

**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 – CANADIAN BRANCH**

November 10, 2004

TABLE OF CONTENTS

I.	NATURE OF THE MOTION	1
II.	GENERAL BACKGROUND	1
III.	THE RBC ARRANGEMENTS.....	2
IV.	RECOMMENDATIONS.....	8

**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

November 10, 2004

I. NATURE OF THE MOTION

1. This report is respectfully filed in support of a motion by KPMG Inc., the liquidator (the “Liquidator”) of the insurance business of Reliance Insurance Company in Canada (“Reliance (Canada)”) for an Order approving the RBC Arrangements (as hereinafter defined) and authorizing the Liquidator to enter therein.

II. GENERAL BACKGROUND

2. Reliance Insurance Company (“Reliance”) is a property and casualty insurer in the United States of America, domiciled in the Commonwealth of Pennsylvania. Reliance carried on business in Canada as a “foreign company” within the meaning of the *Insurance Companies Act*

through a branch. In October, 2000, Reliance (Canada) stopped issuing new policies and began “running off” or winding down its existing business.

3. Reliance 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 Orders of this Court made December 3, 2001, the insurance business of Reliance (Canada) was ordered wound-up pursuant to the provisions of the *Winding-up and Restructuring Act* and KPMG Inc. was appointed provisional liquidator.

5. In the Appointment Order, this Court appointed the U.S. Liquidator and PACICC as inspectors. By order dated January 30, 2002, this Court ordered that the Superintendent of Financial Institutions of Canada (the “Superintendent”) may attend meetings of inspectors, be included in the service list, and attend and be heard in matters before this Court.

6. The inspectors and the Superintendent are not opposing this motion.

III. THE RBC ARRANGEMENTS

7. As discussed in previous reports:

- a) At the commencement of the liquidation, assets vested in trust with the Superintendent of Financial Institutions, as required under the *Insurance Companies Act* for Reliance (Canada)’s license, consisted of cash or near cash in the amount of approximately \$171 million;
- b) As at June 30, 2004, the cash or near cash was approximately \$155 million; and
- c) The Liquidator will continue the run-off of Reliance (Canada)’s business in an orderly manner, dealing with policy liabilities and collection of reinsurance on a commercially reasonable basis, seeking the approval of the Court for further

interim distributions as appropriate. Given the nature of Reliance (Canada)'s business, this process can be expected to take many years.

8. The Liquidator has arrangements with a custodian who held the bonds and securities in which the assets were invested. The Liquidator sold the Reliance bond portfolio and realized a gain of \$7.4 million after consultations with the U.S. Liquidator and investment advisors.

9. The Liquidator has managed the assets to date but, given the amount of cash and the many years the estate will likely be open, is now of the view that it would be in the best interest of the estate that the Liquidator enter into arrangements (the "RBC Arrangements") with RBC Asset Management ("RBC AM") for the purchase by Reliance (Canada) of units of four mutual funds managed by RBC AM (the "Funds").

10. RBC AM is a wholly-owned subsidiary of Royal Bank of Canada and is a member of the RBC Financial Group. RBC AM is the primary investment manager for the RBC Financial Group businesses serving the needs of private clients. RBC AM, together with its international affiliates, has over 250 employees, \$40 billion of assets under management, and offices in major international centres.

11. The Royal Trust Company, another wholly-owned subsidiary of Royal Bank of Canada, is the trustee of the Funds, holds title to the property of the Funds and has been appointed as the custodian of the Funds' assets.

12. Attached as Schedule "A" is a copy of the form of Self-Directed Account Agreement, including the schedules thereto (the "Account Agreement"), proposed to be entered into with RBC AM with respect to the RBC Arrangements.

13. The RBC Arrangements are summarized below:

a) The Funds

Pursuant to the Account Agreement, Reliance (Canada) would retain RBC AM to buy, sell and generally deal with and trade in the Series O units of the Funds upon direction of Reliance (Canada). The Funds are as follows:

- (i) RBC Canadian Money Market Fund which invests primarily in high quality, short-term (one year or less) debt securities, including treasury bills and promissory notes issued by or guaranteed by Canadian governments or their agencies, bankers' acceptances, asset-backed commercial paper and commercial paper issued by Canadian chartered banks, loan companies, trust companies and corporations. The Fund's objective is to provide current income and liquidity consistent with short-term money market rates, while preserving capital;
- (ii) RBC \$U.S. Money Market Fund which invests primarily in high quality, short-term (one year or less) debt securities denominated in U.S. dollars. These include treasury bills issued or guaranteed by Canadian or foreign governments or their agencies, bankers' acceptances, and commercial paper issued by Canadian or foreign corporations and super national agencies such as the World Bank. The Fund's objective is to provide current income and liquidity consistent with short-term U.S. money market rates and to preserve the investments' value. The Fund generates U.S. dollar returns;
- (iii) RBC Canadian Short-Term Income Fund which invests primarily in high quality, short-term fixed income securities issued by or guaranteed by Canadian federal, provincial or municipal governments and corporations, asset backed securities and corporate bonds. The Fund may also invest in high quality first mortgages on Canadian residential property insured by the Canada Mortgage and Housing Corporation or guaranteed by Royal

Bank of Canada or certain of its affiliates. The average term to maturity of assets held is maintained at two to five years. The Fund's objective is to provide a competitive level of monthly income by investing in short-term fixed income assets; and

- (iv) RBC Bond Fund which invests primarily in high quality, fixed income securities issued by Canadian governments and corporations. The Fund may also invest in similar securities outside of Canada. The Fund's objective is to provide above-average, long-term total returns consisting of interest income and moderate capital growth.

The Series O units of the Funds are offered to institutional investors by RBC AM pursuant to an offering memorandum in accordance with Canadian securities legislation. RBC AM will manage each Fund in accordance with its investment objectives and restrictions as outlined in the offering memorandum and the applicable Issuer Diversification Guidelines contained in Schedule G to the Account Agreement.

