

**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**

B E T W E E N:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

**AFFIDAVIT OF ROBERT O. SANDERSON
(Sworn August 25, 2004)**

I, ROBERT O. SANDERSON, of the City of Toronto, in the Province of Ontario,
MAKE OATH AND SAY:

1. I am President of KPMG Inc., the liquidator (the "Liquidator") of Reliance Insurance Company. As such, I have knowledge of the matters hereinafter deposed to, except where stated to be on information and belief and whereso stated I verily believe it to be true.
2. Attached hereto and marked as Exhibit "A" to this my Affidavit are summary invoices from the Liquidator to the estate in respect of these proceedings for the period October 1, 2003 to June 30, 2004 (the "Three Quarters"). Total fees of \$682,623 including GST were charged by the Liquidator for the Three Quarters.

3. A total of approximately 1843.8 hours were expended by the Liquidator during the Three Quarters, as outlined in the summary of hours and hourly rates attached hereto as Exhibit "B".

4. Attached hereto and marked as Exhibit "C" is a description of the areas of concentration of each of the Liquidator's personnel who dedicated more than 50 hours to the estate.

5. 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% since the last passing, effective October 1, 2003, reflecting the change in the Consumer Price Index over the two year period. The discount from current rates is approximately 15% to 40%.


6. The Liquidator retained Goodmans LLP ("Goodmans") as its legal counsel in relation to these proceedings. Goodmans performed various activities in connection with its retainer.

7. Attached as Exhibit "A" to the Affidavit of Gale Rubenstein sworn August 25, 2004, filed in support of the within motion, are summary invoices from Goodmans to the Liquidator for the Three Quarters.

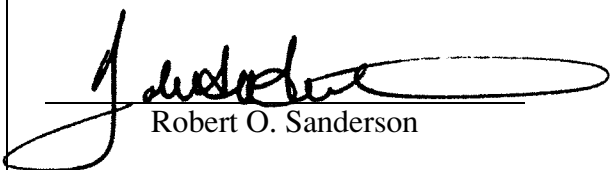
8. Goodmans rendered services throughout these proceedings in a manner consistent with instructions received from the Liquidator.

9. This Affidavit is sworn in connection with a motion to this Honourable Court by the Liquidator for, among other things, the approval of the fees and disbursements of the Liquidator and of its counsel and for no improper purpose.

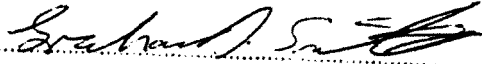
SWORN BEFORE ME at the City of
Toronto, in the Province of Ontario on
August 25, 2004.



Commissioner for taking affidavits



Robert O. Sanderson

This is Exhibit "A" referred to in the
affidavit of ROBERT D. SANDERSON
sworn before me this 25th
day of August 2004

A COMMISSIONER FOR TAKING AFFIDAVITS

August 10, 2004

Reliance Insurance Company, in Liquidation
Suite 810, 4 King Street West
Toronto, ON M5H 1B6

Invoice

GST #122363153

BILL OF COSTS

To our professional services rendered in connection with the above-noted matter for the period October 1st, 2003 to June 30th, 2004, including:

Review and approval of financial statements and related analysis for the quarters ending September 30th, 2003, December 31st, 2003, and March 31st, 2004;

Review and approval of Management Reports for the quarters ending September 30th, 2003, December 31st, 2003, and March 31st, 2004;

Review and approval of money market transactions;

Continued limited 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 set-off 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;

Discussions, receipt and review of various court motions to extend the date to which the Liquidator was authorized to make policy payments and the Meridian payments, and payments to defence costs;

Attendance at Court to hear the above noted motion;

- Continuing to deal with policyholder and claimants' telephone calls, e-mails, and correspondence requesting specific information pertaining to the liquidation or their specific claims;
- Continuing to deal with agents and brokers, especially trying to finalize the reconciliation of their accounts as at the date of liquidation;
- 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, 2004;
- 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 liase with Reliance U.S. IT personnel to ensure the ongoing performance of the computer systems;
- Continuing to deal with numerous Meridian policyholder inquiries;
- Continued review and approval of defence 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;
- 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;

- Supervision of build-out of new premises including all IT, data and voice requirements;
- Disposal of excess furniture and equipment;
- Overseeing move of operations to new premises;
- 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, 2003, tax returns;
- 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;
- Investigation of market conditions and trends, analysis of same, discussions with Inspectors and obtaining their approval for a new investment policy and implementation of same;
- 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;
- Overall administration of the estate and the Reliance staff consisting of approximately 8 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: | \$624,408.90 |
| Disbursements: | <u>13,556.41</u> |
| | 637,965.31 |
| GST | <u>44,657.57</u> |
| TOTAL | <u><u>\$682,622.88</u></u> |

