

**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

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

(Motion returnable December 17, 2008)

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RELIANCE INSURANCE COMPANY

Respondent

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

December 10, 2008

I. THE MOTION

1. This Report is respectfully filed in support of a motion by KPMG Inc., the liquidator (the “Liquidator”) of the insurance business in Canada of Reliance Insurance Company (“Reliance Canada”), for an Order:
 - (a) authorizing the payment in full of ordinary creditor claims up to a cumulative total of \$100,000.00; and

- (b) authorizing payment of inspector remuneration to the Property and Casualty Insurance Compensation Corporation (“PACICC”) in the amount of \$129,244.99.

II. BACKGROUND

A. 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” (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*. The Commissioner of Insurance for Pennsylvania (then M. Diane Koken) 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. A copy of each of these Orders is attached as Schedules “A” and “B” hereto, respectively.
5. By its second Order made December 3, 2001 (Schedule “B” hereto), this Court appointed the U.S. Liquidator and the Property and Casualty Insurance Compensation Corporation as Inspectors. (By Order dated January 30, 2002, this Court also ordered that the

Superintendent of Financial Institutions of Canada (“Superintendent”) may attend meetings of Inspectors, be included in the service list, and attend and be heard in matters before this Court.)

6. The U.S. Liquidator does not oppose this motion.

B. Scheme of Distribution

7. Section 161 of the *Winding-up and Restructuring Act* sets out the scheme of priorities in the liquidation of insurance companies. Since Reliance Canada was a branch, regard must be had to the foreign insurance company provisions, being subsections 161(6) through (9). For the purposes of this winding-up, the relevant priorities therefore are:

- (a) costs of the liquidation;
- (b) policyholders for loss claims (“Policy Loss Claims”); and
- (c) ordinary creditors.

C. Policy Loss Claims -- Payments and Distributions

8. Pursuant to various Orders of this Court, the Liquidator now pays authorized defence costs and Policy Loss Claims at 100% of their valid and allowed amounts.

D. Ordinary Creditor Claims

9. As set out in prior Reports to this Court, the Liquidator has not undertaken a call for Policy Loss Claims, and has not recommended one to date, because such a call at this

time would be disproportionately expensive and inefficient, given the long-tail nature of Reliance Canada's policies.

10. Until it was appropriate to declare a 100 cent on the dollar cumulative distribution on prior-ranking Policy Loss Claims, and that there would be funds for payment in whole or in part for ordinary creditor claims, it was not appropriate to carry out a call for claims for the subsequent-ranking ordinary creditor claims.
11. However, once the cumulative authorized distribution on Policy Loss Claims was at 100 cents on the dollar, and since it is now anticipated that there will be funds in the Reliance Canada estate for the payment of ordinary creditor claims, the Liquidator came to be of the view that a call for ordinary creditor claims was appropriate.
12. Accordingly, by motion returnable June 24, 2008 the Liquidator sought the authority of the Court to make a call for claims of ordinary creditors. The Court authorized the call for such claims and the procedure in relation thereto, by its Order dated June 24, 2008, a copy of which is attached as Schedule "C" hereto.
13. A copy of the Liquidator's Report in support of the call for claims motion is attached (without schedules) as Schedule "D" hereto.
14. The Liquidator complied with the requirements of the June 24, 2008 Order governing the call for claims, including contacting by telephone each agent and broker to whom it appeared from the books and records of Reliance Canada a balance may be due from Reliance Canada.

15. Only one ordinary creditor claim was filed by September 30, 2008 in response to the call for claims, being a claim by Hub International Ltd. of (U.S.) \$5,810.87.
16. The Liquidator is of the view that the filed claim is proper and valid and should be paid.
17. It is possible that further (late) ordinary creditor claims may be received, and if this is the case the Liquidator recommends that, rather than seeking specific directions from the Court in each such a case, it be authorized to allow any such claims as are valid and proper, up to a total, cumulative amount of \$100,000.00.

III. PACICC REMUNERATION

18. As noted above, PACICC was appointed as an inspector in the winding-up, as is contemplated by s.41 of the *Winding-up and Restructuring Act*. Section 41 provides:

A court may appoint, at any time when found advisable, one or more inspectors, whose duty it is to assist and advise a liquidator in the liquidation of a company.

19. Since the commencement of the winding-up, PACICC has played a valuable and productive role in providing its review and approval for settlement of the Policy Loss Claims, its review and input into the Liquidator's reporting to the Court, and its participation in certain litigious matters.
20. The *Winding-up and Restructuring Act* provides that the Court may authorize remuneration for an inspector. Specifically, section 43 provides:

The court shall determine the remuneration, if any is deemed just, of inspectors.

21. PACICC advises that in its role as inspector it has incurred costs, including legal fees, in the total amount (including taxes) of \$129,244.39, and it has requested that the Liquidator seek authority for remuneration under the *Act*.
22. The Liquidator is respectfully of the view that compensation for PACICC in the amount of \$129,244.99 is reasonable and justified as remuneration in this winding-up.

IV. STATUS OF THE ESTATE

23. Attached as Schedule "E" are the unaudited financial statements for the estate as at June 30, 2008, prepared in a manner consistent with the financial statements presented in previous reports to this Court, and with the same system of internal controls to safeguard the accuracy and reliability of the financial reporting process.
24. The currently forecast surplus is \$95.8 million.
25. As with all the previous distributions, the Liquidator has introduced further elements of conservatism, beyond those in the loss projection methodology used, for purposes of reaching its recommendations with respect to this distribution, including:
 - (a) all costs for the completion of the liquidation have been estimated on a very conservative basis;
 - (b) reserves have been taken for certain policies at their full limits, and notwithstanding that claims have not been asserted at limits; and
 - (c) two major sources of uncertainty remain in the estate: reinsurance and Non-Booked Claims. To deal with these uncertainties in this distribution, the

Liquidator is ascribing no value to reinsurance that has not been collected, and is building into the assumptions conservative values for the Non-Booked Claims.

26. The Liquidator notes that since its last Report to this Court, it has determined that the pre-judgment interest portion of a third party Policy Loss Claim – i.e., the pre-judgment interest component of liability of an insured of Reliance Canada to a third party claimant – is properly payable as a Policy Loss Claim, and so will be paid as such in appropriate cases. This will not have any material impact on the estimated surplus or the Liquidator’s view expressed below.
27. Based on the foregoing, the Liquidator respectfully recommends authorization be given to pay the ordinary creditor claim filed, and any other proper and valid late-filed ordinary creditor claims, if any, up to a total, cumulative amount of \$100,000.00, and the proposed remuneration of \$129,244.99 to PACICC. The Liquidator is of the view that there is no realistic scenario under which this distribution would prejudice any party.

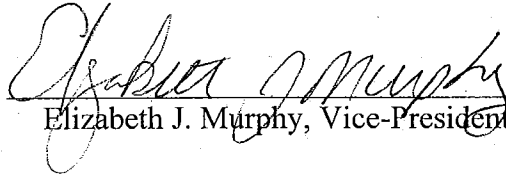
V. RECOMMENDATIONS

28. The Liquidator therefore respectfully recommends that this Court authorize the proposed payment of ordinary creditor claims and remuneration for PACICC, as sought in the Notice of Motion herein.

ALL OF WHICH IS RESPECTFULLY SUBMITTED,

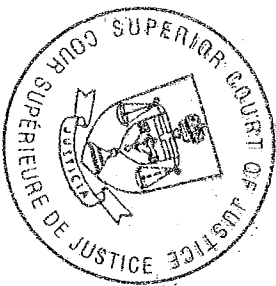
KPMG INC., the Liquidator of Reliance Insurance
Company – Canadian Branch

Per:



Elizabeth J. Murphy, Vice-President

V5656532



Court File No. 01-CL-4313

**ONTARIO
SUPERIOR COURT OF JUSTICE**

COMMERCIAL LIST

THE HONOURABLE) MONDAY THE 3RD DAY
MR. JUSTICE FARLEY) OF DECEMBER, 2001
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**IN THE MATTER OF
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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

WINDING-UP ORDER

THIS APPLICATION made by the Applicant was heard this day without a jury at Toronto, in the presence of counsel for the Applicant, for the Respondent, for KPMG Inc., and for the Property and Casualty Insurance Compensation Corporation ("PACICC"), no one opposing.

ON READING the Notice of Application and the evidence filed by the parties,
and on hearing submissions of counsel for the parties

1. THIS COURT ORDERS AND DECLARES that the Respondent Reliance Insurance Company is a foreign insurance company within the meaning of the *Insurance Companies Act* to which the *Winding-up and Restructuring Act* applies, and that the insurance business in Canada of the Respondent ("Reliance (Canada)") may be wound-up by this Court pursuant to Section 10.1 of the *Winding-up and Restructuring Act*.

2. THIS COURT FURTHER DECLARES that it has made no finding that Reliance (Canada) is insolvent.

3. THIS COURT ORDERS that Reliance (Canada) shall be wound-up by this Court pursuant to the *Winding-up and Restructuring Act*.

4. THIS COURT ORDERS AND DECLARES that the winding-up hereunder of Reliance (Canada) shall be deemed to commence November 8, 2001.

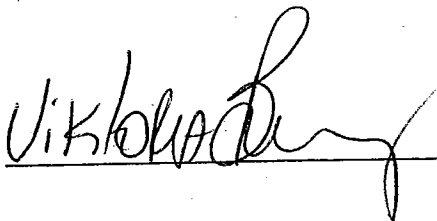
5. THIS COURT ORDERS that no suit, action or other proceeding shall be proceeded with or commenced against Reliance (Canada) or Reliance Insurance Company, except with leave of this Court and subject to such terms as this Court may impose.

6. THIS COURT ORDERS that every judgment, attachment, sequestration, distress, execution or like process put into force against Reliance (Canada) or Reliance Insurance Company, or the estate or effects thereof, after the commencement of the winding-up is void and

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

DEC 03 2001

PER/PAR:



THE ATTORNEY GENERAL OF CANADA
Applicant

RELIANCE INSURANCE COMPANY
and Respondent

Court File No: 01-CL-4313

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

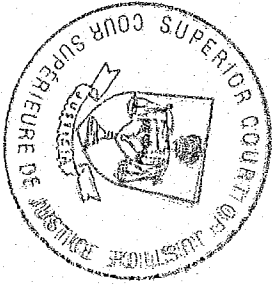
Proceeding commenced at Toronto

WINDING-UP ORDER

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Solicitors for the Applicant



Court File No. 01-CL-4313

**ONTARIO
SUPERIOR COURT OF JUSTICE**

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BETWEEN:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

ORDER

THIS APPLICATION made by the Applicant was heard this day without a jury at Toronto, in the presence of counsel for the Applicant, for the Respondent, for KPMG Inc., and for the Property and Casualty Insurance Compensation Corporation ("PACICC"), no one opposing.