While RBC AM manages the Funds, the Liquidator alone will determine which Funds to invest in (if any) and the amount to be invested by Reliance (Canada) in each Fund at any time. RBC AM will not provide any advice to Reliance (Canada) with respect to the investment of the assets of Reliance (Canada).

b) Reporting

Schedule G to the Account Agreement provides for various reports that RBC AM will be required to provide to Reliance (Canada):

- (i) on a monthly basis and no later than the 5th business day of the following month, a statement for the account showing the Funds held at the end of the month, the value thereof and the transactions processed during the previous month together with a confirmation of holdings statement confirming the percentage of each Fund held by the account and providing

information on issuer exposures for each Fund in excess of 5% market value of the Fund as at the end of the previous month;

- (ii) on a monthly basis and no later than the 20th business day of the following month, a listing of all holdings for each of the Funds held in the account as at the end of the previous month, indicating the name of each issuer and total market value of the Fund;
- (iii) on a quarterly basis and no later than the 20th business day of the following month, an investment report for the account including performance of the account, market commentary and a report on each of the Funds as at the end of the previous month; and
- (iv) such other assistance, reports or information as Reliance (Canada) may reasonably request.

c) Fees

Schedule C of the Account Agreement provides that fees with respect to the RBC Arrangements shall be agreed upon by Reliance (Canada) and RBC AM from time to time to cover mutual fund management and client reporting and administration. The fees will be based on the average monthly market values of all holdings in the Funds in all Reliance (Canada) accounts and then applying particular rates for each Fund in proportion to the relative holdings in each of the four Funds. Management fees will be calculated monthly and billed quarterly.

d) Indemnities

Pursuant to the Account Agreement, Reliance (Canada) provides certain standard indemnities to RBC AM as follows:

- (i) except with respect to claims, costs and liabilities arising principally by reason of the negligence of RBC AM, the material breach of the Account Agreement by RBC AM, or the failure of RBC AM to act in accordance with instructions given within the scope and in accordance with the

Account Agreement, Reliance (Canada) will indemnify RBC AM against any claim, cost or liability incurred by RBC AM in connection with any services provided by RBC AM to Reliance (Canada) under the Account Agreement, provided that this indemnity does not include any indirect, consequential or exemplary damages suffered by RBC AM; and

- (ii) Reliance (Canada) will indemnify RBC AM and its affiliates and their respective directors, officers and employees against all and any loss, cost, claim, expense or damage suffered or incurred by relying on instructions received from Reliance (Canada).

The recourse of RBC AM for the indemnification obligations of Reliance (Canada) under the Account Agreement, as above described, is limited to the sum of \$2,000,000 in the aggregate. The indemnification will terminate on the first anniversary of the termination of the Account Agreement unless RBC AM has provided notice to Reliance (Canada) of a potential claim, cost or liability. Where RBC AM has provided such notice, RBC AM's right to an indemnity shall not terminate until the claim, cost or liability is resolved in a decision not subject to further appeal. RBC AM shall thus have no further or other rights of recourse against the estate of Reliance (Canada) or against KPMG Inc. in its personal capacity or its affiliates or in its capacity as Liquidator. Said sum of \$2,000,000 shall rank as a claim against the estate of Reliance (Canada) *pari passu* with costs, charges and expenses incurred in the winding up of Reliance (Canada).

14. The Liquidator is of the view that the RBC Arrangements will have significant benefits for Reliance (Canada) including:

- a) investing in the Funds will allow Reliance (Canada) to achieve improved diversification of its holdings as a result of a larger capital base within an overall balanced portfolio, maintain liquidity, reduce credit risk and possibly obtain somewhat higher income while continuing to meet the investment objective of maximizing income while simultaneously preserving investment capital and liquidity by investing in a diversified portfolio of high quality bonds, treasury

bills, and other debt obligations issued principally by Canadian borrowers in Canadian dollars;

- b) Reliance (Canada) will have the flexibility to move funds between the Funds to meet the expected duration of the liabilities of the estate; and
- c) as a result of the size of the Reliance (Canada) portfolio, the fees to be paid to RBC AM are significantly lower than the fees paid by retail investors in other series of the Funds.

IV. RECOMMENDATIONS

15. The Liquidator recommends that this Court approve the RBC Arrangements and authorize the Liquidator to enter therein.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

KPMG INC., the Liquidator of Reliance Insurance
Company – Canadian Branch

Per: _____


Robert O. Sanderson, President

Schedule "A"



RBC Asset Management

Reliance Insurance Company,
Canadian Branch
(In Liquidation)

**Self-Directed
Account Agreement**

Client's name

Reliance Insurance Company, Canadian Branch (In Liquidation) (the "Client", "you" or "your") by its Liquidator KPMG Inc. retains RBC Asset Management Inc. ("RBC AM") to buy, sell and generally deal with and trade in Series O units of certain RBC Funds (the "Funds"). This Self-Directed Account Agreement (the "Account Agreement"), including all schedules (collectively, the "Agreement"), shall govern each account opened with RBC AM. In consideration of RBC AM buying, selling and generally trading in mutual fund securities, you consent that this Agreement will govern all matters pertaining to your accounts with RBC AM, including any future accounts or any account which you have an interest in alone or jointly.

SCHEDULES

The following schedules are included in and form part of this Agreement:

- **Schedule A** - Accredited Investor Confirmation;
- **Schedule B** - Statement of Policies;
- **Schedule C** - Fees;
- **Schedule D** - Collection and Use of Information;
- **Schedule E** - Certificate of Authorized Officers;
- **Schedule F** - Banking Information and Consent to Electronic Delivery of Financial Statements (not required);
- **Schedule G** - Procedures, Issuer Diversification Guidelines and Other Information; and
- **Schedule H** - Account Opening Form

All terms defined in this Agreement have the same meaning when they are used in the schedules.

Additional schedules may be added from time to time with the consent of the Client and will form part of this Agreement.

1. SERVICES

We will act as your agent for buying, selling and generally dealing with the Funds for you.

Administrative and other services required under this Agreement may be provided by RBC AM or may be delegated to an affiliate as RBC AM may determine from time to time. If RBC AM delegates any service to be performed by RBC AM under this Agreement to an affiliate of RBC AM, RBC AM shall remain responsible for such service as if it had performed the service itself.

