

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
(Motion returnable April 19, 2016)**

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(Motion returnable April 19, 2016)**

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:
 - (i) approving the accounts and activities of the Liquidator for the period April 1, 2014 to December 31, 2015 (the “Period”), as reflected in this Report and the financial statements of Reliance Canada, and

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- (ii) approving the professional fees and costs of the Liquidator and of its counsel (the “**Professional Fees**”) for the Period.

II. OVERVIEW OF THE ESTATE

A. Summary

2. Copies of the Liquidator’s previous reports to this Court, including all Orders issued by this Court, can be found on the Liquidator’s website at: www.relianceinsurance.ca. Attached as Schedule “A” is a list of all the Orders issued previously by this Court.
3. The Liquidator has continued the administration of the liquidation during the Period including:
 - (i) continuing to resolve loss claims (the “**Policy Loss Claims**”);
 - (ii) collecting reinsurance;
 - (iii) continuing to manage the assets, and reporting to the U.S. Liquidator (defined below) on a quarterly basis;
 - (iv) paying Policy Loss Claims and ordinary creditor claims at 100% of the valid and allowed claims amount; and
 - (v) considering alternative strategies for bringing the Liquidation to a close, including consulting with the U.S. Liquidator who is the ultimate stakeholder of any surplus.
4. The Liquidator has undertaken an extensive review of the policy liabilities including the proofs of claims filed in response to the call for Policy Loss Claims (the “**POCs**”).
5. The Liquidator remains of the view that if the administration of the policy liabilities were to continue in a run-off mode, paying Policy Loss Claims and ordinary creditor claims at current levels, there is no realistic scenario under which policyholders and ordinary creditors would be prejudiced by this approach.

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6. The Liquidator is respectfully asking this Court to pass the accounts and approve the activities of the Liquidator for the Period as reflected in this Report and the financial statements, and approve the Professional Fees. The Inspectors are not opposing, including the court appointed liquidator of Reliance Insurance Company (the "**U.S. Liquidator**").

B. Policy Loss Payments

7. Pursuant to Orders of this Court, the Liquidator has paid and continues to pay the following benefits: (a) defence and adjustment costs, (b) a cumulative total distribution rate on Policy Loss Claims of 100%, (c) a distribution on ordinary creditor claims of 100%, up to a cumulative total of \$100,000, and (d) a distribution of post-liquidation interest, where appropriate.

C. Significant Developments Since Last Passing of Accounts

8. The Liquidator has continued to make progress in the administration of the estate. Five claims with a total value of \$4.7 million have been resolved during the Period.
9. The Liquidator continued to disallow claims pursuant to the Court approved process for the disallowance of claims which are disputed by the Liquidator (the "**Disallowance of Claims Process**").
10. As a result of the Disallowance of Claims Process, there are 3,346 POCS which (i) the Liquidator has disallowed (and for which no appeal was received), (ii) are settled, or (iii) otherwise resolved. These collectively had total policy limits of approximately \$699 million.

11. As at December 31, 2015, there were 30 claims that have been reported but not yet resolved or settled, and for which Reliance Canada had established an estimate of the amount to resolve or settle (the "Open Claims"), and 375 unresolved POCs. The 375 unresolved POCs relate to 15 different policyholders, of which 34 relate to contingent claims filed by 5 different policyholders. Contingent claims include those which are with respect to a possible occurrence prior to the expiry of the policy, the specifics of which are not yet available or within the knowledge of the policyholder or claimant, and/or in respect of which no claim has yet been made against a policyholder or an insured thereunder.

D. The Future of the Estate

12. The Liquidator previously reported that the consulting actuary it retained estimated that a run-off would continue to 2019 and that the number of payments would decline going forward. However, given the status of certain claims against the estate, and the nature of certain policies written by Reliance Canada, it is the Liquidator's view that a run-off will likely continue well beyond 2019, absent resolution of certain Policy Loss Claims.
13. As previously reported, the Liquidator has on a number of occasions pursued marketing programs for the policy liabilities; however, these efforts did not result in a transaction.

III. BACKGROUND

A. Reliance Canada's Insurance Business

14. Reliance Canada wrote a very diverse set of policies, including comprehensive general liability, medical malpractice liability, directors' and officers' liability, engineers' and

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architects' liability, lawyers' errors and omissions liability, miscellaneous errors and omissions liability, auto liability, automobile warranty, marine cargo and liability, property loss and other programs.

15. While some of Reliance Canada's policies were "claims-made" policies, meaning that they covered claims made against the insured during the term of the policy and reported within the term or a defined period thereafter, a substantial portion of its policies was "occurrence-based." Occurrence-based policies cover liabilities incurred during the policy period that may not become known or manifest until later -- sometimes years later. This latter business is known as "long tail" insurance. Much of Reliance Canada's insurance business was of a long tail nature.
16. In 2000 Reliance Canada voluntarily stopped writing new policies, effectively beginning the winding-down of its business. At the commencement of the Reliance Canada liquidation in December 2001, Reliance Canada had 16 policies still in force, excluding the warranty programs, with the policy term of all the other policies having expired.

B. Policy Liabilities

17. As noted above, Open Claims are claims which have been reported to Reliance Canada but are not yet resolved or settled. At the commencement of the liquidation, there were 1,100 Open Claims.
18. Reliance Canada establishes from time to time an estimate of the amount to resolve or settle Open Claims, which amount is known as the case reserves ("Case Reserves").

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19. In addition, Reliance Canada has “incurred but not reported” (“**IBNR**”) exposure, which includes (i) claims not yet reported for which Reliance Canada may ultimately be put on notice and to which it would have to respond, and (ii) future developments associated with Open Claims, being amounts which are incremental to Case Reserves.

C. The Run-off of Reliance Canada’s Business in Liquidation

20. Since the commencement of the winding-up, the Liquidator has continued the run-off of Reliance Canada’s business in an orderly manner, dealing with policy liabilities and the collection of reinsurance on a commercially reasonable basis. Accordingly, there has been no cancellation of policies ordered as a term of the winding-up and claims have continued to be reported to, and adjusted by, Reliance Canada in the normal course to this day.

D. Call for Policy Loss Claims

21. On August 3, 2010, this Court granted an Order approving a process under the *Winding-up and Restructuring Act* (“**WURA**”) in respect of a call for Policy Loss Claims (the “**Call for Policy Loss Claims**”). The Call for Policy Loss Claims fixed December 17, 2010 as the last day on which Policy Loss Claims could be sent to the Liquidator.
22. The following were the results of the Call for Policy Loss Claims, as at December 31, 2015:
- (i) a total of 3,721 POCs were received, pertaining to policies with total policy limits of approximately \$1.347 billion;
 - (ii) POCs were not filed in respect of 37 Open Claims that were on the books and records of Reliance Canada at the commencement of the Call for Policy Loss Claims (the “**Non-Filed Open Claims**”). As these were already open on the

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books of Reliance Canada, the Liquidator (as previously reported to the Court) has continued to finalize these claims and make any appropriate payments thereunder;

- (iii) 154 POCs were filed past the December 17, 2010 deadline (“**Late Filed POCs**”) by policyholders. The Liquidator has determined that, given Reliance Canada’s ability to pay valid claims including valid Late Filed POCs, pursuant to the *WURA* these Late Filed POCs will be afforded the same treatment as timely filed POCs.
- 23. The Liquidator has resolved 3,346 POCs either by way of disallowance (with no appeal therefrom), settlement or other resolution, and resolved all of the Non-Filed Open Claims. Collectively, these POCs and Non-Filed Open Claims pertained to policies with total policy limits of approximately \$699 million.
 - 24. Notices of appeals from disallowance of claims (“**NOAs**”) were received for 24 POCs which had been disallowed. As at December 31, 2015, 5 of the NOAs remain unresolved. The Liquidator will be seeking directions from this Court, at a later date, with respect to a process for dealing with unresolved NOAs.
 - 25. As at December 31, 2015 there were 30 Open Claims and 375 unresolved POCs. Since various parties had filed duplicate POCs with respect to the same Policy Loss Claim, after reviewing the remaining POCs the Liquidator determined that the remaining POCs relate to 63 claims for 15 policyholders.
 - 26. Of the 63 claims, 34 relate to Contingent Claims for 5 policyholders, collectively pertaining to policies with total policy limits of \$207 million.
 - 27. Taking into account total policy limits pertaining to all remaining POCs, POCs which have been disallowed and for which no appeal was received, resolved POCs and resolved

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Non-Filed Open Claims, the total gross claim exposure to Reliance Canada is approximately \$648 million as at December 31, 2015.

28. In the event (which the Liquidator considers unrealistic) that all remaining POCs were settled at their full policy limits, the total claim exposure to Reliance Canada, net of reinsurance, would be approximately \$48.3 million, assuming all reinsurance associated with those claims were collectable.

IV. FINANCIAL STATUS OF THE ESTATE

A. Distribution History

29. This Court has approved 6 distributions to policyholders, resulting in a total recovery of 100% of the value of their allowed Policy Loss Claims and, where applicable, a distribution of post-liquidation interest of 5%.
30. A distribution of 100% on allowed ordinary creditor claims was also made, pursuant to this Court's Order made December 17, 2008.

B. Passing of Accounts and Approval of Professional Fees

31. This Court has from time to time passed and approved the accounts and activities of the Liquidator, and approved the professional fees of the Liquidator and its counsel, cumulatively for the period from the date of the winding-up order to March 31, 2014.

C. Financial Status

32. Attached as Schedule "B" are the unaudited financial statements for the estate as at December 31, 2015 ("**Reliance Canada Financial Statements**"), prepared in a manner

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consistent with the financial statements before this Court as at March 31, 2014 and previously, and which rely on the same system of internal controls to safeguard the accuracy and reliability of the financial reporting process. The accounting policies used in the preparation of the Reliance Canada Financial Statements have been selected with a view to reflecting the financial position of an insurance company that is in liquidation and are not necessarily in conformance with generally accepted accounting principles or international financial reporting standards.

