

Court File No. 01-CL-4313

**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

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

February 10, 2009

**I. NATURE OF THIS SUPPLEMENTARY REPORT**

1. This Supplementary Report is respectfully filed further to the Liquidator's Report of January 5, 2009 ("Liquidator's Report"). Terms used herein have the same defined meanings as used in the Liquidator's Report.

**II. ORDER APPOINTING REPRESENTATIVE COUNSEL**

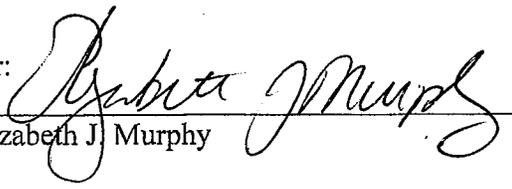
2. In connection with and since the filing of the Liquidator's Report, on January 29, 2009 the Preliminary Directions Motion was heard before the Honourable Justice Campbell and the Order for the appointment of representative counsel and directions for service in respect of the Post-liquidation Interest Motion was granted (the "Preliminary Directions Order"). A copy of the Preliminary Directions Order is attached as Schedule "A".
  
3. In accordance with the terms of the Preliminary Directions Order, the Liquidator has arranged for notice of the Post-liquidation Interest Motion by (i) serving its materials on the service list maintained by counsel for the Liquidator in this proceeding; and (ii) causing to be published the notice attached as Schedule "A" to the Preliminary Directions Order (a) in the national edition of *The Globe and Mail* newspaper and (b) on the internet website maintained by the Liquidator at [www.reliancecanada.ca](http://www.reliancecanada.ca).

DATED February 10, 2009

ALL OF WHICH IS RESPECTFULLY  
SUBMITTED,

KPMG INC., LIQUIDATOR OF THE  
INSURANCE BUSINESS IN CANADA  
OF RELIANCE INSURANCE  
COMPANY

Per:

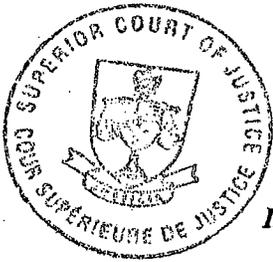
  
Elizabeth J. Murphy

**Schedule "A"**

Commercial List Court File No. 01-CL-4313

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

THE HONOURABLE MR. JUSTICE ) THURSDAY, THE 29<sup>TH</sup> DAY  
CAMPBELL )  
)  
)  
) OF JANUARY, 2009



**IN THE MATTER OF  
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**BETWEEN:**

**THE ATTORNEY GENERAL OF CANADA**

Applicant

- and -

**RELIANCE INSURANCE COMPANY**

Respondent

**ORDER**

**THIS MOTION** made by KPMG Inc., in its capacity as Liquidator ("Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance Canada"), for preliminary directions, having been first brought on for hearing January 14, 2009 and adjourned, was heard by conference call this day at Toronto, Ontario.

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ON READING the report ("Report") of the Liquidator dated January 5, 2009, filed, and upon hearing the submissions of counsel for the Liquidator and counsel for the Insurance Commissioner for the Commonwealth of Pennsylvania, as Liquidator of Reliance Insurance Company ("U.S. Liquidator"), no other party appearing although served as evidenced by the proof of service, filed,

1. **THIS COURT ORDERS** that the service made of the Notice of Motion herein for this motion for preliminary directions in respect of the Post-liquidation Interest Motion (as defined in the Report), and of the supporting materials in respect thereof, is good and sufficient notice of this motion, that this motion is properly returnable today and any further service or notice is hereby dispensed with.

2. **THIS COURT ORDERS** that the claimants of Reliance Canada whose policy loss claims the Liquidator was or is able to pay in full as they were settled and allowed by virtue of the Authorized Policy Payments (as that term is defined in the Report) and/or the level of Interim Dividend Payments (as that term is defined in the Report) reaching a 100% level (collectively, the "Under-limits Claimants") are a class for the purposes of the Post-liquidation Interest Motion, and that Elizabeth Pillon is hereby nominated and appointed solicitor and counsel, pursuant to section 133 of the *Winding-up and Restructuring Act*, to represent the Under-limits Claimants in the Post-liquidation Interest Motion.

3. **THIS COURT ORDERS** that the claimants of Reliance Canada whose (i) policy loss claims (a) were not paid in full as their policy loss claims were settled and allowed, or (b) were or are in litigation and ultimately determined in favour of the claimant and would, but for the winding-up, have been eligible for pre-judgment interest for the period following commencement of the winding-up, or (ii) whose ordinary creditor claims were payable at the commencement of the winding-up (collectively, the "Over-limits Claimants") are a class for the purposes of the Post-liquidation Interest Motion, and that James Grout is hereby nominated and appointed solicitor and counsel, pursuant to section 133 of the

*Winding-up and Restructuring Act*, to represent the Over-limits Claimants in the Post-liquidation Interest Motion.

