

**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 I. GEORGE GUTFREUND  
(Sworn December 14, 2005)**

I, I. GEORGE GUTFREUND, 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 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 July 1, 2004 to

September 30, 2005 (the "Five Quarters"). Total fees of \$809,569.80 including GST were charged by the Liquidator for the Five Quarters.

3. As shown by the summary of hours and hourly rates for each of the Five Quarters, attached hereto and marked as Exhibit "B", which summary I believe to be accurate, a total of 1,744.2 hours were expended by the Liquidator during the Five 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.

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, and an additional 2.4%, since the last passing, effective October 1, 2004, reflecting the change in the Consumer Price Index. The discount from current market rates is approximately 20% to 45%.

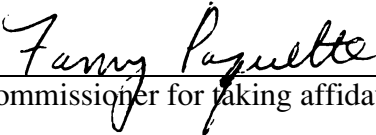
6. The Liquidator retained Goodmans LLP ("Goodmans") as its legal counsel in relation to these proceedings. Goodmans performed various activities in connection with its retainer.

7. Attached as Exhibit "A" to the Affidavit of Gale Rubenstein sworn December 14, 2005, filed in support of the within motion, are summary invoices from Goodmans to the Liquidator for the Five Quarters.

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

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

SWORN BEFORE ME at the City of  
Toronto, in the Province of Ontario on  
December 14, 2005.

  
\_\_\_\_\_  
Commissioner for taking affidavits



\_\_\_\_\_  
I. George Gutfreund

**Fanny Paquette, a Commissioner, etc.,  
City of Toronto, for Goodmans LLP,  
Barristers and Solicitors.  
Expires February 16, 2007.**

This is Exhibit A referred to in the  
affidavit of J. George Buttreund  
sworn before me, this 14<sup>th</sup>  
day of December 2005.

Schedule

December 5, 2005

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

*Fanny Paquette*  
A COMMISSIONER FOR TAKING AFFIDAVITS  
Fanny Paquette, a Commissioner, etc.,  
City of Toronto, for Goodmans LLP.  
Barristers and Solicitors.  
Expires February 16, 2007.

GST #122363153

## BILL OF COSTS

To our professional services rendered in connection with the above-noted matter for the period July 1, 2004 to September 30, 2005:

- Review and approval of financial statements and related analysis for the quarters ending June 30<sup>th</sup>, 2004, September 30<sup>th</sup>, 2004, December 31<sup>st</sup>, 2004, March 31<sup>st</sup>, 2005 and June 30<sup>th</sup>, 2005;
- Review and approval of Management Reports for the quarters ending June 30th, September 30th and December 31st, 2004 and March 31st and June 30th, 2005;
- Review and approval of money market transactions;
- Continued limited review of Reliance Canada documentation and meetings with the U.S. Liquidator to review U.S. documentation to attempt to quantify the magnitude of exposure to Canadian risk not reported on the books of Reliance Canada;
- Ongoing liaison with the U.S. Liquidator, including the return of surplus funds from the Canadian estate to the U.S. estate, discussions as to the status of reinsurance collections, IT systems administration, runoff models, and obtaining additional information required for the proper administration of the Canadian estate;
- Receipt, review, discussion and attendance at meetings with estate legal counsel to review ongoing matters, reinsurance collections issues including 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;
- 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, 2005
- Receipt, review and discussion with the actuarial consultant, the results of his extensive review as performed above;
- Continued to review existing claims bordereaux in order to stratify claims as to dollar amounts, lines of business and PACICC exposure;
- Review of new reported claims, discussions with claims adjudication staff and approving set up of appropriate reserves;
- Continuing to liaise with Reliance U.S. IT personnel to ensure the ongoing performance of the computer systems;
- Overseeing the upgrade of the computer hardware, software and connections to the U.S. IT systems;
- Continuing to deal with numerous Meridian policyholder inquiries;
- 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;
- 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;
- 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 31st, 2004 tax returns;
- Receipt and review of the Cavell Scheme of Arrangement under the U.K. Companies Act;

- Attendance at numerous meetings in person or by conference call with representatives of Cavell, their Canadian counsel, representatives of Canadian insurance companies and or their legal counsel and representatives of OSFI to review the terms of the scheme, the effects on Canadian policyholders and to try to negotiate changes;
- Filing of proofs of claim in the Cavell scheme, instructing U.K. counsel and attendance at meetings of creditors;
- Attendance at Cavell court appearances and filing of appropriate materials as required;
- 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	\$ 724,564.10
Disbursements	<u>32,043.19</u>
	756,607.29
GST	<u>52,962.51</u>
Total	<u><u>\$ 809,569.80</u></u>