33. As noted in previous Reports, a key characteristic of the Reliance Canada claims profile has been its “lumpiness.” That is, a significant number of its policies do not have frequent claims but, if claims occur, they tend to be severe. As further progress is made in dealing with the Policy Loss Claims and more information becomes available on which to assess them, the Liquidator adjusts the policy liabilities. In particular, where Policy Loss Claims are resolved for amounts lower than the amounts reserved for them, the policy liabilities are reduced, and where more information becomes available to indicate a higher exposure than has been reserved, the policy liabilities are increased. (Increases normally also have the effect of increasing the reinsurance recoverables since these claims are generally reinsured at significant levels.) Accordingly, some fluctuations in the estimated level of surplus in the estate are to be expected, given the volatility inherent in such a portfolio.
34. The projected estate surplus has increased from approximately \$85.3 million as at December 3, 2001 to approximately \$106.2 million as at December 31, 2015. The principal reasons for the change in the surplus are favourable developments in the estimated value of the total policy liabilities and investment income.

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(i) **Assets**

Cash and Investments

35. As at December 31, 2015, the assets of Reliance Canada were cash and investments totalling approximately \$113.5 million. Pursuant to the Court's approval by previous Orders, the cash and assets are held in funds with RBC Asset Management and Phillips Hager & North. In addition, funds are also held as term deposits or bankers acceptances issued by designated Schedule A banks.
36. The Liquidator reviews the allocation of funds regularly in order to rebalance Reliance Canada's holdings, taking into consideration such matters as expected cash flows, duration of the claim book and market conditions. In addition, the Liquidator meets with RBC Asset Management periodically to assess results.

Reinsurance

37. The other major asset of Reliance Canada is reinsurance, consisting of:
- (i) reinsurance covering only the liabilities of Reliance Canada ("**Canadian Reinsurance**"); and
 - (ii) certain reinsurance entered into through Reliance's head office ("**International Reinsurance**") that reinsures both Reliance Canada policies and policies written through Reliance's business in the U.S.
38. The percentage of Reliance Canada's Case Reserves that is reinsured changes over time as the composition of the Case Reserves changes. As at December 31, 2015, approximately 61.5% of Reliance Canada's Case Reserves were reinsured, approximately 78.7% of which was Canadian Reinsurance and 21.3% International Reinsurance. These percentages do not reflect estimates for uncollectible reinsurance due to credit, collection

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or contractual risk. Over 80,2 % of the reinsurance on the Case Reserves as at December 31, 2015 is with reinsurers rated "A" or higher.

39. By December 31, 2015, the Liquidator had collected approximately \$129.7 million in reinsurance since the beginning of the liquidation. Reinsurance receivables (amounts billed to reinsurers), net of a provision for uncollectible reinsurance, were approximately \$1.3 million at December 31, 2015. Reinsurance recoverables (being amounts referable to (i) reported claims not yet billed and (ii) IBNR, net of a provision for uncollectible reinsurance) were approximately \$3.1 million as at December 31, 2015.

(ii) Liabilities

40. At December 31, 2015, the estimated value of the policy liabilities was \$10.6 million, determined as described in more detail below.
41. As previously discussed, the Liquidator undertook a Call for Policy Loss Claims and has taken the results of the Call for the Policy Loss Claims (including late filed POCs) into account in estimating the value of the policy liabilities and these results are discussed in more detail further on in this Report.
42. The Liquidator has relied on, and continues to rely on, actuarial projections to reach a view as to the total claims exposure of the estate.

Policy Loss Claims

43. There are four categories of Policy Loss Claims:
- (i) Policy Loss Claims that are settled or otherwise resolved. As at December 31, 2015, approximately 18,620 Policy Loss Claims, with a total value of approximately \$184.2 million, have been resolved, through settlement or

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otherwise, since the beginning of the liquidation. These have all been paid in full, with post-liquidation interest where appropriate;

- (ii) Open Claims (claims that have been reported but not yet resolved) for which Reliance Canada had established Case Reserves. As at December 31, 2015, there were 30 Open Claims outstanding, with outstanding Case Reserves of approximately \$10.6 million. (Case Reserves are adjusted as additional information on the estimated amount of a claim becomes known during the course of its adjustment.);
- (iii) the provision for IBNR, including developments in Open Claims, the cost of which is incremental to the Case Reserves; and
- (iv) contingent claims, which are claims with respect to a possible occurrence prior to the expiry of a policy, the specifics of which are not yet available or within the knowledge of the policyholder or claimant and/or in respect of which no claim has yet been made against a policyholder or an insured thereunder.

Liability Claims Projection Process

44. The Liquidator has applied the same methodology in projecting the policy liabilities for the purpose of this Report as was done for the previous reports. The Liquidator has undertaken an extensive review of the policy liabilities. On a periodic basis, the Liquidator or its legal counsel instructs an external consulting actuary, who acted for Reliance Canada before it was ordered to be wound-up, to provide his best estimate of policy liabilities in accordance with accepted actuarial standards of practice, except that a discount for the time value of money is not used and there is no explicit provision for adverse deviation. Representatives of the U.S. Liquidator have also reviewed the Case Reserves.
45. The most recent actuarial reviews were performed as at November 30, 2013, December 31, 2010 and June 30, 2009. The consulting actuary was instructed to confirm his best estimate of the Reliance Canada policy liabilities including any potential liability for contingent claims. With respect to the November 30, 2013 actuarial review, it was felt

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that standard actuarial techniques would not be effective in evaluating the reduced number of claims involving multiple years and multiple lines of business. As a result, the consulting actuary reviewed each claim individually to determine a range of probable settlement values of each claim. In addition, discounts to reflect the time value of money were not applied.

46. The Liquidator reviewed the analysis underlying the actuarial estimates and carried forward the estimates from November 30, 2013 to December 31, 2015. The Liquidator's estimate of \$10.6 million for policy liabilities, including contingent claims, as at December 31, 2015 is based upon the actuarially determined best estimate.
47. Actuarial projections typically consider:
 - (i) the current level of reserves;
 - (ii) the history of claims development;
 - (iii) the nature of the liabilities underwritten and the terms of the policies;
 - (iv) industry experience and current developments with respect to similar kinds of policies and liabilities; and
 - (v) the potential for adverse deviation.
48. Actuaries then reach a view as to the total policy liabilities to which the insurer will be exposed, including the IBNR provision for unreported claims and upward adjustment for reported claims. While the actuaries generally provide a single best estimate, there is clearly a range for valuing the total liabilities, depending on the degree of conservatism to be achieved.
49. Considerable judgment is required to evaluate claims and establish claims liabilities. These estimates of future loss activity are based on known facts and interpretation of

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circumstances. These estimates are subject to variability. The variability arises because not all events affecting the ultimate settlement of claims have yet taken place. (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, and significant changes in the severity or frequency of claims from historical trends.)

(iii) **Summary**

As at December 31, 2015, the book value of Reliance Canada's cash and investments was approximately \$113.5 million, while the estimated policy liabilities – also known as cumulative unpaid claims (which take into account Case Reserves, IBNR, contingent claims and related expenses) - totalled approximately \$10.6 million. Below is a summary breakdown for the estate as of December 31, 2015:

	December 31, 2015 (in millions)¹
Assets	
Cash or investments	\$113.5
Reinsurance receivables and recoverables net of estimate for uncollectible reinsurance	\$4.5
Miscellaneous	\$5.0
Total Assets	<u><u>\$123.0</u></u>

¹ Amounts in this column are rounded.

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	December 31, 2015 (in millions)¹
Liabilities	
Cumulative unpaid claims	\$10.6
Other Liabilities	<u>\$6.2</u>
Total Liabilities	<u>\$16.8</u>
Total Surplus	<u>\$106.2</u>

50. As noted, the projected surplus for Reliance Canada as at December 31, 2015 is approximately \$106.2 million, being \$123 million of total assets less total liabilities of \$16.8 million.

V. FUTURE OF THE ESTATE/INTEREST OF RELIANCE

51. The Liquidator continues to run-off Reliance Canada's business in an orderly manner, dealing with policy liabilities and the collection of reinsurance on a commercially reasonable basis. The Liquidator previously reported to this Court that the consulting actuary who was retained estimated that the run-off would continue to 2019, with the number of payments declining going forward. However, given the status of certain claims against the estate, and the nature of certain policies written by Reliance Canada, it is the Liquidator's view that the run-off will likely continue well beyond 2019, absent resolution of certain Policy Loss Claims.

52. Pursuant to subsection 161(10) in Part III of the *WURA* (which Part applies specifically to insurance companies), the Liquidator may, with the approval of the Court, release to

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Reliance (as the "foreign company") any balance of the assets remaining after payment of claims in the order of priority prescribed by subsection (9). The priorities are as follows:

- (i) costs of the liquidation;
- (ii) claims of preferred creditors;
- (iii) claims of policyholders of the company;
- (iv) expenses that were incurred by the Superintendent in respect of the company and assessed against and paid by other companies pursuant to the *Insurance Companies Act*, and interest in respect thereof at such rate as specified by the Superintendent;
- (v) claims of any other creditors of Reliance Canada.

53. Similarly, pursuant to subsection 95(1) of Part I of the *WURA* (the Part applying to liquidations generally, but subject to Part III in the case of an insurance company), the Court is to distribute to Reliance any surplus that remains after the satisfaction of the debts and liabilities of the company and the winding-up charges, costs and expenses.

54. Accordingly, the U.S. Liquidator on behalf of Reliance would be entitled, with the Court's approval, to any surplus after satisfaction of all priority amounts.

55. The U.S. Liquidator has made significant progress in its own estate and has issued Notices of Determination for approximately 99% of the proofs of claim filed in its estate. However, the Reliance estate under the control of the U.S. Liquidator suffers from a significant deficit. On January 13, 2016, the U.S. Liquidator received court approval to increase the total cumulative interim distribution to 65% on allowed claims. Additionally, on December 22, 2015, the U.S. Liquidator was granted an order establishing March 31, 2016 as the claims bar date by which all claims must be filed with the U.S. Liquidator.

