Court File No. 08-CL-7878

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF UNIVERSAL SETTLEMENTS INTERNATIONAL INC.

TWENTY-FIFTH REPORT OF THE MONITOR ERNST & YOUNG INC.

DATED MARCH 15, 2016

INDEX TO APPENDICES

Court File No. 08-CL-7878

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF UNIVERSAL SETTLEMENTS INTERNATIONAL INC.

TWENTY-FIFTH REPORT OF THE MONITOR
March 15, 2016

INTRODUCTION

1. On December 2, 2008, Universal Settlements International Inc. ("**USI**" or the "**Company**") filed for and obtained protection from its creditors under the *Companies' Creditors Arrangement Act* R.S.C. 1985 c. C-36, as amended (the "**CCAA**") pursuant to provisions of an Order of this Court dated December 2, 2008 (the "**Initial Order**"). Pursuant to the Initial Order, Ernst & Young Inc. was appointed as monitor (solely in its capacity as monitor and not in its personal or corporate capacity, the "**Monitor**") of the Company during these CCAA proceedings (the "**CCAA Proceedings**").

2. To date, the Monitor has filed twenty-four reports with this Court, which are available on the Monitor's website at www.ey.com/ca/universalsettlements (the "**Monitor's**

Website"). Details of the background to the CCAA Proceedings are set out in the Twenty-Third Report of the Monitor dated March 24, 2015.

3. USI was in the business of "life settlements". This business involved the purchase of life insurance policies from beneficiaries at a discount from their face amounts. In order for investors to realize on their investment, it was necessary for the premiums on policies to be maintained until the policies' maturity on the death of the policies' insureds.

4. USI sold fractional interests in various life insurance policies to investors. As of the date of its CCAA filing, USI had a portfolio of Policies (as defined below) with an aggregate face value of approximately US$192 million (the "**Portfolio**"). There were approximately 6,000 separate investments by individual and institutional investors in the Portfolio with certain individuals and institutional investors having several investments. USI also had a small interest in the Portfolio for its own account. A large proportion of USI's investors are located in South America and Europe, including Peru, Argentina, Spain, Austria, and Germany.

5. Pursuant to the terms of a court and creditor approved Amended Plan of Compromise and Arrangement dated June 16, 2009 (the "**2009 Plan**"), as amended by the Amendment to the Amended Plan of Compromise and Arrangement dated November 24, 2014 (the "**Plan Amendment**", and the 2009 Plan as amended by the Plan Amendment referred to herein as the "**Plan**"), all policies held by USI on behalf of its investors and all corporately owned policies (collectively, the "**Policies**" and individually a "**Policy**") were pooled and held by a trust created by the Declaration of Trust by USI dated July 17, 2009 (the "**Canadian Trust**"), for the benefit of all Creditors (as defined in the Plan).

6. Capitalized terms used in this Report and not otherwise defined shall have the definitions given to them in the Plan.

7. Pursuant to the 2009 Plan, cash on hand and proceeds from the Policies and other Plan assets were to be held in the Monitored Trust Account by USI, as trustee, for the beneficiaries of the Plan.

8. Since implementation of the Plan in July 2009 and pursuant to the terms of the Plan, the role of the Monitor has been limited to monitoring the transactions giving rise to the receipts and disbursements in and out of the Monitored Trust Account held by USI, as trustee, as well as monitoring the implementation of the Plan by USI, including distributions to Creditors thereunder. When the 2009 Plan was amended by the Plan Amendment in November 2014, the role of the Monitor was temporarily expanded to include the conduct of the court-approved sale and investor solicitation process in respect of the Policies (the "**SISP**").

9. Pursuant to the Plan Amendment and the SISP, and as described further below, USI, as trustee, sold the Policies held as of April 2015 (the "**Purchased Policies**") to Vida Capital, Inc. ("**Vida**"). The sale to Vida (the "**Vida Transaction**") closed on April 10, 2015.