ON READING the Notice of Application and the evidence filed by the parties, and on hearing submissions of counsel for the parties:

1. THIS COURT ORDERS that the service of the Notice of Application and the materials herein be and it is hereby good and sufficient notice thereof and that any further service of the Notice of Application and materials herein be and it is hereby dispensed with.
2. THIS COURT ORDERS that KPMG Inc. be and is hereby appointed as provisional liquidator (the "Liquidator") of the insurance business in Canada of the Respondent, including the assets in Canada of the Respondent, together with its other assets held in Canada under the control of its chief agent, including, without limitation, all amounts received or receivable in respect of its insurance business in Canada ("Reliance (Canada)").
3. THIS COURT ORDERS that the giving of security by the Liquidator upon its appointment as liquidator be dispensed with.
4. THIS COURT ORDERS that all moneys belonging to Reliance (Canada) received by or on behalf of the Liquidator and its agents shall be paid into a chartered bank to the account of the Liquidator immediately after the receipt thereof and an account or accounts shall be opened immediately, provided, however, that the Liquidator shall have the discretion to deposit funds to and use the bank accounts currently in the name of or operated by Reliance (Canada).
5. THIS COURT ORDERS that any cheques or drafts in respect of policies, issued by Reliance (Canada) prior to the making of the winding-up order herein and which are presented for payment thereafter, may be paid out of the estate and effects of Reliance (Canada).

6. THIS COURT ORDERS that the amount recoverable from, due or owed by any reinsurer to Reliance (Canada) shall be paid to the Liquidator and shall not be reduced as a result of this Order or the winding-up order, notwithstanding any terms or contractual agreement to the contrary, and that any payment made directly by a reinsurer to an insured or other creditor or claimant of Reliance (Canada) or Reliance Insurance Company shall not diminish or reduce or affect such reinsurer's obligation to Reliance (Canada).

7. THIS COURT ORDERS that the Liquidator is authorized to cure such defaults and effect such arrangements as may be required to reinstate such reinsurance affecting the operations of Reliance (Canada), as the Liquidator deems to be in the interest and for the protection of policyholders, creditors and claimants of Reliance (Canada).

8. THIS COURT ORDERS that the Liquidator may pay all valid policyholder claims, including claims in respect of unearned premiums, to the amount of \$25,000 or the amount, if any, of the voluntary compensation payment of PACICC which may be paid under the terms of its Memorandum of Operations (the "PACICC Voluntary Compensation Payment") until April 30, 2002 or such later date as this Court may order, subject to paragraph 9 hereof, and such payments shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada).

9. THIS COURT ORDERS that the Liquidator may pay all valid claims including claims in respect of unearned premiums under the Meridian and other warranty and surety programs to the amount of \$5,000 or the amount, if any, of the PACICC Voluntary Compensation Payment until January 31, 2002 or such later date as this Court may order, and such payments shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada).

10. THIS COURT ORDERS that the Liquidator may, after consultation with the Inspectors, make such other payments as the Liquidator in the Liquidator's discretion deems advisable in the circumstances in respect of policies of Reliance (Canada) and such payments shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada).

11. THIS COURT ORDERS that in addition to the payments referred to in paragraphs 8 and 10, until April 30, 2002 or such later date as this Court may order, the Liquidator may pay and continue to pay all reasonable legal and other costs, incurred to and including April 30, 2002, which Reliance (Canada) is obligated to pay for defending any insureds against losses under Reliance (Canada)'s policies in accordance with the applicable policy ("Defence Costs"), subject to the applicable terms and limits of such policies. For greater certainty, all payments of Defence Costs shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada) and to form part of the expenses of the liquidation as a first charge on the assets of the estate. However, if the applicable policy so provides, such payments shall be taken into account in determining the amount which would otherwise be distributed to the respective policyholders and claimants, or otherwise paid on account of Defence Costs, as the case may be, at such time as any further distributions or similar arrangements are made in respect of their policies.

12. THIS COURT ORDERS that any payments made by the Liquidator pursuant to paragraphs 5, 8, 9, 10 and 11 hereof, other than payments made pursuant to clerical errors (the "Payments"):

- (a) shall be deemed to be payments made on account of claims in the liquidation of Reliance (Canada) and shall be deducted from the amount which would otherwise

be distributed at such time as further distributions or similar arrangements are made in respect of such claims;

- (b) shall be deemed to have been made in accordance with this Order;
- (c) in respect of any policy shall not obligate the Liquidator to make further payments in respect thereof; and
- (d) which may have exceeded the ultimate amount which the Liquidator determines is available for distribution to the respective policyholders and claimants, or available for payment of Defence Costs, as the case may be, (collectively, the "Overpayments") shall be deemed not to be preferences and shall not be repayable by the recipients or policyholders.

Neither the Liquidator nor the Liquidator's agents, advisers or employees shall be liable to any person in respect of the Overpayments.

13. THIS COURT ORDERS that PACICC, which shall designate from time to time one or more persons as its representative, and the Insurance Commissioner of the Commonwealth of Pennsylvania in her capacity as Liquidator of the Respondent or her designee are appointed inspectors (collectively the "Inspectors") to assist and advise the Liquidator in the winding-up of Reliance (Canada).

14. THIS COURT ORDERS that the Inspectors may apply to this Court on motion for directions concerning any matter relating to the liquidation of Reliance (Canada).

15. THIS COURT ORDERS that each claim in respect of which PACICC makes a PACICC Voluntary Compensation Payment (a "Compensated Claim") shall be deemed to be and

shall hereby be assigned in its entirety to PACICC without specific assignment or further steps required. PACICC shall be entitled to assert each Compensated Claim in the Liquidation. Reliance (Canada) is hereby deemed to have acquiesced to the assignment of Compensated Claims provided for herein and to have received a copy of the deed of assignment. PACICC and the Liquidator shall be deemed to be and shall hereby be released and forever discharged from any and all claims, actions, losses and liabilities which any person has or may have at present or in the future with respect to each Compensated Claim.

16. THIS COURT ORDERS that, notwithstanding the provisions of paragraph 15, the Liquidator may make funds in the estate available to PACICC from time to time to be used by PACICC to make PACICC Voluntary Compensation Payments pursuant to the terms and conditions of the loan and services agreement made effective as of the date hereof between the Liquidator and PACICC, which is hereby approved.

17. THIS COURT ORDERS that the Liquidator is authorised and empowered to act as administrator of insurance coverage on behalf of third parties who assume all or part of the insurance risk, and to be paid the fees earned by Reliance (Canada), pursuant to the terms of the contracts between Reliance (Canada) and such third parties.

18. THIS COURT ORDERS that the Liquidator is entitled forthwith to possession of all of Reliance (Canada)'s books, accounts, securities, documents, papers, computer programs and data, registers and records of any kind ("Books and Records") and that Reliance (Canada), its present and former shareholders, directors, officers, employees, salespeople and agents, accountants, auditors, solicitors, trustees, and every person having knowledge of this Order and having possession or control of such Books and Records, do forthwith deliver over to the Liquidator or to the Liquidator's agent all such Books and Records.

19. THIS COURT ORDERS that all persons, including, without limitation, employees, brokers, legal counsel, insurance agents, third party administrators, or salespeople having access to or knowledge of the affairs of Reliance (Canada) do co-operate with the Liquidator in providing information or documents necessary or incidental to the liquidation of Reliance (Canada).

20. THIS COURT ORDERS that any entity which has custody or control of any data processing information and records (including but not limited to source documents, all types of electronically stored information, master tapes or any other recorded information) relating to Reliance (Canada), shall transfer custody and control of such records in a form readable by the Liquidator to the Liquidator as of the date of this Order, unless instructed to the contrary by the Liquidator.

21. THIS COURT ORDERS that any entity furnishing claims processing or data processing services to Reliance (Canada) shall maintain such services and transfer any such accounts to the Liquidator as of the date of this Order, unless instructed to the contrary by the Liquidator.

22. THIS COURT ORDERS that Reliance (Canada) and its Chief Agent, officers, trustees, employees, consultants, agents, and legal counsel shall: surrender peacefully to the Liquidator the premises where Reliance (Canada) conducts its business; deliver all keys or access codes thereto and to any safe deposit boxes; advise the Liquidator of the combinations or access codes of any safe or safekeeping devices of Reliance (Canada) or any password or authorization code or access code required for access to data processing equipment; and shall deliver and surrender peacefully to the Liquidator all of the assets, books, records, files, credit cards, and other property of Reliance (Canada) in their possession or control, wherever located,

and otherwise advise and cooperate with the Liquidator in identifying and locating any of the foregoing.

23. THIS COURT ORDERS that all persons, firms, corporations and other entities having agreements, whether written or oral, with Reliance (Canada) for the supply of goods or services, be and they are hereby enjoined from terminating, accelerating, suspending, modifying, determining or cancelling such agreements without the written consent of the Liquidator or leave of this Court, and that all such parties shall continue to comply with their obligations under such agreements or otherwise on terms currently provided so long as the Liquidator pays the normal prices or charges for such goods or services incurred after the date of this Order in accordance with usual payment terms or as may hereafter be negotiated by the Liquidator from time to time.

24. THIS COURT ORDERS that all persons, firms, corporations and other entities be and they are hereby enjoined from disturbing or interfering with the occupation, possession or use by the Liquidator of any premises occupied or leased by Reliance (Canada) as at November 8, 2001 except upon further Order of this Court. From November 8, 2001 and for the period of time that the Liquidator occupies any leased premises, the Liquidator shall pay occupation rent to each lessor based upon the regular monthly base rent that was previously paid by Reliance (Canada) in respect of the premises so occupied or as may hereafter be negotiated by the Liquidator from time to time.

25. THIS COURT ORDERS that all persons, firms, corporations and other entities be and they are hereby enjoined from disturbing or interfering with computer software, hardware, support and data services or with utility services, including, but not limited to, the furnishing of oil, gas, heat, electricity, water, telephone service (including at present telephone numbers used by Reliance (Canada)) or any other utilities of like kind furnished to Reliance (Canada) and they

are hereby enjoined from discontinuing or altering any such utilities or services to the Liquidator except upon further order of this Court, so long as the Liquidator pays the normal prices or charges for such goods and services incurred after November 8, 2001 as the same become due in accordance with usual payment terms or as may hereafter be negotiated by the Liquidator from time to time.