RELIANCE INSURANCE COMPANY
(in liquidation)

LISTING OF KPMG INC. PERSONNEL
HOURS AND AVERAGE HOURLY RATE
THREE MONTH PERIOD ENDED DECEMBER 31, 2003

This is Exhibit..... " B " referred to in the
affidavit of..... ROBERT O. SANDERSON
sworn before me, this..... 25th.....
day of..... August..... 20.04
Gregory S. Smith
A COMMISSIONER FOR TAKING AFFIDAVITS

| <u>Name</u> | <u>Rank</u> | <u>Area</u> | <u>HOURS</u> | <u>AVG. HRLY RATE</u> |
|-------------------------------------|---------------------|-----------------------|---------------|-----------------------|
| Sanderson, R. O. | President/Partner | Insolvency/Overall Ac | 45.60 | \$576 |
| Gutfreund, G. | V.P./Senior Manager | Insolvency/Claims | 224.50 | \$445 |
| Burgess, J. | Manager | Insolvency/Claims | 238.00 | \$288 |
| Murphy, E. | V.P./Senior Manager | Financial Report/Rein | 132.70 | \$445 |
| Individuals with less than 30 hours | | | 102.20 | \$224 |
| | | | <u>743.00</u> | <u>\$372</u> |

RELIANCE INSURANCE COMPANY
(in liquidation)


LISTING OF KPMG INC. PERSONNEL
HOURS AND AVERAGE HOURLY RATE
THREE MONTH PERIOD ENDED MARCH 31, 2004

| <u>Name</u> | <u>Rank</u> | <u>Area</u> | <u>HOURS</u> | <u>AVG. HRLY RATE</u> |
|-------------------------------------|---------------------|-----------------------|---------------|---------------------------|
| Sanderson, R. O. | President/Partner | Insolvency/Overall Ac | 31.30 | \$576 |
| Gutfreund, G. | V.P./Senior Manager | Insolvency/Claims | 186.00 | \$445 |
| Burgess, J. | Manager | Insolvency/Claims | 184.90 | \$288 |
| Murphy, E. | V.P./Senior Manager | Financial Report/Rein | 72.00 | \$445 |
| Individuals with less than 30 hours | | | 14.00 | \$106 |
| | | | <u>488.20</u> | <u>\$384</u> |

RELIANCE INSURANCE COMPANY
(in liquidation)

LISTING OF KPMG INC. PERSONNEL
HOURS AND AVERAGE HOURLY RATE
THREE MONTH PERIOD ENDED JUNE 30, 2004

| <u>Name</u> | <u>Rank</u> | <u>Area</u> | <u>HOURS</u> | <u>AVG. HRLY RATE</u> |
|-------------------------------------|---------------------|-----------------------|---------------|---------------------------|
| Sanderson, R. O. | President/Partner | Insolvency/Overall Ac | 35.80 | \$576 |
| Gutfreund, G. | V.P./Senior Manager | Insolvency/Claims | 192.50 | \$445 |
| Burgess, J. | Manager | Insolvency/Claims/Re | 228.30 | \$288 |
| Murphy, E. | V.P./Senior Manager | Financial Report/Rein | 128.70 | \$445 |
| Individuals with less than 30 hours | | | 27.30 | \$216 |
| | | | <hr/> | <hr/> |
| | | | <u>612.60</u> | <u>\$384</u> |

This is Exhibit "C" referred to in the
affidavit of ROBERT O. SANDERSON
sworn before me, this 25th
day of August 2004

A COMMISSIONER FOR TAKING AFFIDAVITS

KPMG INC.

(Quarter ending December 2003)

ROBERT O. SANDERSON – is President 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, co-ordinating reporting to the supervising Court including passing of accounts, confirmation of continuance of payment of defence 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 defence of claims and advising respective counsel as to projected outcomes.

I. GEORGE GUTFREUND – is a Vice-President of KPMG Inc. and a Chartered Accountant, a Certified Insurance Receiver and licensed trustee in bankruptcy. He is responsible for the general administration of the liquidation, including oversight of all financial and internal controls, human resources and office management. Mr. Gutfreund oversees the claims adjudication staff, liaises with PACICC concerning claims matters, participates as required in the formulation of the appropriate strategy, reviews and approves all significant reserve adjustments and is also responsible for the development and maintenance of the website. During this period he sought, found and negotiated a lease for new premises, oversaw the move of the Reliance operations and assisted in the passing of accounts.

