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 OF ARRANGEMENT OF UNIVERSAL SETTLEMENTS INTERNATIONAL INC.

Applicant

AFFIDAVIT OF CHRISTOPHER HALAS
(sworn June 19, 2009)

I, CHRISTOPHER HALAS, of the City of Burlington, Province of Ontario, MAKE OATH AND SAY AS FOLLOWS:

1. I am the Vice-President and Secretary of Universal Settlements International Inc. ("USI"); I have been Vice-President since January 2002 and Secretary since January 2007. I have personal knowledge of the matters to which I depose in this Affidavit. Where I do not possess personal knowledge, I have stated the sources of my information and, in all such cases, believe it to be true.

Purpose of the Motion

2. As set out in greater detail herein, USI seeks the issuance of an Order:

a) Sanctioning USI's Plan of Compromise and Arrangement, in the form approved at the Meetings of Creditors held on June 17, 2009;

b) Extending the Stay to July 10, 2009;

c) Authorizing USI to access the sum of (US)$270,000 from the cash values of corporately owned policies to fund business operations (including the payment of premiums) between June 22 and July 15, 2009, under the supervision of the Monitor; and

d) In the alternative, authorizing the release of (US)$270,000 to USI from the Premium Reserve Account (defined below) to fund business operations (including the payment of premiums) between June 22 and July 15, 2009, under the supervision of the Monitor.

3. USI also proposes to return to Court on or before July 10, 2009, at which time it will seek a further Order authorizing and approving certain documents required for Plan Implementation. In the interim, USI and the Monitor will finalize this documentation.

Background

4. On December 2, 2008, USI was granted protection under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") by the Ontario Superior Court of Justice. A copy of the Initial Order is attached hereto as Exhibit "A".

5. The Initial Order granted USI, among other things, a stay of proceedings (the "Stay"); a moratorium on the payment of monies to creditors; and the appointment of Ernst & Young Inc. as Monitor (the "Monitor") of the CCAA proceedings.

6. Since the Initial Order, USI has obtained other relief from the Court, including a Claims Procedure Order dated January 23, 2009 (a copy of which is attached as Exhibit "B" hereto) and a Meeting Order dated May 15, 2009 (Exhibit "C").

7. The Meeting Order provided for the following (among other things):

a) An extension of the Stay until July 3, 2009;

b) The dissemination by the Monitor of USI's Plan of Compromise and Arrangement to USI's creditors in anticipation of meetings of creditors (the "Meetings of Creditors") to be held on June 17, 2009; and

c) A motion by USI seeking a sanction order, returnable on or about June 22, 2009.

8. Pursuant to the Claims Procedure Order:

a) A total of 6,251 Acknowledgements of Claim were sent by the Monitor to 3,723 Purchasers of USI totalling approximately $158.5 million;

b) A total of 7 Acknowledgments of Claim totalling approximately $800,000 were sent to parties who, according to USI, had been granted an interest in the investment as collateral for obligations of certain Purchasers;

c) The Notice to Creditors was published on February 2, 2009 in *The Globe & Mail* (National Edition), *Die Presse* (Austria, German language), *Handelsplatt* (Germany, German language), *La Nacion* (Argentina, Spanish language), and *Tages Anzeiger* (Switzerland, German language); and

d) An information meeting attended by representatives of USI, a representative of the Monitor, Purchasers, Ordinary Creditors or their agents and representatives, was held in Vienna, Austria on June 2, 2009, during the course of which the nature and purpose of the Plan was presented and responses were given to questions from attendees.

9. In addition to the meeting referred to in para. 6(d) above, USI's representatives participated in numerous other telephone conversations and in person meetings with other Purchasers, Ordinary Creditors or agents and representatives.

The Plan is approved by USI's Creditors

10. For the purposes of voting and distribution under the Plan, the Plan established two classes of creditors, namely, (i) Purchasers and (ii) Ordinary Creditors. For the Plan to be approved under the CCAA, both classes of creditors were required to vote in favour of the Plan by a 50% plus one majority in number of Creditors and by a two-thirds majority in value of Proven Claims, based on Creditors voting either by proxy or in person at the Meetings of Creditors.