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56. The Liquidator has continued to consider ways in which the Liquidator can expedite the completion of the Reliance Canada estate. The Liquidator has consulted with the U.S. Liquidator with respect to structuring a transaction to transfer the policy liabilities to another insurer, or a reinsurer, that would assume liability for them (an “**Assumption Reinsurance Transaction**”) as one means to expedite the completion of the liquidation of Reliance Canada and facilitate the release of surplus.
57. The Liquidator has pursued an Assumption Reinsurance Transaction on several occasions, each time without success. The Liquidator believes this has been due to, among other things, uncertainties concerning potential liabilities and the inability to separate the International Reinsurance which reinsures policies of both Reliance and Reliance Canada.
58. The Liquidator will continue to consider whether a potential claims determination and valuation process may be required at some point, in respect of any claim(s), with directions from the Court.

VI. MAJOR ACTIVITIES OF THE LIQUIDATOR

A. Summary of Activities

59. In summary, the Liquidator’s major activities for the Period included:
- a) Claims adjudication and management, including:
 - i. overseeing the payment of defence and adjustments costs;
 - ii. overseeing a comprehensive review of all claims including estimating range of possible outcomes;

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- iii. engaging in discussions with policyholders; claimants and their counsel concerning the estate;
 - iv. settling or otherwise resolving and paying 5 claims having a total value of approximately \$4.7 million;
 - v. negotiating and entering into Full and Final Settlement and Release Agreements with Rothmans, Benson & Hedges Inc. and Imperial Tobacco Canada Limited; which were subject to Court approval and declaratory relief to the effect that no claims by non-policyholders could be made against these policies. The Liquidator brought motions seeking approval of these settlements and the related relief. (These motions were dismissed by the Court.)
- b) Reinsurance, including:
- i. reconciling accounts;
 - ii. enforcing liquidation clauses;
 - iii. collecting receivables, including direct communication with reinsurers, and cooperative efforts with the U.S. Liquidator;
- c) Other matters, including:
- i. reviewing and amending as necessary the investment policy and managing investments in consultation with its investment manager;
 - ii. reporting regularly to the Property and Casualty Insurance Compensation Corporation and the U.S. Liquidator;
 - iii. seeking an order authorizing a claims bar date in order to facilitate the completion of the liquidation, which was adjourned;
 - iv. preparing quarterly financial statements and preparing and filing appropriate tax returns with the necessary tax authorities;
 - v. maintaining the external website;
 - vi. monitoring of the U.S. liquidation, and discussions with the U.S. Liquidator, with respect to cross border issues and other matters that impact the Canadian estate, including the significant issues with respect to reinsurance collections; and
 - vii. considering alternative strategies for bringing the Liquidation to a close, including consulting with the U.S. Liquidator.

VII. LIQUIDATOR'S ACCOUNTS AND PROFESSIONAL FEES

A. Financial Statements

60. As in the past, the Liquidator does not consider that a traditional statement of receipts and disbursements would provide a meaningful and informative reflection of the financial position of the estate. The Liquidator has therefore prepared the financial statements (unaudited), attached as Schedule "B".
61. The financial statements have been prepared in a manner consistent with the statements approved previously by this Court. The Liquidator maintains a system of internal controls to safeguard the accuracy and the reliability of the financial reporting process.

B. Professional Fees

62. The Liquidator retains professional advisors to assist in the administration of the liquidation from time to time. The Liquidator is familiar with the services provided by each of the professional advisors and has reviewed their invoices. Detailed invoices were timely received and carefully reviewed in detail by senior administrative and management level members of the Liquidator's staff. The invoices were reviewed for accuracy, adequate detailed information describing the work performed and by whom, the time spent and when it was spent, the rate and amount billed, possible redundant charges, reasonableness and overall compliance with the terms of retention. Clarifications and adjustments of items included in the invoices were requested where it appeared appropriate.

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63. The Liquidator believes that the Professional Fees of its advisors are proper, fair and reasonable and were incurred in furtherance of the best interests of the estate of Reliance Canada.

Goodmans LLP

64. Goodmans LLP (“**Goodmans**”) has acted as counsel to the Liquidator from the commencement of the liquidation and has acted or advised on all matters described in this report. The Liquidator is familiar with their services and has reviewed their invoices in detail and with the care described above.
65. At the commencement of the liquidation, Goodmans agreed to a discount from its then current market rates of approximately 15% to 20%, with rates not to be increased for one year. In fact, rates were not increased for the first two years of the liquidation, but were raised by 4.79%, effective October 1, 2003, reflecting the change in the Consumer Price Index over the two year period, and a further 5.6% effective January 1, 2008, reflecting the change in the Consumer Price Index from January 1, 2006. Effective July 1, 2008, rates were increased to 90% of current market rates as they are set from time to time, as a result of the 100% distribution level being reached on Policy Loss Claims. The discount from Goodmans’ current market rates is approximately 10%.
66. Attached as Schedules “C”, “D” and “E”, respectively are:
- (i) a summary invoice from Goodmans to the Liquidator for the Period;
 - (ii) a summary of the hours and average hourly rates for each of Goodmans’ personnel who dedicated more than 30 hours to the estate for the Period; and
 - (iii) a brief description of the areas of concentration of each of Goodmans’ personnel who dedicated more than 30 hours to the estate for the Period.

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67. Detailed supporting records, including time sheets, are available should this Court wish them produced. An affidavit attesting to the accuracy of the fees and disbursements is also being filed.
68. The Liquidator is satisfied that Goodmans' fees are proper, fair and reasonable, that time was appropriately spent and that Goodmans' fees were incurred in furtherance of the best interests of the estate.

KPMG Inc.

69. The Liquidator has kept careful and detailed records of all time spent by the Liquidator personnel on the estate. The Liquidator has instituted internal controls to ensure no redundant or inappropriate charges are made. The Liquidator applied the same standard for review to its accounts as to accounts of other professionals, detailed above. The Liquidator maximized efficiency and reduced costs by retaining former Reliance Canada employees and third party administrators where prudent and appropriate.
70. At the commencement of the liquidation, the Liquidator agreed to a discount from its then current market rates of approximately 15% to 20%, with rates not to be increased for one year. In fact, rates were not increased for the first two years of the liquidation, but were raised by 4.79%, effective October 1, 2003, and an additional 2.4% effective October 1, 2004, 3.4% effective October 1, 2005, 3% effective October 1, 2006, and 2.6% effective October 1, 2007, reflecting the changes in the Consumer Price Index. Effective July 1, 2008, rates were increased to 90% of current market rates as they are set from time to time as a result of the 100% distribution level being reached on Policy Loss Claims. The discount from current market rates is approximately 10%.

71. Attached as Schedules "F", "G" and "H", respectively, are:
- (i) an invoice from the Liquidator to the estate for the Period;
 - (ii) a summary of the hours and average hourly rates of each of the Liquidator's personnel who dedicated more than 30 hours to the estate for the Period; and
 - (iii) a brief description of the areas of concentration of each of such of the Liquidator's personnel for the Period.
72. Detailed supporting records, including time sheets, are available should this Court wish them produced. An affidavit attesting to the accuracy of the fees and disbursements is also being filed.
73. The Liquidator respectfully requests that this Court pass the accounts of the Liquidator, as reflected in the financial statements, and approve the Professional Fees.

VIII. RECOMMENDATION

74. The Liquidator respectfully recommends, and requests, that this Court approve the accounts and activities of the Liquidator for the Period and approve the Professional Fees and costs of the Liquidator and its counsel for the Period.

ALL OF WHICH IS RESPECTFULLY SUBMITTED,

April 11, 2016

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

Per: 

Nicholas Brearton
President, KPMG Inc.

A

SCHEDULE "A"

LIST OF COURT ORDERS PREVIOUSLY APPROVED BY COURT

Date of Order	Judge	Description of Order
December 3, 2001	Justice Farley	Order approving the Winding-Up of Reliance Canada
December 3, 2001	Justice Farley	Order approving the appointment of KPMG Inc. as Liquidator of Reliance Canada. As well as authorizing the payment of all valid policyholder claims, including in respect to unearned premiums, to the amount of \$25,000 or the amount if any of the voluntary compensation payment of PACICC (which was \$250,000). Payment of valid claims including claims of unearned premiums under the Meridian and other warranty and surety programs to the amount of \$5,000. Payment of all reasonable legal and other costs incurred to January 31, 2002.
January 30, 2002	Justice Farley	Order extending the Appointment Order from January 31, 2002 to April 30, 2002.
April 29, 2002	Justice Farley	Order extending the Appointment Order from April 30, 2002 to May 6, 2002.
May 8, 2002	Justice Farley	Order extending the Appointment Order from May 6, 2002 to December 31, 2002.
December 06, 2002	Justice Farley	Order extending the Appointment Order from December 31, 2002 to March 31, 2003.
March 26, 2003	Justice Farley	Order extending the Appointment Order from March 31, 2003 to June 30, 2003.
June 2, 2003	Justice Farley	Order appointing independent claims administrators for two separate loss claims.
June 26, 2003	Justice Farley	Extension of the Appointment Order from June 30, 2003 to December 31, 2003 and approving and authorizing a first interim payment to policyholders and claimants of 25% on their valid and allowed policyholder loss claims.