2 ACKNOWLEDGEMENTS

The Client confirms that all information provided to RBC AM in writing, verbally, electronically or by any other means is true and complete.

We have provided you with the most recent offering memorandum dated October 1, 2004 relating to the offering of the Funds. This offering memorandum (as the same may, from time to time, be amended, restated or renewed, the "OM"), describes among other things, the investment objectives and restrictions of the Funds, and sets out the basis upon which your purchase of Series O units of the Funds will be made, subject to any specific terms and conditions set out in this Agreement. RBC AM shall manage each Fund in accordance with its investment objectives and restrictions as outlined in the OM and the applicable Issuer Diversification Guidelines contained in Schedule G hereto and acknowledges that the Client is relying on same when investing in a Fund.

As a holder of Series O units of the Funds, you will be entitled to the same rights and will receive the same reporting and other materials as any other holder of Series O units of the Funds. RBC AM further agrees to provide the Client :

- (a) forthwith with any amendment or restatement of the OM; and
- (b) with 7 days advance notice of any proposed change in the investment objectives, restrictions or Issuer Diversification Guidelines of a Fund.

3. FEES

The fees payable by the Client are detailed in the Fee Schedule (Schedule C). RBC AM may debit the fees payable from the Client's account as outlined on Schedule C. Such fees shall remain confidential and shall not be disclosed to any third party except as required by law or with the prior consent of both parties.

In addition to such fees, all applicable taxes will be levied in respect of services rendered in Canada.

4. RECORDKEEPING

The Client agrees and acknowledges that it may be required to execute a separate account opening form with RBC AM in the form as attached hereto as Schedule H.

5. LIABILITY FOR LOSS

RBC AM will not be responsible for any loss or damage suffered or incurred by the Client, except in the case where such loss or damage is a result of negligence on the part of RBC AM or a material breach of Section 2 or Section 10 hereof by RBC AM. In any such case, RBC AM will not be liable for any indirect, consequential or exemplary damages, regardless of the cause of action. In no event will RBC AM be liable for any loss or damage suffered by the Client that is caused by:

- (a) the actions of, or any failure to act by, any third party which is not an affiliate of RBC AM (and no third party which is not an affiliate of RBC AM will be considered to be acting as an agent for RBC AM), unless otherwise required by applicable securities law;
- (b) inaccuracies in or inadequacies of the information furnished by the Client to RBC AM; or
- (c) failure by RBC AM to perform or fulfil any of its obligations to the Client due to any cause beyond the control of RBC AM.

Except with respect to claims, costs and liabilities arising principally by reason of

- (d) the negligence of RBC AM;

(e) a material breach of Section 2 or Section 10 hereof by RBC AM; or

77 King Street West
Toronto, ON M5W 1P9

(f) the failure of RBC AM to act in accordance with instructions of the Client given within the scope and in accordance with this Agreement,

Attn: Stephen Murray
VP, Institutional Services

or

Ray Sawicki
Senior Manager, Institutional
Services

telecopy: 416.955.7279

and unless prohibited by applicable securities laws, the Client will indemnify RBC AM against any claim, cost or liability incurred by RBC AM in connection with any services provided by RBC AM to the Client under this Agreement subject to the limits in Section 8 hereof and provided that this indemnity shall not include any indirect, consequential or exemplary damages suffered by RBC AM.

(b) if to the Client

Reliance Insurance Company,
Canadian Branch (in Liquidation)
4 King Street West
Toronto, ON M5H 1B6
Attn: Carol Heimrich

telecopy: 416.323.7610

with a copy to:

Robert Sanderson
KPMG Inc.
Commerce Court West
P.O. Box 31, Stn. Commerce Court
Toronto ON M5L 1B2

telecopy: 416.777.3683

6. NOTICE AND INSTRUCTIONS

Any notice or other communication required or permitted to be given under this Account Agreement (with the exception of trading instructions) shall be in writing and shall be given in accordance with this Section 6. Processes for trading instructions shall be outlined in Schedule G to this Agreement. Such notice may be personally delivered, mailed or transmitted by facsimile provided that during the transmission no indication of failure of receipt is communicated to the sender, or by such other means as the parties may agree to from time to time. Any notice shall be delivered or addressed to a responsible officer of RBC AM or to the individual authorized to act on behalf of the Client, as the case may be. If mailed, it shall be mailed by prepaid mail, to the respective address provided for in this Agreement and shall be deemed to have been given and received, on the third business day following such mailing. Any notice personally delivered shall be deemed to have been given and received at the time of delivery. Any notice faxed shall be deemed to have been given and received, if sent during normal business hours on the day transmitted, and if sent after normal business hours on the next business day. Either party may from time to time by written notice change the address for notice.

The Client must provide RBC AM with notice of any changes to the information provided in the Agreement or schedules.

7. AUTHORITY TO ACT, INSTRUCTIONS, INDEMNITY AND REPRESENTATIONS

If the Client opening the account is a corporation, trust, partnership or other legal entity, the Client confirms that it has the rights and ability to enter into this Agreement and carry out the transactions described in it and that the execution and delivery of this Agreement have been properly authorized. The Client shall provide such documentary evidence as to its capacity and authority as RBC AM may reasonably request and shall advise RBC AM of the individual(s) who have the authority to give directions to RBC AM (the "Authorized Officers").

Contact details for the parties for such notices are as follows:

(a) if to RBC AM:

RBC Asset Management
38th floor

The Client authorizes and directs RBC AM to follow the instructions that the Authorized Officers may issue, or instructions that, to

RBC AM's knowledge, are issued by the Authorized Officers by mail, personal delivery or facsimile (collectively, "Instructions") whether bearing the signatures of the Authorized Officers or a facsimile purporting to bear such signatures. The Client shall be bound by each such Instruction to the same extent as if RBC AM had received an original signed by the Authorized Officers. The Client understands and acknowledges that, in respect of certain Instructions, RBC AM in its sole discretion, may require that such Instructions be issued by the Authorized Officers on behalf of the Client in specific form, and in such case, RBC AM has no obligation to abide by such Instructions unless and until the Instructions have been so issued.

