially determined "best estimate" provision for claims incurred but not reported and for development on case basis estimates ("IBNR"). These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the period in which they are determined.

(d) Reinsurance ceded:

Net premiums earned and claims incurred are recorded net of amounts ceded to, and recoverable from, reinsurers. To indicate the extent of the credit, collection and contractual risks related to third party reinsurance, estimates of amounts recoverable from reinsurers are recorded separately from the estimated provisions for unearned premiums and unpaid claims.

Amounts recoverable from reinsurers, net of a provision for doubtful amounts, are estimated and recognized at the same time and using principles consistent with Reliance Canada's method for establishing the related liability.

4. Short term investments and investments:

Short-term investments are readily convertible into cash and have maturities of less than 12 months. The carrying value of the short-term investments approximates their market value.

Composition of the cash and short term investments:

	December 31, 2007	September 30, 2006	September 30, 2005	June 30, 2004	September 30, 2003	December 3, 2001
Cash	\$ 1,053	\$ 1,101	\$ 916	\$ 2,856	\$ 420	\$ 1,263
Short term investments	1,641	-	-	152,222	155,857	54,902
Total	\$ 2,694	\$ 1,101	\$ 916	\$ 155,078	\$ 156,277	\$ 56,165

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

Notes to Financial Statements for the fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited -- \$000)

Composition of investment portfolio:

	December 31, 2007		September 30, 2006		September 30, 2005		December 3, 2001	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
RBC Cdn Money Market fund	\$ 49,031	\$ 49,031	\$ 53,243	\$ 53,243	\$ 61,506	\$ 61,506	\$ -	\$ -
RBC Short Term Income fund	69,812	70,204	77,845	78,173	71,007	70,618	-	-
RBC US Money Market fund	19,397	19,397	16,673	16,673	8,795	8,795	-	-
Bonds - Cdn Government	-	-	-	-	-	-	99,959	105,415
Bonds - Cdn Corporate	-	-	-	-	-	-	8,990	8,977
Total investments	\$ 138,240	\$ 138,832	\$ 147,701	\$ 140,009	\$ 141,308	\$ 140,019	\$ 108,949	\$ 114,392

The carrying value of the Short Term Income Fund was written down to fair value as at March 31, 2006 and September 30, 2007. The amount of the adjustments were \$1,658 at March 31, 2007 and \$444 at September 30, 2007.

5. Unpaid claims:

(a) Nature of unpaid claims:

The provision for unpaid claims and adjustment expenses (and for third party reinsurers' share thereof) are based upon estimates of the ultimate claim costs associated with claims occurring as of the balance sheet dates, including estimates for IBNR claims. These estimates are subject to variability, and the variability could be material. The variability arises because all events affecting the ultimate settlement of claims have not yet taken place and may not take place for some time. Additional factors affecting the variability include receipt of additional claim information, the continually evolving and changing regulatory and legal environment, court decisions, economic conditions, public attitudes, claims management practices, actuarial studies, the quality of the data used for projection purposes, the effect of inflationary trends on future claims handling and settlement practices, and significant changes in the severity or frequency of claims from historical trends. In addition, the longer the time required for the settlement of a group of claims, the more variable the estimates.

Reliance Canada had fronting reinsurance arrangements with other insurers and provided self-insurance facilities for selected corporate clients. Because Reliance Canada is the direct insurer under these arrangements, policyholders and claimants look to Reliance Canada for settlement of their claims. Generally Reliance Canada obtains repayment directly from the insurers or corporations. In some cases Reliance Canada holds security deposits from the insurers or corporation, which may be available to fund payment of claims. Reliance Canada is exposed to credit risk if claims exceed either the security deposits or the self-insured's ability to pay.

Reliance Canada accepted certain insurance risks that other insurance companies have underwritten ("assumed reinsurance"). Because of the necessary reliance on the ceding

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

Notes to Financial Statements for the fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

companies for information regarding reported claims, and the resulting reporting lag between the dates of occurrence and the time Reliance Canada is notified of the claims, the inherent uncertainties of estimating reserves is greater for assumed reinsurance than for direct insurance.

