

**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

**AFFIDAVIT OF ELIZABETH J. MURPHY  
(Sworn December 9, 2009)**

I, ELIZABETH J. MURPHY, of the City of Toronto, in the Province of Ontario,

**MAKE OATH AND SAY:**

1. I am a Vice-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 where so 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 January 1, 2008 to September 30, 2009 (the "Period"). Total fees of \$726,067.85 including GST were charged by the Liquidator for the Period.
3. As shown by the summary of hours and hourly rates for the Period, attached hereto and marked as Exhibit "B", which summary I believe to be accurate, a total of 1,267.3 hours were expended by the Liquidator during the Period.
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 the Period.
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, 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. Effective July 1, 2008, rates were increased to 90% of current market rates as they are set from time to time, as a result of reaching the 100% distribution level. The discount from current market rates is approximately 10%.

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 9, 2009, filed in support of the within motion, is a summary invoice from Goodmans to the Liquidator for the Period.

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 9, 2009.

Fanny Paquette  
Commissioner for taking affidavits

Elizabeth J. Murphy  
Elizabeth J. Murphy

Fanny Paquette, a Commissioner, etc.,  
City of Toronto, for Goodmans LLP,  
Barristers and Solicitors.  
Expires February 16, 2010.

This is Exhibit "A" referred to in the affidavit of Elizabeth J. Murphy, sworn before me, this 9th day of December 2009.

Schedule

November 30, 2009

Fanny Paquette  
A COMMISSIONER FOR TAKING AFFIDAVITS

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

Fanny Paquette, a Commissioner, etc.,  
City of Toronto, for Goodmans LLP,  
Barristers and Solicitors.  
Expires February 16, 2010.

GST #122363153

**BILL OF COSTS**

To our professional services rendered in connection with the above-noted matter for the period January 1, 2008 to September 30, 2009:

- Review and approval of financial statements and related analysis for the quarters ending March 31<sup>st</sup>, 2008, June 30<sup>th</sup>, 2008, September 30<sup>th</sup>, 2008, December 31<sup>st</sup>, 2008, March 31<sup>st</sup> 2009, June 30<sup>th</sup>, 2009 and September 30<sup>th</sup>, 2009;
- Review and approval of Management Reports for the quarters ending March 31<sup>st</sup>, 2008, June 30<sup>th</sup>, 2008, September 30<sup>th</sup>, 2008, December 31<sup>st</sup>, 2008, March 31<sup>st</sup> 2009, June 30<sup>th</sup>, 2009 and September 30<sup>th</sup>, 2009;
- 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 and strategy 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 number of 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 June 30<sup>th</sup>, 2009;
- 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 and lines of business;
- Review of new reported claims, discussions with claims adjudication staff and approving set up of appropriate reserves;
- Continued review and approval of defense and adjustment costs and authorizing payment of same;
- 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 and for commutations, 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 31<sup>st</sup>, 2007 and December 31<sup>st</sup>, 2008 tax returns and tax accrual estimations for the financial statements;
- 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;
- Preparation, filing and arguing a motion before the Ontario Superior Court of Justice with respect to a call for ordinary creditor claims;

- Oversight of the administration and completion of a call for ordinary creditor claims including payment of claims;
- Preparation, filing and arguing a motion before the Ontario Superior Court of Justice with respect to post liquidation interest;
- 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	\$ 673,440.50
Disbursements	<u>18,052.68</u>
	691,493.18
GST	<u>34,574.67</u>
Total	<u>\$ 726,067.85</u>

RELIANCE INSURANCE COMPANY  
(in liquidation)

LISTING OF KPMG INC. PERSONNEL  
HOURS AND AVERAGE HOURLY RATE  
TWENTY ONE MONTH PERIOD FROM JANUARY 1, 2008 TO SEPTEMBER 30, 2009

Name	Rank	Area	HOURS	AVG. HRLY RATE
Sanderson, R O	Chairman	Insolvency/Overall Administration	75.20	\$700
Murphy, E	Associate Partner	Financial Report/Reinsurance	403.90	\$658
Gutfreund, G	Senior Manager	Claims	36.60	\$605
Bradley, J	Senior Manager	Insolvency/Claims/Reinsurance	531.50	\$545
Briant, J	Senior Manager	Tax	30.80	\$593
Mitilineos, E	Staff Accountant	Accounting	32.00	\$145
Individuals with less than 30 hours			157.30	\$352
			<u>1,267.30</u>	<u>\$397</u>

This is Exhibit "B" referred to in the  
 affidavit of Elizabeth J. Murphy  
 sworn before me, this 9th  
 day of December 2009

Fanny Paquette  
 A COMMISSIONER FOR TAKING AFFIDAVITS

Fanny Paquette, a Commissioner, etc.,  
 City of Toronto, for Goodmans LLP.  
 Barristers and Solicitors.  
 Expires February 16, 2010.

## Schedule

**KPMG Inc.**

(For the Period from January 1, 2008 to September 30, 2009)

ROBERT O. SANDERSON – was the Chairman of KPMG Inc., a Chartered Accountant, Fellow of the Institute of Chartered Accountants of Ontario and a trustee in bankruptcy. He had primary responsibility for the liquidation as a whole up to October 31, 2008. 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.

TODD MARTIN – is the Chairman of KPMG Inc., a Chartered Accountant and a licensed trustee in bankruptcy. Mr. Martin assists with the overall oversight and management of the estate.

ELIZABETH J. 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 the U.S. Liquidator and determination of actuarial liabilities. She is also responsible for financial reporting and overseeing the accounting department. Additionally, commencing November 1, 2008, Ms. Murphy took over the primary responsibility for the liquidation as a whole. During this period, Ms. Murphy oversaw a motion before the Ontario Superior Court of Justice with respect to post liquidation interest.

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 assisted with claims adjudication staff.

JANINE M. BRADLEY – is a Senior Manager of KPMG Inc. She is responsible for overseeing the claims adjudication staff, reviewing and approving all significant reserve adjustments and liaising with PACICC and Reliance US concerning claims matters. Within the period, Ms. Bradley oversaw the call for ordinary creditor claims and a motion before the Ontario Superior Court of Justice with respect to post liquidation interest. Ms. Bradley assists with the general administration of the liquidation, including oversight of all financial and internal controls, liaising with the U.S. Liquidator, human resources and office management.

JANE BRIANT – is a Senior Manager of KPMG LLP and a Chartered Accountant. She provided tax related advice and assisted with the preparation of the 2007 and 2008 annual tax returns.

ELIZABETH MITILINEOS – is a Staff Accountant of KPMG LLP. She assisted with the performance of a detailed review of internal controls to ensure that the financial and operational controls are functioning as set forth in the Policies and Procedures.

This is Exhibit..... "C".....referred to in the  
affidavit of Elizabeth J. Murphy.  
sworn before me, this..... 9<sup>th</sup>.....  
day of December..... 2009.

*Fanny Paquette*  
A COMMISSIONER FOR TAKING AFFIDAVITS

Fanny Paquette, a Commissioner, etc.  
City of Toronto, for Goodmans LLP.  
Barristers and Solicitors.  
Expires February 16, 2010.



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

**AFFIDAVIT OF**  
**ELIZABETH J. MURPHY**

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

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

Lawyers for KPMG Inc.,  
Liquidator of Reliance (Canada)  
V5786910  
File No. 01.6699