RBC AM is entitled to rely entirely on such Instructions transmitted by mail, personal delivery or facsimile without the necessity of any further verification or enquiry on its part. RBC AM shall not be liable for any loss or damage incurred by reason of the execution and performance of any Instructions in accordance with said Instructions. Subject to the limits in section 8 hereof, the Client will indemnify and hold harmless RBC AM and its affiliates and their respective directors, officers and employees against all and any loss, cost, claim, expense or damage that RBC AM or its affiliates or their respective directors, officers and employees may suffer or incur by relying on any such Instructions or on the signature of the Authorized Officers on any document or instrument thus transmitted.

RBC AM will not give investment advice or recommendations and does not accept any responsibility regarding the suitability of the Client's investment decisions or transactions. The Client acknowledges that it is responsible for its investment decisions and transactions as well as any profit or loss that may result.

The Client represents that it is a resident of Canada and will notify RBC AM upon no longer being a resident of Canada for purposes of the *Income Tax Act*.

The Client understands that the Client's account is not insured by the Canada Deposit Insurance Corporation, The *Deposit Insurance Act* (Quebec) or any other deposit insurer, and that the value is not guaranteed by RBC AM or any of its affiliates.

8. INDEMNIFICATION LIMIT

The recourse of RBC AM for the indemnification obligations of the Client under this Agreement shall be limited to the sum of \$2 million in the aggregate. Such indemnification shall terminate on the first anniversary of the termination of this Agreement unless RBC AM has provided notice to the Client of a potential claim, cost or liability. Where RBC AM has provided the Client with such notice, RBC AM's right to an indemnity under this section shall not terminate until the claim, cost or liability is resolved in a decision not subject to further appeal. For greater certainty, RBC AM shall have no further or other rights of recourse against the estate of the Client or against KPMG Inc. in its personal capacity or any of its affiliates or in its capacity as Liquidator of the Client. Said sum of \$2 million shall rank as a claim against the estate of the Client *pari passu* with costs, charges and expenses incurred in the winding-up of the Client.

9. CONSENT

Pursuant to this Agreement between the Client and RBC AM, the Client has authorized RBC AM to purchase, sell or otherwise deal in the Funds for the account of the Client upon receipt of Instructions from the Client.

10. REPORTS AND OTHER INFORMATION

Each party will prepare and send reports and/or information to the other as outlined in Schedule G.

11. REFERRAL FEES

RBC Financial Group is the master brand name used to describe Royal Bank of Canada and its subsidiaries. RBC AM is a company under RBC Financial Group, which also includes, Royal Bank of Canada, The Royal Trust Company, Royal Trust Corporation of Canada, RBC Dominion Securities Inc., RBC Private Counsel Inc. and RBC Action Direct Inc. RBC AM may from time to time pay referral fees to employees of other companies under RBC Financial Group or to third parties, for referring new clients. The referral fees shall be paid directly by RBC AM and shall not be charged to the Client.

A description of how these referral fees are calculated will be provided upon request. Not all recipients of referral fees are registered under applicable provincial securities laws to trade or provide advice with respect to securities and it is illegal for such recipients to conduct such activities without being registered to do so.

12. TERMINATION AND AMENDMENT

(A) TERMINATION

Either the Client or RBC AM may terminate this Agreement by giving a written notice to the other party as provided for in this Agreement. Such termination shall be effective the date specified in such notice which shall not be earlier than 30 days from the date notice is given or deemed to be given.

Notwithstanding the foregoing, this Agreement may be terminated immediately by the Client upon notice to RBC AM if RBC AM is liquidated, has gone bankrupt or has filed to be liquidated or for bankruptcy. Further, this Agreement may be terminated immediately by either party upon notice to the other party if that other party (i) is in material breach of this Agreement and has not remedied such breach within 30 days of receipt of a notice requiring the breach to be remedied; or (ii) fails to comply with applicable Canadian securities regulation.

Any termination shall be subject to adequate provision being made for the proper settlement of all outstanding commitments and the orderly liquidation of the accounts. With the prior consent of RBC AM (which may be unreasonably withheld), the Client may arrange for the transfer of the Funds in an account to a custodian designated by the Client. Where not consented to by RBC AM, the Client acknowledges and agrees that upon termination of this Agreement, RBC AM shall redeem all prospectus and non-prospectus qualified mutual funds in the accounts.

(B) AMENDMENT

This Agreement constitutes the entire agreement among the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings and negotiations. This Agreement may not be

altered, modified or amended except by written instruments signed by or on behalf of the parties hereto.

13. SUCCESSORS AND ASSIGNS

This Agreement is not assignable by the Client without the prior written consent of RBC AM. However, the Client agrees that RBC AM may assign this Agreement to any successor, assign or affiliate without prior written notice. Where this Agreement is assigned (either by the Client with the prior written consent of RBC AM or by RBC AM to any successor, assign or affiliate), it shall be binding upon the respective heirs, liquidators, trustees, administrators, personal representatives, successors and permitted assigns of the Client and RBC AM.

14. INTERPRETATION

(A) HEADINGS

The section headings contained in this Agreement are for convenience of reference only and are not intended to define or limit the contents of such section.

(B) GOVERNING LAW

This Agreement shall be governed and construed in accordance with the laws of the Province of Ontario.

(C) ENFORCEABILITY

Each provision hereof is distinct and severable and a declaration of invalidity or unenforceability of any such provision or a part thereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision hereof.

15 CONFIDENTIALITY

Any information provided by one party to the other under the Agreement shall be treated as confidential and shall not be disclosed to any person except as required by law or with the consent of the party providing the information. For greater certainty, the parties acknowledge that the Agreement itself will be made part of the court record in the Client's liquidation, proceedings and will not be confidential.

16. EXPENSES

RBC AM and the Client shall each pay the fees and out-of-pocket expenses of its own solicitors and other professional advisors and consultants in connection with the arrangement contemplated under this Agreement.

