

**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

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

May 21, 2003

TABLE OF CONTENTS

I.	NATURE OF THE MOTION	3
II.	BACKGROUND	3
III.	APPOINTMENT OF CLAIMS ADMINISTRATORS	4
	<i>HSBC Action</i>	4
	<i>KPMG Inc. Policies and Procedures</i>	5
	<i>Liquidation Policies and Procedures</i>	6
	<i>Administration of the Claims</i>	8
	<i>Proposed Appointments</i>	10
IV.	RELIEF REQUESTED	11

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I. NATURE OF THE MOTION

1. This Report is respectfully filed in support of a motion by KPMG Inc., the liquidator (the “Liquidator”) of Reliance (Canada) (as hereinafter defined) for an Order appointing independent claims administrators to deal with certain claims in the Reliance (Canada) estate, as described below.

II. BACKGROUND

2. Reliance Insurance Company (“Reliance (U.S.)”) is a property and casualty insurer in the United States of America, domiciled in the Commonwealth of Pennsylvania. Reliance (U.S.)

carried on business in Canada as a “foreign company” within the meaning of the *Insurance Companies Act* through a branch.

3. Reliance (U.S.) was ordered liquidated by Order of the Commonwealth Court of Pennsylvania dated October 3, 2001, under the Pennsylvania *Insurance Department Act of 1921*. M. Diane Koken, Commissioner of Insurance for Pennsylvania, was appointed liquidator (the “U.S. Liquidator”).

4. By Order of this Court made December 3, 2001 (the “Winding-up Order”), the insurance business of Reliance Insurance Company in Canada (“Reliance (Canada)”) was ordered wound-up pursuant to the provisions of the *Winding-up and Restructuring Act*.

5. By further Order of this Court made December 3, 2001 (the “Appointment Order”), KPMG Inc. was appointed provisional liquidator. A copy of the Appointment Order is attached as Schedule “A”.

6. Pursuant to paragraph 13 of the Appointment Order, the Property and Casualty Insurance Compensation Corporation (“PACICC”) and the Insurance Commissioner of the Commonwealth of Pennsylvania in her capacity as liquidator of Reliance (U.S.) (the “U.S. Liquidator”) were appointed inspectors (collectively the “Inspectors”) of the estate to assist and advise the Liquidator in the winding up of Reliance (Canada). By Order of this Court made January 30, 2002, the Superintendent of Financial Institutions is entitled to attend and to be heard at meetings of the Inspectors.

III. APPOINTMENT OF CLAIMS ADMINISTRATORS

HSBC Action

7. Prior to the commencement of the liquidation, Reliance (Canada) was put on notice of a claim by Davies Ward & Beck (“Davies”) under a policy of insurance issued by Reliance (Canada) to Davies. The notice was in respect of a claim by HSBC Securities (Canada) Inc. which is the subject matter of an action in the Ontario Superior Court of Justice (the “Court”), being Court File No. 00-CV-189099CM. The action, including third party claims issued therein and described below, will be referred to as the “HSBC Action”. Reliance (Canada)’s interests

and obligations to Davies with respect to the HSBC Action will be referred to as the “Davies Claim”.

8. Third party claims were issued in the HSBC Action against Lindquist Avey MacDonald Baskerville Inc. (“Lindquist”), AON Reed Stenhouse Inc., and KPMG Inc. and certain entities related to KPMG Inc. Lindquist put Reliance (Canada) on notice thereof under a policy of insurance issued by Reliance (Canada) to General Commercial Services Limited under which Lindquist is an insured (the “Lindquist Policy”). Reliance (Canada)’s interests and obligations under the Lindquist Policy in respect of the HSBC Action will be referred to herein as the “Lindquist Claim”.

9. The Davies Claim and the Lindquist Claim are referred to collectively herein as the “Claims”. Attached as Schedules “B” to “F” are the pleadings in the HSBC Action.

10. Prior to the liquidation, the Reliance (Canada) staff followed standard internal measures in respect of matters in which multiple insureds were involved whose interests may not have been coincident. These measures effectively involved erecting a screen pursuant to which separate staff administered the separate interests and maintained confidentiality as between them. That policy continued following the liquidation and, as discussed below, was applied to the administration of the Claims.