Date of Order	Judge	Description of Order
December 18, 2003	Justice Farley	Order approving the accounts and activities of the Liquidator for the periods from December 3, 2001 to December 31, 2002 and January 1, 2003 to September 30, 2003, including the fees of the Liquidator's counsel from the commencement of the liquidation to September 30, 2003. As well as authorizing the Liquidator to pay claims settled in foreign currencies, in Canadian currency at the noon spot rate on November 8, 2001. Extension of distribution payments from December 31, 2003 to June 30, 2004.
June 30, 2004	Justice Farley	Order amending the December 18, 2003 Order, authorizing the Liquidator to pay claims payable in foreign currencies either in the foreign currency or in Canadian currency at the noon spot rate of November 8, 2001.
September 2, 2004	Justice Farley	Order approving the accounts and activities of the Liquidator for the period from October 1, 2003 to June 30, 2004, including the fees of the Liquidator's counsel. Approving and authorizing a second interim distribution to policyholders and claimants in the amount of 25% on their valid and allowed loss claims for a cumulative distribution rate of 50%. As well as authorizing payments of up to \$25,000 on valid claims under the Meridian Warranty Program.
November 22, 2004	Justice Farley	Order approving the purchase by Reliance Canada of units of four mutual funds managed by RBC Asset Management.
December 21, 2005	Justice Farley	Order approving the accounts and activities of the Liquidator for the period from July 1, 2004 to September 30, 2005, including the fees of the Liquidator's counsel. Approving and authorizing a third interim distribution to policyholders and claimants in the amount of 15% on their valid and allowed loss claims for a cumulative distribution rate of 65%.
December 15, 2006	Justice Cumming	Order approving the accounts and activities of the Liquidator for the period from October 1, 2005 to September 30, 2006, including the fees of the Liquidator's counsel. Approving and authorizing a fourth interim distribution to policyholders and claimants in the amount of 15% on their valid and allowed loss claims for a cumulative distribution rate of 80%.

Date of Order	Judge	Description of Order
October 5, 2007	Justice Pepall	Order dismissing an action by reinsurers with respect to set-off issues.
April 8, 2008	Justice Morawetz	Order approving the accounts and activities of the Liquidator for the period from October 1, 2006 to December 31, 2007, including the fees of the Liquidator's counsel. Approving and authorizing a fifth interim distribution to policyholders and claimants in the amount of 20% on their valid and allowed loss claims for a cumulative distribution rate of 100%.
June 24, 2008	Justice Campbell	Order authorizing a Call for Ordinary Creditor Claims.
December 17, 2008	Justice Campbell	Order authorizing the Liquidator to pay a distribution in the amount of 100% of valid and allowed ordinary creditor claims up to a cumulative total amount of \$100,000 and authorizing a payment to PACICC as remuneration for PACCIC's inspectorship.
January 29, 2009	Justice Campbell	Liquidator seeking the Court's advice and directions by way of the Post-Liquidation Motion.
December 16, 2009	Justice Cumming	Order approving the accounts and activities of the Liquidator for the period from January 1, 2008 to September 30, 2009 including the fees of the Liquidator's counsel, as well as the approval and authorization of the payment of Post-Liquidation Interest.
August 3, 2010	Justice Lederman	Order directing the terms of a Call for Policy Loss Claims.
June 29, 2011	Justice Campbell	Order approving the accounts and activities of the Liquidator for the period from October 1, 2009 to March 31, 2011, including the fees of the Liquidator's counsel.
December 15, 2011	Justice Campbell	Order authorizing Reliance Canada to purchase units of two additional mutual funds managed by RBC Asset Management.
March 2, 2012	Justice Morawetz	Order approving the Notice of Disallowance Process
June 25, 2014	Justice Morawetz	Order approving the accounts and activities of the Liquidator for the period from April 1, 2011 to March 31, 2014, including the fees of the Liquidator's counsel.
July 15, 2015	Justice Newbould	Order for directions and service, and related relief, in respect of the RBH Approval Motion.

Date of Order	Judge	Description of Order
July 15, 2015	Justice Newbould	Order for directions and service, and related relief, in respect of the ITCAN Approval Motion.
Oct 8, 2015	Justice Newbould	Order varying the Directions Order regarding RBH granted by Justice Newbould on July 15, 2015.
Oct 8, 2015	Justice Newbould	Order varying the Directions Order regarding ITCAN granted by Justice Newbould on July 15, 2015.
Dec 2, 2015	Justice Newbould	Endorsement of Justice Newbould with respect to the RBH and ITCAN Settlement Agreements.

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B

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 December 31, 2015, March 31, 2014, March 31, 2011, September 30, 2009, December 31, 2007, September 30, 2006, September 30, 2005, June 30, 2004, September 30, 2003 and December 31, 2001, the Statement of Earnings and Changes in Surplus for the twenty-one months ended December 31, 2015, thirty-six months ended March 31, 2014, eighteen months ended March 31, 2011, twenty-one months ended September 30, 2009, 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 twenty-one months ended December 31, 2015, thirty-six months ended March 31, 2014, eighteen months ended March 31, 2011, twenty-one months ended September 30, 2009, 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

February 23, 2016

(Unaudited - See Cover Page)

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)
Balance Sheet
As at December 31, 2015, March 31, 2014, March 31, 2011, September 30, 2009, December 31, 2007, September 30, 2006, September 30, 2005, June 30, 2004, September 30, 2003 and December 3, 2001
(\$000)

(Unaudited - see cover page)	December 31, 2015	March 31, 2014	March 31, 2011	September 30, 2009	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)	\$ 31,690	\$ 1,029	\$ 1,216	\$ (29)	\$ 2,694	\$ 1,101	\$ 916	\$ 155,078	\$ 156,277	\$ 56,165
Investments (note 4) (market value: Dec/15 - \$81,785; Mar/14 - \$117,180; Mar/11 - \$129,003; Sept/09 - \$139,111; Dec/07 - \$138,632; Sep/06 - \$148,089; Sep/05 - \$140,919; Jun/04 - \$0; Sept/03 - \$0; Dec/01 - \$114,392)	81,785	115,296	127,167	136,062	138,240	147,761	141,308	-	-	108,949
Receivable from other insurers/reinsurers	1,310	662	4,337	5,054	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 7)	4,848	4,848	4,848	4,848	4,848	4,848	4,848	4,848	4,181	-
Receivable from Reliance US - current balance due (note 7)	-	-	-	35	-	159	222	870	-	-
Other receivables	107	129	337	386	348	361	621	800	958	1,978
Reinsurers' share of provision for										
Unpaid claims	3,144	2,615	10,326	22,730	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	\$ 122,884	\$ 124,579	\$ 148,231	\$ 169,086	\$ 178,721	\$ 201,429	\$ 219,592	\$ 265,629	\$ 237,029	\$ 246,361
Liabilities and Surplus										
Policy liabilities:										
Unpaid claims (note 5)	\$ 10,588	\$ 13,279	\$ 45,390	\$ 64,661	\$ 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 8)	-	-	-	-	12,802	20,340	24,163	33,106	17,269	-
Interest distribution (note 12)	-	-	-	5,200	-	-	-	-	-	-
Other liabilities	-	67	290	608	857	605	567	841	2,158	1,917
Total policy liabilities	10,588	13,346	45,680	70,469	77,564	113,556	140,699	213,707	174,419	152,194
Payables:										
Due to Reliance US (note 7)	4,848	4,848	4,848	4,848	4,848	4,848	4,848	4,848	4,848	-
Due to other insurers/reinsurers	669	1,051	849	1,101	539	578	280	142	189	192
Brokers	-	-	-	6	2,388	2,573	2,656	2,916	2,924	3,389
Taxes and other creditors	621	751	1,208	954	1,150	1,096	1,034	1,031	1,653	1,826
Reinsurance deposits	-	10	10	10	10	10	10	10	10	3,494
Total payables	16,726	20,006	52,595	77,388	86,499	122,659	149,507	222,654	184,043	161,095
Surplus (note 9)	106,158	104,573	95,636	91,698	92,222	78,770	70,085	42,975	52,986	85,266
Contingent liabilities (note 13)	-	-	-	-	-	-	-	-	-	-
Total liabilities and surplus	\$ 122,884	\$ 124,579	\$ 148,231	\$ 169,086	\$ 178,721	\$ 201,429	\$ 219,592	\$ 265,629	\$ 237,029	\$ 246,361

The accompanying notes are an integral part of the financial statements

(Unaudited - See Cover Page)

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

Statements of Earnings and Changes in Surplus

For the twenty-one months ended December 31, 2015, thirty-six months ended March 31, 2014, eighteen months ended March 31, 2011, the twenty-one months ended September 30, 2009, the fifteen months ended December 31, 2007, the twelve months ended September 2006, the 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)	April 1, 2014 to December 31, 2015	April 1, 2011 to March 31, 2014	October 1, 2009 to March 31, 2011	January 1, 2008 to September 30, 2009	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	-	-	-	1,113	-	938	323	(9)	(509)
Net written premiums	-	-	-	(1,113)	-	(943)	(331)	(3)	1
Net premiums earned	-	-	-	(1,113)	116	366	1,613	375	1,772
Expenses									
Claims incurred	1,204	(2,205)	(4,683)	4,534	(12,514)	(8,722)	(19,974)	12,539	42,317
Post liquidation interest	-	-	506	5,200	-	-	-	-	-
Commissions and premium taxes	-	-	-	-	(10)	20	49	21	5,115
General expenses (note 10)	3,016	1,417	4,309	1,264	4,963	2,022	2,789	1,212	6,656
Foreign exchange (net claims)	(355)	471	182	(951)	1,054	2,806	(3,466)	(656)	(62)
Brokers payables writeoff	-	-	-	(2,712)	-	-	-	-	-
	3,665	(317)	314	7,335	(6,507)	(3,674)	(20,602)	13,116	54,026
Investment Income									
Interest on cash and short term investments	117	6	-	125	120	60	1,991	2,807	5,188
Write-down of investments (note 4)	-	-	-	-	(444)	(1,658)	-	-	-
Interest on investments	3,777	10,031	4,655	8,730	8,363	6,219	3,031	-	7,752
Investment expenses	(260)	(538)	(272)	(293)	(220)	(167)	(123)	(36)	(74)
Realized gain (loss) on disposal of investments	2,381	1	54	65	(246)	-	-	-	7,245
	5,975	9,450	4,637	8,627	7,573	4,454	4,899	2,771	20,111
Income (loss) before capital taxes	2,110	9,767	4,323	179	14,196	8,694	27,114	(9,970)	(32,143)
Capital and other taxes	525	830	385	703	744	9	4	41	137
Net Income (loss)	1,585	8,937	3,938	(524)	13,452	8,685	27,110	(10,011)	(32,280)
Surplus beginning of period	104,573	95,636	91,698	92,222	78,770	70,085	42,975	52,986	85,266
Surplus end of period	\$ 106,158	\$ 104,573	\$ 95,636	\$ 91,698	\$ 92,222	\$ 78,770	\$ 70,085	\$ 42,975	\$ 52,986