10. Certain tax issues described below have, to date, prevented USI from making a full distribution of funds currently held in the Monitored Trust Account (which include the proceeds of the Vida Transaction) to Creditors. However, in December 2015, USI declared that an interim distribution would be made to Creditors in accordance with the

terms and conditions of the Plan, which interim distribution is anticipated to occur in or about late March 2016 (the "**Interim Distribution**").

11. In order to address certain of these tax issues, USI has brought a motion for a declaration that the Canadian Trust is a bare trust, or in the alternative, an order rectifying the Canadian Trust, which would enable USI to: (a) effect another interim distribution of the balance of monies held in the Monitored Trust Account after the Interim Distribution, subject to a reserve for Costs as provided for in the Plan and the Tax Reserve (as defined below), and (b) take steps towards releasing the Tax Reserve, which would enable a final distribution to its Creditors.

PURPOSE OF THIS REPORT

12. This twenty-fifth report (the "**Twenty-Fifth Report**" or "**Report**") provides:

    (a) an update on the activities and correspondence of USI and the Monitor since the Twenty-Fourth Report of the Monitor dated January 4, 2016 (the "**Twenty-Fourth Report**");

    (b) the Monitor's information with respect to the Company's motion to seek an Order from the Court declaring *nunc pro tunc* that the Canadian Trust is a bare trust or, in the alternative, rectifying the Canadian Trust;

    (c) an update on the Interim Distribution to Creditors anticipated to occur in or about March 2016; and

    (d) an update on the receipts and disbursements in the Monitored Trust Account.

TERMS OF REFERENCE

13. In preparing this Twenty-Fifth Report and making the comments herein, the Monitor has been provided with, and has relied upon certain unaudited, draft and/or internal financial information, the Company's books and records, discussions with management of USI ("**Management**") and information from other third-party sources (collectively, the "**Information**"). Except as described in this Twenty-Fifth Report:

    (a) The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Accountants Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of the Information.

    (b) The Monitor has prepared this Report in its capacity as a court-appointed officer solely for the use of the Court and has made a copy of this Report available on the Monitor's Website solely for purposes of providing an update to the Court and Creditors. This Report should not be used or relied upon by any other person or for any other purpose.

    (c) Future oriented financial information referred to in this Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

14. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Additional information regarding the matters discussed herein is set forth in the Affidavit of Chris Halas, sworn January 29, 2016 (the "**Halas Affidavit**"), upon which the Monitor has relied.

PLAN & PLAN IMPLEMENTATION

15. As described in detail in the Twenty-Fourth Report, on June 22, 2009, the 2009 Plan was sanctioned by this Court, having already been approved by the requisite majorities of each class of creditors.

16. The Plan provided for the "pooling" of all Policies, notwithstanding any ownership interest that might have been asserted by the Purchasers, and notwithstanding that not all Purchasers were invested in the same Policies. The pooled Policies are held in the Canadian Trust, with USI as trustee, for the benefit of Creditors, pursuant to a declaration of trust dated July 17, 2009. There are approximately 3,500 Creditors under the Plan. For the reasons discussed below, no distributions have been made to Creditors since implementation of the 2009 Plan, but USI expects to make the Interim Distribution late this month.

17. By January of 2014, it became apparent to the Monitor and USI that without new Policy maturities or other sources of funding, the Monitored Trust Account would run out of the funds necessary to continue to maintain the Policies and administer the 2009 Plan.

Accordingly, as discussed in the Twenty-Fourth Report, the Plan was amended in November of 2014 to permit the sale of the Policies.

Sale of Policies to Vida

18. With the Plan Amendment approved, the court-approved SISP process to market and sell the Policies was implemented. As part of this process, the sale proposal submitted by Vida was chosen as the most favourable bid, and the sale was closed with Court approval on April 10, 2015. All initially capitalized terms defined in this section and the following section, have the meanings given to them in asset purchase agreement between USI, as trustee for the beneficiaries under the Plan (the "**Plan Beneficiaries**"), and Vida, dated as of March 23, 2015 (the "**Sale Agreement**")

19. The aggregate sale proceeds from the Vida Transaction in the amount of US$38,605,655.28 (the "**Total Vida Consideration**"), comprised of a payment by Vida at Closing of US$32,473,072.25 (US$31,627,635.20 in respect of the adjusted Cash Payment and US$845,437.05 in respect of the adjusted Post-Closing Premiums) and the release of a deposit held by the Monitor in the amount of US$6,132,583.03 was paid to Mills, Potoczak & Company (the "**Escrow Agent**").