RELIANCE INSURANCE COMPANY

(in liquidation)

LISTING OF KPMG INC. PERSONNEL

HOURS AND AVERAGE HOURLY RATE

THREE MONTH PERIOD ENDED SEPTEMBER 30, 2004

<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	140.50	\$445
Burgess, J.	Manager	Insolvency/Claims/Reinsurance	118.90	\$288
Murphy, E.	V.P./Senior Manager	Financial Report/Reinsurance	65.10	\$445
Individuals with less than 30 hours			100.20	\$309
			<u>424.70</u>	<u>\$369</u>

This is Exhibit B referred to in the  
affidavit of I George Gutfreund  
sworn before me, this 14th  
day of December 2005  
Fanny Paquette  
A COMMISSIONER FOR TAKING AFFIDAVITS

Fanny Paquette, a Commissioner, etc.  
City of Toronto, for Goodmans LLP.  
Barristers and Solicitors.  
Expires February 16, 2007.

**RELIANCE INSURANCE COMPANY****(in liquidation)****LISTING OF KPMG INC. PERSONNEL****HOURS AND AVERAGE HOURLY RATE****THREE MONTH PERIOD ENDED DECEMBER 31, 2004**

<b>Name</b>	<b>Rank</b>	<b>Area</b>	<b>HOURS</b>	<b>AVG. HRLY RATE</b>
Gutfreund, G.	V.P./Senior Manager	Insolvency/Claims	194.50	\$456
Burgess/Bradley, J.	Manager	Insolvency/Claims/Reinsurance	88.10	\$295
Murphy, E.	Associate Partner	Financial Report/Reinsurance	115.80	\$495
Individuals with less than 30 hours			26.50	\$448
			<u>424.90</u>	<u>\$433</u>



**RELIANCE INSURANCE COMPANY**

**(in liquidation)**

**LISTING OF KPMG INC. PERSONNEL**

**HOURS AND AVERAGE HOURLY RATE**

**THREE MONTH PERIOD ENDED MARCH 31, 2005**

<u>Name</u>	<u>Rank</u>	<u>Area</u>	<u>HOURS</u>	<u>AVG. HRLY RATE</u>
Sanderson, R. O.	President/Partner	Insolvency/Overall Admin./Strategy	40.80	\$590
Gutfreund, G.	V.P./Senior Manager	Insolvency/Claims	194.50	\$456
Bradley, J.	Manager	Insolvency/Claims/Reinsurance	36.00	\$295
Murphy, E.	Associate Partner	Financial Report/Reinsurance	114.80	\$495
Individuals with less than 30 hours			30.70	\$320
			<hr/>	<hr/>
			<u>416.80</u>	<u>\$456</u>

**RELIANCE INSURANCE COMPANY****(in liquidation)****LISTING OF KPMG INC. PERSONNEL****HOURS AND AVERAGE HOURLY RATE****THREE MONTH PERIOD ENDED JUNE 30, 2005**

<b>Name</b>	<b>Rank</b>	<b>Area</b>	<b>HOURS</b>	<b>AVG. HRLY RATE</b>
Gutfreund, G.	V.P./Senior Manager	Insolvency/Claims	119.00	\$456
Bradley, J.	Manager	Insolvency/Claims/Reinsurance	32.90	\$295
Murphy, E.	Associate Partner	Financial Report/Reinsurance	54.90	\$495
Manktelow, B	Senior Manager	Financial Report/Reinsurance	39.30	\$380
Mehra, S	Technician	Financial Report/Reinsurance	46.00	\$120
Individuals with less than 30 hours			48.90	\$440
			<hr/>	<hr/>
			<u>341.00</u>	<u>\$390</u>

**RELIANCE INSURANCE COMPANY**

**(in liquidation)**

**LISTING OF KPMG INC. PERSONNEL**

**HOURS AND AVERAGE HOURLY RATE**

**THREE MONTH PERIOD ENDED SEPTEMBER 30, 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	62.00	\$456
Murphy, E.	Associate Partner	Financial Report/Reinsurance	49.00	\$495
Individuals with less than 30 hours			25.80	\$319
			<u>136.80</u>	<u>\$444</u>

**KPMG Inc.**  
(Quarter ending September 2004)

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

ELIZABETH MURPHY – is a Vice President of KPMG Inc. and a Chartered Accountant. Ms Murphy has general responsibility for all reinsurance matters, management of the investment portfolio, communications with PACICC and the U.S. Liquidator and determination of actuarial liabilities. She is also responsible for financial reporting and overseeing the accounting department. During this period she oversaw a review of internal controls and compliance with liquidation policies and procedures.