KPMG Inc. Policies and Procedures

11. KPMG International is a non-operating Swiss “verein” or association, with member firms in various countries around the world that are engaged in multidisciplinary professional practices. KPMG LLP is the Canadian member firm associated with KPMG International. KPMG LLP has a number of affiliates and business units across Canada which operate independently from one another, although they may be located in the same offices. KPMG Inc. is wholly owned by KPMG LLP and deals primarily with restructurings and insolvency. Depending upon the nature of an engagement, professional staff from different affiliates and business units may be involved in the same engagement. However, as a general rule, the different affiliates and business units operate as independent units.

12. KPMG LLP has a standard policy relating to client confidentiality pursuant to which all of its professional staff are required to execute a declaration of confidentiality of client information when they join the firm. Each year all professional staff must sign an annual declaration reaffirming their client confidentiality obligations. The policy generally prohibits members of any engagement team from discussing client information they derive from the engagement with any other firm member except for consultative purposes. Administrative staff of KPMG LLP must also sign a declaration that they will adhere to confidentiality obligations when they join the firm and on an annual basis.

13. The members of KPMG Inc. who are assigned to the Reliance (Canada) liquidation (the “Liquidator Staff”) have all executed such confidentiality agreements. None of the Liquidator Staff were involved in the matters giving rise to the claims being asserted in the HSBC Action nor did any of them have knowledge of the third party claim issued against KPMG Inc. and the related entities in the HSBC Action.

14. In addition to the Liquidator Staff, the Liquidator has drawn on expertise from other professional staff of KPMG LLP from time to time in connection with the Reliance (Canada) liquidation. In particular, the Liquidator has utilized such individuals to perform certain limited information technology, actuarial and corporate finance functions in connection with discrete aspects of the liquidation. These individuals are not involved in the day-to-day management of the liquidation. These individuals have also executed the confidentiality agreements referred to above. None of these individuals were involved in the matters giving rise to the claims being asserted in the HSBC Action nor did any of them have knowledge of the third party claim issued against KPMG Inc. and the related entities in the HSBC Action. The Liquidator has not required assistance from the forensic litigation support services group.

Liquidation Policies and Procedures

15. At the outset of the liquidation, the Liquidator determined that the best interests of the Reliance (Canada) estate would be served by retaining to the extent practical the Reliance (Canada) staff, particularly in the claims area where the existing staff have specialized expertise and where continuity is particularly valuable. Each member of the Reliance (Canada) staff signed a contract of employment that included confidentiality provisions.

16. The Liquidator maintains strict internal controls and performs its own due diligence on claims from time to time, but does not review every claim file. As part of its due diligence, the Liquidator Staff review the general Reliance (Canada) claims listings or bordereaux. However, those listings only identify the policy number and policyholder name; they do not include the names of the parties involved in any litigation or particulars of the claims. The Liquidator Staff did not review the files relating to the Claims in the course of their ordinary due diligence and were not independently aware of the third party claim asserted against KPMG Inc. and the related entities in the HSBC Action.

17. The Liquidator instituted policies and procedures pursuant to which the Reliance (Canada) staff continue to be responsible for the day-to-day management and administration of claims. Individual claims are only brought to the attention of the Liquidator in accordance with those policies and procedures.

18. The liquidation of Reliance (Canada) is administered from premises that are physically separate from the offices of KPMG Inc. and its related entities. Reliance (Canada) staff do not attend or work out of the premises of KPMG Inc. or its related entities. Access to the Reliance (Canada) premises is restricted and general staff of KPMG Inc. or any related entities do not have access to or work out of those premises.

19. The claims files of Reliance (Canada) are totally separate from those of KPMG Inc. and any related entities. The Reliance (Canada) files are stored and maintained at the Reliance (Canada) premises. The physical files of Reliance (Canada) are maintained by Reliance (Canada) staff.

20. Prior to the commencement of the liquidation, the electronic claims data system used by Reliance (Canada) was provided by and shared with Reliance (U.S.). Access to the electronic claims data system is controlled by Reliance (U.S.). That arrangement has continued through the liquidation. There is no integration between the electronic systems of KPMG Inc. (or those of any related entities) and those of Reliance (Canada), nor can one system be accessed from the other. The Liquidator Staff do not have access to the Reliance (Canada) electronic claims data system.