17. EXCLUSIVITY

RBC AM and the Client acknowledge and agree that the arrangements set out herein are not exclusive and that either party may enter into similar or competing arrangements with other parties.

18. AUTHORIZATION

The Client acknowledges having received, read and understood an executed copy of this Agreement, including all accompanying schedules.

IN WITNESS WHEREOF the parties have duly executed this Agreement on this _____ day of _____ 2004.

Reliance Insurance Company, Canadian Branch (In Liquidation) by its Liquidator KPMG Inc.

Signature of Authorized Officer

Signature of Authorized Officer

Print Name of Authorized Officer

Print Name of Authorized Officer

Title

Title

RBC Asset Management Inc.

Signature

Signature

Print Name

Print Name

Title

Title



<p>Internal Use Only</p> <p>Account Number: _____</p>
--

SCHEDULE A

Accredited Investor Disclosure

The Client confirms that the Client is an “accredited investor” because the Client is one of the following:

- a) a person or company registered under the applicable Canadian securities legislation as an adviser or dealer, other than a limited market dealer;
- b) a company licensed to do business as an insurance company in any jurisdiction;
- c) the government of Canada or of any jurisdiction, or any crown corporation, instrumentality or agency of a Canadian federal, provincial or territorial government;
- d) any Canadian municipality or any Canadian provincial or territorial capital city;
- e) any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any instrumentality or agency thereof;
- f) a pension fund that is regulated by either the Office of Superintendent of Financial Institutions (Canada) or a provincial pension commission or similar regulatory authority;
- g) a registered charity under the *Income Tax Act* (Canada);
- h) an individual who beneficially owns, or who together with a spouse beneficially own, directly or indirectly, financial assets having an aggregate realizable value that, before taxes but net of any related liabilities, exceeds \$1,000,000;
- i) an individual whose net income before taxes exceeded \$200,000 in each of the two most recent years or whose net income before taxes combined with that of a spouse exceeded \$300,000 in each of those years and who, in either case, has a reasonable expectation of exceeding the same net income level in the current year;
- j) an individual who has been granted registration under the *Securities Act* (Ontario) or securities legislation in another jurisdiction as a representative of a person or company referred to in paragraph (a), whether or not the individual’s registration is still in effect;
- k) a company, limited partnership, limited liability partnership, trust or estate, other than a mutual fund or non-redeemable investment fund, that had net assets of at least \$5,000,000 as reflected in its most recently prepared financial statements;
- l) a person or company that is recognized by the Commission as an accredited investor;
- m) a mutual fund or non-redeemable investment fund that, in the relevant Canadian jurisdiction, distributes its securities under a prospectus for which a receipt has been granted by the local securities regulator;
- n) in Ontario, an account that is fully managed by a trust corporation registered under the *Loan and Trust Corporations Act* (Ontario);
- o) a person or company in respect of which all of the owners of interests, direct or indirect, legal or beneficial, are persons or companies that are accredited investors.

Client’s Name

Initials

Initials

Date

Date

The Client agrees to notify RBC AM promptly should the above disclosure change.



RBC
Investments

RBC Asset Management

Internal Use Only

Account Number: _____

S C H E D U L E B

Statement of Policies

THE SECURITIES LAWS IN CANADA PRESCRIBE SPECIAL RULES FOR SECURITIES DEALERS AND ADVISERS WHEN THEY TRADE IN, OR ADVISE WITH RESPECT TO, THEIR OWN SECURITIES OR SECURITIES OF CERTAIN OTHER ISSUERS TO WHICH THEY, PARTICULAR OR CERTAIN OTHER PARTIES RELATED TO THEM, ARE "RELATED" OR "CONNECTED". IN CERTAIN PROVINCES AND TERRITORIES, THESE RULES REQUIRE DEALERS AND ADVISERS TO INFORM THEIR CLIENTS OF THE RELATIONSHIPS AND CONNECTIONS WITH THE ISSUER OF THE SECURITIES PRIOR TO TRADING WITH OR ADVISING IN THEM. CLIENTS SHOULD REFER TO THE SECURITIES LEGISLATION IN THEIR JURISDICTION FOR DETAILS OF THESE RULES AND THEIR RIGHTS, OR CONSULT WITH A LEGAL ADVISER.

An issuer of securities is "related" to RBC Asset Management Inc. (RBC AM) if, through the ownership of, or direction or control over voting securities, RBC AM exercises a controlling influence over that issuer or, that issuer exercises a controlling influence over RBC AM or the same third party exercises a controlling influence over both RBC AM and the issuer. An issuer is "connected" to RBC AM if due to indebtedness or other relationships a prospective purchaser of securities of the connected issuer might question RBC AM's independence from the issuer.

RBC AM is an indirect subsidiary of Royal Bank of Canada (RBC). RBC is a reporting issuer under securities laws and is a related issuer of RBC AM. RBC AM is an affiliate of Royal Trust Corporation of Canada and The Royal Trust Company (collectively Royal Trust), which are wholly owned subsidiaries of RBC. RBC AM is also an affiliate of RBC Dominion Securities Inc., which is an indirect subsidiary of RBC. RBC AM is the manager and portfolio advisor for the RBC Funds and the RBC Private Pools.

In addition, as at September 24, 2004, the following are also related issuers of RBC AM:

Absolute Return Concepts Fund
Consolidated Envirowaste Industries Inc.
Finance Corporation of Bahamas Limited
JDV Limited
Megawheels Technologies Inc.
Oil Sands Split Trust
Raintree Global Fund Limited
Resolute Energy Corporation
RBC Capital Trust
RBC Capital Trust II
RBC Regent Strategy Fund Limited
Royal Bank of Canada ARC Fund Ltd.
Royal Bank of Canada Global Funds
Royal Bank of Canada International Currencies Fund Limited

Each of the listed issuers is an investment vehicle created, managed, or distributed by affiliates of RBC. If you wish further information about the relationship between RBC AM and the listed issuers or would like a list of connected issuers of RBC AM, please contact your RBC AM account representative.