In the normal course of settling claims, Reliance Canada acquires rights to subrogate its claims against other parties and, in some cases, recover a portion of the loss from the policyholder as a deductible amount. Salvage and subrogation are deemed not to be material and, as such, are recorded as received. Deductible amounts, which are recoverable on liability claims, have been recognized as assets.

(b) Provision for unpaid claims:

Considerable judgement is required to evaluate claims and establish claim liabilities. The estimation of the claims provision is based on known facts and interpretation of circumstances. The basic assumptions made in establishing actuarial liabilities are best estimates of possible outcomes. Methods of estimation have been used which it is believed produce reasonable results given current information; however, the process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimate made. It is also not possible to estimate the impact of the additional uncertainties surrounding a company in liquidation on the estimation process.

The changes in the unpaid claim provisions recorded in the balance sheet as at December 31, 2007, September 30, 2006, September 30, 2005, June 30, 2004, and September 30, 2003 and their impact on the claims and adjustment expenses for the fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004, and twenty-two months ended September 30, 2003, are as follows:

	Oct 1, 2006 to Dec 31, 2007	Oct 1, 2005 to Sep 30, 2006	Jul 1, 2004 to Sep 30, 2005	Oct 1, 2003 to Jun 30, 2004	Dec 3, 2001 to Sep 30, 2003
Unpaid claims at beginning of period	\$ 92,190	\$ 111,980	\$ 171,544	\$ 145,815	\$ 135,088
Recoverable from reinsurers at beginning of period	<u>34,928</u>	<u>42,172</u>	<u>71,704</u>	<u>51,761</u>	<u>57,536</u>
Net unpaid claims at beginning of period	<u>57,262</u>	<u>69,808</u>	<u>99,840</u>	<u>94,054</u>	<u>77,552</u>
Increase(decrease) in estimated losses and Expenses for claims occurring in prior years	(12,514)	(8,722)	(19,974)	12,539	42,317
Increase(decrease) in outstanding deductibles		(60)	(30)	(65)	(1,090)
Paid on claims (net) occurring during current year (Gap Programs)	(283)	(171)	(278)	(577)	(1,377)
Paid on claims (net) occurring during prior years	<u>(3,502)</u>	<u>(3,593)</u>	<u>(9,750)</u>	<u>(6,111)</u>	<u>(23,348)</u>
Net reserves at end of period	40,963	57,262	69,808	99,840	94,054
Ceded reserves at end of period	<u>22,942</u>	<u>34,928</u>	<u>42,172</u>	<u>71,704</u>	<u>51,761</u>
Gross reserves at end of period	<u>\$ 63,905</u>	<u>\$ 92,190</u>	<u>\$ 111,980</u>	<u>\$ 171,544</u>	<u>\$ 145,815</u>

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

Notes to Financial Statements for the fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

In order to show the progress of the liquidation from the date of winding-up and, as it is not practicable in a winding-up situation to determine fair value with sufficient reliability, the fair

value of the unpaid claims and adjustment expenses, gross and recoverable from reinsurers has been omitted.

6. Unearned premium:

The provisions for unearned premiums include actuarially determined estimates for premium deficiencies. The process for estimating any provisions for premium deficiency involves the use of estimates concerning factors such as expected claims and expenses and future payout patterns. Any provisions are necessarily subject to uncertainty.

The provision estimates do not take into account the time value of money or make explicit provision for adverse deviation.

7. Reinsurance:

In the normal course of business, Reliance Canada sought to reduce the loss that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers. Reliance Canada is not relieved of its primary obligation to policyholders as a result of its third party reinsurance. Failure of reinsurers to honour their obligations could result in losses to Reliance Canada.

Reliance Canada makes specific provisions against reinsurance receivables and recoverables from companies who are in liquidation or run-off, with whom balances are in dispute or where the reinsurer is not settling balances due to Reliance Canada for reasons related to Reliance US. In addition, the Reliance Canada records a general allowance against reinsurance receivables and recoverables based upon the level of allowance already in place and management's judgement. The general allowance reflects the view that a company in liquidation or run-off has a greater collection risk than a going concern company. The establishment of the allowances for doubtful accounts involves judgement and therefore creates a degree of uncertainty as to adequacy at each reporting date.