Administration of the Claims

21. Paragraph 11 of the Appointment Order authorizes the Liquidator to pay all reasonable legal and other costs which Reliance (Canada) is obligated to pay for defending any insureds against losses under policies issued by Reliance (Canada) (“Defence Costs”). In accordance with the Liquidator’s policies and procedures relating to payments, all payments are signed by one of four primary designated signing officers of the Liquidator. Where the payment exceeds a threshold amount, a secondary designated signing officer must also sign. The initial review of any Defence Costs submitted to Reliance (Canada) for reimbursement is undertaken by the Reliance (Canada) staff member familiar with the claim in question as part of the day-to-day management and administration of the claim. Invoices determined to be reasonable and properly payable are then submitted to the appropriate designated Liquidator Staff signing officer for payment.

22. Two payments of Defence Costs were made in the ordinary course in respect of the Claims. In accordance with the policies and procedures instituted in the liquidation, the invoices submitted in support of the Defence Costs were reviewed by the Reliance (Canada) staff member responsible for the claims in question. Given the amount of those Defence Costs, no additional review by the Liquidator Staff was required. In making these payments, the third party claim against KPMG Inc. and the related entities in the HSBC Action did not come to the Liquidator’s attention. There were no other developments in the Claims which under the policies and procedures instituted in the liquidation required the Reliance (Canada) staff to specifically bring any aspect of the Claims to the attention of the Liquidator Staff.

23. On April 21, 2003, in accordance with the policies and procedures implemented by the Liquidator, Reliance (Canada) staff notified the Liquidator that they anticipated additional costs might be incurred because of developments in the HSBC Action. It was only then that the fact that KPMG Inc. and related entities were parties to the HSBC Action and that Reliance (Canada) was the insurer for two other parties first came to the attention of the Liquidator Staff. The Liquidator immediately instructed the Reliance (Canada) staff to even further restrict access to and segregate and secure all documents relating to the Claims so that no member of the Liquidator Staff or the Reliance (Canada) staff, other than those working on the administration of the respective Claims, could access the documents.

24. The Liquidator has been advised that Reliance (Canada) staff instituted their standard internal measures in respect to the HSBC Action and the Claims, such that separate staff administered the Davies Claim and the Lindquist Claim and confidentiality was maintained as between them. The Liquidator Staff had no direct involvement in these matters. It did not occur to the Reliance (Canada) staff to bring to the attention of the Liquidator Staff the fact that KPMG Inc. and related entities were parties to the HSBC Action. The Reliance (Canada) staff have now advised the Liquidator that they are not aware of any other claims against policyholders of Reliance (Canada) that involve litigation in which KPMG Inc. or any related entity is a party.

25. The Liquidator Staff and the Reliance (Canada) staff have confirmed that no confidential information respecting the Claims has been or will be communicated to the Liquidator Staff and that the Liquidator Staff have not accessed, and will not access, the Claims files.

26. Upon learning that KPMG Inc. and related entities were party to the HSBC Action and of Reliance (Canada)'s involvement, the Liquidator advised KPMG LLP's general counsel, who has responsibility for claims against KPMG LLP and any related entities, including the HSBC Action, that Reliance (Canada) had issued a policy of insurance to certain of the parties to the HSBC Action. The general counsel advised the Liquidator that he had not been aware that any party to the action was a policyholder of Reliance (Canada).

27. The general counsel's office is located on a separate floor from KPMG Inc., at the head office. The practice in the general counsel's office is, effectively, to create a "fire-wall" between that office and the rest of the firm on claims matters. The general counsel advised the Liquidator that files relating to claims against KPMG LLP and any related entities, including the HSBC Action, are maintained exclusively in his office and are not available to other members of the firm without his consent or knowledge. He also confirmed that none of the Liquidator Staff have requested or been granted access to the files relating to the HSBC Action or otherwise been involved in the matters giving rise to that action, nor will they be. The general counsel has advised the Liquidator that all documents relating to the HSBC Action have been, and will remain, secured and do not form part of the general files at KPMG LLP. Attached as Schedule "G" is a memorandum from the general counsel to the Liquidator's counsel, Goodmans LLP, describing the procedures in place relating to the HSBC Action.

28. The Liquidator is confident that no confidential information relating to the HSBC Action or the Claims has been imparted to the Liquidator Staff by either Reliance (Canada) or through the KPMG general counsel's office and that there is no risk of disclosure of any information about the Claims between them. Similarly, the Liquidator is confident that no information regarding the participation of KPMG Inc. and related entities in the HSBC Action has been imparted to the Reliance (Canada) staff, or vice versa, and that there is no risk of disclosure of any information about the Claims between them. Accordingly, there has been and is no risk of prejudice to the insureds in respect of the Claims.