In carrying on business as a portfolio manager, investment counsel, or limited market dealer, RBC AM may:
(a) after providing the client with the statement of policies and obtaining written client consent, exercise discretionary authority to buy or sell securities of RBC or other related or connected issuers;
(b) after providing the client with a statement of the relationship or connection between RBC AM and the issuer, make recommendations in respect of securities of RBC or other related or connected issuers; and
(c) sell units of mutual fund trusts or pooled fund trusts managed by it.

In addition, RBC or other related parties may:

- (a) act as principal or agent for the purchase or sale of securities for clients of RBC AM; and
- (b) act as an underwriter for securities sold to clients of RBC AM.

It is the policy of RBC AM to comply fully with all applicable securities laws and to make all required disclosure.

Disclosure of Related Registered Companies

In addition to being the principal shareholder of RBC AM, RBC is the principal shareholder of the following registrants: RBC Dominion Securities Inc.(RBC DS), Royal Bank Action Direct Inc., Commission Direct Inc.(CDI), Royal Mutual Funds Inc.(RMFI), RBC Private Counsel Inc.(RBC PC), and Voyageur Asset Management Inc. (VAM). Certain directors and officers of RBC AM are also directors and officers of RBC, RMFI and RBC PC.

RBC AM may obtain trade execution and other services for client accounts from RBC DS and CDL RBC AM may also obtain from or provide to RBC and its subsidiaries, other management, administrative, referral or other services in connection with its ongoing business. These relationships are subject to legislative and industry regulatory requirements that impose restrictions on dealings between related registered companies intended to minimize the potential for conflicts of interest resulting from these relationships. RBC AM has adopted internal policies and procedures that supplement these requirements, including its policies on privacy and confidentiality of information, broker allocation, and best execution.

Client's Name

Initials

Date

Initials

Date



**RBC
Investments**

RBC Asset Management

Internal Use Only

Account Number: _____

SCHEDULE C

Fee Schedule

Your account is not subject to a minimum fee.

Fees shall be agreed upon by the Client and RBC AM from time to time and cover mutual fund management and client reporting/administration. No other fees are applicable for the services contemplated under this Agreement. Other services may be subject to an additional charge on a fee for service basis.

Fees are billed quarterly in arrears based on the average month-end market value of the account.

In addition to the above fees, all applicable taxes will be levied in respect of services rendered in Canada.

Client's Name

Initials

Date

Initials

Date



SCHEDULE D

Collection and Use of Information for Institutional Clients

Collecting Client information

RBC Asset Management, Inc. ("RBC AM") may from time to time collect financial and other information about the Client such as:

- information establishing the identity of the Client (for example, name, address, phone number, date of birth, etc.) and the Client's background;
- information related to transactions arising from the Client's relationship with and through RBC AM, and from other financial institutions;
- information the Client provides on an application for any of RBC AM's products and services;
- information for the provision of products and services;
- information about financial behavior such as the Client's payment history and credit worthiness.

RBC AM may collect this information during the course of its relationship with the Client. RBC AM may obtain this information from a variety of sources, including from the Client, from service arrangements the Client makes with or through RBC AM, from credit reporting agencies and other financial institutions, from references the Client provides to RBC AM and from other sources, as RBC AM deems appropriate.

The Client acknowledges receipt of notice that from time to time reports about the Client may be obtained by RBC AM from credit reporting agencies.

Using Client information

This information may be used from time to time for the following purposes:

- to verify the Client's identity and investigate the Client's background;
- to open and operate the Client's account(s) and provide the Client with products and services the Client may request;
- to better understand the Client's financial situation;
- to determine the Client's eligibility for products and services RBC AM offers;
- to help RBC AM better understand the current and future needs of its clients;
- to communicate to the Client any benefit, feature and other information about products and services the Client has with RBC AM;
- to help RBC AM better manage its business and the Client's relationship with RBC AM;
- to maintain the accuracy and integrity of information held by a credit reporting agency; and
- as required or permitted by law.

For these purposes, RBC AM may:

- make this information available to its employees, agents and service providers, who are required to maintain the confidentiality of this information;
- share this information with other financial institutions;
- share this information with persons with whom the Client has or may have financial or other business dealings; and
- give credit, financial and other related information to credit reporting agencies who may share it with others.

Upon the Client's request, RBC AM may give this information to other persons.

RBC AM may also use this information and share it with other companies under RBC Financial Group and other third parties as appropriate (i) to manage its risks and operations and those of other companies under RBC Financial Group, (ii) to comply with valid requests for information about the Client from regulators and other persons who have a right to issue such requests, and (iii) to let other companies under RBC Financial Group know the Client's choices under "Other uses of Client information" for the sole purpose of honouring those choices.

Where applicable, if RBC AM has the Client's Business Number or social insurance number of its Authorized Officers, RBC AM may use it for tax related purposes if the Client holds a product generating income and share it with the appropriate government agencies, and RBC AM may also share it with credit reporting agencies as an aid to identify the Client.

Other uses of Client information

- RBC AM may use this information to promote its products and services, and promote products and services of third parties RBC AM selects, which may be of interest to the Client.
- RBC AM may also, where not prohibited by law, share this information with other companies under RBC Financial Group for the purpose of referring the Client to them or promoting to the Client products and services, which may be of interest to the Client. The Client acknowledges that as a result of such sharing, they may advise RBC AM of those products or services provided.
- If the Client also deals with other companies under RBC Financial Group, RBC AM may, where not prohibited by law, consolidate this information with information they have about the Client to allow RBC AM and any of them to manage the Client's relationship with companies under RBC Financial Group and RBC AM's business.

The Client understands that RBC AM and each company under RBC Financial Group are separate, affiliated corporations. Other companies under RBC Financial Group include RBC's affiliates which are engaged in the business of providing any one or more of the following services to the public: deposits, loans and other financial services; credit, charge and payment card services; trust and custodial services; securities and brokerage services; and insurance services.