26. THIS COURT ORDERS that, without limiting the generality of the foregoing, and except upon further order of this Court having been obtained on at least 7 days' notice to the Liquidator:

- (a) all persons, firms, corporations and other entities be and they are hereby restrained from terminating, cancelling or otherwise withdrawing any licences, permits, approvals or consents with respect to or in connection with Reliance (Canada) as they were on November 8, 2001;
- (b) any and all proceedings or steps taken or that may be taken, wheresoever taken, by any person, firm, corporation or entity, including, without limitation, any of the policyholders or creditors of Reliance (Canada), suppliers, co-insurers, reinsurers, contracting parties, depositors, lessors, tenants, co-venturers or partners (hereinafter, in this paragraph "Claimants") against or in respect of Reliance (Canada) shall be and hereby are stayed and suspended;
- (c) the right of any Claimant to make demands for payment on or in respect of any guarantee or similar obligation or to make demand or draw down under any letters of credit, bonds or instruments of similar effect, issued by or on behalf of Reliance (Canada), to take possession of, to foreclose upon or to otherwise deal

with any property, wheresoever located, of Reliance (Canada) whether held directly or indirectly, as principal or nominee, beneficially or otherwise, or to continue any actions or proceedings in respect of the foregoing, is hereby restrained;

- (d) the right of any Claimant to assert, enforce or exercise any right (including, without limitation, any right of dilution, buy-out, divestiture, forced sale, acceleration, termination, suspension, modification or cancellation or right to revoke any qualification or registration), option or remedy available to it including a right, option or remedy arising under or in respect of any agreement (including, without limitation, any contract, debt instrument, guarantee, option, co-ownership agreement or any agreement of purchase or sale but not including any eligible financial contract, as defined in the *Winding-up and Restructuring Act*) to which Reliance (Canada) is a party, arising out of, relating to or triggered by the occurrence of any default or non-performance by Reliance (Canada) or the making or filing of these proceedings, or any allegation contained in these proceedings, is hereby restrained; and
- (e) all Claimants are restrained from exercising any extra judicial remedies against Reliance (Canada), including, without limitation, the registration or re-registration of any securities owned by Reliance (Canada) into the name of such persons, firms, corporations or entities or their nominees, the exercise of any voting rights attaching to such securities, the retention of any payments or other distributions made in respect of such securities, any right of distress, repossession, or consolidation of accounts in relation to amounts due or accruing due in respect of

or arising from any indebtedness or obligation of Reliance (Canada) as of the date hereof.

27. THIS COURT ORDERS that no action lies against the Liquidator, any of its affiliates (the "Affiliates") any director, officer, agent, representative or employee of the Liquidator or of the Affiliates, any entity or person (or director, officer, agent, representative or employee of any such entity or person) acting under the direction of the Liquidator, or the Inspectors or any director, officer, agent, representative or employee thereof, for anything done or omitted to be done in good faith in the administration of the liquidation of Reliance (Canada) or in the exercise of the Liquidator's powers under this Order or otherwise.

28. THIS COURT ORDERS that no suit, action or other proceeding shall be proceeded with or commenced against the Liquidator, the Affiliates, any director, officer, agent, representative or employee of the Liquidator, or of the Affiliates, any entity or person (or director, officer agent, representative or employee of any such person) acting under the direction of the Liquidator, or the Inspectors or any director, officer, agent, representative or employee thereof, except with leave of this Court and subject to such terms as this Court may impose.

29. THIS COURT ORDERS that the Liquidator may, without the approval, sanction or intervention of this Court and without previous notice to the policyholders or creditors of Reliance (Canada) or any other person,

- (a) take control of the estate and effects of Reliance (Canada) or such part thereof as the Liquidator shall determine;

- (b) bring or defend any action, suit or prosecution or other legal proceeding, civil or criminal, in the Liquidator's own name as liquidator or in the name or on behalf of Reliance (Canada), as the case may be;
- (c) carry on the business of Reliance (Canada) so far as it is necessary or incidental to the winding-up of Reliance (Canada);
- (d) lease or mortgage or otherwise realize upon the undertaking, property and assets of Reliance (Canada) or any part or parts thereof;
- (e) sell the real and personal property, effects, intangibles and choses in action of Reliance (Canada), including all or any portion of Reliance (Canada)'s contracts and products and related assets, including, without limitation, Reliance (Canada)'s lists of policyholders and customers, by public auction or private contract, and transfer the whole thereof to any person or company, or sell them in parcels;
- (f) do all acts and execute, in the name of and on behalf of Reliance (Canada), all deeds, receipts, and other documents, and for that purpose use, when necessary, the seal of Reliance (Canada), and file any elections (tax or otherwise), objections or registrations, and file any notices, all as may be necessary or desirable in the opinion of the Liquidator for the better liquidation of Reliance (Canada);
- (g) prove, rank, claim and draw dividends in the matter of the bankruptcy, insolvency or sequestration of any contributory, for any sum due to Reliance (Canada) from the contributory, and take and receive dividends in respect of the bankruptcy, insolvency or sequestration, as a separate debt due from that contributory and rateably with the other separate creditors;

- (h) draw, accept, make and endorse any bill of exchange or promissory note in the name of and on behalf of Reliance (Canada);
- (i) give discharges of mortgages and other securities, partial discharges of mortgages and other securities, and pay property taxes and insurance premiums on mortgages and other securities taken in favour of Reliance (Canada);
- (j) pay such debts of Reliance (Canada) as may be necessary to be paid in order to properly preserve and maintain the undertaking, property and assets of Reliance (Canada) or to carry on the business of Reliance (Canada);
- (k) surrender possession of any premises occupied by Reliance (Canada) and disclaim any leases entered into by Reliance (Canada);
- (l) apply for any permits, licences, approvals or permissions as may be required by any governmental or regulatory authority;
- (m) re-direct Reliance (Canada)'s mail;
- (n) enter into any eligible financial contracts, as defined in the *Winding-up and Restructuring Act*;
- (o) take possession and control of all securities in which Reliance (Canada) has an interest (directly or indirectly) and exercise all rights that may be enjoyed by a holder of such securities including, without limitation, rights (i) that may arise by virtue of the holder being a party to a shareholder or similar agreement that may, by way of example, restrict the powers of the directors to manage or supervise the management of the business and affairs of the corporation, (ii) to receive

information, (iii) to attend at and cause to be held meetings of holders of such securities, (iv) to vote such securities for the removal or election of directors and approval of significant transactions (such as the sale or disposition of all or substantially all of the assets of such company or the winding-up, liquidation, rehabilitation, bankruptcy, receivership, restructuring or amalgamation of such company), and (v) to sell or otherwise dispose of such securities;

- (p) compromise all calls and liabilities to calls, debts and liabilities capable of resulting in debts, and all claims, demands and matters in dispute in any way relating to or affecting the assets of Reliance (Canada) or the winding-up of Reliance (Canada), on the receipt of such sums, payable at such times, and generally on such terms as are agreed on by the Liquidator;
- (q) make such compromise or other arrangements with creditors or persons claiming to be creditors of Reliance (Canada) as the Liquidator deems expedient; and
- (r) do and execute all such other things as are necessary for, or incidental to the winding-up of the affairs of Reliance (Canada), including without limitation entering into agreements incurring obligations.

30. THIS COURT FURTHER ORDERS that the Liquidator may, with the approval of this Court and on such notice as the Court may direct:

- (a) arrange for the transfer or reinsurance of all or a portion of the policies of Reliance (Canada); and
- (b) cancel all or a portion of the outstanding policies of Reliance (Canada).

31. THIS COURT ORDERS that the Liquidator and any of the Liquidator's agents, officers, directors, representatives or employees shall be deemed not to be an employer or a successor employer of the employees of Reliance (Canada) within the meaning of the *Pension Benefits Act* (Ontario), *Employment Standards Act* (Ontario), the *Labour Relations Act* (Ontario) or any other Federal, Provincial or Municipal legislation governing employment or labour standards or any other statute, regulation or rule of law or equity for any purpose whatsoever and, further, that the Liquidator and any of the Liquidator's agents, directors, officers, representatives or employees shall not be and shall be deemed not to be, in possession, charge or control of the property or business or affairs of Reliance (Canada) pursuant to any Federal, Provincial or Municipal legislation, statute, regulation or rule of law or equity which imposes liability on the basis of such status including, without limitation, the *Environmental Protection Act* (Ontario), the *Canadian Environmental Protection Act*, or the *Ontario Water Resources Act*, and this shall be binding on all tribunals and administrative bodies.

32. THIS COURT ORDERS that the Liquidator may retain, employ or engage such actuaries, accountants, financial advisors, investment dealers, solicitors, attorneys, valuers or other expert or professional persons as the Liquidator deems necessary or desirable to assist the Liquidator in fulfilling the Liquidator's duties, and all reasonable and proper expenses which the Liquidator may incur in so doing shall be costs of liquidation of Reliance (Canada).

33. THIS COURT ORDERS that the Liquidator may act on the advice or information obtained from any actuary, accountant, financial advisor, investment dealer, solicitor, attorney, valuer or other expert or professional person, and the Liquidator shall not be responsible for any loss, depreciation or damage occasioned by acting in good faith in reliance thereon.

34. THIS COURT ORDERS that the Liquidator shall be paid such remuneration as the Court Orders.

35. THIS COURT ORDERS that the Liquidator shall be at liberty to apply reasonable amounts against its remuneration, expenses and disbursements on a monthly basis and that such amounts shall constitute advances against its remuneration and expenses on, but subject to, the passing of its accounts.

36. THIS COURT ORDERS that this Order and any other orders in these proceedings shall have full force and effect in all Provinces and Territories in Canada.

37. THIS COURT SEEKS AND REQUESTS the aid and recognition of any Court or administrative body in any Province or Territory of Canada and any Canadian Federal Court or administrative body and any Federal or State Court or administrative body in the United States of America and any Court or administrative body in the United Kingdom or elsewhere to act in aid of and to be complementary to this Court in carrying out the terms of this Order.

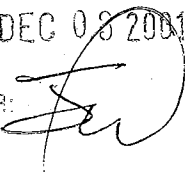
38. THIS COURT ORDERS that the costs of this application, including the costs of the Inspectors, are to be assessed on a solicitor and his own client basis and shall be costs of liquidation of Reliance (Canada).

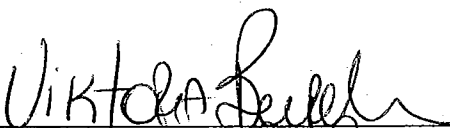
39. THIS COURT ORDERS that interested parties may apply to the Court for advice and directions on 7 days' notice to the Liquidator and the Inspectors, and that the Liquidator may at any time apply to this Court for advice and directions.

INTERNE ATTIENCIÓN À TORONTO
ON/BOOK NO:
LE/DATE LE REGISTRE NO

DEC 08 2001

PER/PAR:




Registrar

THE ATTORNEY GENERAL OF
CANADA
Applicant

RELIANCE INSURANCE COMPANY
Respondent

Court File No: 01-CL-4313

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

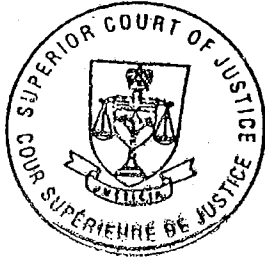
Proceeding commenced at Toronto

ORDER

LAX O'SULLIVAN SCOTT LLP
Suite 1920
145 King Street West
Toronto, Ontario M5H 1J8

Charles F. Scott LSUC# 14534N
Brooke Shulman LSUC # 41032N
Tel: (416) 646-7997
Fax: (416) 598-3730

Solicitors for the Applicant



Commercial List Court File No. 01-CL-4313

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

THE HONOURABLE MR.) TUESDAY, THE 24TH DAY
JUSTICE CAMPBELL) OF JUNE, 2008

**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

ORDER

THIS MOTION made by KPMG Inc., liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance Canada"), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Report of the Liquidator dated June 19, 2008 (the "Report"), filed, and upon hearing the submissions of counsel for the Liquidator, no other party appearing, although properly served as appears from the proof of service, filed:

1. **THIS COURT ORDERS** that the service made of the Notice of Motion and supporting materials herein is good and sufficient notice of this motion, that this motion is properly returnable today, and that any further service or notice of the Notice of Motion and supporting materials be and the same is hereby dispensed with.
2. **THIS COURT ORDERS** that, under Section 74 of the *Winding-up and Restructuring Act*, September 30, 2008 be fixed as the last day on which ordinary creditor claimants may send in their claims, which shall be sent in in the manner set out below.
3. **THIS COURT ORDERS** that by no later than July 14, 2008 the Liquidator shall cause a letter, Notice of Claim and instruction sheet, substantially in the form attached as Schedule "A" hereto, to be (i) sent by ordinary mail to agents and brokers whom it appears from the books and records of Reliance Canada a balance may be due, at their last known address according to the books and records of Reliance Canada, and (ii) posted on the website www.relianceinsurance.ca.
4. **THIS COURT ORDERS** that by no later than July 14, 2008 the Liquidator shall cause a Notice, substantially in the form attached as Schedule "B" hereto, to be (i) published in the national edition of *The Globe & Mail* newspaper, and (ii) posted on the website www.relianceinsurance.ca.
5. **THIS COURT ORDERS** that the Liquidator shall send by ordinary mail or by fax transmission a Notice of Claim and instruction sheet, substantially in the form included in Schedule "A" attached hereto, to any person making a request for such on or before September 30, 2008, at the address or fax number provided by the person, within seven (7) business days of the request being received.
6. **THIS COURT ORDERS** that the Liquidator shall send by ordinary mail a Notice of Allowance of Claim, substantially in the form attached as Schedule "C" hereto, to those ordinary

creditor claimants having sent in claims which are admitted in whole by the Liquidator, at the address provided by the claimants in their respective Notices of Claim.