11. In accordance with the terms of the Meeting Order, two Meetings of Creditors were held on June 17, 2009, the first in respect of Ordinary Creditors, and the second in respect of Purchasers.

12. Prior to the Meetings, the Plan was amended in certain areas. These amendments were mainly to (i) provide for the settlement and payment of a solicitor's lien asserted by Borden Ladner Gervais LLP, and (ii) provide for a Creditors' Committee to consult with USI with respect to the conduct of the Actions (as defined in the Plan).

13. By a letter posted on the Monitor's website on June 15, 2009, Creditors were advised that certain amendments to the Plan (as previously circulated) would be made. The amended Plan, as well as a blacklined version of the amended Plan, were (i) posted on the Monitor's website on June 16, 2009, and (ii) included in materials distributed to Creditors at the Meetings.

14. The Meetings were chaired by the Monitor and attended by representatives of USI. Prior to the commencement of voting, the Monitor confirmed that each Meeting had a quorum of more than one Creditor (as defined in the Plan) present in person or by proxy.

15. The details of the votes cast by creditors present in person or by proxy at the Meetings will be detailed in the Monitor's Report, but there were substantial majorities in favour of the Plan in each class of creditor.

16. In light of this Plan approval, USI now seeks the issuance of a Sanction Order sanctioning USI's Plan of Compromise and Arrangement, in the form approved at the Meetings of Creditors.

17. USI proposes to return to Court on or before July 8, 2009, at which time it will request an Order approving certain documents required for Plan Implementation and authorizing Plan Implementation. In the interim, USI and the Monitor will finalize this documentation.

18. In the interim, USI seeks an extension of the Stay to July 10, 2009 and an Order authorizing it to access the sum of (US)$270,000 from the cash values of corporately owned policies to fund business operations (including the payment of premiums) between June 22 and July 10, 2009, under the supervision of the Monitor (to be reimbursed immediately upon Plan implementation from the Monitored Trust Account established pursuant to the Plan).

19. With these additional funds, USI will have sufficient cash to continue operations until at least July 11, 2009, when it anticipates that Plan implementation will begin, as appears more fully from USI's Projected Weekly Cash Flow for the period ending July 11, 2009 attached hereto as Exhibit "D".

The Plan is fair and reasonable

20. USI believes that the Plan, as approved by the Creditors, offers a number of benefits to Creditors and is fair and reasonable for the following reasons.

21. First, the Plan will avoid a liquidation sale of the Company's portfolio of Policies. Based on its experience, the history of other receiverships in the Life Settlement industry, and its assessment of the proceeds a sale of its portfolio of policies would be likely to generate, USI believes that a liquidation sale would generate an amount significantly less that the amount the Plan will return to Creditors, and well below the Purchasers' original investments.

22. Second, the Plan is intended to ensure that Purchasers are treated equally and are repaid their original investments with the possibility of an additional investment return.

23. As indicated in paragraphs 28 and following of my affidavit sworn December 2, 2008, USI offered different Life Settlement products over time, and the underlying Purchase Agreements, while generally similar, were not identical. There were significant differences, for example, in respect of the rights of Purchases of Reinsured GLS Life Settlements in the event of the default of the re-insurer.

24. Some Purchasers might also have asserted an ownership interest in the life insurance policies relating to their Life Settlement investments.

25. USI's Plan will avoid disputes and litigation regarding such issues which would entail significant expense and deplete the amount of money available for repayment.

26. Third, USI is very familiar with the portfolio of Policies and has been managing and administering this portfolio since inception. USI has existing processes and procedures in place, including databases, document management capabilities, insured monitoring protocols and other systems, all of which provide for the efficient and timely maintenance of the portfolio. USI's management and staff have also developed relationships with insurance carriers, agents and the insured persons. This will facilitate various necessary administrative tasks such as the processing of premiums, the tracking of insured's lives, and the processing of claims.