Reliance Canada's reinsurance program includes both reinsurance placed by Reliance Canada directly with Canadian licensed reinsurers and reinsurance entered into by Reliance US which reinsures both Reliance (Canada) policies and policies of Reliance US and other companies in the Reliance group (the latter are referred to as the "International Reinsurance Treaties").

RELIANCE INSURANCE COMPANY

Canadian Branch (in liquidation)

Notes to Financial Statements for the fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

8. Head office:

(a) Payable to Head Office:

As at December 31, 2007, \$4,848 is recorded in reliance Canada's books as due to Reliance US for underwriting commissions paid to ECS Managers (the "ECS Commission Payable"); at September 30, 2006 the payable to head office was \$4,848; at September 30, 2005 \$4,848; at June 30, 2004 \$4,848; at September 30, 2003 \$4,848 and at December 3, 2001 the payable was nil.

The liquidator for Reliance US (the "US Liquidator"), subsequent to the date of liquidation, advised Reliance Canada that Reliance US had settled the ECS Commission Payable with ECS Managers on behalf of Reliance Canada prior to the respective and separate liquidations of Reliance Canada and Reliance US. Additionally Reliance US receives reinsurance proceeds on behalf of Reliance Canada pursuant to the International Reinsurance Treaties. The US Liquidator has taken the position that it wishes to withhold payment to the Canadian Liquidator of reinsurance collected by Reliance US on behalf of Reliance Canada on the International Reinsurance Treaties ("Canadian Reinsurance Proceeds") up to the amount of the ECS Commission Payable of \$4,848 or US\$3,034. The Canadian Liquidator disputes that the US Liquidator is entitled to do this; however, the parties have agreed that, without prejudice, Reliance US will pay to Reliance Canada any Canadian Reinsurance Proceeds in excess of the ECS Commission Payable. The US Liquidator and the Canadian Liquidator have agreed to fix the Canadian dollar balance due to Reliance US for the ECS Commission Payable using the exchange rate of 1.5981 (see note 14).

(b) Receivable from Reliance US:

As at December 31, 2007, Reliance US has collected and is holding Canadian Reinsurance Proceeds of \$4,848, pending payment or resolution of the disagreement regarding the ECS Commission Payable. At September 30, 2006 the balance was \$4,848; at September 30, 2005 \$4,848; at June 30, 2004 \$4,848; at September 30, 2003 \$4,181; and at December 3, 2001 nil. While Reliance Canada has generally billed its reinsurance in Canadian dollars, Reliance US has generally collected the Canadian Reinsurance Proceeds in US dollars. The US dollar amount due from the Reliance US to Reliance Canada has been fixed at a rate of 1.5981 (see note 14). The resulting foreign exchange gain was booked through the income statement in June 2004.

(c) Receivable from Reliance US – Current Balance Due:

Any Canadian Reinsurance Proceeds collected by Reliance US in excess of the amount of the ECS Commission Payable (the "Excess Canadian Reinsurance Proceeds"), are to be remitted to Reliance Canada within a reasonable timeframe. As at December 31, 2007 the Excess Canadian Reinsurance Proceeds were nil; at September 30, 2006 \$159; September 30, 2005 \$222; at June 30, 2004 \$870; at September 30, 2003 nil; and at December 3, 2001 nil. While Reliance Canada has generally billed its reinsurance in Canadian dollars,

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

88

Notes to Financial Statements for the fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited -- \$000)

Reliance US has generally collected the reinsurance in US dollars. Reliance Canada will recognize a foreign exchange gain or loss on this balance upon receipt of funds from the Reliance US.

(d) Protocol Agreement:

Further to a protocol agreement between the Liquidator and the US Liquidator, Reliance US provides various services to Reliance Canada, particularly in the areas of data processing, claims and reinsurance. For the fifteen months ended December 31, 2007 the cost of the services was \$223; October 1, 2005 to September 30, 2006 \$175; July 1, 2004 to September 30, 2005 \$262; October 1, 2003 to June 30, 2004 \$187; and December 3, 2001 to September 30, 2003 \$505.

9. Allowed claims:

As at December 31, 2007, allowed claim balances are due on claims which have been settled and admitted by the Liquidator, in excess of the Court authorized payments of \$12,802; at September 30, 2006 \$20,340; at September 30, 2005 \$24,163; at June 30, 2004 \$33,106; September 30, 2003 \$17,269; and December 3, 2001 nil.

