UNIVERSAL SETTLEMENTS INTERNATIONAL INC.
REPORT OF USI MANAGEMENT ON POSSIBLE FUTURE OPTIONS FOR THE PORTFOLIO

September 18, 2014

I. OVERVIEW

This report provides USI's analysis of the possible future options for the Portfolio, which include the sale of all the policies or the continued administration of the Portfolio in accordance with the Amended Plan of Compromise and Arrangement dated June 16, 2009 (the "Plan").

As discussed in the Eighteenth Report of the Monitor dated March 14, 2014 (the "Eighteenth Report"), the Monitor requested that USI undertake to commence an analysis of these options prior to the Monitor consenting to an increased loan limit on a USD $5 million revolving line of credit (the "Revolving Loan"). The Revolving Loan has been available to USI since October 2012, and is available in order to maintain necessary liquidity in the absence of any maturities, so that USI can maintain the Policies, including the payment of premiums, administrative and professional fees.

As of May 31, 2014, USI had availability on the Revolving Loan of approximately USD $1.2 million, which was sufficient to maintain the Plan assets until the end of July 2014. With the Monitor's consent, USI sought and obtained Court approval to increase the credit limit by an additional USD $5 million, for a total of USD $10 million.

At the time that the extension of credit was granted in July, 2014, USI calculated that the additional financing would make funds available to pay premiums and other expenses associated with maintaining the Policies until February 2015, assuming that no Policies matured in the intervening time.

In August 2014, USI became aware of maturities of two of the Policies in the total amount of USD $2 million. USI estimates that these maturities have extended USI's ability to maintain its expenses until approximately May 2015.

In order to assess possible future options for the portfolio beyond May 2015, USI asked Lewis & Ellis, Inc. ("L&E"), an actuarial consulting firm based in Dallas, Texas to perform certain actuarial analyses of the policies held in the Plan Portfolio. The purpose of requesting the L&E analysis was to assist USI in considering whether Creditors will receive a greater return from the sale of the Portfolio at the current market rates, or whether it makes financial sense to maintain the continued administration of the Portfolio as provided in the Plan.

L&E has completed its analysis and delivered two reports to USI: one which estimates the value of the Portfolio if sold in the open market, as of July 2014 and February 2015; and a second report which projects future maturities and cash flows for the Portfolio on a 30 year horizon. The projections obtained from L&E disclose that there is no scenario in which the proceeds from Policy maturities will ever generate amounts sufficient to distribute 100% of their original investment to Purchasers.

An analysis of L&E's reports discloses that, even if USI had available capital to continue to fund the Portfolio: (a) there is a risk that it may be several years before a distribution may be generated for Creditors, given the costs of maintaining the Policies and the range of projected maturities estimated by the cash flow analysis by L&E; and (b) even if the Policies are continued to be administered beyond May 2015, the L&E projections suggest that the Policies may not generate any additional value for Creditors than will result from an immediate sale.

USI has consulted extensively with the Monitor and determined that, given the imminent liquidity issues, it is advisable to explore current opportunities to sell the Policies and generate proceeds for distribution to Creditors.

The Plan as currently drafted does not permit a sale of the Portfolio under the current circumstances. The Plan requires that any sale process for policies that have not matured may only commence if: (i) sufficient funds are available to pay to Purchasers distributions equal to 100% of their original investment; or (ii) the proceeds of a sale process would be sufficient to pay to Purchasers distributions equal to 100% of their original investment.

Given the fact that L&E's analysis projects that there is no scenario in which (i) will be met; and given L&E's valuations, it is not expected that (ii) can be met, USI recommends that the Creditors approve an amendment to the Plan (the "Plan Amendment") that will permit the sale of all or part of the Portfolio if a suitable purchaser can be identified.

If the Plan Amendment is approved and sanctioned by the Court:

- The Monitor will immediately implement a sale and investor solicitation process that contemplates that a transaction will be completed on or before March 13, 2015, subject to Court approval, with a distribution to Creditors of available net proceeds after release of funds from any escrow, which may not occur before the end of May 2015, and after repayment of all indebtedness and outstanding costs, to follow.

If the Plan Amendment is not approved:

- The USD $10 million revolving line of credit currently available to USI is expected to be fully drawn by end of April 2015.

- Subject to any Policy maturities before April 2015, USI currently has no further available resources to maintain the Policies after that date.