7. **THIS COURT ORDERS** that the Liquidator shall send by prepaid registered mail a Notice of Disallowance in Part or in Whole (“Disallowance Notice”), substantially in the form attached as Schedule “D” hereto, to those ordinary creditor claimants having sent in claims which are disputed by the Liquidator in whole or in part (the “Disputed Claims”), specifying that such Disputed Claims will be disallowed in whole, or will be disallowed in part and allowed in part, as the case may be, at the address provided by the claimants in their respective Notices of Claim.

8. **THIS COURT ORDERS** that any ordinary creditor claimants wishing to appeal a Disallowance Notice must serve the Liquidator with a Notice of Appeal, substantially in the form attached as Schedule “E” hereto, by prepaid ordinary mail, fax transmission or courier, within thirty (30) days from the date of the Disallowance Notice, failing which the claims of such ordinary creditor claimants shall be deemed to be disallowed and non-admissible in whole, or disallowed and non-admissible in part and allowed and admissible in part, as the case may be, in the winding-up of Reliance Canada.

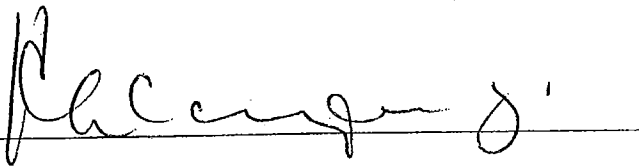
9. **THIS COURT ORDERS** that this Order has no application to any claim that may be asserted by the Liquidator of Reliance Insurance Company in the winding-up of Reliance Canada.

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

JUN 25 2008

PER/PAR: JSN

Joanne Nicoara
Registrar, Superior Court of Justice



SCHEDULE "A"

[on the Letterhead of Reliance Insurance Company – Canadian Branch, in Liquidation]

To: [●]

**Re: Ordinary Creditor Claimants of Reliance Insurance Company –
Canadian Branch, in Liquidation ("Reliance Canada")**

On December 3, 2001, the Ontario Superior Court of Justice (the "Court") ordered the winding-up of Reliance Canada and appointed KPMG Inc. as liquidator (the "Liquidator").

Please be advised that the Court has fixed **Tuesday, the 30th day of September, 2008** as the last day for ordinary creditor claimants of Reliance Canada to send in their claims. If you are aware of any claims that you may have arising from your relationship as an agent or broker, or otherwise, other than Policy Loss Claims, please complete the attached Notice of Claim form, which must be submitted by September 30, 2008.

Claims must be sent to the Liquidator at the address noted below by ordinary mail and must be postmarked no later than midnight on September 30, 2008.

Failure to submit to the Liquidator a properly completed Notice of Claim form by September 30, 2008 will result in any distributions being made without regard to any claim not submitted.

If you have questions or require a further Notice of Claim form, please see our website www.relianceinsurance.ca or make your request in writing to:

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

Attention: Ms. Janine Bradley

Tel: 416-777-8487

Fax: 416-777-3683

E-mail: jmbradley@kpmg.ca

Yours very truly,

KPMG Inc.
Liquidator of Reliance Insurance Company – Canadian Branch, in Liquidation

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

NOTICE OF CLAIM
(ORDINARY CREDITOR CLAIMS)

NOTE: This form is not to be used for the submission of Policy Loss Claims.

I, _____, _____, residing in _____,
(name) (relationship to Claimant) (City, town etc)

in the Province of _____, Canada,

DO HEREBY CERTIFY THAT:

1. _____ ("Claimant") has a valid claim ("Claim") in the amount of (Cdn.)
\$ _____ against Reliance Canada.

2. The address, telephone number, fax number and authorized contact person for the Claimant for service of any notice or other materials in respect of the Claim are:

Address: _____

Telephone Number: _____

Fax Number: _____

Contact: _____

3. Attached to this Notice of Claim is an accurate and truthful calculation of the Claim and true and accurate copies of supporting documentation establishing the Claim.

NOTE: You are required to provide a calculation of the Claim including supporting documentation, which must be attached to this Notice of Claim.

Dated at _____ this _____ day of _____, 2008.

Witness

Signature

Print Name and position with the Claimant

INSTRUCTIONS FOR COMPLETION OF NOTICE OF CLAIM

It is important that the Notice of Claim be correctly completed. The following points are set out to assist you:

- (a) The form must be completed in its entirety.
- (b) If this form is completed by some person on behalf of the Claimant, that person must state his or her authority and the capacity in which he or she is acting.
- (c) You are required to provide a calculation of the Claim and all supporting documentation.
- (d) The signature of the individual completing the form must be witnessed.
- (e) The form is not to be used for Policy Loss Claims.
- (f) You do not have to submit a form for claims for which you have been paid.
- (g) This form must be mailed to the Liquidator at the address below.

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

Attention: Ms. Janine Bradley

FAILURE TO SUBMIT A PROPERLY COMPLETED NOTICE OF CLAIM BY SEPTEMBER 30, 2008 WILL RESULT IN DISTRIBUTIONS BEING MADE WITHOUT REGARD TO THAT CLAIM.

SCHEDULE "B"

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

**NOTICE TO ORDINARY CREDITOR CLAIMANTS OF RELIANCE
CANADA**

KPMG Inc., as Liquidator of Reliance Canada, under the provisions of the *Winding-up and Restructuring Act*, hereby gives notice that the Ontario Superior Court of Justice has fixed **Tuesday, the 30th day of September, 2008** as the last day for ordinary creditor claimants of Reliance Canada to send in their claims.

**TAKE NOTE THAT FAILURE TO SEND IN A NOTICE OF CLAIM BY
SEPTEMBER 30, 2008 WILL RESULT IN DISTRIBUTIONS BEING MADE WITHOUT
REGARD TO ANY CLAIM NOT SENT IN BY THAT DATE.**

Please note that this is not a call for policy loss claims.

For further information or for a Notice of Claim form, please contact KPMG Inc. as set out below, or visit www.relianceinsurance.ca.

This Notice is being given pursuant to the Order of the Ontario Superior Court of Justice dated the 24th day of June, 2008.

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

Attention: Ms. Janine Bradley

Fax: 416-777-3683

Tel: 416-777-8487

E-mail: jmbradley@kpmg.ca

SCHEDULE "C"

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

NOTICE OF ALLOWANCE OF CLAIM

TO: (IDENTIFY CLAIMANT)

RE: (DESCRIBE CLAIM)

(CLAIM No. _____)

TAKE NOTICE that we confirm receipt of your Notice of Claim dated _____. The Liquidator has reviewed your Claim and will allow your Claim as an ordinary creditor claim in the amount of \$ _____, as shown on your Notice of Claim.

The Liquidator will at a future date seek the authority of the Ontario Superior Court of Justice with respect to making a distribution or distributions with respect to your Claim.

Please keep the Liquidator advised of any change of address or contact information.

DATED at Toronto, this _____ day of _____, 2008.

Janine Bradley

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

Tel: 416-777-8487

Fax: 416-777-3683

Email: jmbradley@kpmg.ca

SCHEDULE "D"

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

NOTICE OF DISALLOWANCE OF CLAIM IN PART OR IN WHOLE

TO: (IDENTIFY CLAIMANT)

RE: (DESCRIBE CLAIM)

(CLAIM NO. _____)

TAKE NOTICE that we confirm receipt of your Notice of Claim dated _____ . The Liquidator has reviewed your Claim and allows your Claim (in part in the amount of \$ _____, and disallows your Claim in part in the amount of \$ _____ /disallows your Claim in whole).

AND FURTHER TAKE NOTICE THAT if you are dissatisfied with the Liquidator's decision in respect of your Claim, you must serve the Liquidator by prepaid ordinary mail, fax transmission or courier, at the address or fax number below, with a properly completed Notice of Appeal in the form attached hereto, **within thirty (30) days of the date hereof**, with any further support for your Claim and setting out the reasons for disputing the decision of the Liquidator.

If no Notice of Appeal is served on the Liquidator within thirty (30) days of the date hereof, then this Notice of Disallowance in part or in whole will be deemed final and conclusive and the Liquidator shall conduct the liquidation and distribute the assets of Reliance Canada or any part thereof among the persons entitled thereto without regard to your Claim, if disallowed in whole, or without regard to the disallowed part of your Claim, as the case may be.

This notice is being served pursuant to the *Winding-up and Restructuring Act* and to the Order of the Ontario Superior Court of Justice dated the 24th day of June, 2008.

DATED at Toronto, this day of , 2008.

Janine Bradley

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

Fax: 416-777-3683

SCHEDULE "E"

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

NOTICE OF APPEAL OF DISALLOWANCE OF CLAIM

TO: KPMG INC., LIQUIDATOR OF RELIANCE CANADA

FROM: _____

[IDENTIFY CLAIMANT AND FULL CONTACT INFORMATION]

RE: _____ [INSERT CLAIM NUMBER PROVIDED ON THE NOTICE
OF DISALLOWANCE IN PART OR IN WHOLE]

The Claimant herein disputes the Notice of Disallowance of Claim dated the
day of _____, 2008.

REASONS FOR APPEAL FROM DISALLOWANCE OF CLAIM

The Claimant disputes the Notice of Disallowance of Claim for the reasons set out
on Appendix "A":

[You must attach an Appendix "A" setting out the reasons for the dispute.]

In support of this appeal, the Claimant submits the evidence and documentation
attached hereto as Appendix "B".

**[You must attach evidence/documentation to support your claim as
Appendix "B".]**

Dated at _____ this _____ day of _____, 2008.

