

**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 ROBERT O. SANDERSON
(Sworn April 1, 2008)**

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

- I am Chairman of KPMG Inc., the liquidator (the "Liquidator") of Reliance Insurance Company – Canadian Branch. As such, I have knowledge of the matters hereinafter deposed to, except where stated to be on information and belief and whereso stated I verily believe it to be true.

2. Attached hereto and marked as Exhibit "A" to this my Affidavit is a summary invoice from the Liquidator to the estate in respect of these proceedings for the period October 1, 2006 to December 31, 2007 (the "Period"). Total fees of \$729,167.48 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 1,461.2 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. The discount from current market rates is approximately 15% to 25%.

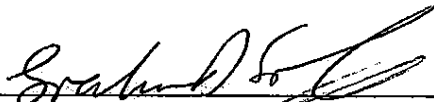
7. The Liquidator retained Goodmans LLP ("Goodmans") as its legal counsel in relation to these proceedings. Goodmans performed various activities in connection with its retainer.

8. Attached as Exhibit "A" to the Affidavit of Gale Rubenstein sworn April 1, 2008, filed in support of the within motion, is a summary invoice from Goodmans to the Liquidator for the Period.

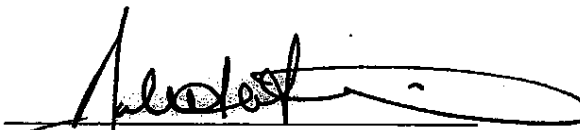
9. Goodmans rendered services throughout these proceedings in a manner consistent with instructions received from the Liquidator.

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 April 1, 2008.


Commissioner for taking affidavits

Graham Smith


Robert O. Sanderson

This is Exhibit "A" referred to in the affidavit of Robert O. Sanderson sworn before me, this 1st day of April 20⁰⁸.

March 26, 2008

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


A COMMISSIONER FOR TAKING AFFIDAVITS

GST #122363153

BILL OF COSTS

To our professional services rendered in connection with the above-noted matter for the period October 1, 2006 to December 31, 2007:

- Review and approval of financial statements and related analysis for the quarters ending December 31st, 2006, March 31st, 2007, June 30th, 2007 and September 30th, 2007;
- Review and approval of Management Reports for the quarters ending December 31st, 2006 and March 31st, June 30th and September 30th, 2007;
- 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 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 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 31st, 2007.

- 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 deal with 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, 2006 tax returns;
- Attendance at meetings in person or by conference call with representatives of Cavell and/or their Canadian counsel, to review the terms of the scheme, and to try to negotiate a settlement of the Reliance claims;
- Instructing our U.K. Cavell counsel and attendance at meetings with them;
- Participation in Appeal to the Court of Appeal in the Cavell matter and filing 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;
- Negotiation of lease on new premises;
- Overseeing move of operations to new premises;
- Attendance at meetings and preparation of a Confidential Information Memorandum with respect to the divestiture of the branch;
- Preparation, filing and arguing a motion before the Ontario Superior Court of Justice with respect to the collection of reinsurance receivables including a determination of the issues surrounding Reinsurer set-offs;
- 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	\$ 645,696.50
Disbursements	<u>43,409.82</u>
	689,106.32
GST	<u>40,061.16</u>
Total	<u>\$ 729,167.48</u>

RELIANCE INSURANCE COMPANY
(in liquidation)

LISTING OF KPMG INC. PERSONNEL
HOURS AND AVERAGE HOURLY RATE
FIFTEEN MONTH PERIOD FROM OCTOBER 1, 2006 TO DECEMBER 31, 2007

Name	Rank	Area	HOURS	AVG. HRLY RATE
Sanderson, R O	Chairman	Insolvency/Overall Administration	128.90	\$632
Murphy, E	Associate Partner	Financial Report/Reinsurance	450.30	\$531
Albertini, P	Associate Partner	Divestature of Branch	41.50	\$499
Gutfreund, G	Senior Manager	Claims	183.00	\$491
Bradley, J	Senior Manager	Insolvency/Claims/Reinsurance	222.70	\$436
Pardhan, S	Senior Manager	Divestature of Branch	88.50	\$327
Guo, B	Associate	Divestature of Branch	78.00	\$249
Stuart, R	Senior Consultant	Move Logistics	144.80	\$270
Individuals with less than 30 hours			123.50	\$328
			<u>1,461.20</u>	<u>\$370</u>

This is Exhibit....."B".....referred to in the
 affidavit of.....Robert O. Sanderson
 sworn before me, this.....1st
 day of.....April.....2008.....

[Signature]
 A COMMISSIONER FOR TAKING AFFIDAVITS

This is Exhibit "C" referred to in the affidavit of Robert O. Sanderson sworn before me, this 1st day of April 2008.

KPMG Inc.

(For the Period from October 1, 2006 to December 31, 2007)

[Signature]
A COMMISSIONER FOR TAKING AFFIDAVITS

ROBERT O. SANDERSON – is Chairman 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 estate, responding to specific issues arising in the defense of claims and advising respective counsel as to projected outcomes. During this period, Mr. Sanderson oversaw a motion before the Ontario Superior Court of Justice with respect to the collection of reinsurance receivables, including a determination of the issues surrounding Reinsurer set-off.

ELIZABETH MURPHY – is an Associate Partner 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. Ms Murphy met with several reinsurers to pursue collections and assisted with the motion before the Ontario Superior Court of Justice with respect to collection of reinsurance receivables, including a determination of the issues surrounding Reinsurer set-off.

PETER ALBERTINI – is an Associate Partner of KPMG. Mr. Albertini participated at numerous meetings with respect to assessing the market’s receptivity to the possible divestiture of the Canadian branch including overseeing the preparation of a draft Confidential Information Memorandum.

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 oversaw the claims adjudication staff, participated 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 also oversaw the move of operations to new premises.

JANINE BRADLEY – is a Senior Manager of KPMG Inc. She is responsible for the analysis and stratification of claims, the detailed claims review, overseeing the Meridian and GAP programs and reviewing defense costs. Within the period, Ms Bradley had taken over responsibility of the claims adjudication staff, reviewing and approving all significant reserve adjustments and liaising with PACICC concerning claims matters. She assists with the general administration of the liquidation, including oversight of all financial and internal controls, human resources and office management.

SAHEZAD PARDHAM – is a Senior Manager of KPMG and a Chartered Accountant. He participated in numerous meetings with respect to assessing the market’s receptivity to the

possible divestiture of the Canadian branch and assisted with the preparation of a draft Confidential Information Memorandum.

BAOQIN GUO – is an Associate of KPMG. She assisted with the preparation of a draft Confidential Information Memorandum with respect to the divestiture of the Canadian branch.

REGAN STUART – is a Senior Consultant of KPMG Inc. and a Chartered Accountant. He assisted Mr. Gutfreund with the move of the operations to new premises.

THE ATTORNEY GENERAL OF CANADA
Applicant

RELIANCE INSURANCE COMPANY
and
Respondent

Court File No: 01-CL-4313

ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST

Proceeding commenced at Toronto

AFFIDAVIT OF
ROBERT O. SANDERSON

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

Solicitors for KPMG Inc.,
Liquidator of Reliance (Canada)
GOODMANS\55511252
File No. 01.6699

///