10. Surplus:

As at December 31, 2007, Reliance Canada's estimated surplus was \$92,222; at September 30, 2006 \$78,770; at September 30, 2005 \$70,085; at June 30, 2004 \$42,975; at September 30, 2003 \$52,986; and at December 3, 2001 \$85,266. This estimate is subject to revision. In view of the uncertainties surrounding a company in liquidation, the ultimate realization of the assets and liabilities will differ from the estimated results as at December 31, 2007 and the difference may be material. Any surplus available at the wind-up of the liquidation will be paid to Reliance US.

11. Contingent liabilities:

There is the potential that certain claims that were not reported in the books of Reliance Canada may be valid claims against Reliance Canada ("Non-Booked Claims"). The Non-Booked Claims would arise from policies written outside Canada, and which, arguably, should have been reported in the books of Reliance Canada. There is no certainty as to the magnitude of the Non-Booked Claims, if any, since they were not originally identified as being appropriately assigned to Reliance Canada. Should additional loss result from any new claims, such loss would be accounted for as a charge to earnings in the accounting period that the claims are verified as liabilities of Reliance Canada.

In the event all policyholders receive full payment on all valid claims and assets remain in the estate of Reliance Canada, the Winding-up and Restructuring Act may require that

Notes to Financial Statements for the fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

policyholders whose claims were not paid in full on the date their claim settled also be paid interest on their claims ("Post-liquidation Interest"). There is no certainty at this time that Post-liquidation Interest would be payable, nor how it should be calculated. The Liquidator will seek the direction of the Court as to the policyholders entitlement to Post-liquidation Interest and the method of calculation. Assuming that Post-liquidation interest is payable and that it would accrue on the unpaid portion of the policyholder settlement amount from the date the claim settled until the date that the policyholder is paid in full, using a rate of interest of 5% we estimate that the accrued interest due to these policyholders would be approximately \$4.2 million. If some other basis for calculating this amount were determined to be appropriate by the court, the total interest due may materially exceed this amount.

12. PACICC loan agreement:

PACICC and the Liquidator entered into a loan and services agreement, dated December 3, 2001, which provides that the amounts paid by the Liquidator to policyholders on PACICC covered claims are deemed to be loaned to PACICC, the aggregate amount of such payments being the "Amount Outstanding" from time to time under the Loan Agreement. Interest occurs on the Amount Outstanding at the prime rate. In the event all policyholders and creditors receive full payment on all valid claims from the assets of Reliance Canada, the Liquidator will not demand repayment of the Amount Outstanding. The Amount Outstanding has not been accrued in the financial statements.

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

Notes to Financial Statements for the fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

13. Supplementary expense information:

	October 1, 2006 to December 31, 2007			October 1, 2005 to September 30, 2006			July 1, 2004 to September 30, 2005		
	Total	Other	Claims	Total	Other	Claims	Total	Other	Claims
Salaries	\$ 745	\$ 246	\$ 499	\$ 664	\$ 289	\$ 375	\$ 945	\$ 473	\$ 472
Office Expenses	273	106	167	247	122	125	342	171	171
Legal/Professional Services	87	35	52	135	67	68	311	155	156
Allowance for bad debts	(1)	(1)	-	(1)	(1)	-	(3)	(3)	-
Head Office Services	223	94	129	175	88	87	262	130	132
Interest (Income)/expense	19	19	-	14	14	-	27	27	-
Foreign exchange (gain)/loss	2,579	2,579	-	764	764	-	482	482	-
Sale of Business Expense:									
KPMG Corporate Finance	-	-	-	-	-	-	-	-	-
Scotia Capital	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Liquidation Expenses:									
KPMG Inc.	730	730	-	478	478	-	869	869	-
Goodmans LLP	632	632	-	201	201	-	485	485	-
Legal-Reinsurance collections	523	523	-	-	-	-	-	-	-
Total Expenses	\$ 5,810	\$ 4,963	\$ 847	\$ 2,677	\$ 2,022	\$ 655	\$ 3,720	\$ 2,789	\$ 931