4. **THIS COURT ORDERS** that the solicitor and client accounts of the representative counsel shall from time to time be assessed by this Court, and that the reasonable remuneration, costs and expenses of the representative counsel shall be a cost and expense of the winding-up of Reliance Canada.

5. **THIS COURT ORDERS** that the representative counsel is authorized to take all steps and to do all acts necessary or desirable to carry out the terms of this Order, including entering into a settlement subject to this Court's approval, and dealing with any regulatory body, and to take all such steps as are necessary or incidental thereto.

6. **THIS COURT ORDERS** that the representative counsel shall be at liberty and is authorized at any time to apply to this Court for advice and directions in the discharge or variation of their powers and duties.

7. **THIS COURT ORDERS** that the representative counsel shall have no personal liability or obligations as a result of the performance of their duties in carrying out the provisions of this Order, save and except for gross negligence or wilful misconduct.

8. **THIS COURT ORDERS** that no action or other proceeding may be commenced against the representative counsel in respect of the performance of their duties under this Order without leave of this Court on at least seven (7 days) notice to the representative counsel.

9. **THIS COURT ORDERS** that notice of the Post-liquidation Interest Motion shall be given to (i) the representative counsel, counsel for the U.S. Liquidator, and those currently appearing on

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the service list for the winding-up proceedings as maintained by the Liquidator's counsel, by sending by prepaid ordinary mail or by delivering by courier a copy of this Order and the Liquidator's Motion Record or Records in support of the Post-liquidation Interest Motion on or before February 13, 2009; and (ii) all other interested or affected parties, by publication of a notice substantially in the form attached as Schedule "A" hereto to be published (a) on one occasion in the national edition of *The Globe and Mail* newspaper and (b) on the internet website maintained by the Liquidator at [www.reliancecanada.ca](http://www.reliancecanada.ca), no later than February 13, 2009.

10. **THIS COURT ORDERS** that the service and notice as ordered herein in respect of the Post-liquidation Interest Motion shall be good and sufficient service thereof, and that no further or other service shall be required in respect thereof.

11. **THIS COURT ORDERS** that any materials relied on in respect of the Post-liquidation Interest Motion shall be served in accordance with the following:

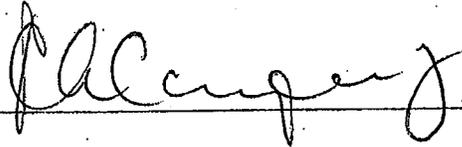
- (i) Any affidavit material responding to the Report, on or before February 27, 2009 ("Original Affidavit Material");
- (ii) Any affidavit material, or in the case of the Liquidator any report or affidavit material, replying to Original Affidavit Material of any other party, on or before March 13, 2009;
- (iii) The factum and supporting authorities of the Liquidator, by no later than 15 days prior to the hearing of the Post-liquidation Interest Motion;
- (iv) The facta and supporting authorities of any other party, by no later than 10 days prior to the hearing of the Post-liquidation Interest Motion;

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(v) Any reply factum or supporting authorities of the Liquidator, no later than 4 days prior to the hearing of the Post-liquidation Interest Motion,

and that all such materials, with proof of service, shall be filed with the Court no later than four days prior to the hearing of the Post-liquidation Interest Motion.

12. **THIS COURT ORDERS** the Post-liquidation Interest Motion shall be scheduled to be heard on a date or dates which will be determined by the Court.



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

FEB 09 2009

PER / PAR: *TV*

**SCHEDULE "A"**

**IN THE MATTER OF THE WINDING-UP OF THE INSURANCE  
BUSINESS IN CANADA OF RELIANCE INSURANCE COMPANY  
("Reliance Canada")**

**IMPORTANT NOTICE TO ALL CLAIMANTS OF RELIANCE CANADA,  
INCLUDING POLICYHOLDERS AND LOSS CLAIM CLAIMANTS**

KPMG Inc., as Liquidator ("Liquidator") of Reliance Canada under the provisions of the *Winding-up and Restructuring Act*, hereby gives notice that it will seek the advice and directions of the Ontario Superior Court of Justice – Commercial List ("Court") in respect of post-liquidation interest, by way of a motion ("Post-liquidation Interest Motion") which will be scheduled to be heard by the Court.