Witness

Signature

Print Name and position with the Claimant

THE ATTORNEY GENERAL OF CANADA

and

Applicant

RELIANCE INSURANCE COMPANY

Respondent

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

Proceeding commenced at Toronto

ORDER

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

Graham D. Smith - LSUC# 26377D

Tel: (416) 597-4161

Fax: (416) 979-1234

SOLICITORS FOR KPMG INC.,
LIQUIDATOR OF RELIANCE CANADA

**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

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

(Motion returnable June 24, 2008)

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Court File No. 01-CL-4313

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

**IN THE MATTER OF
RELIANCE INSURANCE COMPANY**

**AND IN THE MATTER OF THE
INSURANCE COMPANIES ACT, S.C. 1991, C.47, AS AMENDED**

**AND IN THE MATTER OF THE
WINDING-UP AND RESTRUCTURING ACT, R.S.C. 1985, C.W-11, AS AMENDED**

BETWEEN:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

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

June 19, 2008

I. THE MOTION

1. This Report is respectfully filed in support of a motion by KPMG Inc., the liquidator (the “Liquidator”) of the insurance business in Canada of Reliance Insurance Company (“Reliance Canada”), for an Order setting the terms and procedure for a call for ordinary creditor claims in the winding-up of Reliance Canada.

II. BACKGROUND

A. 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” (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*. The Commissioner of Insurance for Pennsylvania (then M. Diane Koken) 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. This Court appointed the U.S. Liquidator and the Property and Casualty Insurance Compensation Corporation as Inspectors. By Order dated January 30, 2002, this Court ordered that the Superintendent of Financial Institutions of Canada may attend meetings of Inspectors, be included in the service list, and attend and be heard in matters before this Court.
6. The Inspectors are not opposing this motion.

B. Scheme of Distribution

7. Section 161 of the *Winding-up and Restructuring Act* sets out the scheme of priorities in the liquidation of insurance companies. Since Reliance Canada was a branch, regard must be had to the foreign insurance company provisions, being subsections 161(6) through (9). For the purposes of this winding-up, the relevant priorities therefore are:

- a) costs of the liquidation;
- b) policyholders for loss claims ("Policy Loss Claims"); and
- c) ordinary creditors.

C. Policy Loss Claims -- Payments and Distributions

8. Pursuant to Orders of this Court, the Liquidator has paid claimants with Policy Loss Claims the following benefits:

- a) defence costs as authorized by this Court;
- b) a first interim distribution on Policy Loss Claims of 25%, as approved by the Court's Order made June 26, 2003;
- c) a second interim distribution on Policy Loss Claims of a further 25%, bringing the total distributions to 50%, as approved by the Court's Order made September 2, 2004;

- d) a third distribution on Policy Loss Claims of a further 15%, bringing the total distributions to 65%, as approved by the Court's Order made December 21, 2005;
- e) a fourth distribution on Policy Loss Claims of a further 15%, bringing the total distributions to 80%, as approved by the Court's Order made December 15, 2006;
- f) a fifth distribution on Policy Loss Claims of a further 20%, bringing the total distributions on Policy Loss Claims to 100%, as approved by the Court's Order made April 8, 2008.

9. The Liquidator therefore now pays authorized defence costs and Policy Loss Claims at 100% of their valid and allowed amounts.

D. Call for Claims

10. As set out in prior Reports to this Court, the Liquidator has not undertaken a call for Policy Loss Claims, and has not recommended one to date, because such a call would be disproportionately expensive and inefficient, given the long-tail nature of Reliance Canada's policies. If required to file claims in a call for claims process, policyholders would likely file contingent claims of a magnitude that would make the claims process effectively meaningless. The Liquidator continues to be of the view that there is no compelling reason to undertake a call for claims for Policy Loss Claims at this point.

11. Until it was appropriate to declare a 100 cent on the dollar cumulative distribution on prior-ranking Policy Loss Claims, and that there would be funds for payment in whole or

in part for ordinary creditor claims, it was not appropriate to carry out a call for claims for these subsequent-ranking claims.

12. However, now that the cumulative authorized distribution on Policy Loss Claims is at 100 cents on the dollar, and it is anticipated that there will be funds in the Reliance Canada estate for the payment in whole or in part of ordinary creditor claims, the Liquidator is of the view that a call for ordinary creditor claims would be appropriate, as elaborated upon below.
13. The only ordinary creditors of Reliance Canada of which the Liquidator is aware are insurance brokers and agents who had placed policies with Reliance Canada prior to the commencement of the winding-up. In some cases, amounts may be owed to agents and brokers by virtue of unpaid refund of premiums for policies which they cancelled.
14. The Liquidator is not aware of any other trade, supply or similar creditors of Reliance Canada with amounts owing from Reliance Canada at the commencement of the winding-up. (All ongoing expenses of Reliance Canada since the commencement of the winding-up have been paid on a current basis.)
15. Early in the liquidation, the Liquidator made efforts to reconcile any balances with Reliance Canada's agents and brokers. The Liquidator was able to reach reconciliation with some of the agents and brokers, but in many instances the agents and brokers did not participate in the reconciliation process.

16. In light of the foregoing, in order to determine with finality the existence and amount of claims by agents and brokers, the Liquidator respectfully recommends that a call for claims of such agents and brokers and any other potential ordinary claim creditors be conducted.
17. The Liquidator proposes that the call for claims incorporate a mailing to those agents and brokers whom it appears from Reliance Canada's records may have claims, a newspaper publication in the national edition of *The Globe and Mail* and publication on the Reliance Canada liquidation website.
18. In order to try to minimize any confusion to those with Policy Loss Claims, the Liquidator recommends that the call for claims explicitly advise that the call is not one for Policy Loss Claims.
19. The Liquidator also respectfully recommends that September 30, 2008 be fixed under Section 74 of the *Winding-up and Restructuring Act* as the last day on which ordinary creditors may send in their claims.
20. In particular, the Liquidator proposes by no later than July 14, 2008, to: (i) send by ordinary mail a letter, together with a Notice of Claim and instruction sheet, substantially in the form attached as Schedule "A" hereto, to those agents and brokers to whom it appears to the Liquidator from the books and records of Reliance Canada a balance may be due, at their last known address according to the books and records of Reliance Canada, (ii) cause to be published a Notice to Ordinary Creditor Claimants of Reliance Canada, substantially in the form attached as Schedule "B" hereto, in the national edition

of *The Globe and Mail* newspaper, and (iii) publish on the website www.relianceinsurance.ca a copy of the Notice to Ordinary Creditor Claimants of Reliance Canada, substantially in the form attached as Schedule "B" hereto, and the letter, Notice of Claim and instruction sheet, substantially in the form included in Schedule "A" hereto.

21. The Liquidator proposes to further endeavour to contact by telephone each agent and broker to whom it appears from the books and records of Reliance Canada a balance may be due from Reliance Canada.
22. The Liquidator proposes to also send a Notice of Claim form and instruction sheet by ordinary mail or by fax to any person making a request by September 30, 2008, at the address or fax number provided by the person, within 7 business days of the request being received. (As mentioned above, the Notice of Claim form will also be available for printing on the website referenced above.)
23. There are potential obligations between the estates of Reliance Insurance Company and of Reliance Canada arising from arrangements between them and activities carried out for the other's benefit, which will be addressed in due course in the liquidation. The Liquidator proposes that for clarity any such claims by the Liquidator of Reliance Insurance Company be exempted from the proposed call for claims of ordinary creditors.

III. ADMISSION AND DISALLOWANCE OF CLAIMS

24. The Liquidator proposes that it be authorized to:

- a) send a Notice of Allowance to the ordinary creditor claimants whose claims the Liquidator is of the view should be admitted in whole in the liquidation (“Allowed Claims”), substantially in the form attached as Schedule “C” hereto, by ordinary mail at the address set out on their respective Notices of Claim; and
 - b) send a Notice of Disallowance in Part or in Whole (“Disallowance Notice”) to those ordinary creditor claimants whose claim the Liquidator disputes in whole, or disputes in part and admits in part, as the case may be (collectively, “Disputed Claims”), substantially in the form attached as Schedule “D” hereto, by prepaid registered mail at the address set out on their respective Notices of Claim.
25. The Liquidator proposes that ordinary creditor claimants with Disputed Claims be given 30 days from the date of the Disallowance Notice to serve the Liquidator by prepaid ordinary mail, fax or courier with a Notice of Appeal of Disallowance of Claim (“Notice of Appeal”) in substantially the form attached as Schedule “E” hereto, failing which the claim of such ordinary creditor claimants shall be deemed to be disallowed and non-admissible in the winding-up of Reliance Canada, or disallowed in part and allowed in part, as the case may be, in accordance with the Disallowance Notice.
26. The Liquidator is of the view that the proposed call for claims process will afford a fair and reasonable opportunity for all ordinary creditors with claims against Reliance Canada to file their claims.

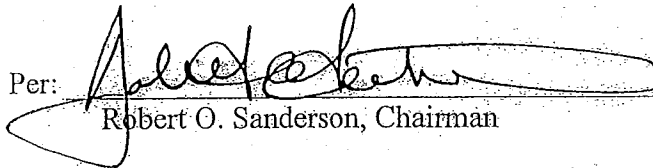
IV. RECOMMENDATIONS

27. The Liquidator therefore respectfully recommends that this Court authorize the proposed call for ordinary creditor claims, and grant the related relief, as sought in the Notice of Motion herein.

ALL OF WHICH IS RESPECTFULLY SUBMITTED,

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

Per:

A handwritten signature in black ink, appearing to read "R. Sanderson", is written over a horizontal line. The signature is stylized and cursive.

Robert O. Sanderson, Chairman

Unaudited Financial Statements of

RELIANCE INSURANCE COMPANY

Canadian Branch (in liquidation)

In our capacity as Liquidator, we have prepared the Balance Sheet of Reliance Insurance Company, Canadian Branch (in liquidation) as at June 30, 2008, December 31, 2007, September 30, 2006, September 30, 2005, June 30, 2004, September 30, 2003 and December 3, 2001, the Statement of Earnings and Changes in Surplus for the six months ended June 30, 2008, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004, and twenty-two months ended September 30, 2003, and the Statement of Cash Flows for the six months ended June 30, 2008, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004, and twenty-two months ended September 30, 2003 in our capacity as liquidator. These financial statements have not been audited or reviewed.

In view of the uncertainties surrounding a branch in liquidation, the ultimate realization of the assets and liabilities will differ from the recorded amounts and the differences may be material (see notes).

Readers are cautioned that these statements may not be appropriate for their purposes.