The accompanying notes are an integral part of the financial statements

(Unaudited - See Cover Note)

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)
Statement of Cash Flows

For the twenty-one months ended December 31, 2015, thirty-six months ended March 31, 2014, eighteen months ended March 31, 2011, the twenty-one months ended September 30, 2009, the fifteen months ended December 31, 2007, the twelve months ended September 2006, the 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)	April 1, 2014 to December 31, 2015	April 1, 2011 to March 31, 2014	October 1, 2009 to March 31, 2011	January 1, 2008 to September 30, 2009	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	\$ (92)
Reinsurance collected	1,422	9,863	14,560	14,368	16,957	25,090	32,692	5,163	8,801
Salvage, subrogation & deductibles received	121	508	1,481	168	578	355	1,545	578	2,332
Reduction in other receivables	-	264	212	316	(12)	42	31	481	697
Total sources	1,543	10,635	16,253	14,872	17,523	25,467	34,251	7,223	11,543
Gross claims paid	4,734	23,951	14,239	23,607	22,759	15,145	48,056	8,663	23,073
Claim expenses paid	546	3,366	2,628	2,218	2,623	2,551	3,406	3,136	8,393
Post liquidation interest on claims paid	-	-	5,706	-	-	-	-	-	-
Assumed Payable	1,349	465	282	130	-	-	-	-	-
Uncashed claim/expense cheques	-	-	-	-	-	-	-	-	(96)
Reinsurance premiums paid	-	-	-	-	-	41	23	(14)	(109)
Agents balance payable	-	-	6	-	-	-	-	-	-
General expenses									
Salaries	362	1,555	892	1,200	839	748	943	1,364	3,109
Office expenses	216	473	436	678	311	226	351	369	641
Legal/professional	67	58	57	70	170	135	306	138	273
Head office services	202	441	221	297	217	172	244	210	465
Sale of business expense	-	-	-	-	-	-	-	-	770
Liquidation expenses									
KPM/G Inc.	1,106	1,062	690	782	771	339	1,013	818	3,121
Goodmans LLP	1,395	242	224	749	864	182	497	286	885
Legal - Post Liquidation interest	-	-	-	144	-	-	-	-	-
Legal - Reinsurance collections	-	-	12	(21)	509	-	-	-	-
Call for claims expenses	-	-	177	-	0	-	-	-	-
PACICC expenses	-	-	-	129	-	-	-	-	-
Foreign exchange (gain)/loss	(39)	(759)	2,505	(1,605)	2,943	845	624	(81)	58
Income & premium taxes (incl interest paid/rec'd)	758	820	234	951	352	6	(13)	(3,405)	(22)
Foreign exchange (gain)/loss/net claims	(355)	471	182	(950)	1,054	2,806	(3,425)	(273)	(62)
Total uses	10,341	32,145	28,541	28,359	33,212	23,309	52,025	11,191	40,498
Net cash provided by (used) in operating activities	(8,798)	(21,511)	(12,288)	(13,487)	(15,689)	2,178	(17,774)	(3,968)	(26,950)
Investing activities									
Sale (purchase) of investments	35,873	11,873	8,949	2,243	8,978	(8,111)	(141,308)	-	113,225
Investment expenses	(309)	(585)	(271)	(334)	(179)	(178)	(95)	(36)	(74)
Interest received	3,883	10,036	4,955	8,886	8,471	6,296	5,349	2,695	15,312
Investment income	12	-	-	(11)	12	-	(334)	(90)	99
Cash provided by (used in) investing activities	39,459	21,324	13,533	10,764	17,282	(1,963)	(136,388)	2,769	128,062
Increase in cash and short term investments	30,661	(187)	1,245	(2,723)	1,593	185	(154,162)	(1,198)	100,112
Cash and short term investments, at beginning of period	1,029	1,216	(29)	2,694	1,101	916	155,078	156,277	56,165
Cash and short term investments, at end of period	\$ 31,690	\$ 1,029	\$ 1,216	\$ (29)	\$ 2,694	\$ 1,101	\$ 916	\$ 155,078	\$ 156,277
Cash consists of:									
Cash	\$ 1,725	\$ 1,029	\$ 341	\$ (29)	\$ 1,053	\$ 1,101	\$ 916	\$ 2,856	\$ 420
Short term investments (note 4)	29,965	-	875	-	1,641	-	-	152,222	155,857
	\$ 31,690	\$ 1,029	\$ 1,216	\$ (29)	\$ 2,694	\$ 1,101	\$ 916	\$ 155,078	\$ 156,277

The accompanying notes are an integral part of the financial statements

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

Notes to December 31, 2015 Financial Statements filed with the Court

(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. As of March 31, 2007, there were no policies in force.

The Court has approved several interim distributions on policy loss claims which have been settled and admitted by the Liquidator ("**Allowed Policy Loss Claims**"). The fifth interim distribution approved by the Court on April 8, 2008 brought the total Court authorized level of distributions to 100% of any Allowed Policy Loss Claims. With reference to Note 12, pursuant to an Order of the Court dated July 14, 2009 the Court approved the payment of post-liquidation interest ("**PLI**") by the Liquidator in December 2009.

On August 3, 2010, the Ontario Superior Court of Justice approved an order authorizing the Liquidator to undertake a call for policy loss claims ("**Call for Policy Loss Claims Process**"). The Court Order required that any proof of claims submitted pursuant to the Call for Policy Loss Claims Process be postmarked no later than midnight, December 17, 2010.

Further to the Policy Loss Claims Process, claimants filed Proofs of Claim ("**POCs**") with the Liquidator. These POCs includes some "**Contingent Claims**". Contingent Claims include claims which are respect to a possible occurrence prior to the expiry of the policy, the specifics of which are not yet available or within the knowledge of the policyholder or claimant, and/or in respect of which no claim has yet been made against a policyholder or an insured.

Reliance Canada continued to run off the existing policy and claim liabilities in an orderly fashion, dealing with policy liabilities and the collection of reinsurance on a commercially reasonable basis. The Liquidator continued to pay policy holders and claimants 100% of their Allowed Policy Loss Claims.

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

RELIANCE INSURANCE COMPANY
Canadian Branch (In liquidation)

Notes to December 31, 2015 Financial Statements filed with the Court

(unaudited – \$000)

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'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"). Certain reinsurance contracts are subject to reinstatement premiums.

2. Basis of preparation:

These financial statements are prepared in a manner consistent with the financial statements prepared by the Liquidator since its appointment.

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, and are not intended to and may not comply with Canadian generally accepted accounting principles or International Financial Reporting Standards. Readers are cautioned that these financial statements may not be suitable for their purposes.

The preparation of these financial statements includes 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. Significant estimates are described in notes 5, 6, 9, and 13.

No provision has been made for future liquidation costs.

3. Significant accounting policies:

(a) Investments and investment income:

Short-term investments are readily convertible into cash and have maturities of less than 12 months.

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 value and the market rate valuation is considered temporary in nature, the carrying amount of these financial instruments is not reduced to fair value. Where the carrying amount is greater than the fair value, and after considering such factors as the length of time the carrying value has exceeded the fair value and the significance of the difference in the values, and if the

RELIANCE INSURANCE COMPANY
Canadian Branch (in liquidation)

Notes to December 31, 2015 Financial Statements filed with the Court

(unaudited – \$000)

market rate valuation is considered to be other than temporary in nature, the investment is written down to its fair value.

Investments in term deposits and treasury bills (see note 4) are carried at cost plus accrued interest of \$12 at December 31, 2015, \$11 at December 31, 2007, \$334 at June 30, 2004, \$424 at September 30, 2003 and \$325 at December 3, 2001.

Bonds, including accrued interest (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.

(c) Provision for Unpaid Claims:

The provision for unpaid claims ("**Unpaid Claims**") includes loss adjustment expenses and represents undiscounted estimates of the ultimate claim costs associated with claims occurring prior to but still outstanding as of 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 Liquidator has taken the results of the Call for Policy Loss Claims Process into account in estimating the provision for Unpaid Claims.

The provision includes estimates for (i) outstanding Policy Loss Claims, being claims which have been reported to Reliance Canada and not yet resolved or settled and for which Reliance Canada has established an estimate of the amount to resolve or settle ("**Case Reserves**"); estimates for "incurred but not reported" ("**IBNR**") exposure, which includes claims not yet reported for which Reliance Canada may ultimately be put on notice and to which would have to respond, and potential development on the Case Reserves and Contingent Claims.

RELIANCE INSURANCE COMPANY
Canadian Branch (In liquidation)

Notes to December 31, 2015 Financial Statements filed with the Court

(unaudited – \$000)

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.

On a periodic basis, the Liquidator or its legal counsel instruct external actuaries to confirm their best estimate of policy liabilities and premium liabilities in accordance with accepted actuarial standards of practice except that time value of discount is not used and there is no explicit provision for adverse deviation. The actuarial analysis is performed on both a gross and net of reinsurance basis. The most recent actuarial reviews were performed as at November 30, 2013, December 31, 2010 and June 30, 2009. With respect to the November 30, 2013 actuarial review, standard actuarial techniques were not effective to evaluate the reduced number of claims. As a result, the external actuary reviewed each claim individually and determined a range of probable settlement values of each claim. In addition, discounts to reflect the time value of money were not used.

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.

Uncertainties

Considerable judgement is required to evaluate claims and establish claim liabilities. These estimates of future loss activity are based on known facts and interpretation of circumstances, and are selected from a wide range of possible outcomes. These estimates are subject to variability, and the process of determining the provision necessarily involves risks that 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 frequency of claims from historical trends.