ELIZABETH MURPHY – is a Vice-President of KPMG Inc. and a Chartered Accountant. Ms. Murphy has general responsibility for all reinsurance matters, management of the investment portfolio, communications with PACICC and the U.S. Liquidator and determination of actuarial liabilities. She is also responsible for financial reporting, and overseeing the accounting department. During this period she developed the financial statement format for use in the Court passing of accounts including determining issues in adhering to Canadian GAAP. She also oversaw a review of internal controls and compliance with liquidation policies and procedures.

JANINE BURGESS – is a Manager in the corporate recovery group. She assists Mr. Gutfreund with the claims adjudication process, analysis and stratification of claims, overseeing the Meridian and GAP programs, reviewing defence costs and contracted for and supervised the move of the Reliance operations. Janine also developed runoff models and a revised investment policy under the direction of Ms. Murphy and/or Mr. Gutfreund.

KPMG INC.

(Quarter ended March 2004)

ROBERT O. SANDERSON – is President 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, co-ordinating reporting to the supervising Court including confirmation of continuance of payment of defence 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 defence of claims and advising respective counsel as to projected outcomes.

I. GEORGE GUTFREUND – is a Vice-President of KPMG Inc. and a Chartered Accountant, a Certified Insurance Receiver and licensed trustee in bankruptcy. He is responsible for the general administration of the liquidation, including oversight of all financial and internal controls, human resources and office management. Mr. Gutfreund oversees the claims adjudication staff, liaises with PACICC concerning claims matters, participates 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 the detailed claims review was completed and reviewed with the inspectors.

ELIZABETH MURPHY – is a Vice-President of KPMG Inc. and a Chartered Accountant. Ms. Murphy has general responsibility for all reinsurance matters, management of the investment portfolio, communications with PACICC and the U.S. Liquidator and determination of actuarial liabilities. She is also responsible for financial reporting, and overseeing the accounting department.

JANINE BURGESS – is a Manager in the corporate recovery group. She assists Mr. Gutfreund with the claims adjudication process, analysis and stratification of claims, the detailed claims review, overseeing the Meridian and GAP programs, and reviewing defence costs. Janine also developed runoff models and a revised investment policy under the direction of Ms. Murphy and/or Mr. Gutfreund.

KPMG INC.

(Quarter ended June 2004)

ROBERT O. SANDERSON – is President 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, co-ordinating reporting to the supervising Court including confirmation of continuance of payment of defence 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 defence of claims and advising respective counsel as to projected outcomes.

I. GEORGE GUTFREUND – is a Vice-President of KPMG Inc. and a Chartered Accountant, a Certified Insurance Receiver and licensed trustee in bankruptcy. He is responsible for the general administration of the liquidation, including oversight of all financial and internal controls, human resources and office management. Mr. Gutfreund oversees the claims adjudication staff, liaises with PACICC concerning claims matters, participates 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 the detailed claims review was completed and reviewed with the inspectors.

ELIZABETH MURPHY – is a Vice-President of KPMG Inc. and a Chartered Accountant. Ms. Murphy has general responsibility for all reinsurance matters, management of the investment portfolio, communications with PACICC and the U.S. Liquidator and determination of actuarial liabilities. She is also responsible for financial reporting, and overseeing the accounting department. During this period a full actuarial review was undertaken including additional liaison with the actuary as a result of the comprehensive claims review undertaken in part with representatives of the U.S. Liquidator. In conjunction with Ms. Burgess, she reviewed the overall investment approach and selected RBC Asset Management Inc. as the asset manager.

JANINE BURGESS – is a Manager in the corporate recovery group. She assists Mr. Gutfreund with the claims adjudication process, analysis and stratification of claims, the detailed claims review, overseeing the Meridian and GAP programs, and reviewing defence costs. Janine also updated runoff models to reflect the results of the comprehensive claims review, staff reductions, projected runoff of claims and additional reinsurance characteristics, and a revised investment policy under the direction of Ms. Murphy and/or Mr. Gutfreund including RBC Asset Management Inc.

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

Proceeding commenced at Toronto

**AFFIDAVIT OF
ROBERT O. SANDERSON**

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

Gale RubensteinLSUC # 17088E

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

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