

PLAN CIRCULAR

Overview of the Plan of Arrangement of Universal Settlements International Inc., filed pursuant to the Companies' Creditors Arrangement Act of Canada

NOTICE TO READERS

This overview is intended to assist readers in understanding the Plan (as defined below) and the events that led up to the Plan. Any descriptions of the Plan or other documents herein is in summary form only, and readers are encouraged to read the Plan and such other documents in their entirety. In the event of any inconsistencies between the descriptions herein and the terms of the Plan or such other documents, the terms of the Plan or such other documents shall govern.

BACKGROUND

Universal Settlements International Inc. ("USI", or the "**Company**") was incorporated in Ontario, Canada in 1997, and was in the business of selling whole or fractional interests in Life Settlements. "**Life Settlements**" are financial transactions whereby owners of life insurance policies sell their legal title and beneficial interest in such policies to a third-party at a discount from the face value of such policies.

Third-party purchasers of these Life Settlements are the primary creditors of USI, and are referred to herein and in the Plan of Compromise and Arrangement of USI (the "**Plan**") as "**Purchasers**".

USI offered two types of Life Settlement programs:

- (a) The **GLS Program**, which offered an investment with a fixed return (i.e., the death benefits payable under the policy) without a guaranteed payment date but payable upon receipt by USI of the death benefits from the insurer; and
- (b) The **Reinsured GLS Program**, which included a contingent reinsurance component purchased from a third-party, and offers Purchasers both a fixed return and a guaranteed maturity date.

USI's main obligations were to locate and purchase the policies which reflect the Purchasers' investment instructions, to pay the policy premiums ("**Premiums**") required to maintain the policies in good standing, to make claims for death benefits or on the reinsurance at the appropriate time, and to remit to Purchasers the amounts due under their Life Settlements upon USI's receipt of death benefits or proceeds from reinsurance.

Typically, USI set aside part of the purchase monies received from Purchasers to pay policy premiums. These funds are known as the "**Premium Reserves**". Premiums were paid from the Premium Reserves on a policy-by-policy basis.

Although the Premium Reserves in respect of certain policies have been insufficient to pay all Premiums, USI has maintained all Premium payments to date, with the result that all policies remain in good standing.

USI's Liquidity Crisis

In late 2008, USI recognized that it faced a severe liquidity crisis and that it would deplete its readily available operating funds by mid-January, 2009. Since the non-payment of Premiums cannot be 'cured', and would have resulted in the lapse of the life insurance policies in which USI had an interest, USI chose to commence proceedings under the *Companies' Creditors Arrangement Act* of Canada (the "CCAA"), a Canadian federal statute that allows for the reorganization of a company and the development of a plan of arrangement to the creditors of that company. In accordance with the CCAA, an order of the Ontario Superior Court of Justice (the "**Court**") was granted on December 2, 2008 (the "**Initial Order Date**"), which granted USI protection under the terms of the CCAA and appointed Ernst & Young Inc. to act as the Monitor of the Company (the "**Monitor**") during the CCAA proceedings.

USI's liquidity crisis, and resulting CCAA application, arose by reason of the following events:

(a) Reinsurance default

In May 2003, as part of the Reinsured GLS Program, USI contracted with an Italian bonding company, San Remo SpA ("**San Remo**"), to guarantee the payments due to Purchasers who had invested in the Reinsured GLS Program. In 2008, USI learned that San Remo was insolvent.

The negative consequences of San Remo's insolvency are significant. In 2008, Life Settlements in the amount of US\$13.8 million reached their respective guaranteed maturity dates before death benefits became payable. Reinsurance claims have not been paid to USI by San Remo and, in turn, USI has been unable to pay Purchasers the guaranteed fixed amounts. In 2009, Life Settlements having a face value of US\$31 million will attain their guaranteed maturity dates. Given San Remo's insolvency, there is no likelihood that any of these reinsurance claims will be paid to USI either and, once again, USI will be unable to pay Purchasers the guaranteed maturity amounts.

In addition, USI must now maintain the Premiums on the policies that were reinsured, in order to ensure that these policies do not lapse. The cost of these Premiums will depend on their maturity dates; however, the cost to maintain these Premiums is estimated to be CDN\$500,000 in 2009, over CDN\$2 million in 2010, and a similar amount in subsequent years.

(b) Exhausted Premium Reserves

USI purchased a number of policies for which the Premium Reserves have been exhausted. As a result, the premiums for those policies had to be paid from USI's operating funds. These payments have had a significant and negative effect on USI's cash flow.