The Client may choose not to have this information shared or used for any of these other uses by contacting RBC AM as set out below, and in this event, the Client will not be refused credit or other services just for that reason. RBC AM will respect the Client's choices and as mentioned above, the Client's choices will be communicated to companies under RBC Financial Group to ensure that they are respected.

The Client's right to access Client information

The Client may obtain access to the information RBC AM holds about the Client at any time and review its content and accuracy, and have it amended as appropriate; however, access may be restricted as permitted or required by law. To request access to such information, to ask questions about RBC's privacy policies or to request that the information not be used for any or all of the purposes outlined in "Other uses of Client information", the Client may do so now or at any time in the future by contacting RBC AM.

RBC's privacy policies

The Client may obtain more information about RBC's privacy policies by asking for a copy of RBC's "Straight Talk" brochure about privacy from RBC AM or by visiting RBC's web site at www.rbc.com/privacy

Client's Name

Initials

Date

Initials

Date



RBC Investments

RBC Asset Management

Internal Use Only Account Number: _____

SCHEDULE E

Certificate of Authorized Officers

As permitted under Section 7 of the Self-Directed Account Agreement, the undersigned hereby authorizes the following person(s) ("Authorized Officer(s)") to give Instructions to RBC AM with respect to the account.

Number of signatories required will be any _____ (*provide number*).

Name	Title	Signature Specimen

This Certificate replaces and supersedes any previously filed Certificate and shall remain in full force and effect until a Certificate to amend and replace is received by RBC AM.

Client's Name

Initials

Date

Initials

Date



**RBC
Investments**

RBC Asset Management

<p>Internal Use Only</p> <p>Account Number: _____</p>
--

SCHEDULE F

Banking Information and Consent to Electronic Delivery of Statements.

Commercial Banking Only

RBC Royal Bank Account No. _____ Transit No. _____

RBC Royal Bank \$U.S. Dollar Account No. _____ Transit No. _____

In connection with the Self-Directed Account Agreement entered into between the undersigned and RBC Asset Management Inc. dated _____ (the "Agreement"), the undersigned acknowledges and agrees that all cash required to carry out transactions in the Client's account pursuant to the Agreement shall be debited and/or credited on the above stated RBC Royal Bank Account(s).

_____	_____
<i>Client Name</i>	<i>SRF #</i>
_____	_____
<i>Authorized Officer</i>	<i>Authorized Officer</i>
_____	_____
<i>Name and Title of Officer (print)</i>	<i>Name and Title of Officer (print)</i>

I, _____ (*name of Account Manager*),
certify that:

- a. The above RBC Royal Bank Account (s) is/are valid and existing bank account(s) owned by _____ (*insert client's name*), and
- b. The "Know Your Client" information required by the (*Proceeds of Crime (Money Laundering) and Terrorist Financing Act*) was completed at the time of account opening.

Account Manager's Signature

Date

Consent to the Electronic Delivery of Statements

Client hereby provides consent to have the all account statements and reporting delivered electronically via e-mail to the address designated below. The statement will be sent via the Internet without encryption. Any computer program that allows the receipt of e-mail will be sufficient to receive the statement. The Client consents to the delivery of the statement without encryption and will not hold RBC AM liable for any loss or damage that may occur if the statement is misdirected or not received. RBC AM will provide paper copies of the statement upon request or if notified of delivery errors. No fees will be charged for delivery of paper copies. If an error occurs, the statement may be sent via facsimile. Client will be responsible for notifying RBC AM of any change to the e-mail address or fax number. The Client is not obligated to provide consent, but if consent is provided, then it may be revoked at anytime by notifying < > at < >

E-mail address: _____ Fax Number: _____

Client's Name

Initials

Date



**RBC
Investments**

RBC Asset Management

Internal Use Only

Account Number: _____

SCHEDULE G

Purchase Procedures, Issuer Diversification Guidelines and Other Information

Reporting by RBC AM

RBC AM shall provide to you, or to any designated representative as you may direct:

- on a monthly basis and no later than the 5th business day of the following month,
 - a statement for the account showing the Funds held at the end of the month, the value thereof and the transactions processed during the previous month; and
 - a confirmation of holdings statement in electronic format (with hard copy to follow) in substantially the same form as attached hereto as Appendix 1 for each of the Funds confirming the percentage of each Fund held by the account and providing information on issuer exposures for each Fund in excess of 5% of market value of the Fund, including details of holdings in excess of 10% of market value of the Fund, as at the end of the previous month;
- on a monthly basis and no later than the 20th business day of the following month, a listing of all holdings for each of the Funds held in the account as at the end of the previous month, indicating the name of each issuer and total market value of the Fund;
- on a quarterly basis and no later than the 20th business day of the following month, an investment report for the account, including performance of the account, market commentary and a report on each of the Funds as at the end of the previous month;
- at any time, within 5 business days of a request by you, a copy of the OM; and
- such other assistance, reports or information as you may reasonably request.

RBC AM agrees to meet with you on a quarterly basis to review your account and the performance of the Funds.

Reporting by Reliance

The Client shall provide to RBC AM with the passing of its account reports from time to time.

Purchases and Redemptions Procedures

Any notices or other communications relating to trading instructions required or permitted under the Agreement shall be sent or delivered as outlined in this section. Any orders for purchases or redemptions of Series O units of the Funds shall be given by your Authorized Officers to RBC AM through personal delivery or facsimile following the instructions outlined below. Such order must be received by 2:00 p.m. Eastern time to be processed using that day's unit value. Orders received after 2:00 p.m. Eastern time will receive the next day's unit value. All purchases will settle on trade date and all redemptions will settle on T+1.

- Trade instructions are to be submitted to the Global Investment Administration ("GIA") team at RBC AM by fax to (416) 974-9493 using the customized trade order forms provided by RBC AM, with a confirmation by email at inst.kpmg@rbc.com. For greater certainty, RBC AM will act on fax orders but will use reasonable efforts to obtain the confirmation via email.

If fax is not available, trade instructions may be personally delivered to any of the individuals listed on the trade order forms at the 38th Floor, Royal Trust Tower, 77 King St. West, Toronto, ON.