	October 3, 2003 to June 30, 2004			December 3, 2001 to September 30, 2003		
	Total	Other	Claims	Total	Other	Claims
Salaries	\$ 1,079	\$ 539	\$ 540	\$ 2,663	\$ 1,331	\$ 1,332
Office Expenses	318	159	159	567	275	292
Legal/Professional Services	111	56	55	310	155	155
Allowance for bad debts	6	6	-	(108)	(108)	-
Head Office Services	187	93	94	505	282	243
Interest (Income)/expense	(406)	(406)	-	80	80	-
Foreign exchange (gain)/loss	(31)	(31)	-	(306)	(306)	-
Sale of Business Expense:						
KPMG Corporate Finance	-	-	-	227	227	-
Scotia Capital	-	-	-	214	214	-
Other	-	-	-	329	329	-
Liquidation Expenses:						
KPMG Inc.	622	622	-	3,180	3,180	-
Goodmans LLP	174	174	-	1,017	1,017	-
Legal-Reinsurance collections	-	-	-	-	-	-
Total Expenses	\$ 2,060	\$ 1,212	\$ 848	\$ 8,678	\$ 6,656	\$ 2,022

The claims expenses are included in Claims incurred on the statement of earnings and changes in surplus.

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

91

Notes to Financial Statements for the fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

14. Foreign exchange:

Further to an order from the Court, dated December 18, 2003 and amended on June 30, 2004, the Liquidator is authorized to pay claims payable in foreign currencies either:

- a) in those foreign currencies in circumstances where the Liquidator is otherwise legally entitled to do so; or
- b) in Canadian currency, converted at the Bank of Canada noon spot rate of exchange for exchanging such currencies to Canadian currency on November 8, 2001.

Further to this, in cases where the agreed claim is determined in U.S. dollars, the rate used by Reliance Canada to calculate the Canadian equivalent is \$1.5981.

15. Capital and other taxes:

Reliance Insurance is a US incorporated insurance company that carries on business in Canada through a registered branch. For Canadian tax purposes investment income from assets designated as investment properties, as provided for in the applicable Income Tax Regulations, is included in its business Canadian taxable income. Non-capital capital losses can be utilized to eliminate any resulting corporate tax on business income. Investment income on any non-designated investment properties, such as trust distributions (in the case of Reliance income earned on the RBC funds), is subject to a 15% withholding tax. In 2006 and 2007 Reliance Canada was not able to include all of its investments in RBC funds as designated investment properties, as defined in the Income Tax Regulations. In 2007 Reliance Canada expensed and paid \$341 in withholding tax for the 2006 taxation year. An accrual of \$339 is set up for the twelve months ending December 31, 2007. The 2006 financial statements have not been restated, as the amount for 2006 is not material.

January 1, 2008

KPMG Inc.
Suite 3300, Commerce Court West
Stn. Commerce Court
Toronto, Ontario
M5L 1B2

Attention: Robert O. Sanderson

OUR FILE NO. KPMG/016699

Re: Reliance Insurance Company, in Liquidation ("Reliance")

TO OUR PROFESSIONAL SERVICES RENDERED in connection with the above-noted matter for the period October 1, 2006 to December 31, 2007, including the following:

Attendances with respect to claims and liabilities issues, including settlement of claims, preparation of settlement documents, liaison and communications with policyholders, adjusters, defence and plaintiffs' counsel, applications for leave to proceed and employment and severance issues;

Attendances with respect to reinsurance issues, including dismissal of recognition proceedings re Cavell Insurance Company, reinsurance collections, commutations and settlement negotiations, negotiations and settlement with reinsurers re set-off issues, including preparing settlement documentation, motion by the Liquidator for directions re entitlement of reinsurers to set-off, motion by certain reinsurers for stay of Liquidator's motion, settlement with Lloyd's Syndicates, motion by Swiss Re for leave to appeal and motion by Liquidator to quash appeal;

Attendances with respect to U.S. issues, including cross-border issues, demand under protocol between Canadian and U.S. estates, set-off issues and non-booked claims;

Attendances with respect to litigation issues, including Reliance Insurance Company v. Meridian Warranty Management Inc. and George Bilyk;

Attendances with respect to liquidation issues, including preparation of motion materials and attendance at Ontario Court re passing of accounts, approval of the professional fees of the Liquidator and of its counsel and authorizing a fourth interim distribution, preparation of motion materials re passing of accounts and authorizing a fifth interim distribution, liaison with inspectors, attendance at management committee meetings and distribution issues.

