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.

SUPPLEMENT TO THE SEVENTH REPORT OF THE MONITOR

May 14, 2009

INTRODUCTION

1. The purpose of this supplement to the Seventh Report of the Monitor (the "**Report**") is to provide this Honourable Court with an update on the status as of May 13, 2009 on the:

   i) Plan of Compromise and Arrangement;

   ii) claims procedure; and

   iii) the Applicant's cash flow projection to July 4, 2009 that was appended to the Seventh Report.

TERMS OF REFERENCE

2. In preparing this Report, the Monitor has relied upon unaudited financial information, the Applicant's books and records, financial information prepared by the Applicant and Mills, the financial analysis prepared by the Applicant in support of the proposed Plan and discussions with the management, legal counsel and advisors of the Applicant. The Monitor has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information and,

accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this Report. An examination of the financial projection or any other future-oriented financial information as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future-oriented financial information relied upon in this Report is based on management's assumptions regarding future events. Actual results achieved will vary from this information and the variations may be material.

3. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. For ease of reference, the Monitor has provided certain Canadian dollar equivalents throughout this Report, using the C$1.176/US$1.00 exchange rate utilized in the Applicant's most recent cash flow projection.

4. Capitalized terms not defined in this Report are as defined in the Applicant's Initial Application, the Initial Order, the Monitor's previous reports to this Honourable Court, the Claims Procedure Order and the proposed Plan of Compromise and Arrangement.

PLAN OF COMPROMISE AND ARRANGEMENT

5. Late in the day on May 13, 2009, the Applicant received correspondence from counsel to one of the defendants in one of the Actions commenting on the Plan and referring to a previous settlement offer it had apparently made that, if accepted and implemented, would represent a material amendment to the Plan. The Applicant has advised the Monitor that it does not believe the settlement referred to is bona fide or in the best interests of the Creditors. Given the very recent delivery of the correspondence to the Monitor, the Monitor has not yet had an opportunity to investigate and consider the matter and therefore is not in a position to provide any analysis or recommendation to this Honourable Court at present.

UPDATE ON CLAIMS PROCESS

6. On January 23, 2009, the Applicant sought and obtained approval from this Honourable Court for a claims procedure (the "**Claims Procedure**") whereby the

Applicant called for claims of creditors that are not related to the purchase of Life Settlement investments from USI (the claims of "**Ordinary Creditors**") and acknowledged claims of Purchasers based on the amounts of their original investments (the "**Original Investments**") pursuant to acknowledgements of claims ("**Acknowledgements of Claim**") delivered to Purchasers. The Acknowledgements of Claim were based on the Applicant's books and records.

7. The purpose of the Claims Procedure is to identify all Claims against the Applicant and its current and former directors as at January 23, 2009 (the "**Valuation Date**"). The Claims Procedure does not address the extent to which any Claims filed may be determined to be post-filing Claims or Claims in respect of which the Directors' Charge may apply.

8. Included in paragraph sixty 66 of the Seventh Report is a detailed summary (the "**Detailed Summary**") of the Acknowledgements of Claim sent to Purchasers, Requests for Amendment received from Purchasers (relating to the information disclosed on their respective Acknowledgements of Claim) and Proofs of Claim received from Purchasers and Ordinary Creditors as at May 7, 2009, the date of the Seventh Report.

9. Set out below is an amended summary (the "**Amended Summary**") of the status of Acknowledgements of Claim, Requests for Amendment, Proofs of Claim and NORDs (as defined below) updated to May 13, 2009 :

Universal Settlements International Inc. ($Cdn - thousands)	Number	Value	Value Accepted by Monitor	Value Disallowed by Monitor and Appeal Period Lapsed	Value Disallowed by Monitor and Appeal Period has Not Lapsed	Value Pending Under Review by Monitor	Value in Dispute By Claimant
Acknowledgements of Claim sent by Monitor (Note 1, 5)	6,251	$ 158,465	$ 158,465	n/a	n/a	n/a	n/a
Requests for Amendment received from Purchasers (Note 2, 5)	5	$ 7	$ -	$ 1	$ -	$ 6	$ -
Requests for Amendment received from Purchasers (Note 3, 5)	1,325	n/a	n/a	n/a	n/a	n/a	n/a
Proofs of Claim received from Purchasers (Note 4, 5)	1,406	$ 39,326	$ 32	$ 6,576	$ 31,178	$ 1,506	$ 35
Proofs of Claim received from Ordinary Creditors	11	$ 66,426	$ 80	$ -	$ 53	$ 39,686	$ 26,607
Total	8,998	$ 264,224	$ 158,576	$ 6,577	$ 31,231	$ 41,197	$ 26,642

Note 1 - Includes Purchasers in the M-Series Trust and the USII Trust valued at US $3,633,897 and US $5,839,816, respectively.
Note 2 - Represents claims with changes to original investments.
Note 3 - Represents claims with changes to addresses, dates of investment, dates of maturity and maturity amounts.
Note 4 - Represents claims which, in the majority of cases, are duplicates of Acknowledgements of Claim sent by the Monitor.
Note 5 - Values with regards to Purchaser's claims are based on the value of the Purchasers' Original Investments.

10. In order to distinguish Notices of Revision or Disallowance ("**NORD**"s) sent by the Monitor for which the deadlines for receipt of Dispute Notices have not lapsed as of the date of this Report, the Monitor has divided the column labelled "Value Disallowed by Monitor" in the Detailed Summary into two columns in the Amended Summary above which are labelled "Value Disallowed by Monitor and Appeal Period Lapsed" and "Value Disallowed by Monitor and Appeal Period Has Not Lapsed." The Monitor noted in paragraph 67 of the Seventh Report that certain of the appeal periods had not yet lapsed but considers that the additional details provided above may be helpful to Creditors and this Honourable Court.