KPMG Inc., Liquidator.
Reliance Insurance Company, Canadian Branch

December 8, 2008

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

Balance Sheet

As at June 30, 2008, December 31, 2007, September 30, 2006, September 30, 2005, June 30, 2004, September 30, 2003 and December 3, 2001
(\$000)

(Unaudited - see cover page)	June 30, 2008	December 31, 2007	September 30, 2006	September 30, 2005	June 30, 2004	September 30, 2003	December 3, 2001
Assets							
Cash and short term investments (note 4)	\$ 3,004	\$ 2,694	\$ 1,101	\$ 916	\$ 155,078	\$ 156,277	\$ 56,165
Investments (note 4) (market value: Jun/08 - \$130,464; Dec/07 - \$138,632; Sep/06 - \$148,049; Sep/05 - \$140,919; Jun/04 - \$0; Sep/03 - \$0; Dec/01 - \$114,392)	129,712	138,240	147,761	141,308	-	-	108,949
Receivable from other insurers/reinsurers	7,466	9,649	11,965	26,863	27,576	13,908	6,090
Income and premium taxes recoverable	-	-	-	-	-	3,070	3,446
Receivable from Reliance US (note 8)	4,848	4,848	4,848	4,848	4,848	4,181	-
Receivable from Reliance US - current balance due (note 8)	-	-	159	222	870	-	-
Other receivables	396	348	361	621	600	958	1,978
Reinsurers' share of provision for							
Unpaid claims	23,892	22,942	34,928	42,172	71,704	51,761	57,536
Unearned premiums	-	-	306	2,564	4,847	5,430	9,670
Estimate for deductibles on unpaid claims	-	-	-	78	106	1,444	2,527
Total assets	\$ 169,318	\$ 178,721	\$ 201,429	\$ 219,592	\$ 265,629	\$ 237,029	\$ 246,361
Liabilities and Surplus							
Policy liabilities:							
Unpaid claims (note 5)	\$ 63,939	\$ 63,905	\$ 92,190	\$ 111,980	\$ 171,544	\$ 145,815	\$ 135,088
Unearned premiums (note 6)	-	-	421	3,989	8,216	9,177	15,189
Allowed claims (note 9)	-	12,802	20,340	24,163	33,106	17,269	-
Other liabilities	755	857	605	567	841	2,158	1,917
	64,694	77,564	113,556	140,699	213,707	174,419	152,194
Payables:							
Due to Reliance US (note 8)	4,848	4,848	4,848	4,848	4,848	4,848	-
Due to other insurers/reinsurers	566	539	576	260	142	189	192
Brokers	2,433	2,388	2,573	2,656	2,916	2,924	3,389
Taxes and other creditors	998	1,150	1,096	1,034	1,031	1,653	1,826
Reinsurance deposits	10	10	10	10	10	10	3,494
Total liabilities	73,549	86,499	122,659	149,507	222,654	184,043	161,095
Surplus (note 10)	95,769	92,222	78,770	70,085	42,975	52,986	85,266
Contingent liabilities (note 11)							
Total liabilities and surplus	\$ 169,318	\$ 178,721	\$ 201,429	\$ 219,592	\$ 265,629	\$ 237,029	\$ 246,361

The accompanying notes are an integral part of the financial statements

RELiance INSURANCE COMPANY
Canadian Branch (in liquidation)

Statements of Earnings and Changes in Surplus

For the six months ending June 30, 2008, the fifteen months ending December 31, 2007, the twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004, and twenty-two months ended September 30, 2003 (\$000)

(Unaudited - see cover page)	January 1, 2008 to June 30, 2008	October 1, 2006 to December 31, 2007	October 1, 2005 to September 30, 2006	July 1, 2004 to September 30, 2005	October 1, 2003 to June 30, 2004	December 3, 2001 to September 30, 2003
Revenue						
Gross premiums written	\$ -	\$ -	\$ (5)	\$ (8)	\$ (12)	\$ (508)
Less: reinsurance ceded	863	-	938	323	(9)	(509)
Net written premiums	(863)	-	(943)	(331)	(3)	1
Net premiums earned	(863)	116	366	1,613	375	1,772
Expenses						
Claims incurred	21	(12,514)	(8,722)	(19,974)	12,539	42,317
Commissions and premium taxes	-	(10)	20	49	21	5,115
General expenses (note 13)	3	4,963	2,022	2,789	1,212	6,656
Foreign exchange (net claims)	(1,681)	1,054	2,806	(3,466)	(656)	(62)
	(1,657)	(6,507)	(3,874)	(20,602)	13,116	54,026
Investment income						
Interest on cash and short term investments	56	120	80	1,991	2,807	5,188
Write-down of investments (note 4)	-	(444)	(1,658)	-	-	-
Interest on investments	2,973	8,363	6,219	3,031	-	7,752
Investment expenses	(72)	(220)	(187)	(123)	(36)	(74)
Realized gain (loss) on disposal of investments	-	(246)	-	-	-	7,245
	2,957	7,573	4,454	4,899	2,771	20,111
Income (loss) before capital taxes	3,751	14,196	8,694	27,114	(9,970)	(32,143)
Capital and other taxes	204	744	9	4	41	137
Net income (loss)	3,547	13,452	8,685	27,110	(10,011)	(32,280)
Surplus beginning of period	92,222	78,770	70,085	42,975	52,986	85,266
Surplus end of period	\$ 95,769	\$ 92,222	\$ 78,770	\$ 70,085	\$ 42,975	\$ 52,986

The accompanying notes are an integral part of the financial statements

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

Statement of Cash Flows

For the six months ending June 30, 2008, the fifteen months ending December 31, 2007, the twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004, and twenty-two months ended September 30, 2003 (\$'000)

(Unaudited - see cover page)	January 1, 2008 to June 30, 2008	October 1, 2006 to December 31, 2007	October 1, 2005 to September 30, 2006	July 1, 2004 to September 30, 2005	October 1, 2003 to June 30, 2004	December 3, 2001 to September 30, 2003
Operating activities						
Premiums received	\$ -	\$ -	\$ -	\$ (17)	\$ 1	\$ (82)
Reinsurance collected	3,277	16,957	25,090	32,692	6,163	8,601
Salvage, subrogation & deductibles received	10	578	355	1,545	578	2,332
Reduction in other receivables	105	(12)	42	31	481	697
Total sources	3,392	17,523	25,487	34,251	7,223	11,548
Gross claims paid	14,340	22,759	15,146	48,056	8,663	23,073
Claim expenses paid	1,019	2,623	2,661	3,406	3,136	8,393
Uncashed claim/expense cheques	-	-	-	-	-	(96)
Reinsurance premiums paid	-	-	41	23	(14)	(108)
General expenses						
Salaries	403	839	748	943	1,364	3,109
Office expenses	196	311	228	351	369	641
Legal/professional	58	170	135	306	138	273
Head office services	65	217	172	244	210	465
Sale of business expense	-	-	-	-	-	770
Liquidation expenses						
KPMG Inc.	235	771	339	1,013	818	3,121
Goodmans LLP	110	664	182	497	266	885
Legal - UK Reinsurance collections	3	509	0	-	-	-
Foreign exchange (gain)/loss	(695)	2,943	845	624	(81)	56
Income & premium taxes (incl interest paid/rec'd)	462	352	6	(13)	(3,405)	(22)
Foreign exchange (gain)/loss(net claims)	(1,681)	1,054	2,806	(3,425)	(273)	(62)
Total uses	14,515	33,212	23,309	52,025	11,191	40,498
Net cash provided by (used) in operating activities	(11,123)	(15,689)	2,178	(17,774)	(3,968)	(28,950)
Investing activities						
Sale (purchase) of Investments	8,528	8,978	(8,111)	(141,308)	-	113,225
Investment expenses	(124)	(179)	(178)	(95)	(36)	(74)
Interest received	3,034	8,471	6,296	5,349	2,895	15,812
Investment income	(5)	12	0	(334)	(90)	99
Cash provided by (used in) investing activities	11,433	17,282	(1,993)	(136,388)	2,769	129,062
Increase in cash and short term investments	310	1,593	185	(154,162)	(1,199)	100,112
Cash and short term investments, at beginning of period	2,694	1,101	916	155,078	156,277	56,165
Cash and short term investments, at end of period	\$ 3,004	\$ 2,694	\$ 1,101	\$ 916	\$ 155,078	\$ 156,277
Cash consists of:						
Cash	\$ 1,286	\$ 1,053	\$ 1,101	\$ 916	\$ 2,856	\$ 420
Short term investments (note 4)	1,718	1,641	-	-	152,222	155,857
	\$ 3,004	\$ 2,694	\$ 1,101	\$ 916	\$ 155,078	\$ 156,277

The accompanying notes are an integral part of the financial statements

Notes to Financial Statements for the six months ended June 30, 2008, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

1. Nature of the business:

The Canadian Branch of Reliance Insurance Company, which was primarily engaged in the writing of commercial property and liability insurance in Canada, commenced a voluntary wind down of its operations in Canada effective August 2000. In May 2001, Reliance Insurance Company's U.S. operations ("Reliance US") were placed under an order of rehabilitation. On October 3, 2001, Reliance US was put into liquidation and declared insolvent by the Court of Pennsylvania.

On December 3, 2001, the Ontario Superior Court of Justice (the "Court"), on the application of the Attorney General of Canada, granted an order appointing KPMG Inc. as provisional liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company, including the assets in Canada of Reliance Insurance Company, together with its other assets held in Canada under the control of its chief agent ("Reliance Canada"). By further order of the same date, the Court ordered that Reliance Canada be wound up.

Since August 2000, existing insurance policies in force have been allowed to expire and Reliance Canada has neither renewed nor cancelled existing policies, nor has it written any new business. Reliance Canada continues to run off the existing policy and claim liabilities in an orderly fashion.

Pursuant to Orders of the Court the Liquidator has paid policy holders and claimants 100% of valid and allowed loss claims pursuant to the fifth interim distribution approved by the Court in April 2008.

2. Basis of preparation:

The accounting policies used in the preparation of these financial statements have been selected with a view to reflecting the financial position of an insurance company that is in liquidation.

The preparation of these financial statements requires the use of estimates and assumptions that affect the reported assets and liabilities as at the date of the financial statements and the reported amount of revenue and expenses for the reporting period. The actual results will differ from these estimates and, in view of the additional uncertainties surrounding a company in liquidation, the differences may be material. Changes in estimates are recorded in the accounting period in which they are determined.

No provision has been made for future liquidation costs. Interest income earned on the assets of Reliance Canada is likely to offset the unbooked future costs of the liquidation.

Notes to Financial Statements for the six months ended June 30, 2008, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

3. Significant accounting policies:

(a) Investments and investment income:

Investments in RBC funds (see note 4) are carried at book value equal to the net invested proceeds. Income distributions and any interest received are reinvested back into the funds. When the carrying amount is greater than the fair market value and the market rate valuation is considered temporary in nature, the carrying amount of these financial instruments is not reduced to fair market value. Where the carrying amount is greater than the fair market value, and after considering such factors as the length of time the carrying value has exceeded the fair market value and the significance of the difference in the values, and if the market rate valuation is considered to be other than temporary in nature, the investment is written down to fair market value.

Investments in term deposits and treasury bills (see note 4) are carried at cost plus accrued interest of \$7 at June 30, 2008; \$11 at December 31, 2007; nil at September 30, 2006; nil at September 30, 2005; \$334 at June 30, 2004; \$424 at September 30, 2003 and \$325 at December 3, 2001. Bonds, including accrued interest of \$3,128 at December 3, 2001 (see note 4), are carried at amortized cost, providing for the amortization of the discount or premium on an effective yield basis to maturity.

Investment income is recorded as it is earned. Gains and losses arising on disposal of investments are on a settlement date basis, and are calculated on the basis of amortized cost.