29. The Liquidator is confident that all dealings in respect of the Claims have been impartial.

Proposed Appointments

30. The Liquidator has considered the appropriate course of action to take, balancing the concern that there be no conflict or appearance of conflict, against ensuring that there is no disruption to the administration of the estate, and that the appropriate steps are taken with respect to the Claims so that Reliance (Canada)'s interests and obligations, if any, under each of the policies are honoured.

31. The Liquidator is of the view that it is appropriate that an independent court officer be appointed to supervise and administer each of the Claims. In particular, the Liquidator is proposing that these claims administrators deal with the Claims and the interests and obligations of Reliance (Canada) under the respective policies, including without limitation, supervising and instructing the Reliance (Canada) staff and counsel of record. The Liquidator is recommending the appointment of the Honourable Hilda M. McKinlay as claims administrator of the Davies Claim and the Honourable Lloyd W. Houlden as claims administrator of the Lindquist Claim, both of whom are retired justices and members of the ADR Chambers.

32. The Honourable Hilda M. McKinlay has agreed to accept such appointment, conditional on the approval of this Court and the granting of an Order substantially in the form attached thereto.

33. The Honourable Lloyd W. Houlden has agreed to accept such appointment, conditional on the approval of this Court and the granting of an Order substantially in the form attached thereto.

34. The Liquidator has consulted the Inspectors and the Superintendent of Financial Institutions with respect to this matter and the proposed appointments of the claims administrators. The Inspectors and the Superintendent of Financial Institutions have advised the Liquidator that they are satisfied that the proposed appointments address any concerns or perceived concerns they may have and that they consent to and approve these appointments.

IV. RELIEF REQUESTED

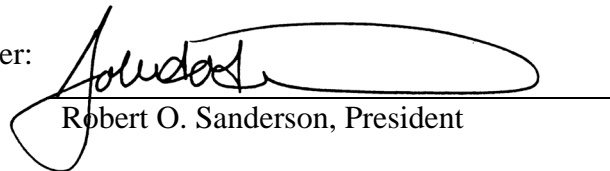
35. The Liquidator respectfully requests that this Court make an Order substantially in the form attached to the Notice of Motion as Schedule "A", including, among other things:

- (a) appointing the Honourable Hilda M. McKinlay as claims administrator of the Davies Claim; and
- (b) appointing the Honourable Lloyd W. Houlden as claims administrator of the Lindquist Claim.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

KPMG INC., solely in its capacity as the
Liquidator of Reliance Insurance Company –
Canadian Branch

Per:



Robert O. Sanderson, President



**ONTARIO
SUPERIOR COURT OF JUSTICE**

COMMERCIAL LIST

THE HONOURABLE) MONDAY THE 3RD DAY
)
MR. JUSTICE FARLEY) OF DECEMBER, 2001
)
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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 lessor 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 08 2006
PER/PAE
[Handwritten signature]

Viktoria Seckl
REGISTRAR

COURT FILE INDEX FOR SCHEDULES NOT INCLUDED DUE TO VOLUME

ONTARIO SUPERIOR COURT OF JUSTICE COURT FILE NUMBERS & DATES

<u>DESCRIPTION</u>	<u>FILE NO.</u>	<u>DATE</u>
Schedule "B" - Statement of Claim between HSBC Securities (Canada) Inc. and Davies, Ward & Beck	00-CV-189099	April 19, 2000
Schedule "C-1" - Statement of Defence of Davies, Ward & Beck	00-CV-189099CM	June 29, 2001
Schedule "C-2" - Amended Statement of Defence of Davies, Ward & Beck	00-CV-189099CM	Sept. 13, 2001
Schedule "C-3" - Statement of Defence in the Main Action on behalf of the Third Parties – KPMG LLP, Peat Marwick Thorne, KPMG Peat Marwick Thorne, KPMG Inc. and Craig Malcolm	00-CV-189099CM	March 20, 2002
Schedule "C-4" - Statement of Defence of the Third Parties – Lindquist Avey MacDonald Baskerville Inc., Robert Lindquist, Tedd Avey, Ted Baskerville and Robert MacDonald to the Main Action	00-CV-189099CM-B	March 19, 2002
Schedule "D-1" - Third Party Claim between HSBC Securities (Canada) Inc. and Davies, Ward & Beck and Lindquist Avey MacDonald Baskerville Inc., Robert Lindquist, Tedd Avey, Ted Baskerville, Robert MacDonald and Craig Malcolm	00-CV-189099CM-B	July 4, 2001
Schedule "D-2" - Amended Third Party Claim	00-CV-189099CM-B	July 4, 2001
Schedule "D-3" - Amended Amended Third Party Claim	00-CV-189099CM-B	July 4, 2001
Schedule "D-4" - Third Party Defence of Craig Malcolm	00-CV-189099CM-B	March 20, 2002
Schedule "D-5" - Statement of Defence of the Third Parties to the Amended Amended Third Party Claim	00-CV-189099CM-B	March 19, 2002