20. The Total Vida Consideration was deposited into an escrow account held by the Escrow Agent (the "**Mills Escrow Account**") established pursuant to an escrow agreement, as required by the terms of the Sale Agreement.

21. In addition to the Total Vida Consideration, US$740,357.43 was paid by Vida and deposited in the Purchaser Premium Reserve Account (held by the Escrow Agent) to fund

estimated premiums payable in respect of the Purchased Policies due after Closing but before those Purchased Policies were formally transferred to Vida in the Issuing Insurance Companies books and records.

Transfer of Purchased Policies

22. Upon the formal transfer of each Purchased Policy by the applicable Issuing Insurance Company to Vida, the Sale Agreement provides for the release of the purchase price allocation related to such Purchased Policy, together with the applicable portion of the post-closing premiums, from the Mills Escrow Account to the Monitored Trust Account.

23. As at January 11, 2016, all Purchased Policies have been transferred to the Issuing Insurance Companies and all amounts in the Mills Escrow Account, less wire transfer fees, have been transferred to the Monitored Trust Account.

Tax Reserve

24. As part of the Sale Agreement, USI is required to withhold a reserve of at least 25% of the Cash Payment (the "**Tax Reserve**") to pay any Taxes that may be payable in connection with the sale of the Purchased Policies, including Taxes payable by Vida. The balance of the Reserve cannot be distributed to the Plan Beneficiaries until there has been (i) a final determination by Canada Revenue Agency (the "**CRA**") of the amount of any Taxes payable and this amount has been paid out of the Tax Reserve to the Receiver General of Canada, or (ii) a compliance or clearance certificate has been obtained from CRA under the *Income Tax Act* (Canada).

THE NATURE OF THE CANADIAN TRUST

25. In the Twenty-Fourth Report, the Monitor advised that the pending motion by USI for a declaration that the Canadian Trust is a bare trust (the "**Bare Trust Motion**") would be brought and heard in February. USI did bring such a motion, which included a request for an order rectifying the Canadian Trust to clarify that all income of the Canadian Trust in a calendar year is computed and payable in that year to beneficiaries (the "**Rectification Motion**", together with the Bare Trust Motion, the "**Trust Motions**"). The Trust Motions were heard on February 12, 2016, and adjourned on consent to March 16, 2016 to enable the CRA to consider the relevant issues and take a position.

26. Since the February 12, 2016 hearing of the Trust Motions, the Monitor has participated in and has attempted to facilitate discussions among USI, the CRA and USI's largest creditor, Cajubi Caja Paraguaya de Jubilaciones y Pensiones ("**Cajubi**") who holds approximately 8% of the outstanding Purchaser Pool claims. As of the date of this Report, the Monitor understands that these parties have not come to an agreement regarding the disposition of the Bare Trust Motion, but are continuing discussions.

27. The Monitor understands that USI does not intend to proceed with the Rectification Motion on March 16, 2016, and will seek to adjourn the relief sought therein.

28. USI has reviewed and considered the tax implications to USI and its Creditors of various alternative tax treatments of the Canadian Trust, including considerations of the implications of it being a bare trust or a true trust. USI has concluded that the tax consequences of the Canadian Trust being a bare trust would likely be the most

economically advantageous result for the Canadian Trust beneficiaries and would likely permit the most expeditious and largest final distribution to such beneficiaries (subject to the release of the Tax Reserve).