(c) Misappropriation of corporate funds and ensuing litigation costs

Current management of USI believes that the former President of USI misappropriated approximately US\$9 million from USI. This alleged misappropriation is currently the subject of proceedings before the Court, and in a related arbitration proceeding.

(d) Corporate indebtedness

In October, 2007, USI borrowed CDN\$1.8 million from private lenders to fund operations. USI signed a demand promissory note in favour of the lenders, which was due on November 30, 2008. A balance of CDN\$1.35 million, plus accrued interest, is now due and payable.

Ownership of policies

A typical Life Settlement transaction between USI and a Purchaser commenced with the execution of a purchase agreement. The terms of USI's purchase agreements evolved slightly over time as programs changed. As is discussed below, the terms of many purchase agreements are ambiguous in some respects, and there is some doubt as to whether some Purchasers have (i) a claim only as a creditor of USI, and no direct claim to the life insurance policies purchased by USI on their behalf, or (ii) a direct claim in the life insurance policies purchased by USI on their behalf. Except with respect to the policies held in the **M-Series Trust** or the **USII Trust**, since such policies are held in trust for the Purchasers of such policies, all Purchasers will be treated as Creditor's of USI.

The Company is strongly of the view that the approval and implementation of the Plan will return to Purchasers, in aggregate, more than the Purchasers would realize if they were to assert a direct ownership or beneficial interest in the Policies previously allocated to the Purchasers. There are many reasons for this, including that (i) the issue of ownership and beneficial interests is not clear, and would have to be determined by the courts, (ii) in any event, most Purchasers hold fractional interests in the Policies, and therefore could not simply assume ownership of a whole Policy, (iii) most Purchasers would not wish to assume responsibility for the payment of Premiums for the entire Policy, since Premiums are often a significant amount, (iv) even if a group of Purchasers were able to take over an entire Policy, there would be significant inter-Purchaser issues to be resolved, (v) most Purchasers would not have the expertise to properly administer the Policies, and (vi) the benefit of the Company's infrastructure, expertise, staff, software systems and industry contacts would be lost.

The face value of all life insurance policies in which USI has acquired an interest, and has allocated that interest to a Purchaser or Purchasers (excluding policies held in the M-Series Trust and the USII Trust), aggregates approximately USD\$185,000,000. Of course, the face value of these policies cannot be collected until these policies 'mature' on the death of the person whose life is insured by the policies. In addition, Premiums on those policies must be maintained until the policies mature. For these reasons, the face values of the policies do not reflect the current market value which is attributable to those policies.

Some Life Settlements and some fractional interests of other Life Settlements were not allocated to Purchasers in any way; USI has the sole interest in these Life Settlements and the related life

insurance policies (referred to in the Plan as the “**Corporate Policies**”). The face value of the Corporate Policies is about USD\$7,200,000 million.

As noted in the Plan, the terms of the Plan do not affect policies held in the M-Series Trust or the USII Trust, other than the Corporate Policies held in the USII Trust. However, the Plan does affect the claims of all Purchasers who have or may in the future have claims against the Company and others, including the Purchasers of policies in the M-Series Trust and the USII Trust. Readers are referred in particular to the release contained in Section 7.4 of the Plan.

Steps taken during CCAA to protect Purchasers’ interests

Since the commencement of the CCAA proceedings, USI has taken several steps to ensure that all Premiums are paid, thereby protecting the interests of the creditors of USI (including Purchasers) until such time as the Plan could be put forward.

(a) Selling corporate owned Policies

Among the Life Settlements owned directly by USI was the remainder of the TPI Portfolio which had a face value of approximately US\$36 million. The policies in the TPI Portfolio relate to terminally ill people, most of whom suffer from Acquired Immune Deficiency Syndrome. The market value of the Life Settlements which make up the TPI Portfolio had dropped significantly in the past few years as the mortality rates of the insured persons had improved dramatically due to medical advances. As well, there was a significant Premium load attached to the TPI Portfolio, and that had to be serviced in order that the related life insurance policies would not lapse.

With approval of the Court, USI negotiated and sold the TPI Portfolio to a third party for approximately US\$2.47 million.

(b) Use of corporate funds to protect Creditor interest

Including the monies realised on the TPI Portfolio, USI has used over \$10 million of its own funds and assets to finance its ongoing business (including the payment of premiums) and in order protect Creditor interest.

