

**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 December 8, 2006)**

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

1. I am a President of KPMG Inc., the liquidator (the “Liquidator”) of Reliance Insurance Company – Canadian Branch. 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 is a summary invoice from the Liquidator to the estate in respect of these proceedings for the period October 1,

2005 to September 30, 2006 (the "Four Quarters"). Total fees of \$477,464.16 including GST were charged by the Liquidator for the Four Quarters.

3. As shown by the summaries of hours and hourly rates for each of the Four Quarters, attached hereto and marked as Exhibit "B", which summaries I believe to be accurate, a total of 1,002.9 hours were expended by the Liquidator during the Four Quarters

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 30 hours to the estate for each of the Four Quarters.

5. To the best of my knowledge, the normal rates charged by the Liquidator are comparable to the rates charged by other large accounting firms in the Toronto market for the provision of similar services.

6. 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, an additional 2.4%, effective October 1, 2004, and 3.4%, effective October 1, 2005, reflecting the changes in the Consumer Price Index. The discount from current market rates is approximately 20% to 30%.

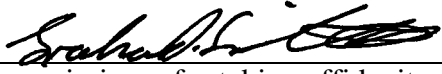
7. The Liquidator retained Goodmans LLP ("Goodmans") as its legal counsel in relation to these proceedings. Goodmans performed various activities in connection with its retainer.

8. Attached as Exhibit "A" to the Affidavit of Gale Rubenstein sworn December 7, 2006, filed in support of the within motion, is a summary invoice from Goodmans to the Liquidator for the Four Quarters.

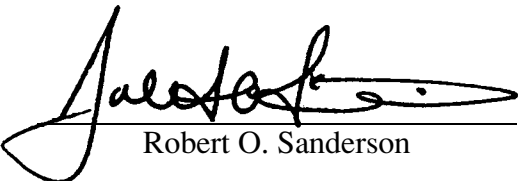
9. Goodmans rendered services throughout these proceedings in a manner consistent with instructions received from the Liquidator.

10. 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
December 8, 2006.



Commissioner for taking affidavits



Robert O. Sanderson

Exhibit "A"

This is Exhibit....."A".....referred to in the
affidavit of.....Robert O Sanderson
sworn before me, this.....8th.....
day of.....December.....2006

December 5, 2006

Reliance Insurance Company, in Liquidation
Suite 810, 4 King St W
Toronto ON M5H 1B6


A COMMISSIONER FOR TAKING AFFIDAVITS

GST #122363153

BILL OF COSTS

To our professional services rendered in connection with the above-noted matter for the period October 1, 2005 to September 30, 2006:

- Review and approval of financial statements and related analysis for the quarters ending December 31st, 2005, March 31st, 2006, June 30th, 2006 and September 30th, 2006;
- Review and approval of Management Reports for the quarters ending December 31st, 2005 and March 31st and June 30th and September 30th, 2006;
- 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;
- 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;
- 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;
- 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 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 31, 2006;

- Continuing to deal with policyholder and claimants' telephone calls, e-mails and correspondence requesting specific information pertaining to the liquidation or their specific claims;
- 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;
- Continuing to liaise with Reliance U.S. IT personnel to ensure the ongoing performance of the computer systems;
- Continuing to deal with numerous Meridian policyholder inquiries and replacement of the contract administrator;
- 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;
- Review of new reported claims, discussions with claims adjudication staff and approving set up of appropriate reserves;
- 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;
- 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, 2005 tax returns;
- Attendance at numerous 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 of appropriate materials as required;
- Continued liaison with U.S. Liquidator as to international reinsurance collections and commission expenses associated therewith;
- 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;
- Overall administration of the estate and the Reliance staff consisting of approximately seven 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	\$ 405,695.40
Disbursements	<u>43,498.00</u>
	449,193.40
GST	<u>28,270.76</u>
Total	<u>\$ 477,464.16</u>

Exhibit "B"

RELIANCE INSURANCE COMPANY


(in liquidation)

LISTING OF KPMG INC. PERSONNEL

HOURS AND AVERAGE HOURLY RATE

THREE MONTH PERIOD ENDED DECEMBER 31, 2005

<u>Name</u>	<u>Rank</u>	<u>Area</u>	<u>HOURS</u>	<u>AVG. HRLY RATE</u>
Gutfreund, G.	V.P./Senior Manager	Insolvency/Claims	91.50	\$472
Murphy, E.	Associate Partner	Financial Report/Reinsurance	70.90	\$512
Bradley, J.	Manager	Insolvency/Claims/Reinsurance	76.50	\$305
Li, K	Technician		35.20	\$136
Individuals with less than 30 hours			57.40	\$301
			<u>331.50</u>	<u>\$377</u>