- USI will continue to administer the Plan in its current form and endeavor to identify additional financing in order to maintain the portfolio beyond April 2015. However there is no guarantee that USI will be successful in this regard.

- There is a significant risk that it may be several years before a distribution may be generated for Creditors. Based on past experience during the administration of this

Portfolio since implementation of the Plan in 2009, any maturities that have occurred have been used to maintain ongoing expenses, including the payment of Policy premiums.

- L&E's projections suggest that the Policies may not generate any additional value for Creditors than will be generated from an immediate sale.

II. CURRENT FINANCIAL POSITION OF THE PLAN

The current financial position of the Plan should be considered when assessing whether or not to approve a Plan Amendment that may result in the sale of the Porfolio.

As reported in the Nineteenth Report of the Monitor dated July 21, 2014 (the "Nineteenth Report"), USI, with the assistance of the Monitor, prepared a forecast of cash flow in the Monitored Trust Account for the period of June 1, 2014 to March 31, 2015.

This forecast assumed no new maturities in the Portfolio, and that the Revolving Loan used by USI to maintain expenses, including premium costs, was available to be drawn down to a maximum of USD $10 million.

Under these assumptions, the Monitor reported that USI would have sufficient funds to administer the assets held under the Plan until February 2015.

In August 2014, USI learned of the maturity of two policies within the Portfolio with a combined death benefit of USD $2 million. USI Management has submitted the death claim forms and anticipates receiving the death benefits on these policies within the next 30 to 60 days.

With these additional maturities, USI is projected to have available funds to pay premiums and other costs related to the maintenance of the Portfolio until the end of April, 2015.

USI currently has no further available resources to maintain the Policies after that date.

III. COSTS OF CONTINUED ADMINISTRATION OF THE PLAN

A cash flow analysis prepared by the Monitor, and attached to the Monitor's Nineteenth Report, forecasts costs to service the Portfolio of approximately CDN $900,000-1,000,000 per month (comprising of premiums, professional fees, administration and financing costs), which is equivalent to USD $855,000-950,000, or roughly USD $900,000 per month. It should be noted that of these costs, by far the largest proportion consists of premium payments in respect of the Portfolio, which average approximately CDN $760,000 per month.

The estimated total costs that will need to be paid out of any proceeds of sale are set out as follows below:

USD(millions) Sale Date	**April 30, 2015**
Projected Revolving Loan balance at April 30, 2015 (including the Estimated Administration and Premium costs @ USD $900,000/month to May 31, 2015)	(10.00)
Repayment of Policy Loans outstanding	(2.00)
Contingency for costs of Portfolio sale, such as fees payable on the termination of Revolving Loan, and other legal and professional fees associated with the conduct of the proposed sale and investor solicitation process, a distribution to creditors and termination of the Plan	(2.00)
Estimated Total Costs of Portfolio Administration through May 31, 2015	**(14.00)**

IV. THE POSSIBLE SALE OF THE PORTFOLIO

As noted above, the Plan does not permit the sale of the Portfolio unless sufficient funds are available to pay Purchasers 100% of their Original Investments (as defined in the Plan) or a sale would generate sufficient funds to pay 100% of Original Investments. Neither of these circumstances are projected to arise in the event of a sale prior to February 2015, and L&E's projections suggest that there will never be a scenario in which Purchasers will receive 100% of their Original Investment in a distribution.

As a result, if a sale of the Portfolio is to be available as an option to Creditors, it is necessary to amend the Plan to permit a sale of the Portfolio in circumstances other than where there is 100% recovery of Purchasers' Original Investments.

USI is proposing a Plan Amendment that will permit, but not require, USI to sell all or part of the Portfolio subject to Monitor consent and Court approval. This will permit the Monitor to conduct a marketing and sale process for the Portfolio to identify a potential sale transaction that may generate an immediate recovery for Creditors. Attached hereto as Appendix "A" is a draft of the proposed Plan Amendment, reflecting an amendment that will permit a sale process in these circumstances.

As set out above, in the absence of maturities between now and April 2015, the USD $10 million Revolving Loan will be completely drawn down. In light of this imminent liquidity issue, if the Plan Amendment is approved, the Monitor will immediately implement the sale process to ensure that there is sufficient time to explore the potential sale of all of part of the Portfolio.

If additional maturities occur during the sale and investor solicitation process, it may change the recovery profile of the Portfolio. The proposed sale and investor solicitation process provides the Monitor with the ability to determine at any time that it may not be in the best interests of the

Creditors to commence or continue the process, and permits the Monitor to seek advice and directions from the Court with respect to the commencement, continuation, modification, suspension or termination of the process, on notice to the service list maintained by the Monitor.