(c) Continued use of Premium Reserves

USI sought and obtained an order of the Court allowing USI to continue paying out of the Premium Reserves any premiums on policies for which those reserves were previously allocated.

(d) Moratorium on Death Benefits

USI also sought and obtained from the Court a moratorium on any payments to Purchasers. Any monies USI receives as death benefits on policies have been held in an escrow account until further order of the Court. Under the terms of the Plan, these monies will be paid over to the Monitor for deposit into the Monitored Trust Account (as defined in the Plan).

(e) Minimizing Premium Payments to core amounts

Where possible, USI has been able to ‘strip down’ the premium payment to meet the bare cost of insurance without letting the policy lapse. Such ‘stripping down’ of the premium is common practice in the Life Settlement industry.

(f) Seek recovery of misappropriated funds

USI continues to pursue its legal claims to recover the US\$9 million misappropriated funds, both in the U.S. and in Canada.

THE COMPANIES’ CREDITORS ARRANGEMENT ACT OF CANADA

The CCAA is a federal statute of Canada that governs the reorganization of companies to which it applies. Under the CCAA, a company may propose a plan of arrangement to its creditors, such as the Plan filed by USI. The Plan is then subject to a vote of creditors, at a meeting or meeting to be scheduled. Creditors vote by ‘class’, and the ‘classes’ of creditors are determined by the similarity of their interests. USI has proposed only two classes of creditors in the Plan, one being Purchasers, and the other being “**Ordinary Creditors**”.

A plan of arrangement is considered to be approved by a ‘class’ of creditors if the creditors who vote on the Plan represent (a) two-thirds in value of the claims in that class, and (b) a majority in number of the creditors in that class.

If the Plan is approved by both classes of creditors, then USI will seek sanction of the Plan from the Court. The Court will review the Plan to determine if it is fair and reasonable. At the sanction hearing, creditors or others with an interest in the Plan may be represented, and may make submissions to the Court.

If the Plan is approved by both classes of creditors and sanctioned by the Court, it is then binding on ALL creditors, notwithstanding that some creditors have either voted against the Plan, or abstained from voting.

The Plan contains a full and final release of claims against various people, including USI, its current directors and employees, “**Agents**” (as defined in the Plan), the Monitor, and other restructuring professionals involved in the CCAA proceedings. This is an integral part of the Plan, and USI will seek an order from the Court both sanctioning the entire Plan (including this release) and specifically ordering this release.

Subsequent to the sanction of the Plan, there are still some steps required before “**Plan Implementation**”. Readers are referred to Section 6.2 of the Plan. The Company does not expect any difficulty or delay in meeting the conditions of that Section.

If the Plan is not approved by creditors, or if it is not sanctioned by the Court, there is no automatic bankruptcy or other event. However, a bankruptcy or receivership of USI would be a logical next step, in the event that the Plan is not approved, and the restructuring proposed by

USI is therefore not successful. Historically, receivership result in liquidation and significantly lower returns to creditors.

SUMMARY OF THE PLAN OF ARRANGEMENT PROPOSED BY USI

Capitalized terms in this Section, unless otherwise defined in this overview, shall have the meanings attributed to those terms in the Plan.

General Overview

The structure of the Plan and the flow of monies thereunder may be summarized as follows:

- (a) Commencing on Plan Implementation, all Cash on Hand, Litigation Recovery and remaining TPI Proceeds will be paid into the Monitored Trust Account. All Insurance Proceeds will continue to be received from the respective insurance companies by the Company, or Mills, each of whom shall receive such funds in trust for the benefit of the Plan, and each of whom will immediately pay and deposit the Insurance Proceeds into the Monitored Trust Account.
- (b) Pursuant to the declaration of trust referred to in Section 6.2(e) of the Plan, effective on the Plan Implementation Date the Company will declare that it holds all Policies, Insurance Proceeds, Cash on Hand, Litigation Recovery, remaining TPI Proceeds and any other amounts to be deposited into the Monitored Trust Account in trust for the beneficiaries of the Plan, and that the Policies, Insurance Proceeds, Cash on Hand, Litigation Recovery, remaining TPI Proceeds and any other amounts shall be dealt with only in the manner provided for in the Plan. Pursuant to the trust declaration, no alteration in the Plan will affect the fact that the Policies are held in trust for the beneficiaries of the Plan.
- (c) The Monitor and the Applicant shall enter into the Custodial Agreement.
- (d) The majority of funds in the Monitored Trust Account will be available to pay Dividends to Purchasers and Ordinary Creditors in accordance with the Plan. However, the funds in the Monitored Trust Account will also be used to pay certain limited costs, being (i) Premiums on the Policies as and when due, (ii) Borrowing Costs, (iii) Professional Costs, (iv) the Administrative Fee, (v) the Litigation Contribution, and (vi) Unaffected Claims, as provided for at Section 4.2 of the Plan.
- (d) A Reserve for Costs will be maintained in the Monitored Trust Account, in accordance with Section 4.3 of the Plan. Once the funds available in the Monitored Trust Account exceed the Reserve for Costs amount by U.S. \$5 million or more, 96.15% of such excess will be transferred into the Purchaser Pool (or the ROI Pool, as the case may be), which shall be used to pay Dividends to Purchasers, and 3.85% of such excess will be transferred into the Ordinary Creditor Pool, which shall be used to pay Dividends to Ordinary Creditors.