(b) Premium revenue and unearned premiums:

Unearned premiums represent the amount of premiums written which are applicable to the unexpired terms of the policies in force or to the remaining terms of certificates issued as part of program business. Accordingly, premiums written are taken into income when earned. Although policies were generally issued for one year, Reliance Canada also wrote some multi-year policies and some program business with underlying certificates which are multi-year.

If unearned premiums are not sufficient to pay expected claims and expenses, a premium deficiency is said to exist. Any changes in estimates of premium deficiencies recorded as net premium earned in the period in which they are determined.

The reinsurers' share of any unearned premiums, net of a provision for doubtful amounts, is recognized as amounts recoverable from reinsurers at the same time using principles consistent with the method for determining the unearned premium liability.

Notes to Financial Statements for the six months ended June 30, 2008, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

(c) Provision for unpaid claims:

The provision for unpaid claims includes adjustment expenses and represents an estimate for all costs of investigating and settling claims incurred on or before the balance sheet date. The provision estimates do not take into account the time value of money or make explicit provision for adverse deviation.

The provision includes case basis estimates, and an actuarially determined "best estimate" provision for claims incurred but not reported and for development on case basis estimates ("IBNR"). These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the period in which they are determined.

(d) Reinsurance ceded:

Net premiums earned and claims incurred are recorded net of amounts ceded to, and recoverable from, reinsurers. To indicate the extent of the credit, collection and contractual risks related to third party reinsurance, estimates of amounts recoverable from reinsurers are recorded separately from the estimated provisions for unearned premiums and unpaid claims.

Amounts recoverable from reinsurers, net of a provision for doubtful amounts, are estimated and recognized at the same time and using principles consistent with Reliance Canada's method for establishing the related liability.

4. Short term investments and investments:

Short-term investments are readily convertible into cash and have maturities of less than 12 months. The carrying value of the short-term investments approximates their market value.

Composition of the cash and short term investments:

	June 30, 2008	December 31, 2007	September 30, 2006	September 30, 2005	June 30, 2004	September 30, 2003	December 3, 2001
Cash	\$ 1,286	\$ 1,053	\$ 1,101	\$ 916	\$ 2,856	\$ 420	\$ 1,263
Short term investments	1,718	1,641	-	-	152,222	155,857	54,902
Total	\$ 3,004	\$ 2,694	\$ 1,101	\$ 916	\$ 155,078	\$ 156,277	\$ 56,165

Notes to Financial Statements for the six months ended June 30, 2008, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

Composition of investment portfolio:

	June 30, 2008		December 31, 2007		September 30, 2006		September 30, 2005	
	Book	Market	Book	Market	Book	Market	Book	Market
	Value	Value	Value	Value	Value	Value	Value	Value
RBC Cdn Money Market fund	\$ 40,975	\$ 40,975	\$ 49,031	\$ 49,031	\$ 53,243	\$ 53,243	\$ 61,506	\$ 61,506
RBC Short Term Income fund	71,418	72,170	69,812	70,204	77,845	78,173	71,007	70,618
RBC US Money Market fund	17,319	17,319	19,397	19,397	16,673	16,673	8,795	8,795
Bonds - Cdn Government	-	-	-	-	-	-	-	-
Bonds - Cdn Corporate	-	-	-	-	-	-	-	-
Total investments	\$ 129,712	\$ 130,464	\$ 138,240	\$ 138,632	\$ 147,761	\$ 148,089	\$ 141,308	\$ 140,919

	June 30, 2004		September 30, 2003		December 3, 2001	
	Book	Market	Book	Market	Book	Market
	Value	Value	Value	Value	Value	Value
RBC Cdn Money Market fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
RBC Short Term Income fund	-	-	-	-	-	-
RBC US Money Market fund	-	-	-	-	-	-
Bonds - Cdn Government	-	-	-	-	99,959	105,415
Bonds - Cdn Corporate	-	-	-	-	8,990	8,977
Total investments	\$ -	\$ -	\$ -	\$ -	\$ 108,949	\$ 114,392

The carrying value of the Short Term Income Fund was written down to fair value as at March 31, 2006 and September 30, 2007. The amounts of the adjustments were \$1,658 at March 31, 2006 and \$444 at September 30, 2007.

5. Unpaid claims:

(a) Nature of unpaid claims:

The provision for unpaid claims and adjustment expenses (and for third party reinsurers' share thereof) are based upon estimates of the ultimate claim costs associated with claims occurring as of the balance sheet dates, including estimates for IBNR claims. These estimates are subject to variability, and the variability could be material. The variability arises because all events affecting the ultimate settlement of claims have not yet taken place and may not take place for some time. Additional factors affecting the variability include receipt of additional claim information, the continually evolving and changing regulatory and legal environment, court decisions, economic conditions, public attitudes, claims management practices, actuarial studies, the quality of the data used for projection purposes, the effect of inflationary trends on future claims handling and settlement practices, and significant changes in the severity or

Notes to Financial Statements for the six months ended June 30, 2008, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

frequency of claims from historical trends. In addition, the longer the time required for the settlement of a group of claims, the more variable the estimates.

Reliance Canada had fronting reinsurance arrangements with other insurers and provided self-insurance facilities for selected corporate clients. Because Reliance Canada is the direct insurer under these arrangements, policyholders and claimants look to Reliance Canada for settlement of their claims. Generally Reliance Canada obtains repayment directly from the insurers or corporations. In some cases Reliance Canada holds security deposits from the insurers or corporation, which may be available to fund payment of claims. Reliance Canada is exposed to credit risk if claims exceed either the security deposits or the self-insured's ability to pay.

Reliance Canada accepted certain insurance risks that other insurance companies have underwritten ("assumed reinsurance"). Because of the necessary reliance on the ceding companies for information regarding reported claims, and the resulting reporting lag between the dates of occurrence and the time Reliance Canada is notified of the claims, the inherent uncertainties of estimating reserves is greater for assumed reinsurance than for direct insurance.

In the normal course of settling claims, Reliance Canada acquires rights to subrogate its claims against other parties and, in some cases, recover a portion of the loss from the policyholder as a deductible amount. Salvage and subrogation are deemed not to be material and, as such, are recorded as received. Deductible amounts, which are recoverable on liability claims, have been recognized as assets.

(b) Provision for unpaid claims:

Considerable judgement is required to evaluate claims and establish claim liabilities. The estimation of the claims provision is based on known facts and interpretation of circumstances. The basic assumptions made in establishing actuarial liabilities are best estimates of possible outcomes. Methods of estimation have been used which it is believed produce reasonable results given current information; however, the process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimate made. It is also not possible to estimate the impact of the additional uncertainties surrounding a company in liquidation on the estimation process.

Notes to Financial Statements for the six months ended June 30, 2008, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

The changes in the unpaid claim provisions recorded in the balance sheet as at June 30, 2008, December 31, 2007, September 30, 2006, September 30, 2005, June 30, 2004 and September 30, 2003 and their impact on the claims and adjustment expenses for the six months ended June 30, 2008, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004, and twenty-two months ended September 30, 2003, are as follows:

	Jan 1, 2008 to Jun 30, 2008	Oct 1, 2006 to Dec 31, 2007	Oct 1, 2005 to Sep 30, 2006	Jul 1, 2004 to Sep 30, 2005	Oct 1, 2003 to Jun 30, 2004	Dec 3, 2001 to Sep 30, 2003
Unpaid claims at beginning of period	\$ 63,905	\$ 92,190	\$ 111,980	\$ 171,544	\$ 145,815	\$ 135,088
Recoverable from reinsurers at beginning of period	<u>22,942</u>	<u>34,928</u>	<u>42,172</u>	<u>71,704</u>	<u>51,761</u>	<u>57,536</u>
Net unpaid claims at beginning of period	<u>40,963</u>	<u>57,262</u>	<u>69,808</u>	<u>99,840</u>	<u>94,054</u>	<u>77,552</u>
Increase(decrease) in estimated losses and Expenses for claims occurring in prior years	21	(12,514)	(8,722)	(19,974)	12,539	42,317
Increase(decrease) in outstanding deductibles	-	-	(60)	(30)	(65)	(1,090)
Paid on claims (net) occurring during current year (Gap Programs)	-	(283)	(171)	(278)	(577)	(1,377)
Paid on claims (net) occurring during prior years	<u>(937)</u>	<u>(3,502)</u>	<u>(3,593)</u>	<u>(9,750)</u>	<u>(6,111)</u>	<u>(23,348)</u>
Net reserves at end of period	40,047	40,963	57,262	69,808	99,840	94,054
Ceded reserves at end of period	<u>23,892</u>	<u>22,942</u>	<u>34,928</u>	<u>42,172</u>	<u>71,704</u>	<u>51,761</u>
Gross reserves at end of period	<u>\$ 63,939</u>	<u>\$ 63,905</u>	<u>\$ 92,190</u>	<u>\$ 111,980</u>	<u>\$ 171,544</u>	<u>\$ 145,815</u>

In order to show the progress of the liquidation from the date of winding-up and, as it is not practicable in a winding-up situation to determine fair value with sufficient reliability, the fair value of the unpaid claims and adjustment expenses, gross and recoverable from reinsurers, has been omitted.

6. Unearned premium:

The provisions for unearned premiums include actuarially determined estimates for premium deficiencies. The process for estimating any provisions for premium deficiency involves the use of estimates concerning factors such as expected claims and expenses and future payout patterns. Any provisions are necessarily subject to uncertainty.

The provision estimates do not take into account the time value of money or make explicit provision for adverse deviation.

Notes to Financial Statements for the six months ended June 30, 2008, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

7. Reinsurance:

In the normal course of business, Reliance Canada sought to reduce the loss that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers. Reliance Canada is not relieved of its primary obligation to policyholders as a result of its third party reinsurance. Failure of reinsurers to honour their obligations could result in losses to Reliance Canada.

Reliance Canada makes specific provisions against reinsurance receivables and recoverables from companies who are in liquidation or run-off, with whom balances are in dispute or where the reinsurer is not settling balances due to Reliance Canada for reasons related to Reliance US. In addition, the Reliance Canada records a general allowance against reinsurance receivables and recoverables based upon the level of allowance already in place and management's judgement. The general allowance reflects the view that a company in liquidation or run-off has a greater collection risk than a going concern company. The establishment of the allowances for doubtful accounts involves judgement and therefore creates a degree of uncertainty as to adequacy at each reporting date.

Reliance Canada's reinsurance program includes both reinsurance placed by Reliance Canada directly with Canadian licensed reinsurers and reinsurance entered into by Reliance US which reinsures both Reliance (Canada) policies and policies of Reliance US and other companies in the Reliance group (the latter are referred to as the "International Reinsurance Treaties").

8. Head office:

(a) Payable to Head Office:

As at June 30, 2008, \$4,848 is recorded in Reliance Canada's books as due to Reliance US for underwriting commissions paid to ECS Managers (the "ECS Commission Payable"); at December 31, 2007 the payable to head office was \$4,848; at September 30, 2006 \$4,848; at September 30, 2005 \$4,848; at June 30, 2004 \$4,848 at September 30, 2003 \$4,848 and at December 3, 2001 the payable was nil.