It is also not possible to estimate the impact of the additional uncertainties surrounding a company in liquidation on the estimation process. In addition to underwriting direct insurance risks, 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.

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(d) Ceded Reinsurance:

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.

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.

Reinstatement premiums are set up as amounts due to other insurers and reinsurers on the balance sheet and are included in reinsurance ceded on the Statement of Earnings.

Uncertainties

Reliance Canada is exposed to disputes on, and defects in, contracts with reinsurers and the possibility of default by its reinsurers. The establishment of the allowances for doubtful accounts for reinsurance recoverable involves judgement and therefore creates a degree of uncertainty as to adequacy at each reporting date.

(e) Foreign Exchange:

Realized gains and losses on foreign exchange transactions and unrealized gains and losses on the translation of certain monetary assets and liabilities are recognized in the statement of earnings. Certain monetary assets and liabilities are denominated in US dollars (e.g. cash and investments and facultative reinsurance payable/receivable) are translated to Canadian dollars using the applicable period end rate of exchange. These gains and losses are included in general expenses as are any realized gain/loss arising from transfers between Canadian and US dollar bank accounts.

Policyholder liability reserves and related reinsurance, excluding facultative reinsurance, are translated to U.S. dollars at a fixed rate. 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 in the applicable foreign currency or in Canadian currency converted at the Bank of Canada noon spot rate of exchange on November 8, 2001, which was \$1.5981 ("**Liquidation FX Rate**"). Further to this, case reserves or claims payable (and related reinsurance, excluding facultative reinsurance) denominated in U.S. dollars are set up using the Liquidation FX Rate.

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4. Short term investments and investments:

Composition of the cash and short term investments:

	December 31, 2015	March 31, 2014	March 31, 2011	September 30, 2009	December 31, 2007
Cash	\$ 1,725	\$ 1,029	\$ 341	\$ (29)	\$ 1,053
Short term investments (including term deposits and treasury bills)	29,965	-	875	-	1,641
Total	\$ 31,690	\$ 1,029	\$ 1,216	\$ (29)	\$ 2,694

	September 30, 2006	September 30, 2005	June 30, 2004	September 30, 2003	December 3, 2001
Cash	\$ 1,101	\$ 916	\$ 2,856	\$ 420	\$ 1,263
Short term investments (including term deposits and treasury bills)	-	-	152,222	155,857	54,902
Total	\$ 1,101	\$ 916	\$ 155,078	\$ 156,277	\$ 56,165

Due to their short-term nature, the carrying value of the short-term investments approximates their fair value.

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Composition of investment portfolio:

	December 31, 2015		March 31, 2014		March 31, 2011		September 30, 2009	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
RBC Cdn Money Market fund	\$ 81,785	\$ 81,785	\$ 13,387	\$ 13,387	\$ 30,332	\$ 30,332	\$ 39,803	\$ 39,803
RBC Short Term Income fund	-	-	80,460	82,449	73,160	74,996	72,810	75,959
RBC US Money Market fund	-	-	-	-	23,675	23,675	23,349	23,349
PH&N Short Term Bond & Mortgage fund	-	-	21,449	21,344	-	-	-	-
Bonds - Cdn Government	-	-	-	-	-	-	-	-
Bonds - Cdn Corporate	-	-	-	-	-	-	-	-
Total Investments	\$ 81,785	\$ 81,785	\$ 115,296	\$ 117,180	\$ 127,167	\$ 129,003	\$ 136,062	\$ 139,111

	December 31, 2007		September 30, 2006		September 30, 2005		June 30, 2004	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
RBC Cdn Money Market fund	\$ 49,031	\$ 49,031	\$ 53,243	\$ 53,243	\$ 61,506	\$ 61,506	\$ -	\$ -
RBC Short Term Income fund	69,812	70,204	77,845	78,173	71,007	70,618	-	-
RBC US Money Market fund	19,397	19,397	16,673	16,673	8,795	8,795	-	-
Bonds - Cdn Government	-	-	-	-	-	-	-	-
Bonds - Cdn Corporate	-	-	-	-	-	-	-	-
Total Investments	\$ 138,240	\$ 138,632	\$ 147,761	\$ 148,089	\$ 141,308	\$ 140,919	\$ -	\$ -

	September 30, 2003		December 3, 2001	
	Book Value	Market Value	Book Value	Market 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.

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5. Provision for Unpaid Claims:

The changes in the unpaid claim provisions recorded in the balance sheet as at December 31, 2015, March 31, 2014, March 31, 2011, September 30, 2009, 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 twenty-one months ended December 31, 2015, thirty-six months ended March 31, 2014, eighteen months ended March 31, 2011, twenty-one months ended September 30, 2009, 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:

	Apr 1, 2014 to Dec 31, 2015	Apr 1, 2011 to Mar 31, 2014	Oct 1, 2009 to Mar 31, 2011	Jan 1, 2008 to Sep 30, 2009	Oct 1, 2006 to Dec 31, 2007
Unpaid claim at beginning of period	\$ 13,279	\$ 45,390	\$ 64,661	\$ 63,905	\$ 92,190
Recoverable from reinsurers at beginning of period	2,615	10,326	22,730	22,942	34,928
Net unpaid claims at beginning of period	10,664	35,064	41,931	40,963	57,262
Increase (decrease) in estimated losses and Expenses for claims occurring in prior years	1,204	(2,205)	(4,683)	4,534	(12,514)
Adjustment to recoverable from reinsurers (Morguard)	151				
Increase(decrease) in outstanding deductibles	-	-	-	-	-
Paid on claims (net) occurring during current year (Gap Programs)	-	-	-	-	(283)
Paid on claims (net) occurring during prior year	(4,575)	(22,195)	(2,184)	(3,566)	(3,502)
Net reserves at end of period	7,444	10,664	35,064	41,931	40,963
Ceded reserves at end of period	3,144	2,615	10,326	22,730	22,942
Gross reserves at end of period	\$ 10,588	\$ 13,279	\$ 45,390	\$ 64,661	\$ 63,905

	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 claim at beginning of period	\$ 111,980	\$ 171,544	\$ 145,815	\$ 135,088
Recoverable from reinsurers at beginning of period	42,172	71,704	51,761	57,536
Net unpaid claims at beginning of period	69,808	99,840	94,054	77,552
Increase (decrease) in estimated losses and Expenses for claims occurring in prior years	(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)	(171)	(278)	(577)	(1,377)
Paid on claims (net) occurring during prior year	(3,593)	(9,750)	(6,111)	(23,348)
Net reserves at end of period	57,262	69,808	99,840	94,054
Ceded reserves at end of period	34,928	42,172	71,704	51,761

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	Gross reserves at end of period	\$ 92,190	\$ 111,980	\$ 171,544	\$ 145,815
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.

7. **Reliance US:**

(a) Payable to Reliance US:

As at December 31, 2015, \$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 March 31, 2014, the payable to head office was \$4,848; at March 31, 2011 \$4,848; at September 30, 2009 \$4,848; at December 31, 2007 \$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 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 3).

(b) Receivable from Reliance US:

As at December 31, 2015, 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 March 31, 2014 the balance was \$4,848; March 31, 2011 \$4,848; September 30, 2009 \$4,848; December 31, 2007 \$4,848; 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

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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 3). 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 December 31, 2015 the Excess Canadian Reinsurance Proceeds were nil; at March 31, 2014 the balance was nil; at March 31, 2011 nil; at September 30, 2009 \$35, at December 31, 2007 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 its reinsurance recoveries in US dollars. Reliance Canada will recognize a foreign exchange gain or loss upon the receipt of any reinsurance collections related to Reliance Canada claims collected by Reliance US.

(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 twenty-one months ended December 31, 2015 the cost of the services was \$228. From April 1, 2011 to March 31, 2014 the cost of the services was \$497; October 1, 2009 to March 31, 2011 \$243; January 1, 2008 to September 30, 2009 \$287; October 1, 2006 to December 31, 2007 \$223; October 1, 2005 to September 30, 2006 \$175; July 1, 2004 to September 30, 2005 \$262; October 1, 2003 to June 30, 2004 \$187; and December 3, 2001 to September 30, 2003 \$505.

8. Allowed Policy Loss Claims not fully paid:

As at December 31, 2015, the Allowed Policy Loss Claim balances due on claims which have been settled and admitted by the Liquidator, in excess of the Court authorized payments, were nil; at March 31, 2014 the Allowed Policy Loss Claim balances were nil; at March 31, 2011 nil; at September 30, 2009 nil; at December 31, 2007 \$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 their valid and allowed loss claims.

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9. Surplus:

As at December 31, 2015, Reliance Canada's estimated surplus was \$106,158; at March 31, 2014 \$104,573; at March 31, 2011 \$95,636; at September 30, 2009 \$91,698; 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 December 31, 2015 and the difference may be material. The *Winding-up and Restructuring Act ("WURA")* provides that the Liquidator may, with the approval of the Court, release to Reliance US any balance of the assets remaining after the payment of claims in the order of priority prescribed by *WURA*.