- (e) Due to the costs of making a Dividend distribution, it is anticipated that Dividends will be paid annually, and in any event not more frequently than semi-annually, in each case subject to availability of funds for the payment of Dividends.
- (f) Dividends will be paid out of the Purchaser Pool until such time as Purchasers have been paid one hundred percent (100%) of their Original Investments, in aggregate. Dividends out of the Purchaser Pool will be calculated and paid based on the Original Investments, without interest or any other return. The Company anticipates that over approximately a six-year period the Purchaser Pool will pay sufficient Dividends to pay to Purchasers one hundred percent (100%) of their Original Investments.
- (g) After Purchasers have been paid one hundred percent (100%) of their Original Investments, the ROI Pool shall be funded from the Monitored Trust Account, if additional monies are available. In addition, the Company is entitled to a Success Fee if one hundred and ten percent (110%) of Purchasers' Original Investments are paid, as described in Section 4.10 of the Plan.
- (h) Dividends out of the ROI Pool will enable Purchasers to obtain a return on their investments, over and above their original investments; such Dividends will be paid based on the methodology found in Schedule B to the Plan.
- (i) Dividends to Ordinary Creditors will be paid out of the Ordinary Creditor Pool, based on the Proven Claims of those Ordinary Creditors.
- (j) A Sale Process relating to the Policies may in appropriate circumstances be conducted, as set out in Section 4.9 of the Plan.

Benefits of the Plan

It is the Company's view that the Plan offers several benefits to the Creditors, and will result in a maximization of the Dividends available to Creditors. The Company has identified the following benefits of a successful Plan implementation:

- (a) The Plan will prevent a liquidation sale of the Company's portfolio of Policies. The Company believes that such a liquidation sale would generate net proceeds well below what the Plan will return to Creditors, and well below the Original Investments of Purchasers.
- (b) The Company and Mills are very familiar with the portfolio of Policies and have been managing and administering this portfolio since inception. As such, there are existing processes and procedures in place, including databases, document management capabilities, insured monitoring protocols and other technological systems, all of which provide for the efficient maintenance of the portfolio. In addition, the Company and Mills have qualified administration staff who have relationships with insurance carriers, agents and the insured persons, and who routinely process premiums, track insured lives, and process death claims.

- (c) The Plan will also permit the Company to utilize the Litigation Contribution to continue with two actions (the “**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 in *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 (together, the “Canadian Actions”) from which the Company expects to receive a net recovery. The potential benefit of the Actions may be lost if the Company does not continue to operate. As described in Section 4.5 of the Plan, all Litigation Recovery will be paid into the Monitored Trust Account. Any recovery will be paid into the Monitored trust Account for the benefit of Creditors. It should be noted that the Company’s former counsel, Borden Ladner Gervais LLP (“BLG”), is asserting a priority interest, such priority interest as yet to be determined, in any proceeds from the Canadian Actions (including the Escrow Fund) for the payment of BLG’s outstanding fees and disbursements totalling approximately CND\$1.3 million.
- (d) As noted above, the Company is strongly of the view that the approval and implementation of the Plan will return to Purchasers, in aggregate, more than the Purchasers would realize if they were to assert a direct ownership or beneficial interest in the Policies previously allocated to the Purchasers.