The sale and investor solicitation process that is proposed will also seek out financing, refinancing, and investment options, in addition to seeking purchase proposals, in order that all avenues are explored to avoid policy lapses as of the end of April 2015.

Implementing a Sales Process

In order to seek the approval of the Creditors of the proposed Plan Amendment, USI is seeking the Court's authorization on September 25, 2014 to conduct and hold meetings of the Creditors to vote on the Plan Amendment, in accordance with a Meetings Order being sought from the Court. If the Plan Amendment is approved by Creditors, it will be filed with the Court for sanction, on or about November 7, 2014. If the Plan Amendment is sanctioned by the Court, the Monitor intends to immediately commence the proposed sale and investor solicitation process. Court approval will be sought for the successful bid (if any).

This process will be implemented in accordance with a timetable set out in the Twentieth Report of the Monitor dated September 18, 2014, and contemplates any transaction arising from the sale and investor solicitation process will be completed by March 13, 2014.

V. CURRENT CHARACTERISTICS OF THE PORTFOLIO ASSETS

There are also certain characteristics about the Portfolio which should be considered when analyzing whether the Creditors are likely to receive a greater return from the continued administration of the Portfolio than if the Portfolio is sold:

(a) Age Distribution of the Insureds

The summary below highlights the fact that a high percentage of death benefit of the Portfolio is tied to very senior insureds (over 50% on insureds 90 years old and over, and an additional 30% of insureds 85-89 years old). In summary, approximately 80% of the portfolio is over the age of 85:

USD

Age	Death Benefit	# Policies	% Death Benefit of Total Portfolio
90 and over	$77,497,476	28	50.63%
85-89	$46,550,000	14	30.41%
80-84	$7,799,031	4	5.10%
70-79	$9,189,068	10	6.00%
60-69	$6,804,000	17	4.45%

50-59	$3,079,866	28	2.01%
Under 50	$2,145,761	13	1.40%
Total	**$153,065,202**	**114**	**100.00%**

(b) <u>Concentration of Death Benefits</u>

In addition to the age distribution of the insureds, it is important to consider percentage of death benefits for each age category above.

In the category of 90 years of age and older, approximately USD $51 million of death benefits represent policies on six insureds, comprising more than 66% of the death benefits payable in this category. Furthermore, there is also approximately USD $37 million in death benefits payable upon maturity of the policies for four insureds in the 85-89 years old category. This is more than 80% of the death benefits payable in this category. These 10 "very senior" insureds account for over 57% of the total death benefit of the Portfolio.

(c) <u>Effect of Age Distribution on Portfolio Value</u>

Given the age profile of the Portfolio, it is possible that there could be significant levels of maturities in the short term realizing a substantial amount of maturity proceeds and associated reduction in premiums payable.

However, based on L&E's actuarial analysis, there is also a risk to the Creditors that these very senior insureds could continue to live longer. The cost of premium payments for these policies is substantial, and is estimated at approximately USD $1.5 million annually for the six insureds in the 90 years of age and older category, and approximately USD $500,000 for the 85-89 year old category.

Further, the age distribution of the portfolio will be attractive to potential purchasers, given the possibility for significant maturities in the short term. This will have the effect of increasing the value of the Portfolio in a potential sale or investment.

Conclusion

Based on the reports received from L&E, USI, in consultation with the Monitor, recommends that the Creditors vote to amend the Plan to provide for the option of selling all or part of the Portfolio. If the amendment is approved and sanctioned by the Court, the Monitor will immediately implement a process to explore the potential sale of the Portfolio by March 13, 2015.

As noted above, USI will continue to monitor and report to the Creditors on any policy maturities and the payment of Death Benefits, while the Monitor concurrently implements a sale process, if the Plan is amended as recommended. If significant maturities occur in the short-term, USI will consider the effect these maturities have on the ongoing potential net cash flows set out in L&E's

analysis and consult with the Monitor who, if it deems it advisable, will seek advice and directions from the Court with respect to the commencement, modification, continuation or termination of the sale and investor solicitation process.

The sale and investor solicitation process will also seek out options for financing, refinancing, or investment proposals in respect of the Portfolio, which will ensure that all avenues are explored to avoid policy lapses as of the end of April 2015.