By the Post-liquidation Interest Motion, the Liquidator will be seeking the advice and directions of the Court as to whether post-liquidation interest is payable on claims in the winding-up of Reliance Canada from any surplus in the winding-up of Reliance Canada, and, if so, on what claims and on what basis.

The Liquidator will be recommending to the Court that the Court direct that post-liquidation interest is payable from any surplus in the winding-up of Reliance Canada on the following basis:

- The holders of claims that were paid in full when settled and allowed by the Liquidator ("Under-limits Claimants") shall not be entitled to receive interest.
- Interest shall be payable only to holders of: (i) policy loss claims that were not paid in full when settled and allowed by the Liquidator (i.e., those claims on which interim dividends and/or partial payments were made from time to time); (ii) policy loss claims that were or are in litigation and ultimately determined in favour of the claimant and would, but for the winding-up, have been eligible for pre-judgment interest for the period following commencement of the winding-up; and (iii) ordinary creditor claims that were payable at the commencement of the winding-up (collectively, "Over-limits Claimants").
- Interest payable to each of the Over-limits Claimants shall be calculated on unpaid amounts of the holder's claim, until payment of such amounts from time to time, at a simple (non-compounded) rate of 5% *per annum*, calculated from: (i) in the case of (i) above, the time the claim was settled and allowed; in the case of (ii) above, from the time since the commencement of the winding-up that it would have been eligible for pre-judgment interest, but for the winding-up, but not earlier than the commencement of the winding-up; or (iii) in the case of (iii) above, from the commencement of the winding-up.
- Any distributions or payments made on a settled and allowed claim during the course of the winding-up shall first be applied as if they had been paid on account of the interest payable on the claim, and then to reduction of the principal amount of the claim.
- The interest shall be payable in priority to any release of assets that the Court may ultimately authorize be made to Reliance Insurance Company, in liquidation.

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**Please note that the Post-liquidation Interest Motion is not a request or recommendation to the Court to authorize the making of a distribution by the Liquidator at this time. Depending on the Court's ruling, the Liquidator will seek authorization for any future distribution at the appropriate time.**

#### **Appointment of Representative Counsel**

For the purposes of the Post-liquidation Interest Motion, the Court has appointed Elizabeth Pillon as counsel to represent the Under-limits Claimants, and James Grout as counsel to represent the Over-limits Claimants. The contact information for the respective representative counsel is:

#### **For the Under-limits Claimants:**

Elizabeth Pillon  
Stikeman Elliott LLP  
5300 Commerce Court West  
199 Bay Street  
Toronto, ON M5L 1B9

Tel.: 416-869-5623  
Fax: 416-947-0866  
E-mail: epillon@stikeman.com

#### **For the Over-limits Claimants:**

James Grout  
ThorntonGroutFinnigan LLP  
Suite 3200  
Canadian Pacific Tower  
100 Wellington St. West, P.O. Toronto-  
Dominion Centre  
Toronto, Canada, M5K 1K7

Tel.: 416-304-0557  
Fax: 416-304-1313  
E-mail: jgrout@tgf.ca

**The members of each class are bound by the acts of their respective representative counsel.**

This Notice is being given pursuant to the Order of the Ontario Superior Court of Justice dated the 29th day of January, 2009.

KPMG Inc., Liquidator  
Reliance Insurance Company – Canadian Branch, in  
Liquidation  
199 Bay Street, Suite 3300  
Toronto, Ontario  
M5L 1B2

Attention: Ms. Janine Bradley  
Fax: 416-777-3683  
Tel: 416-777-8487  
E-mail: jmbradley@kpmg.ca



THE ATTORNEY GENERAL OF  
CANADA

and RELIANCE INSURANCE COMPANY

Applicant

Respondent

Commercial List Court File No: 01-CL-4313

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

Proceeding commenced at Toronto

**PRELIMINARY DIRECTIONS ORDER  
(Post-liquidation Interest Motion)**

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

Graham D. Smith (LSUC# 26377D)  
Lauren Butti (LSUC#47083W)  
Tel: (416) 979-2211  
Fax: (416) 979-1234

Solicitors for KPMG Inc.,  
Liquidator of Reliance Canada

**THE ATTORNEY GENERAL OF CANADA**  
Applicant

**RELIANCE INSURANCE COMPANY**  
Respondent

Commercial List Court File No: 01-CL-4313

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

Proceeding commenced at TORONTO

**SUPPLEMENTARY**  
**REPORT OF THE LIQUIDATOR**

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

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Solicitors for KPMG Inc., Liquidator  
Reliance Canada

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

**MOTION RECORD**

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

Graham D. Smith\LSUC #26377D  
Lauren Butti\LSUC #47083W  
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Solicitors for KPMG Inc.,  
Liquidator of Reliance Canada

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