Unaffected Claims

The Plan does not affect the following claims, liabilities or other obligations of the Company, except as may be expressly provided for under the terms of any Order:

- (a) *Post Filing Goods and Services* – the Claims arising in respect of goods or services supplied after the Initial Order Date;
- (b) *Professional Advisors* - the Claims of the Monitor and of the legal advisors to the Company and the Monitor for fees and disbursements incurred or to be incurred in connection with and incidental to (i) the CCAA Proceedings, (ii) the preparation, approval and administration of the Plan, and (iii) the recovery of Insurance Proceeds and the protection of the Policies, in each case other than fees and disbursements incurred with respect to the Actions.
- (c) *Directors and Officers* – the Claims of individuals who are current officers or Directors of the Company for indemnity pursuant to indemnities provided by the Company.
- (d) *Secured Creditors* – the Secured Claim of any Person.
- (e) *Insured Claims* – the Claims arising in the ordinary course of business against the Company which are covered by insurance held by the Company.

- (f) *Claims of the Crown* – Claims of the Crown referred to in paragraph 18.2(1) of the CCAA.
- (g) *Policies held in M-Series Trust and USII Trust* – as noted above, other than the Corporate Policies, the Plan does not affect any Policies held in the M-Series Trust or the USII Trust, since such Policies are held in trust for the Purchasers of such Policies. For greater certainty, however, the Plan does affect, compromise and release any Claim that any Purchaser of such Policies may have against the Company or other Persons.

COMPANY'S VIEW AND RECOMMENDATION

The Company is of the view that it is in the best interests of its creditors that the Plan be approved and implemented, and that approval and implementation of the Plan will maximize the return available to creditors.

The Company is also of the view that the approval and implementation of the Plan will return to Purchasers, in aggregate, more than the Purchasers would realize if they were to assert a direct ownership or beneficial interest in the policies allocated to the Purchasers, and more than if the Company pursued alternatives to the Plan such as a receivership.

With respect to a receivership, the Company has considered the experience of two other life settlement companies, Mutual Benefits Corp. and Trade Partners, Inc., in determining that it is not in the best interest of the Company's creditors.

The receivers for Mutual Benefits Corp. and Trade Partners, Inc. have made interim distributions to the companies' creditors of 19% and 33%, respectively. Although the receivers intend to make further distributions, it is very unlikely that the distributions will reach 100% given that current market conditions for the purchase of life settlement portfolios is considerably less than optimal. Because the Company believes that the Plan will result in 100% recovery to Purchasers, and because the estimated recovery under a receivership is considerably less, the Company believes that the Plan is preferable to a receivership.

The Company has investigated the possibility of selling its portfolio, and has been advised that the portfolio has a market value of \$40 million. If the Company were to sell its portfolio for such an amount, Creditors would receive a significantly lower return than is anticipated under the Plan. As a result, the Company is of the view that the Plan is in the best interest of the Creditors.

CREDITOR MEETINGS

As noted above, there will be meeting of two classes of creditors, being the class of creditors consisting of Purchasers, and the class of creditors consisting of "**Ordinary Creditors**", as defined in the Plan.

Pursuant to an order of the Court made on May 11, 2009 (the "**Meeting Order**"), these meetings will take place on June 17, 2009. Creditors may attend the meeting in person or by proxy, and

may vote in person or by proxy. Proxy forms are included in the package containing the Plan and this overview.

As set out in the Meeting Order, the Monitor will chair the meetings of creditors.

SANCTION HEARING BEFORE ONTARIO SUPERIOR COURT OF JUSTICE

As noted above, if the Plan is approved by each class of creditors, then USI will seek the Court's sanction of the Plan. The Court will review the Plan to determine if it is fair and reasonable. At the sanction hearing, creditors or others with an interest in the Plan may be represented, and may make submissions to the Court.

The Meeting Order provides that the sanction hearing is to take place in Toronto, Canada on June 22, 2009.

BINDING EFFECT OF APPROVED PLAN, INCLUDING RELEASES

If the Plan is approved by both classes of creditors and sanctioned by the Court, it is then binding on ALL creditors, notwithstanding that some creditors have either voted against the Plan, or abstained from voting.

The Plan contains a full and final release of claims against various people, including USI, its current directors and employees, "**Agents**" (as defined in the Plan), the Monitor, and other restructuring professionals involved in the CCAA proceedings. This is an integral part of the Plan, and USI will seek an order from the Court both sanctioning the entire Plan (including this release) and specifically ordering this release.

Readers are referred to Sections 2.6, 4.6, 7.4 and 7.5 of the Plan, each of which Sections refer to the binding nature of the Plan and the releases, consents and waivers that are implemented by the Plan.