29. In the Monitor's view, the Canadian Trust being characterized as a bare trust would be consistent with USI's view of the pre-Plan tax relationship, where the Monitor is advised that USI operated as an agent for the investors, with the investors themselves as the beneficial owners of the policies incurring any applicable tax liabilities in Canada and pursuant to the applicable tax laws of their resident jurisdictions. In other words, the Canadian Trust being characterized as a bare trust would maintain USI's view of the pre-Plan structure.

30. The Monitor takes no position regarding the determination of the legal status of the Canadian Trust, nor regarding the Ontario Superior Court of Justice's jurisdiction to make a declaration binding on the CRA.

CAJUBI REQUEST FOR FINAL DISTRIBUTION

31. As stated above, the Monitor has participated in and attempted to facilitate discussions among USI, Cajubi and the CRA. Cajubi, through its advisors, have been constructively involved in discussions among the Monitor, USI and the CRA regarding potential alternatives to obtain a tax efficient release of the Tax Reserve and the payment of a final distribution as soon as possible.

32. As part of these discussions, Cajubi's counsel has requested an immediate distribution of Cajubi's *pro rata* share of the amounts currently in the Monitored Trust Account, on the

basis that Cajubi would account for or otherwise settle any amounts arising from Cajubi's tax liabilities, so that neither USI nor any Creditor would be prejudiced as a result of such proposed distribution. The Monitor acknowledges Cajubi's desire for a final distribution before full resolution of the tax issues. Subject to the views of USI and potentially affected stakeholders and proper notice being given to the Service List and such other persons as the Court considers appropriate, the Monitor is not opposed to Cajubi seeking the Court's approval of such a distribution provided that it is structured in such a way as to prevent any potential cost or prejudice to USI's other stakeholders. The Monitor understands that Cajubi's counsel intends to raise this matter with the Court at the return of the Bare Trust Motion.

STATUS OF DISTRIBUTION TO CREDITORS

33. On December 24, 2015, USI, with consultation with the Monitor, declared payable the Interim Distribution of US$7,400,000 to be paid to Creditors in accordance with the Plan, subject to any withholding taxes.

34. Pursuant to the Plan, 96.15% of the Interim Distribution is to be used to pay distributions to Purchasers. The remaining 3.85% of the Interim Distribution is to be used to pay Ordinary Creditors, but only if the funds exceed the Litigation Contribution previously paid out of the Monitored Trust Account. As this condition has not been met, no payment will be made to the Ordinary Creditors at this time.

35. For the reasons set out in the Twenty-Fourth Report, the Monitor is of the view that the Interim Distribution is appropriate. The Monitor expects USI to effect payment of the

Interim Distribution prior to the end of March 2016, as planned, subject to the deduction of any withholding taxes that USI determines are or may be applicable.

ADMINISTRATIVE FEE

36. As described in the Twenty-Fourth Report, the Plan Implementation occurred on June 22, 2009, meaning the sixth anniversary and termination date for the Administrative Fee paid to USI for services was June 22, 2015. Therefore, the last payment permitted by the Plan was for the Administrative Fee and services ending July 31, 2015.

37. On February 12, 2016, Mr. Justice Penny authorized the payment of 75% of post-Plan administrative fees sought by USI to be distributed. Such authorized amounts for the period August, 2015 to February, 2016 (totaling $295,500) were released from the Monitored Trust Account, with the Monitor's consent, on February 26, 2016. On March 14, 2016, the Monitor authorized 75% of the March 2016 administrative fee, in the amount of $37,500, to be released.

THE MONITORED TRUST ACCOUNT

38. In its Twenty-Fourth Report, the Monitor provided a Statement of Receipts and Disbursements ("**R&D**") for the period since the Plan Implementation Date to November 30, 2015. The Monitor has continued to monitor the transactions carried out in the Monitored Trust Account since its Twenty-Fourth Report. As at February 29, 2016, the Monitored Trust Account was holding cash in trust totaling approximately $37,571,961, as reflected in the R&D attached as **Appendix "A"**. The Monitor continues to use the historical exchange rate of CAD$1 = US$0.95.