COURT FILE INDEX FOR SCHEDULES NOT INCLUDED DUE TO VOLUME
ONTARIO SUPERIOR COURT OF JUSTICE COURT FILE NUMBERS & DATES

<u>DESCRIPTION</u>	<u>FILE NO.</u>	<u>DATE</u>
Schedule "E-1" - Third Party Claim between HSBC Securities (Canada) Inc. and Davies, Ward & Beck and Aon Reed Stenhouse Inc.	00-CV-189099CM-A	July 4, 2001
Schedule "E-2" - Amended Third Party Claim	00-CV-189099CM-A	July 4, 2001
Schedule "E-3" - Statement of Defence of the Third Party to the Amended Third Party Claim	00-CV-189099CM-A	October 10, 2001
Schedule "F-1" - Third Party Claim between KPMG LLP (formerly known as Peat Marwick Thorne), Peat Marwick Thorne, KPMG Peat Marwick Thorne and KPMG Inc. (formerly known as Peat Marwick Thorne Inc.)	00-CV-189099CM-C	October 18, 2001
Schedule "F-2" - Third Party Defence between KPMG LLP (formerly known as Peat Marwick Thorne), Peat Marwick Thorne, KPMG Peat Marwick Thorne and KPMG Inc. (formerly known as Peat Marwick Thorne Inc.)	00-CV-189099CMC	March 20, 2002



Schedule "G"

KPMG LLP

VIA FAX AND COURIER

Date May 16, 2003

To Gale Rubenstein

From Peter Sahagian
National-CCW 36
(416) 777 3422

Subject **HSBC Securities (Canada) Inc. Action**
Court File no. 00-CV-189099 CM (the "HSBC Action")

I confirm that as general counsel of KPMG LLP, the Canadian member of KPMG International, I have general responsibility for supervising all claims made against KPMG LLP (and its affiliates, including KPMG Inc.), including the third party claim advanced against KPMG LLP, KPMG Inc. and other KPMG affiliates (collectively, "KPMG") as part of the HSBC Action (the "Third Party Claim").

The general counsel's office is located on a separate floor from the KPMG Inc. insolvency practice in the KPMG head office in Toronto. Day-to-day contact between staff of the general counsel's office and other firm members in the insolvency practice is minimal. All members of the general counsel's office are required to execute a declaration of confidentiality of client information when they are hired. Further, all such persons are required to sign an annual declaration reaffirming these obligations on an annual basis. Information regarding actions against KPMG, including the Third Party Claim, is kept confidential from other members of the firm who are not specifically involved in the defence of those claims.

The practice in the general counsel's office is effectively to create a "fire-wall" between the general counsel's office and the rest of the firm on claims matters. All electronic and paper files relating to claims made against KPMG are dealt with exclusively within our office. All such files are secured and do not form part of the general KPMG files. Any material relating to these files is not available to other member of the firm without my knowledge and consent. No one



who is on the liquidation staff in respect of Reliance (Canada) has been involved with the Third Party Claim or has requested or been granted access to any of our files on this matter, nor will they be. None of them have had any involvement in the matter, nor will they.

I was not aware that any party to the HSBC Action was a policyholder of Reliance (Canada) until the telephone conversation among you, me and George Gutfreund of the liquidation staff on Friday April 25, 2003. Since being advised of the involvement of Reliance (Canada), we have taken further precautions to ensure that any of my staff working on the file are aware of the situation so that no information will be imparted to anyone on the liquidation staff.

A handwritten signature in black ink, appearing to be 'Peter'.

Peter

PBS/na