JANINE BURGESS – is a Manager in the corporate recovery group. She assists Mr. Gutfreund with the claims adjudication process, analysis and stratification of claims, overseeing the Meridian and GAP programs and reviewing defense costs. Janine also developed runoff models under the direction of Ms Murphy and/or Mr. Gutfreund and assisted in the passing of accounts and distribution of dividends declared.

This is Exhibit C referred to in the  
affidavit of I George Gutfreund  
sworn before me, this 14<sup>th</sup>  
day of December 2005

Fanny Paquette  
A COMMISSIONER FOR TAKING AFFIDAVITS

**Fanny Paquette, a Commissioner, etc.,  
City of Toronto, for Goodmans LLP,  
Barristers and Solicitors.  
Expires February 16, 2007.**

**KPMG Inc.**

(Quarter ending December 2004)

I GEORGE GUTFREUND – is a Vice President of KPMG Inc. and a Chartered Accountant, a Certified Insurance Receiver and licensed trustee in bankruptcy. He is responsible for the general administration of the liquidation, including oversight of all financial and internal controls, human resources and office management. Mr. Gutfreund oversees the claims adjudication staff, liaises with PACICC concerning claims matters, participates as required in the formulation of the appropriate strategy, reviews and approves all significant reserve adjustments and is also responsible for the development and maintenance of the website.

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.

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, reviewing defense costs and contracted for the supervised the move of the Reliance operations.

**KPMG Inc.**

(Quarter ending March 2005)

ROBERT O. SANDERSON – is President of KPMG Inc., a Chartered Accountant, Fellow of the Institute of Chartered Accountants of Ontario and a trustee in bankruptcy. He has primary responsibility for the liquidation as a whole. During this period, his particular areas of concentration were with respect to the development of the overall direction, approach and strategy for the estate, 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 state, responding to specific issues arising in the defense of claims and advising respective counsel as to projected outcomes. During this period, Mr. Sanderson oversaw the negotiation with Cavell.

I. GEORGE GUTFREUND – is a Vice President of KPMG Inc. and a Chartered Accountant, a Certified Insurance Receiver and licensed, trustee in bankruptcy. He is responsible for the general administration of the liquidation, including oversight of all financial and internal controls, human resources and office management. Mr. Gutfreund oversees the claims adjudication staff, liaises with PACICC concerning claims matters, participates as required in the formulation of the appropriate strategy, reviews and approves all significant reserve adjustments and is responsible for the maintenance of the website. During this period, the detailed claims review was completed and reviewed with the inspectors and Mr. Gutfreund was involved in the Cavell negotiations and analyses.

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 assisted with the analysis of the Cavell scheme.

JANINE BRADLEY – is a Manager in the corporate recovery group. She assists Mr. Gutfreund with the claims adjudication process, analysis and stratification of claims, the detailed claims review, overseeing the Meridian and GAP programs and reviewing defense costs.

**KPMG Inc.**  
(Quarter ending June 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 administration of the liquidation, including oversight of all financial and internal controls, human resources and office management. Mr. Gutfreund oversees the claims adjudication staff, liaises with PACICC concerning claims matters, participates as required in the formulation of the appropriate strategy, reviews and approves all significant reserve adjustments and is responsible for the maintenance of the website. During this period, Mr. Gutfreund continued to be involved in the Cavell scheme negotiations and was involved in the settlement of a large complex claim.

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.

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

BLAIR MANKTELOW – is a Senior Manager in the Financial Institutions and Real Estate assurance practice. He is an accredited actuary and assisted in determination of the differences in Canadian versus U.K. actuarial GAAP. Mr. Manktelow also oversaw the actuarial valuation of Reliance Canada's claim in the Cavell scheme.

SIMMI MEHRA – is a Technician in the Financial Institutions and Real Estate tax practice and assisted in the preparation of the December 31, 2004 corporate tax returns.

**KPMG Inc.**

(Quarter ending September 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 administration of the liquidation, including oversight of all financial and internal controls, human resources and office management. Mr. Gutfreund oversees the claims adjudication staff, liaises with PACICC concerning claims matters, participates as required in the formulation of the appropriate strategy, reviews and approves all significant reserve adjustments and is responsible for the maintenance of the website.

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.



**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**- COMMERCIAL LIST**  
Proceeding commenced at Toronto

**AFFIDAVIT OF**  
**I. GEORGE GUTREUND**

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

Graham Smith\LSUC # 26377D

Tel: (416) 979-2211  
Fax: (416) 979-1234

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