The liquidator for Reliance US (the "US Liquidator"), subsequent to the date of liquidation, advised Reliance Canada that Reliance US had settled the ECS Commission Payable with ECS Managers on behalf of Reliance Canada prior to the respective and separate liquidations of Reliance Canada and Reliance US. Additionally Reliance US receives reinsurance proceeds on behalf of Reliance Canada pursuant to the International Reinsurance Treaties. The US Liquidator has taken the position that it wishes to withhold payment to the Canadian Liquidator of reinsurance collected by Reliance US on behalf of Reliance Canada on the International Reinsurance Treaties ("Canadian Reinsurance Proceeds") up to the amount of the ECS Commission Payable of \$4,848 or US\$3,034. The Canadian Liquidator disputes that the US Liquidator is entitled to do this; however, the parties have agreed that, without prejudice, Reliance US will pay to Reliance Canada any Canadian Reinsurance Proceeds in excess of the ECS Commission Payable. The US

RELIANCE INSURANCE COMPANY
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Notes to Financial Statements for the six months ended June 30, 2008, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

Liquidator and the Canadian Liquidator have agreed to fix the Canadian dollar balance due to Reliance US for the ECS Commission Payable using the exchange rate of 1.5981 (see note 14).

(b) Receivable from Reliance US:

As at June 30, 2008, Reliance US has collected and is holding Canadian Reinsurance Proceeds of \$4,848, pending payment or resolution of the disagreement regarding the ECS Commission Payable. At December 31, 2007 the balance was \$4,848, at September 30, 2006 \$4,848; at September 30, 2005 \$4,848; at June 30, 2004 \$4,848; at September 30, 2003 \$4,181; and at December 3, 2001 nil. While Reliance Canada has generally billed its reinsurance in Canadian dollars, Reliance US has generally collected the Canadian Reinsurance Proceeds in US dollars. The US dollar amount due from the Reliance US to Reliance Canada has been fixed at a rate of 1.5981 (see note 14). The resulting foreign exchange gain was booked through the income statement in June 2004.

(c) Receivable from Reliance US – Current Balance Due:

Any Canadian Reinsurance Proceeds collected by Reliance US in excess of the amount of the ECS Commission Payable (the "Excess Canadian Reinsurance Proceeds"), are to be remitted to Reliance Canada within a reasonable timeframe. As at June 30, 2008 the Excess Canadian Reinsurance Proceeds were nil; at December 31, 2007 the balance was nil; at September 30, 2006 \$159; at September 30, 2005 \$222; at June 30, 2004 \$870 at September 30, 2003 nil; and at December 3, 2001 nil. While Reliance Canada has generally billed its reinsurance in Canadian dollars, Reliance US has generally collected the reinsurance in US dollars. Reliance Canada will recognize a foreign exchange gain or loss on this balance upon receipt of funds from the Reliance.

(d) Protocol Agreement:

Further to a protocol agreement between the Liquidator and the US Liquidator, Reliance US provides various services to Reliance Canada, particularly in the areas of data processing, claims and reinsurance. For the six months ended June 30, 2008 the cost of the services was \$80; October 1, 2006 to December 31, 2007 \$223; October 1, 2005 to September 30, 2006 \$175; July 1, 2004 to September 30, 2004 \$262; October 1, 2003 to June 30, 2004 \$187; and December 3, 2001 to September 30, 2003 \$505.

9. Allowed claims:

As at June 30, 2008, the allowed claim balances due on claims which have been settled and admitted by the Liquidator, in excess of the Court authorized payments, were nil; at December 31, 2007 the allowed claim balances were \$12,802; at September 30, 2006 \$20,340; at September 30, 2005 \$24,163; at June 30, 2004 \$33,106; September 30, 2003 \$17,269; and December 3, 2001 nil. Pursuant to the fifth interim distribution approved by the Court in April 2008, the Liquidator is paying policy holders and claimants 100% of valid and allowed loss claims.

Notes to Financial Statements for the six months ended June 30, 2008, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

10. Surplus:

As at June 30, 2008, Reliance Canada's estimated surplus was \$95,769; at December 31, 2007 \$92,222; at September 30, 2006 \$78,770; at September 30, 2005 \$70,085; at June 30, 2004 \$42,975; at September 30, 2003 \$52,986; and at December 3, 2001 \$85,266. This estimate is subject to revision. In view of the uncertainties surrounding a company in liquidation, the ultimate realization of the assets and liabilities will differ from the estimated results as at June 30, 2008 and the difference may be material. The *Winding-up and Restructuring Act* ("WURA" or the "Act") provides that the Liquidator may, with the approval of the Court, release to Reliance US any balance of the assets remaining after payment of claims in the order of priority prescribed by the Act.

11. Contingent liabilities:

There is the potential that certain claims that were not reported in the books of Reliance Canada may be valid claims against Reliance Canada ("Non-Booked Claims"). The Non-Booked Claims would arise from policies written outside Canada, and which, arguably, should have been reported in the books of Reliance Canada. There is no certainty as to the magnitude of the Non-Booked Claims, if any, since they were not originally identified as being appropriately assigned to Reliance Canada. Should additional loss result from any new claims, such loss would be accounted for as a charge to earnings in the accounting period that the claims are verified as liabilities of Reliance Canada.

Since the inception of the liquidation of Reliance Canada, the rates charged by the Liquidator and some of its advisors have been at a significant discount to standard rates. Pursuant to the Liquidator's proposal to Office of the Superintendent of Financial Institutions to act as liquidator of the branch, having regards to the skill and complexity necessary to execute the assignment and upon Canadian policyholders and creditors' claims being satisfied in full, the Liquidator may approach the Court on notice to interested parties, including the liquidator of Reliance US, for approval of additional consideration part in recognition of the discounts offered.

In the event all policyholders receive full payment on all valid claims and assets remain in the estate of Reliance Canada, the WURA may require that policyholders whose claims were not paid in full on the date their claim settled also be paid interest on their claims ("Post-liquidation Interest"). The Liquidator continues to investigate this matter. Prior to any payment for Post-liquidation Interest being made, the Liquidator will seek the approval of the Court. Assuming that Post-liquidation Interest is payable and that it would accrue on the unpaid portion of the policyholder settlement amount from the date the claim settled until the date that the policyholder is paid in full, using a interest rate of 5% we estimate that the accrued interest due to these policyholders would be approximately \$4.8 million at June 30, 2008. If some other basis for calculating this amount were determined to be appropriate by the court, the total interest due may materially differ from this estimate.

RELIANCE INSURANCE COMPANY
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Notes to Financial Statements for the six months ended June 30, 2008, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

12. Supplementary expense information:

	January 1, 2008 to June 30, 2008			October 1, 2006 to December 31, 2007			October 1, 2005 to September 30, 2006		
	Total	Other	Claims	Total	Other	Claims	Total	Other	Claims
Salaries	\$ 359	\$ 143	\$ 216	\$ 745	\$ 246	\$ 499	\$ 664	\$ 289	\$ 375
Office Expenses	95	42	53	273	106	167	247	122	125
Legal/Professional Services	56	28	28	87	35	52	135	67	68
Allowance for bad debts	-	-	-	(1)	(1)	-	(1)	(1)	-
Head Office Services	80	40	40	223	94	129	175	88	87
Interest (Income)/expense	(17)	(17)	-	19	19	-	14	14	-
Foreign exchange (gain)/loss	(644)	(644)	-	2,579	2,579	-	764	764	-
Sale of Business Expense:									
KPMG Corporate Finance	-	-	-	-	-	-	-	-	-
Scotia Capital	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Liquidation Expenses:									
KPMG Inc.	235	235	-	730	730	-	478	478	-
Goodmans LLP	131	131	-	632	632	-	201	201	-
Legal-Reinsurance collections	45	45	-	523	523	-	-	-	-
Total Expenses	\$ 340	\$ 3	\$ 337	\$ 5,810	\$ 4,963	\$ 847	\$ 2,677	\$ 2,022	\$ 655
	July 1, 2004 to September 30, 2005			October 3, 2003 to June 30, 2004			December 3, 2001 to September 30, 2003		
	Total	Other	Claims	Total	Other	Claims	Total	Other	Claims
Salaries	\$ 945	\$ 473	\$ 472	\$ 1,079	\$ 539	\$ 540	\$ 2,663	\$ 1,331	\$ 1,332
Office Expenses	342	171	171	318	159	159	567	275	292
Legal/Professional Services	311	155	156	111	56	55	310	155	155
Allowance for bad debts	(3)	(3)	-	6	6	-	(108)	(108)	-
Head Office Services	262	130	132	187	93	94	505	262	243
Interest (Income)/expense	27	27	-	(406)	(406)	-	80	80	-
Foreign exchange (gain)/loss	482	482	-	(31)	(31)	-	(306)	(306)	-
Sale of Business Expense:									
KPMG Corporate Finance	-	-	-	-	-	-	227	227	-
Scotia Capital	-	-	-	-	-	-	214	214	-
Other	-	-	-	-	-	-	329	329	-
Liquidation Expenses:									
KPMG Inc.	869	869	-	622	622	-	3,180	3,180	-
Goodmans LLP	485	485	-	174	174	-	1,017	1,017	-
Legal-Reinsurance collections	-	-	-	-	-	-	-	-	-
Total Expenses	\$ 3,720	\$ 2,789	\$ 931	\$ 2,060	\$ 1,212	\$ 848	\$ 8,678	\$ 6,656	\$ 2,022

The claims expenses are included in Claims incurred on the statement of earnings and changes in surplus.

Notes to Financial Statements for the six months ended June 30, 2008, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004 and twenty-two months ended September 30, 2003

(unaudited – \$000)

13. Foreign exchange:

Further to an order from the Court, dated December 18, 2003 and amended on June 30, 2004, the Liquidator is authorized to pay claims payable in foreign currencies either:

- a) in those foreign currencies in circumstances where the Liquidator is otherwise legally entitled to do so; or
- b) in Canadian currency, converted at the Bank of Canada noon spot rate of exchange for exchanging such currencies to Canadian currency on November 8, 2001.

Further to this, in cases where the agreed claim is determined in U.S. dollars, the rate used by Reliance Canada to calculate the Canadian equivalent is \$1.5981.

14. Capital and other taxes:

Reliance Insurance is a US incorporated insurance company that carries on business in Canada through a registered branch. For Canadian tax purposes investment income from assets designated as investment properties, as provided for in the applicable Income Tax Regulations, is included in its business Canadian taxable income. Non-capital capital losses can be utilized to eliminate any resulting corporate tax on business income. Investment income on any non-designated investment properties, such as trust distributions (in the case of Reliance, income earned on the RBC funds), is subject to a 15% withholding tax. In 2006 and 2007 Reliance Canada was not able to include all of its investments in RBC funds as designated investment properties as defined in the Income Tax Regulations. In 2007 Reliance Canada expensed and paid \$341 in withholding tax for the 2006 taxation year. An accrual of \$196 has been set up for the six months ending June 30, 2008, and \$410 has been set up for the twelve months ending December 31, 2007. The 2006 financial statements have not been restated, as the amount for 2006 is not material.

THE ATTORNEY GENERAL OF
CANADA

and

RELIANCE INSURANCE COMPANY

Applicant

Respondent

Court File No. 01-CL-4313

ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST

Proceeding commenced at Toronto

MOTION RECORD
(Motion returnable December 17, 2008)

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