10. General and claims expense information:

	April 1, 2014 to December 31, 2015			April 1, 2011 to March 31, 2014			October 1, 2009 to March 31, 2011		
	Total	Other	Claims	Total	Other	Claims	Total	Other	Claims
		\$	\$	\$	\$	\$	\$	\$	\$
Salaries	\$ 365	186	179	1,262	429	\$ 833	\$ 893	\$ 291	\$ 602
Office Expenses	228	115	113	445	215	230	333	165	168
Legal/Professional Services	12	5	7	97	53	44	24	14	10
Allowance for bad debts	3	3	-	2	2	-	(1)	(1)	-
Head Office Services	228	113	115	497	248	249	243	122	121
Interest (Income)/expense	(80)	(80)	-	(27)	(27)	-	(3)	(3)	-
Foreign exchange (gain)/loss	4	4	-	(744)	(744)	-	2,489	2,489	-
Sale of Business Expense:									
KPMG Corporate Finance	-	-	-	-	-	-	-	-	-
Scotia Capital	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Liquidation Expenses:									
KPMG Inc.	1,135	1,135	-	1,007	1,007	-	808	808	-
Goodmans LLP	1,535	1,535	-	234	234	-	232	232	-
Legal-Post Liquidation Interest	-	-	-	-	-	-	-	-	-
Legal-Reinsurance collections	-	-	-	-	-	-	15	15	-
PACICC expenses	-	-	-	-	-	-	-	-	-
Call for claims expenses	-	-	-	-	-	-	177	177	-
Total Expenses	\$ 3,430	\$ 3,016	414	2,773	1,417	1,356	\$ 5,210	\$ 4,309	\$ 901

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	January 1, 2008 to September 30, 2009			October 1, 2006 to December 31, 2007			October 1, 2005 to September 30, 2006		
	Total	Other	Claims	Total	Other	Claims	Total	Other	Claims
Salaries	\$ 1,187	\$ 460	\$ 727	\$ 745	\$ 246	\$ 499	\$ 664	\$ 289	\$ 375
Office Expenses	371	178	193	273	106	167	247	122	125
Legal/Professional Services	117	61	58	87	35	52	135	67	68
Allowance for bad debts	1	1	-	(1)	(1)	-	(1)	(1)	-
Head Office Services	297	144	143	223	84	128	175	88	87
Interest (Income)/expense	(65)	(65)	-	19	19	-	14	14	-
Foreign exchange (gain)/loss	(1,232)	(1,232)	-	2,579	2,579	-	764	764	-
Sale of Business Expense:									
KPMG Corporate Finance	-	-	-	-	-	-	-	-	-
Scotia Capital	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Liquidation Expenses:									
KPMG Inc.	726	726	-	730	730	-	476	476	-
Goodmans LLP	696	696	-	632	632	-	201	201	-
Legal-Post Liquidation Interest	144	144	-	-	-	-	-	-	-
Legal-Reinsurance collections	22	22	-	523	523	-	-	-	-
PACICC expenses	129	129	-	-	-	-	-	-	-
Call for claims expenses	-	-	-	-	-	-	-	-	-
Total Expenses	\$ 2,383	\$ 1,264	\$ 1,119	\$ 6,810	\$ 4,963	\$ 847	\$ 2,677	\$ 2,022	\$ 666

	July 1, 2004 to September 30, 2005			October 1, 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-Post Liquidation Interest	-	-	-	-	-	-	-	-	-
Legal-Reinsurance collections	-	-	-	-	-	-	-	-	-

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PACICC expenses	-	-	-	-	-	-	-	-	-
Call for claims expenses	-	-	-	-	-	-	-	-	-
Total Expenses	<u>\$ 3,720</u>	<u>\$ 2,789</u>	<u>\$ 931</u>	<u>\$ 2,060</u>	<u>\$ 1,212</u>	<u>\$ 848</u>	<u>\$ 8,678</u>	<u>\$ 6,956</u>	<u>\$ 2,022</u>

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

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11. Capital and other taxes:

Reliance Canada is required to pay a 15% withholding tax on certain of its income from the RBC Funds. Reliance Insurance is a US incorporated insurance company that carries on business in Canada through a registered branch. For Canadian income tax purposes Reliance Canada can designate some of its assets as insurance investment properties. Investment income from these properties are included in Reliance Canada taxable income from its business. Any investment income included in taxable income is offset by available non-capital losses; as a result Reliance Canada does not pay any corporate income tax. For any investment income on any investment properties which Reliance Canada is not able to designate as insurance investment properties, such as trust distributions (in the case of Reliance, income received on the RBC funds), Reliance Canada must remit 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. The accrued withholding tax was \$526 for the twenty-one months ending December 31, 2015, \$943 for the thirty-six months ending March 31, 2014, \$448 for the eighteen months ending March 31, 2011, \$703 for the twenty-one months ending September 30, 2009 and \$410 for the twelve months ending December 31, 2007. The 2006 financial statements have not been restated, as the amount for 2006 is not material.

12. Post Liquidation Interest:

In 2009 the Liquidator sought the advice and direction of the Court on the complex issue of PLI by way of a contested proceeding, with representative counsel for designated classes of stakeholders. By Order dated July 14, 2009 (the "PLI Order"), the Court provided its advice and directions with respect to the entitlement to PLI and the calculation methodology to be applied under subsection 95(2) of the *WURA*. Based on the PLI Order, the amount of PLI due to policyholders as at September 30, 2009 was approximately \$5,200, calculated on the basis that PLI accrues on the unpaid portion of the policyholder settlement amount from the date the claim is settled until the date that the policyholder is paid in full, using an interest rate of 5%.

The Court approved the distribution of PLI (the "Interest Distribution") by the Liquidator in December 2009. An Interest Distribution of \$5,454 was paid in December 2009, with an additional amount of \$252 being paid in the first quarter of 2010.

For all Allowed Policy Loss Claims that have been paid in full, including any PLI amounts, PLI no longer continues to accrue.

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13. Contingent liabilities:

(a) Post-liquidation Interest:

Refer to note 12. Assuming that PLI was payable and accruing on the unpaid portion of each policyholder's settlement amount from the date the claim was settled until the date that the policyholder was paid in full, and using an interest rate of 5%, the Liquidator estimated the accrued PLI as at December 31, 2007 to be approximately \$4,200. After receiving the Court directions in 2009, an amount for PLI was booked as a payable on the September 30, 2009 financial statements.

(b) Brokers Payable:

At December 31, 2007, the brokers' payable balance was \$2,400. In the third quarter of 2008, the Liquidator conducted a court approved call for claims for ordinary creditors. Only one claim was filed and allowed for the Canadian equivalent of \$7 and was paid out in December 2009. The balance of the brokers' payable balance has been written off.

(c) Call for Policy Loss Claims:

In 2010, the Liquidator received Court approval to conduct the CPLC. At the time of the CPLC, the Liquidator recommended to the Court that the Liquidator continue to administer Reliance Canada's policy liabilities in the "run-off" mode that had begun prior to the commencement of the liquidation. The CPLCs Order fixed December 17, 2010 under section 74 of *WURA* as the last day on which POCs could be sent to the Liquidator.

As at December 15, 2015, a total of 375 POCs remain (the "**Remaining POCs**"). Various parties filed duplicate POCs with respect to the same Policy Loss Claim. After reviewing the Remaining POCs, the Liquidator determined that the Remaining POCs related to 63 claims of 15 policyholders. The 63 claims are subject to total aggregate policy limits of approximately \$648 million. If all the Remaining POCs asserted were settled at their full aggregate policy limits, the total claim exposure to Reliance Canada, net of reinsurance, would be approximately \$48.3 million, assuming all reinsurance associated with those claims were collectable.

C

Goodmans^{LLP}

Barristers & Solicitors

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Toronto, Ontario M5H 2S7Telephone: 416.979.2211
Facsimile: 416.979.1234
goodmans.ca

January 1, 2016

KPMG Inc.
4600 – 333 Bay Street
Toronto, Ontario M5H 2S5**Attention: Janine Bradley**

OUR FILE NO. KPMG/016699

Re: Reliance Insurance Company, in Liquidation

TO OUR PROFESSIONAL SERVICES RENDERED in connection with the above-noted matter for the period April 1, 2014 to December 31, 2015, including the following:

Attendances with respect to tobacco claims, including preparing notices of disallowance, issues regarding potential settlement of tobacco claims, including correspondence, meetings and discussions with counsel, conducting legal research, reviewing underlying policies, providing legal opinion to Liquidator re: settlement, reviewing opinion of Quebec counsel, advising re: defence costs and reinsurance issues, preparing and finalizing settlement agreements, including correspondence and discussions with counsel, preparing draft escrow agreement for settlement, reviewing proofs of claim, attendances re: acknowledgment of late-filed proofs of claim, preparing motion materials, including Liquidator's Reports and proposed advertisement, for motions for orders for directions and motions for approval of settlement agreements, attending to service of motion materials pursuant to directions orders, attending to publication of notices in accordance with directions orders and preparing proof of publication, reviewing Notices of Appearance and preparing and serving list of responding parties, reviewing materials filed by responding parties, attendances re: production of documents, preparing motion materials and attending at Ontario Superior Court of Justice on motion to vary directions orders, preparing Liquidator's supplementary report and supplementary motion record, preparing factum and book of authorities, researching and preparing issues analyses and oral submissions, attending at Ontario Superior Court of Justice on motions for orders for directions and on motions for approval of settlement agreements, discussions with counsel for responding parties, preparing response and submissions to Newbould, J re: reinsurance, reviewing submissions of counsel re: reinsurance and preparing reply, attending chambers appointment, reviewing decision of Newbould, J, preparing revised notices of disallowance, and reviewing revised trust agreement;

Attendances with respect to claims and liabilities issues, including resolution of claims, including contingent claims, notice of disallowance issues, discussions with U.S. Liquidator re: claims,

Goodmans^{LLP}

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communications with policyholders, adjusters, defence and plaintiffs' counsel, and leave to proceed issues;

Attendances with respect to general liquidation issues, including preparing motion materials and attending at Ontario Superior Court of Justice re: claims bar date, passing of accounts for period ending March 31, 2014 and destruction of inactive records, preparing for publication of notice in Canada Gazette and provincial Gazettes re: claims bar date, conducting research on authority for claims bar, meeting with inspectors, and strategy and estate completion issues; and

Attendances with respect to U.S. issues, including preparing for and attending meetings with the U.S. Liquidator.