27. The Plan will also permit USI to continue with two actions currently outstanding, being *Universal Settlements International Inc.* v. *James Torchia, Marc Celello* and *National Viatical*

Inc. (United States District Court, Western District of Michigan, Court file no. 1:07-cv-1243) and *Universal Settlements International Inc.* v. *Antonio Duscio et al.* (Ontario Superior Court of Justice, Court file no. 06-CV-323645 PD3, and the related arbitration before Lorne Morphy, Q.C.) (together, the "Actions").

28. USI expects to receive a net recovery from the Actions. As set out in section 4.5 of the Plan, Purchasers will share in this recovery. This potential benefit would be lost if USI does not continue to operate.

29. USI's Plan also provides for the payment to USI of an Administrative Fee of (CDN)$100,000 per month to cover the cost of providing the services set out in Schedule A to the Plan.

30. These services, as described in Schedule A to the Plan, include the following:

a) Premium management and funding, including:

(i) Attending to premium payments;

(ii) Attending to the preparation of monthly premium reports;

(iii) Attending to premium payment optimization, *i.e.*, negotiating modifications to the premiums with insurers so as to minimize the premium load;

b) Performing cash-value analyses and attending to borrowings against or from the Policies, where permitted by the Plan and for the purposes specified therein;

c) Attending to the management of cash surrender values on Policies;

d) Attending to insured tracking, including:

(i) Monitoring the status of each insured person within the portfolio;

(ii) Maintaining direct personal contact with each insured on a quarterly basis;

e) Attending to group policy and premium waiver management;

f) Attending to the processing of benefit claims as maturities occur, utilizing where possible USI's relationships with insurers to facilitate and expedite the receipt of maturity benefits;

g) Attending to investor communications and information updates, including:

(i) Collection of verifications of coverage annually and other information and documents from insurance companies as required;

(ii) Collection of updated medical information and life expectancy reports as requested by the Monitor;

(iii) Maintaining, updating and enhancing Policy databases and related information and spreadsheets;

(iv) Attending to database updates and administrative processing of investor requests such as collateral assignments, beneficiary changes, *etc.*; and

(v) Ongoing liaison with Purchasers;

h) Maintaining web access for investors to view documents online, including Purchaser communication tools like website and corporate updates;

i) Providing written reports to Purchasers as requested;

j) Providing customer support for Purchasers' telephone, fax or email inquiries, on Business Days during normal business hours;

k) Attending to daily cash-flow reconciliations and reports;

l) Attending to regular reporting to Monitor and Purchasers as mandated by the Court; and

m) Attending to applicable regulatory compliance with respect to the Policies.

31. These services are similar to the services which USI has been performing with respect to the Policies since January 2007, when Mr. Panos and I took over the company. Since that time, USI's financial situation has required that we concentrate our administrative efforts on preserving the value of the Policies, as I explained in my affidavit sworn December 2, 2008 and in my subsequent affidavits in this proceeding.

32. USI's administrative expenses in 2008, which reflect our objective of preserving asset value, were approximately CDN$1.2 million net of certain consultants' fees which relate to the CCAA proceedings.

33. USI's Plan contemplates that USI will maintain these services with respect to the Policies. USI believes that the Administrative Fee under the Plan is fair and reasonable.

34. In conclusion, USI is strongly of the view that the approval and implementation of the Plan will return to Purchasers, in aggregate, considerably more than the Purchasers would realize if USI's portfolio of Policies were liquidated by either a creditor representative, or by creditors (if creditors were permitted to assert a direct ownership or beneficial interest in the Policies previously allocated to the Purchasers).

35. This affidavit is sworn in support of USI's motion for a Sanction Order and for no other or improper purpose.

SWORN BEFORE ME at the City of Toronto, in the Province of Ontario on this 19th day of June, 2009.

Commissioner for Taking Affidavits

CHRISTOPHER HALAS

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Proceeding commenced at Toronto

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