- GIA will only process trades received in proper form and signed by Authorized Officers.

Notice Provisions for Significant Purchases and Redemptions

You agree to give us one (1) business day prior written notice of any intention to purchase \$1 million or more worth of the units of any Fund held and three (3) business days prior written notice of any intention to purchase \$5 million or more worth of the units of any Fund held. You also agree to give us one (1) business day prior written notice of any intention to redeem \$1 million or more worth of the units of any Fund and three (3) business days prior written notice of any intention to redeem \$5 million or more worth of the units of any Fund and five (5) business days prior written notice of any intention to redeem more than \$25 million or more units of any Fund. After your initial investment in Series O units of a Fund, you agree that your subsequent purchase amounts shall be at least Cdn\$10,000 unless otherwise agreed.

Issuer Diversification Guidelines

1. National Instrument 81-102 – applies to all mutual funds including RBC Funds

- Holding of securities of any one non-government issuer¹ is limited to 10% of the net assets of a Fund. The calculation is made on a purchase basis.

2. RBC Investment Guidelines – applies to all RBC Funds

- exposure to any one non-government issuer² in the RBC Canadian Money Market Fund, RBC Bond Fund, RBC US Money Market Fund and RBC Canadian Short-Term Income Fund is generally subject to the below limits:
 - for bonds (term to maturity greater than one year) - 5% of market value of a Fund
 - cash and cash equivalents (term to maturity less than one year) - 5% of market value of a Fund except
 - tier 1 banks - 10% of market value of a Fund,
 - for the RBC US Money Market Fund only, issuers with a credit rating of R1-(mid) or higher (DBRS) - 10% of market value of a Fund.

The above calculation is done on a maintenance basis.

Managers are expected to adhere to RBC Investment Guidelines under most circumstances, however, temporary exceptions may occur due to rapid changes in the market value of securities or where unique circumstances exist. Variances from the RBC Investment Guidelines are closely monitored and will usually be corrected with 30 days.

¹ “Issuer” does not include affiliates.

² “Issuer” includes affiliates.

RELIANCE INSURANCE COMPANY, (CANADIAN BRANCH, IN LIQUIDATION) BY ITS LIQUIDATOR KPMG INC.

Signature of Authorized Officer

Print Name of Authorized Officer

Title

Signature of Authorized Officer

Print Name of Authorized Officer

Title

RBC ASSET MANAGEMENT INC.

Signature

Print Name

Title

Signature

Print Name

Title

Date



APPENDIX 1
RBC ASSET MANAGEMENT INC.
CONFIRMATION OF HOLDINGS

FOR THE MONTH ENDING [MONTH], [YEAR] (THE "VALUATION DATE")

To: Reliance Insurance Company, Canadian Branch (In Liquidation) and its Liquidator KPMG Inc ("Reliance")

Pursuant to the Self-Directed Account Agreement dated *, 2004 and the schedules thereto between Reliance and RBC Asset Management Inc ("RBC AM"), RBC AM hereby confirms the following as at the Valuation Date with respect to the Funds held by Reliance during the month:

CANADIAN MONEY MARKET FUND

OWNERSHIP OF FUND:

YES No

ACTUAL
___%

1. Reliance holdings in the Fund did not exceed 5.0% of the Fund:

ISSUER EXPOSURE (IF OWNERSHIP OF FUND EXCEEDS 5.0%):

2. The Fund had holdings in the following issuers (including affiliates) which represented more than 5.0% of the market value of the Fund:

ISSUER EXPOSURE (WHETHER OR NOT OWNERSHIP OF THE FUND EXCEEDS 5.0%):

3. The Fund had holdings in the following issuers (including affiliates) which represented more than 10.0% of the market value of the Fund:

CANADIAN SHORT TERM INCOME FUND

OWNERSHIP OF FUND:

YES No

ACTUAL
___%

1. Reliance holdings in the Fund did not exceed 5.0% of the Fund:

ISSUER EXPOSURE (IF OWNERSHIP OF FUND EXCEEDS 5.0%):

2. The Fund had holdings in the following issuers (including affiliates) which represented more than 5.0% of the market value of the Fund:

ISSUER EXPOSURE (WHETHER OR NOT OWNERSHIP OF THE FUND EXCEEDS 5.0%):

3. The Fund had holdings in the following issuers (including affiliates) which represented more than 10.0% of the market value of the Fund:

US MONEY MARKET FUND

OWNERSHIP OF FUND:

YES No
ACTUAL
___%

1. Reliance holdings in the Fund did not exceed 5.0% of the Fund:

ISSUER EXPOSURE (IF OWNERSHIP OF FUND EXCEEDS 5.0%):

2. The Fund had holdings in the following issuers (including affiliates) which represented more than 5.0% of the market value of the Fund:

ISSUER EXPOSURE (WHETHER OR NOT OWNERSHIP OF THE FUND EXCEEDS 5.0%):

3. The Fund had holdings in the following issuers (including affiliates) which represented more than 10.0% of the market value of the Fund:

BOND FUND

OWNERSHIP OF FUND:

YES No
ACTUAL
___%

1. Reliance holdings in the Fund did not exceed 5.0% of the Fund:

ISSUER EXPOSURE (IF OWNERSHIP OF FUND EXCEEDS 5.0%):

- 2. The Fund had holdings in the following issuers (including affiliates) which represented more than 5.0% of the market value of the Fund:**

ISSUER EXPOSURE (WHETHER OR NOT OWNERSHIP OF THE FUND EXCEEDS 5.0%):

- 3. The Fund had holdings in the following issuers (including affiliates) which represented more than 10.0% of the market value of the Fund:**

RBC AM COMMENTS :

RBC ASSET MANAGEMENT INC.

PER:

NAME (PRINT):

DATE:

ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST
Proceeding commenced at TORONTO

MOTION RECORD
(Returnable November 22, 2004)

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

Gale Rubenstein (LSUC# 17088E)
Tel: 416-597-4148
Fax: 416-979-1234

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

Our File No. 01.6699

GOODMANS\5078722.1