This is Exhibit "B" referred to in the
 affidavit of Robert O. Sanderson
 sworn before me, this 8th
 day of December 2006

 A COMMISSIONER FOR TAKING AFFIDAVITS

RELIANCE INSURANCE COMPANY

(in liquidation)

LISTING OF KPMG INC. PERSONNEL

HOURS AND AVERAGE HOURLY RATE

THREE MONTH PERIOD ENDED MARCH 31, 2006

Name	Rank	Area	HOURS	AVG. HRLY RATE
Gutfreund, G.	V.P./Senior Manager	Insolvency/Claims	89.00	\$472
Murphy, E.	Associate Partner	Financial Report/Reinsurance	36.40	\$512
Bradley, J.	Manager	Insolvency/Claims/Reinsurance	52.10	\$305
Individuals with less than 30 hours			40.70	\$430
			<hr/>	<hr/>
			<u>218.20</u>	<u>\$431</u>

RELIANCE INSURANCE COMPANY

(in liquidation)

LISTING OF KPMG INC. PERSONNEL

HOURS AND AVERAGE HOURLY RATE

THREE MONTH PERIOD ENDED JUNE 30, 2006

Name	Rank	Area	HOURS	AVG. HRLY RATE
Gutfreund, G.	V.P./Senior Manager	Insolvency/Claims	39.50	\$472
Murphy, E.	Associate Partner	Financial Report/Reinsurance	44.80	\$512
Individuals with less than 30 hours			64.90	\$347
			<hr/>	<hr/>
			<u>149.20</u>	<u>\$430</u>

RELIANCE INSURANCE COMPANY

(in liquidation)

LISTING OF KPMG INC. PERSONNEL

HOURS AND AVERAGE HOURLY RATE

THREE MONTH PERIOD ENDED SEPTEMBER 30, 2006

Name	Rank	Area	HOURS	AVG. HRLY RATE
Gutfreund, G.	V.P./Senior Manager	Insolvency/Claims	34.50	\$472
Murphy, E.	Associate Partner	Financial Report/Reinsurance	110.20	\$512
Bradley, J.	Manager	Insolvency/Claims/Reinsurance	83.50	\$305
Individuals with less than 30 hours			75.80	\$323
			<hr/>	<hr/>
			<u>304.00</u>	<u>\$404</u>

Exhibit "C"

KPMG Inc.

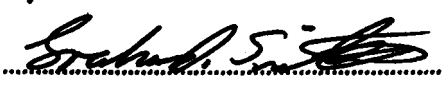
(Quarter ending December 2005)

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 administrative matters in the liquidation, including oversight of claims, 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 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 Ms Murphy met with several reinsurers in the London market to agree balances due to Reliance Canada and to pursue collections of same. She was also involved in discussions with a third party for the potential assumption of the branch operations.

JANINE BRADLEY – is a Manager in the corporate restructuring group. She assists Mr. Gutfreund with the claims adjudication process, analysis and stratification of claims, overseeing the Meridian and GAP programs, reviewing defense costs and assisted in the passing of accounts and distribution of dividends declared. She also assists Ms Murphy in the areas of financial oversight and reinsurance.

K. LI – is a Technician in the Transaction Advisory Services Group who assisted Ms Murphy with the assembly of information for a data room in anticipation of the potential assumptions of the branch operations.

This is Exhibit....."C".....referred to in the
affidavit of...Robert S. Sanders...
sworn before me, this.....8th.....
day of...December...2006

A COMMISSIONER FOR TAKING AFFIDAVITS

KPMG Inc.

(Quarter ending March 2006)

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 administrative matters in the liquidation, including oversight of claims, 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 for review with the inspectors and Mr. Gutfreund was involved in meetings and collection of reinsurance in the London market.

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. Ms Murphy met with several reinsurers to pursue collections and continued to assist with the analysis of the Cavell scheme.

JANINE BRADLEY – is a Manager in the corporate restructuring 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 defense costs.

KPMG Inc.
(Quarter ending June 2006)

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 administrative matters in the liquidation, including oversight of claims, 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.

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 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. Ms Murphy also met with reinsurers in the London market to further pursue collections.

KPMG Inc.

(Quarter ending September 2006)

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 administrative matters in the liquidation, including oversight of claims, 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.

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 oversaw a review of internal controls and compliance with liquidation policies and procedures.

JANINE BRADLEY – 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 and reviewing defense costs.

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

Proceeding commenced at Toronto

**AFFIDAVIT OF
ROBERT O. SANDERSON**

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Barristers & Solicitors
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M5B 2M6

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Solicitors for KPMG Inc.,
Liquidator of Reliance (Canada)
GOODMANS MITTHERGOS 372440.2
File No. 01.6699