OUR FEE:	\$573,059.00
DISBURSEMENTS:	\$ 23,070.20
GST:	<u>\$ 35,562.63</u>
TOTAL:	<u>\$631,691.83</u>

GOODMANS LLP

E. & O. E.

GOODMANS\5513484.1

RELIANCE INSURANCE COMPANY
(in liquidation)

LISTING OF GOODMAN'S LLP PERSONNEL
HOURS AND AVERAGE HOURLY RATE
FOR THE PERIOD OCTOBER 1, 2006 TO DECEMBER 31, 2007

<u>Name</u>	<u>Rank</u>	<u>Area</u>	<u>HOURS</u>	<u>AVG. HRLY RATE</u>
Rubenstein, Gale	Partner	Insolvency	91.3	\$505
Smith, Graham	Partner	Litigation	880.2	\$425
Creery, Monica	Associate	Litigation	89.4	\$425
Butti, Lauren	Associate	Litigation	240.6	\$335
Dagg, Linda	Law Clerk	Litigation	30.1	\$250
Paquette, Fanny	Law Clerk	Insolvency	69.2	\$165
Individuals with less than 30 hours			<u>214.9</u>	<u>\$ 71</u>
			<u>1,615.7</u>	<u>\$355</u>

GOODMANS\5513461.2

GOODMANS LLP

GENERAL LIQUIDATION RESPONSIBILITY

GALE RUBENSTEIN is a partner in the insolvency area. She oversees all legal matters and is involved in all major areas of the liquidation. Her particular areas of concentration included strategy issues, communications with various stakeholders and with the U.S. Liquidator. She advised with respect to claims and liabilities issues, reinsurance issues, U.S. protocol, cross-border issues, non-booked claims, distribution issues and issues relating to the passing of accounts.

FANNY PAQUETTE is a senior law clerk in the insolvency area. She drafted basic court documents and prepared materials in connection with applications to the Superior Court of Justice and attended to service of motion materials. She also had responsibility for internal accounting control and meeting the requirements of the Liquidator with respect to accounting and billings.

LITIGATION

GRAHAM SMITH is a partner in the litigation section. He dealt with litigation and acted as liaison with policyholders, adjusters, defence counsel and plaintiffs' counsel, acted on applications for leave to proceed, provided advice and prepared settlement documentation on the settlement of various claims, attended management committee meetings, dealt with set-off issues and non-booked claims, negotiated and settled claims of reinsurers re set-off, prepared motion materials and attended at the Superior Court of Justice (and the Court of Appeal, as the case may be) on the motion for the passing of accounts, approval of professional fees and fourth interim distribution and prepared for and attended on motion by Liquidator and certain reinsurers re set-off.

MONICA CREEERY is an associate in the litigation section. She performed legal research and assisted in the preparation of materials with respect to the Liquidator's motion to the Superior Court of Justice for directions re reinsurance and motions by certain reinsurers for stay and leave to appeal.

LAUREN BUTTI is an associate in the litigation section. She prepared materials for motion by the Liquidator to the Superior Court of Ontario (and the Court of Appeal, as the case may be) for directions re entitlement of reinsurers to set-off and motions by certain reinsurers for stay and leave to appeal.

LINDA DAGG is a senior law clerk in the litigation section. She assisted in the preparation of the claim, documentary production and enforcement measures in the action against Meridian Warranty Management Inc. and George Bilyk.