OUR FEE:	\$ 1,322,705.50
DISBURSEMENTS:	\$ 35,509.91
HST:	\$ 176,452.49
TOTAL:	<u>\$ 1,534,667.90</u>

GOODMANS LLP

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RELIANCE (CANADA)
(in Liquidation)

LISTING OF GOODMAN'S LLP PERSONNEL
HOURS AND AVERAGE HOURLY RATES
FOR THE PERIOD APRIL 1, 2014 TO DECEMBER 31, 2015

<u>Name</u>	<u>Rank</u>	<u>Area</u>	<u>HOURS</u>	<u>AVG. HRLY RATE</u>
Rubenstein, Gale	Partner	Insolvency	64.9	\$805
Smith, Graham	Partner	Litigation	780.9	\$785
Kussner, Francy	Partner	Litigation	547.0	\$782
Costa, Cathy	Associate	Research	58.3	\$612
Goldstein, Kirby	Associate	Litigation	161.3	\$350
Paquette, Fanny	Law Clerk	Insolvency	197.6	\$284
Articling Students	Student	Litigation and Insolvency	215.4	\$259
Individuals with less than 30 hours			<u>153.4</u>	<u>\$169</u>
			<u>2,178.8</u>	<u>\$608</u>

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GOODMANS LLP

GALE RUBENSTEIN is a partner in the insolvency area. She oversees the legal matters and is involved in all major areas of the liquidation. Her particular areas of concentration included strategy issues, communications with the inspectors and with the U.S. Liquidator. She advised with respect to claims and liabilities issues, including contingent claims. She also advised on bar date issues and strategy issues for completion of the estate, and represented the Liquidator on motions for orders for directions in respect of motions for approval of settlement agreements. She also represented the Liquidator on the motion before the Ontario Superior Court of Justice re: claims bar date, passing of accounts and destruction of inactive records.

GRAHAM SMITH is a partner in the litigation section. He advised on strategy issues, communications with inspectors and the U.S. Liquidator, and is involved with all major areas of the liquidation. He dealt with litigation and acted as liaison with policyholders, adjusters, defence counsel and plaintiffs' counsel, provided advice and prepared documentation on the resolution of various claims. He also advised on claims issues and the proposed settlement of the tobacco claims. He represented the Liquidator on the motions for variation to the orders for direction and the motions for approval of the settlement agreements with respect to the tobacco claims before the Ontario Superior Court of Justice.

FRANCY KUSSNER is a partner in the litigation section. She dealt with the proposed settlement of the tobacco claims, including preparing notices of disallowance, settlement agreements, motion materials for the motions to the Ontario Superior Court of Justice for orders for directions, motions for approval of the settlement agreements and motions to vary the directions orders, and the supporting materials to the Court.

CATHY COSTA is an associate in the research area, previously in the insolvency area. Her primary responsibilities included conducting legal research in connection with motions for orders for direction and motions for approval of the settlement agreements with respect to the tobacco claims. She also provided research on claims bar date issues and prepared motion materials and attended at the Ontario Superior Court of Justice re: claims bar date, passing of accounts and destruction of inactive records.

KIRBY GOLDSTEIN is an associate in the litigation section. She conducted legal research and assisted in the preparation of the factum, book of authorities and reply submissions for the motions for approval of the settlement agreements with respect to the tobacco claims. She also prepared revised notices of disallowance of the tobacco claims.

FANNY PAQUETTE is a senior law clerk in the insolvency area. She drafted court documents and prepared materials in connection with the motion to the Ontario Superior Court of Justice re: claims bar date, passing of accounts and destruction of inactive records. She also attended to service of motion materials, including with respect to the motions for orders for directions and motions for approval of the settlement of the tobacco claims, and maintained the list of responding parties. She arranged publication of notices and prepared proof of publication. She had responsibility for internal accounting control and meeting the requirements of the Liquidator with respect to accounting and billings.

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January 26, 2016

Reliance Insurance Company, in Liquidation
Suite 1100, 393 University Ave
Toronto ON M5G 2N9

GST/HST #122363153

BILL OF COSTS

To our professional services rendered in connection with the above-noted matter for the period April 1, 2014 to December 31, 2015:

- Review and approval of financial statements and related analysis for the quarters ending June 30th, 2014, September 30th, 2014, December 31st, 2014, March 31st 2015, June 30th, 2015, September 30th, 2015 and December 31st, 2015;
- Review and approval of Management Reports for the quarters ending June 30th, 2014, September 30th, 2014, December 31st, 2014, March 31st 2015, June 30th, 2015, September 30th, 2015, December 31st, 2015;
- Review and approval of investment transactions;
- Ongoing liaison with the U.S. Liquidator, including the potential return of surplus funds from the Canadian estate to the U.S. estate, discussions as to the status of the financial position of the estate including reinsurance collections and investment alternatives, IT systems administration, run-off strategies, and obtaining additional information required for the proper administration and strategy of the Canadian estate, and matters of mutual interest;
- Receipt, review, discussion and attendance at meetings with estate legal counsel to review ongoing matters, reinsurance collections issues including setoff issues, claims settlement issues and various other estate matters as required;
- Continued monitoring of the Reliance staff, including providing appropriate direction and assistance, and approvals;
- Meetings, discussions, review of assumptions and analysis of runoff scenarios projecting the runoff of the estate;
- Continuing to deal with policyholder and claimants' telephone calls, e-mails and correspondence requesting specific information pertaining to the liquidator or their specific claims;
- Performing a number of detailed claims review, discussion of potential outcomes with claims staff and attendance at meetings with the U.S. Liquidator's claims staff to review same;
- Continued to review existing claims bordereaux in order to stratify claims as to dollar amounts and lines of business;

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- Review of new reported claims, discussions with claims adjudication staff and approving set up of appropriate reserves;
- Continued review and approval of defense and adjustment costs and authorizing payment of same;
- Continued monitoring and supervision of claims adjudication staff, approval of reserve changes, approval of claims settlements, approval of claims settlement costs and authorization of payment of same;
- Continued follow-up on reinsurance billings and collections;
- Responding to requests of reinsurers to perform claims audits and for commutations, development of and execution of confidentiality agreements, obtaining requested claim files from storage and responding to their queries;
- Continued liaison with U.S. Liquidator as to international reinsurance collections and commission expenses associated therewith;
- Providing information and analysis for the Inspectors as required;
- Preparation of appropriate accounting information and filing of appropriate non-tax statutory returns;
- Preparation of the December 31st, 2013 and December 31st, 2014 tax returns and tax accrual estimations for the financial statements;
- Updating of the Reliance Canada website for the benefit of policyholders, claimants and creditors to enable them to obtain access to current information as to the status of the liquidation and their claims therein;
- Performed detailed reviews of internal controls to ensure that the financial and operational controls are functioning as set forth in the Policies and Procedures;
- Preparation of a Liquidator's Report with respect to a motion before the Ontario Superior Court of Justice with respect to a claims bar date and passing of accounts and activities;
- Preparation of Notice of Disallowance of Claims and review of Notice of Appeals filed;
- Meetings and discussions with legal counsel and Inspectors with respect to the potential process for dealing with Notice of Appeals;
- Ongoing discussions and meetings with policyholders;
- Negotiated and documented two full and final settlement agreements with two significant policyholders, which were subject to court approval;

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- Preparation of Liquidator's Reports and proposed advertisement, for motions for orders for directions and motions for approval of settlement agreements, and attending to publication of the notices in accordance with directions orders;
- Attending at Ontario Superior Court of Justice on motions for orders for directions and on motions for approval of settlement agreements;
- Review of reinsurance treaties including direct communication with reinsurers;
- Oversight over the investment portfolio, including regular meetings with investment advisors from RBC Asset Management;
- Extensive discussions and meetings with the U.S. Liquidator considering alternative strategies for bringing the Liquidation to a close;
- Overall administration of the estate and the Reliance staff, dealing with day-to-day administrative issues, responding to policyholder, claimants and creditor inquiries and attendance at all meetings, proceedings and/or Court appearances as required.

Our fee	\$975,042.25
Disbursements	<u>29,530.13</u>
	1,004,572.38
HST	<u>130,594.35</u>
Total	<u>\$1,135,166.73</u>

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SCHEDULE "G"

RELIANCE INSURANCE COMPANY
 (in liquidation)
 LISTING OF KPMG INC. PERSONNEL
 HOURS AND AVERAGE HOURLY RATE
 TWENTY-ONE MONTH PERIOD FROM APRIL 1, 2014 TO DECEMBER 31, 2015

Name	Rank	Area	HOURS	AVG. HRLY RATE
N. Brearton	Partner	Oversight	124.40	\$818
E. Murphy	Associate Partner	Oversight/Reinsurance	170.80	\$756
J. Bradley	Senior Manager	Insolvency/Claims/Financial Reporting/Reinsurance	977.50	\$709
A. Condello	Accountant	Financial Reporting	41.30	\$487
Individuals with less than 30 hours			81.50	\$574
			<u>1,395.50</u>	<u>\$699</u>

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KPMG Inc.

(For the Period from April 1, 2014 to December 31, 2015)

NICHOLAS BREARTON – is the President of KPMG Inc., a Chartered Accountant and a Trustee in Bankruptcy. Commencing on April 1, 2014, Mr. Brearton took over the primary responsibility and oversight for the liquidation as a whole.

ELIZABETH J. MURPHY – was a Vice President of KPMG Inc. and a Chartered Accountant. Until January 1, 2015, Ms. Murphy had general responsibility for all reinsurance matters, management of the investment portfolio and determination of actuarial liabilities.

JANINE M. BRADLEY – is a Senior Manager of KPMG Inc. She is responsible for the day to day operations of Reliance Canada, overseeing the claims adjudication staff, reviewing and approving all significant reserve adjustments and liaising with PACICC and the U.S. Liquidator concerning claims matters. Within the period, Ms. Bradley negotiated two settlement agreements with two significant policyholders. In addition, Ms. Bradley oversaw motions before the Ontario Superior Court of Justice seeking a claims bar date and approval of two full and final settlement agreements with Rothmans, Benson & Hedges Inc. and Imperial Tobacco Canada Limited. She is also responsible for financial reporting and overseeing the accounting department. Ms. Bradley oversees the general administration of the liquidation, including oversight of all financial and internal controls, reinsurance matters, management of the investment portfolio, liaising with the U.S. Liquidator, human resources and office management.

ANTHONY CONDELLO – is a Senior Consultant with the Tax department of KPMG LLP. He assisted with preparing documents and schedules for tax filings with the Canada Revenue Agency.