39. Total receipts for the reporting period from December 1, 2015 to February 29, 2016 (the "**Reporting Period**") were approximately $17,000 and were comprised of final amounts held by the Escrow Agent transferred out of the Mills Escrow Account into the Monitored Trust Account.

40. Total disbursements for the Reporting Period were approximately $550,000 and were largely comprised of payment of the post-Plan administrative fee to USI for the period August 2015 to February 2016 in the amount of $295,500 and professional fees and disbursements of approximately $221,000.

ALL OF WHICH is respectfully submitted this 15th day of March 2016.

ERNST & YOUNG INC., in its capacity as Court-appointed Monitor of Universal Settlements International Inc. and not in its personal or corporate capacity.

Per:

Brian M. Denega
Senior Vice-President

Appendix A

Statement of Receipts and Disbursements

UNIVERSAL SETTLEMENTS INTERNATIONAL INC.

Monitored Trust Account Cash Flow

From July 21, 2009 to February 29, 2016

(approximately seventy nine months)

($ Canadian)	December 1, 2015 to February 29, 2016	July 21, 2009 - February 29, 2016
Opening cash balance:	37,983,462	
Transfers from Premium Reserve account	0	2,952,296
Transfers from Maturities Account	0	7,007,999
Total Opening Cash Balance	0	9,960,295
Receipts		
Policy Maturities	0	43,936,706
Other	0	6,014,869
Loans	0	15,708,083
Portfolio Sales	15,391	39,747,597
Post Closing Premiums Reimbursement	1,875	889,922
Total Receipts	**17,265**	**106,297,177**
Disbursements		
Policy Portfolio Expenses:		
Premium Payments	0	46,461,310
Administrative Fees	295,500	7,524,052
Mills, Potozcak Fees	0	299,170
Portfolio Administrative Charges - Other	12,006	781,866
Total Policy Portfolio Expenses	**307,506**	**55,066,397**
Restructuring Expenses		
Unaffected Claims	0	782,378
Monitor's fees and disbursements	48,916	2,841,825
Legal fees and disbursements:		0
Ogilvy Renault LLP (Norton Rose)	0	89,488
Rueter Scargall Bennett LLP	65,616	502,359
Blake, Cassels and Graydon LLP	106,461	1,196,626
Total Restructuring Expenses	**220,993**	**5,412,676**
Other Expenses:		
Litigation Contribution	0	1,073,571
Borrowing Costs Loan Payments	0	15,708,396
Borrowing Costs Interest Payments/Lenders Fee	0	1,764,163
Bank Charges	27	3,724
Bank Charges Portfolio Sales	362	3,193
Total Other Expenses	**389**	**18,553,048**
Total Disbursements	**528,888**	**79,032,121**
Receipts over Disbursements	**(511,623)**	**27,265,056**
Foreign exchange gain/(loss)	100,122	346,610
Ending cash balance, November 30, 2015	**37,571,961**	**37,571,961**

Notes:

All cash balances are recorded by USI on a book basis.

A foreign exchange rate of CAD $1 = USD $0.95 was assumed.

The foreign exchange gain/loss is the difference between transfers throughout the Reporting Period at the actual floating rate and the exchange rate assumed in the cash flow.

Court File No.: 08-CL-7878

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,* R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OF ARRANGEMENT OF UNIVERSAL SETTLEMENTS INTERNATIONAL INC.

Applicant

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding Commenced at Toronto

TWENTY-FIFTH REPORT OF THE MONITOR
ERNST & YOUNG INC.

BLAKE, CASSELS & GRAYDON LLP
Barristers and Solicitors
Box 25, Commerce Court West
199 Bay Street, Suite 2800
Toronto, Ontario M5L 1A9

Milly Chow, LSUC # 35411D
Tel: 416-863-2594
Email: milly.chow@blakes.com

Chris Burr, LSUC #55172H
Tel: 416-863-3261
Fax: 416-863-2653
Email: chris.burr@blakes.com

Lawyers for the Monitor,
Ernst & Young Inc.