March 26, 2008

Reliance Insurance Company, in Liquidation
Suite 601, 100 University Ave
Toronto ON M5J 1V6

GST #122363153

BILL OF COSTS

To our professional services rendered in connection with the above-noted matter for the period October 1, 2006 to December 31, 2007:

- Review and approval of financial statements and related analysis for the quarters ending December 31st, 2006, March 31st, 2007, June 30th, 2007 and September 30th, 2007;
- Review and approval of Management Reports for the quarters ending December 31st, 2006 and March 31st, June 30th and September 30th, 2007;
- Review and approval of investment transactions;
- Continued review of Reliance Canada documentation and meetings with the U.S. Liquidator to review U.S. documentation to attempt to quantify the magnitude of exposure to Canadian risk not reported on the books of Reliance Canada;
- Ongoing liaison with the U.S. Liquidator, including the return of surplus funds from the Canadian estate to the U.S. estate, discussions as to the status of reinsurance collections, IT systems administration, runoff models, and obtaining additional information required for the proper administration of the Canadian estate;
- Receipt, review, discussion and attendance at meetings with estate legal counsel to review ongoing matters, reinsurance collections issues including setoff issues, claims settlement issues and various other estate matters as required;
- Continued monitoring of the Reliance staff, including providing appropriate direction and assistance;
- Meetings, discussions, review of assumptions and preparation of detailed runoff models projecting the runoff of the estate;
- Continuing to deal with policyholder and claimants' telephone calls, e-mails and correspondence requesting specific information pertaining to the liquidator or their specific claims;
- Performing a detailed claims review, discussion of potential outcomes with claims staff and attendance at meetings with the U.S. Liquidator's claims staff to review same;
- Attendance at meetings with actuarial consultant to perform an extensive review of policy liabilities as at March 31st, 2007.

- Receipt, review and discussion with the actuarial consultant, the results of his extensive review as performed above;
- Continued to review existing claims bordereaux in order to stratify claims as to dollar amounts, lines of business and PACICC exposure;
- Review of new reported claims, discussions with claims adjudication staff and approving set up of appropriate reserves;
- Continuing to deal with Meridian policyholder inquiries;
- Continued review and approval of defense and adjustment costs and authorizing payment of same;
- Continued attendance with third party administrators to ensure the continued processing and adjudication of claims under their control and ensuring that claims are adjudicated and settled according to the procedures established by the Liquidator;
- Continued monitoring and supervision of claims adjudication staff, approval of reserve changes, approval of claims settlements, approval of claims settlement costs and authorization of payment of same;
- Continued follow-up on reinsurance billings and collections;
- Preparation for and attendance at meetings with reinsurers in the London market to agree amounts due and ensure collection of same;
- Responding to requests of reinsurers to perform claims audits, development of and execution of confidentiality agreements, obtaining requested claim files from storage and responding to their queries;
- Continued to obtain shared reinsurance documentation from the U.S. Liquidator, particularly in respect of international and reinsurance policies;
- Continued liaison with U.S. Liquidator as to international reinsurance collections and commission expenses associated therewith;
- Providing information and analysis for the Inspectors as required;
- Preparation of appropriate accounting information and filing of appropriate non-tax statutory returns;
- Preparation of the December 31st, 2006 tax returns;
- Attendance at meetings in person or by conference call with representatives of Cavell and/or their Canadian counsel, to review the terms of the scheme, and to try to negotiate a settlement of the Reliance claims;
- Instructing our U.K. Cavell counsel and attendance at meetings with them;
- Participation in Appeal to the Court of Appeal in the Cavell matter and filing appropriate materials as required;

- Updating of the Reliance Canada website for the benefit of policyholders, claimants and creditors to enable them to obtain access to current information as to the status of the liquidation and their claims therein;
- Performed a detailed review of internal controls to ensure that the financial and operational controls are functioning as set forth in the Policies and Procedures;
- Negotiation of lease on new premises;
- Overseeing move of operations to new premises;
- Attendance at meetings and preparation of a Confidential Information Memorandum with respect to the divestiture of the branch;
- Preparation, filing and arguing a motion before the Ontario Superior Court of Justice with respect to the collection of reinsurance receivables including a determination of the issues surrounding Reinsurer set-offs;
- Overall administration of the estate and the Reliance staff consisting of approximately six people, dealing with day-to-day administrative issues, responding to policyholder, claimants and creditor inquiries and attendance at all meetings, proceedings and/or Court appearances as required.

Our fee	\$ 645,696.50
Disbursements	<u>43,409.82</u>
	689,106.32
GST	<u>40,061.16</u>
Total	<u>\$ 729,167.48</u>

Schedule "K"

99

RELIANCE INSURANCE COMPANY
(in liquidation)

LISTING OF KPMG INC. PERSONNEL
HOURS AND AVERAGE HOURLY RATE
FIFTEEN MONTH PERIOD FROM OCTOBER 1, 2006 TO DECEMBER 31, 2007

<u>Name</u>	<u>Rank</u>	<u>Area</u>	<u>HOURS</u>	<u>AVG. HRLY RATE</u>
Sanderson, R O	Chairman	Insolvency/Overall Administration	128.90	\$632
Murphy, E	Associate Partner	Financial Report/Reinsurance	450.30	\$531
Albertini, P	Associate Partner	Divestature of Branch	41.50	\$499
Gutfreund, G	Senior Manager	Claims	183.00	\$491
Bradley, J	Senior Manager	Insolvency/Claims/Reinsurance	222.70	\$436
Pardhan, S	Senior Manager	Divestature of Branch	88.50	\$327
Guo, B	Associate	Divestature of Branch	78.00	\$249
Stuart, R	Senior Consultant	Move Logistics	144.80	\$270
Individuals with less than 30 hours			123.50	\$328
			<u>1,461.20</u>	<u>\$370</u>

KPMG Inc.

(For the Period from October 1, 2006 to December 31, 2007)

ROBERT O. SANDERSON – is Chairman of KPMG Inc., a Chartered Accountant, Fellow of the Institute of Chartered Accountants of Ontario and a trustee in bankruptcy. He has primary responsibility for the liquidation as a whole. During this period, his particular areas of concentration were with respect to the development of the overall direction, approach and strategy for the estate, coordinating reporting to the supervising Court including confirmation of continuance of payment of defense costs and small claims, ongoing liaison with PACICC, the U.S. Liquidator, the inspectors and major stakeholders, financial projections for the estate, responding to specific issues arising in the defense of claims and advising respective counsel as to projected outcomes. During this period, Mr. Sanderson oversaw a motion before the Ontario Superior Court of Justice with respect to the collection of reinsurance receivables, including a determination of the issues surrounding Reinsurer set-off.

ELIZABETH MURPHY – is an Associate Partner of KPMG Inc. and a Chartered Accountant. Ms Murphy has general responsibility for all reinsurance matters, management of the investment portfolio, communications with the U.S. Liquidator and determination of actuarial liabilities. She is also responsible for financial reporting and overseeing the accounting department. Ms Murphy met with several reinsurers to pursue collections and assisted with the motion before the Ontario Superior Court of Justice with respect to collection of reinsurance receivables, including a determination of the issues surrounding Reinsurer set-off.

PETER ALBERTINI – is an Associate Partner of KPMG. Mr. Albertini participated at numerous meetings with respect to assessing the market's receptivity to the possible divestiture of the Canadian branch including overseeing the preparation of a draft Confidential Information Memorandum.

I. GEORGE GUTFREUND – is a Vice President of KPMG Inc. and a Chartered Accountant, a Certified Insurance Receiver and licensed trustee in bankruptcy. Mr. Gutfreund oversaw the claims adjudication staff, participated as required in the formulation of the appropriate strategy, reviews and approves all significant reserve adjustments and is responsible for the maintenance of the website. During this period, Mr. Gutfreund also oversaw the move of operations to new premises.

JANINE BRADLEY – is a Senior Manager of KPMG Inc. She is responsible for the analysis and stratification of claims, the detailed claims review, overseeing the Meridian and GAP programs and reviewing defense costs. Within the period, Ms Bradley had taken over responsibility of the claims adjudication staff, reviewing and approving all significant reserve adjustments and liaising with PACICC concerning claims matters. She assists with the general administration of the liquidation, including oversight of all financial and internal controls, human resources and office management.

SAHEZAD PARDHAM – is a Senior Manager of KPMG and a Chartered Accountant. He participated in numerous meetings with respect to assessing the market's receptivity to the

possible divestiture of the Canadian branch and assisted with the preparation of a draft Confidential Information Memorandum.

BAOQIN GUO – is an Associate of KPMG. She assisted with the preparation of a draft Confidential Information Memorandum with respect to the divestiture of the Canadian branch.

REGAN STUART – is a Senior Consultant of KPMG Inc. and a Chartered Accountant. He assisted Mr. Gutfreund with the move of the operations to new premises.