<u>Acknowledgements of Claim</u>

11. As described in the Sixth and Seventh Reports, the Monitor reviewed the books and records of the Applicant and prepared a claims schedule which sets out contact information for each known Creditor together with, where possible, the Applicant's information relating to that Creditor's potential Claim. Where it was possible for the Monitor to do so, based on information in the Applicant's possession, the Monitor provided Acknowledgements of Claim to each Purchaser detailing the Applicant's recorded basic information relating to each Purchaser's Claim(s).

12. A total of 6,251 Acknowledgements of Claim were sent by the Monitor to 3,723 Purchasers in accordance with the terms of the Claims Procedure Order. The Acknowledgements of Claim issued by the Monitor totalled approximately $158.5 million (US $134.7 million).

13. Included among the Acknowledgements of Claim issued by the Monitor were Acknowledgements of Claim issued to Purchasers of policies in the M-Series Trust and USII Trust totalling $4.3 million (US $3.6 million) and $6.9 million (US $5.8 million), respectively. According to Section 2.7 of the Amended Plan of Compromise and Arrangement dated May 8, 2009 (the "**Plan**"), other than Corporate Policies, the Plan does not affect any policies held in the M-Series Trust or the USII Trust. However, the Plan affects, compromises and releases any Claim

that any Purchaser of policies in the M-Series Trust or the USII Trust may have against the Applicant.

14. In addition, the Monitor issued seven (7) copies of Acknowledgements of Claim totalling approximately $800,000 (US $680,000) to parties who, according to the Applicant, had been granted an interest in the investment as collateral for obligations of certain Purchasers and to whom the Purchasers had directed the Applicant to provide copies of all documents relating to those claims. Acknowledgements of Claim were also issued to the respective Purchasers and therefore there was a duplication in the Acknowledgements of Claim in these cases.

15. In the Detailed Summary, the Monitor had reported that it had issued 6,258 Acknowledgements of Claim totalling $159.3 million (US $134.4 million), as compared to the 6,251 Acknowledgements of Claim totalling $158.5 million (US $134.7 million) in the Amended Summary. The additional seven (7) duplicate Acknowledgements of Claim valued at approximately $800,000 (US $680,000) were reflected in the Detailed Summary and have been removed from the Amended Summary.

Requests for Amendment Received from Purchasers

16. If Purchasers disagreed with the Purchaser Information contained on the Acknowledgements of Claim, they were directed to provide any correcting information or notice of their dispute to the Monitor by way of a Request for Amendment.

17. Five (5) Requests for Amendment with changes to the Original Investments totalling approximately $7,000 (US $6,000) were received, of which the Monitor has accepted none and one (1) NORD in the amount of approximately $1,000 (US $900). The appeal period for the disallowance issued by the Monitor has lapsed and no Dispute Notice has been received by the Monitor. Four (4) Requests for Amendment with changes to the Original Investments totalling approximately $6,000 remain pending and under review by the Monitor.

18. The Monitor received 1,330 Requests for Amendment on or before February 23, 2009 (the "**Claims Bar Date**"). Of the Requests for Amendment received, 1,325 included changes to addresses, dates of investment, dates of maturity or maturity amounts, and five (5) included changes to the Original Investment amount.

19. In the Detailed Summary, the Monitor reported 1,322 Requests for Amendment from Purchasers, of which fourteen (14) related to increases to the amount of the Original Investments totalling approximately $112,000 (US $95,000). In the Amended Summary, the Monitor reports 1,330 Requests for Amendment of which five (5) relate to increases to the amount of the Original Investments totalling approximately $7,000 (US $6,000). Nine (9) of the Requests for Amendment with changes to the amount of the Original Investments related to Requests for Amendment received from individuals who were investors through a single Purchaser. As a result, these individuals were not themselves Purchasers and had consequently not received an Acknowledgement of Claim from the Monitor. Once it was determined that these individuals were not amending an Acknowledgement of Claim, they were notified of this fact by way of a NORD and are not reflected in the Amending Summary to avoid duplication with the Claim of the one (1) Purchaser which relates to their investments. The appeal periods with regards to these NORDs have not lapsed.

20. The increase in number of Requests for Amendment in the Amended Summary from 1,322 to 1,330 is due to an inadvertent counting error in the Detailed Summary count. However, excluding the change described in paragraph 19, the values were correct.

<u>Proofs of Claim Received from Purchasers</u>

21. If a Purchaser had a Claim against the Applicant in addition to and independent of the information contained in an Acknowledgement of Claim, he or she was required to file a separate Proof of Claim ("**Purchaser POC**") by the Claims Bar Date. In the majority of cases, Purchaser POCs received were duplicates of Acknowledgements of Claim sent by the Monitor.

22. The Monitor received 1,406 Purchaser POCs totalling approximately $39.3 million (US $33.4 million) on or before the Claims Bar Date of which the Monitor has accepted two (2) totalling approximately $32,000 (US $27,000).

23. To date, the Monitor has disallowed Purchaser POCs totalling approximately $37.8 million (US $32.2 million). Included in this amount are disallowances totalling $6.6 million (US $5.7 million) for which the appeal period has lapsed and $31.2 million (US $26.5 million) for which the appeal period has not lapsed, and, to date, no disputes have been received. Approximately four (4) Purchaser POCs, totalling $1.5 million (US $1.3 million) remain pending and under review by the Monitor.

24. To date, the Monitor has received four (4) Dispute Notices totalling approximately $35,000 (US $30,000). As described in paragraph 69 of the Seventh Report, three of the Dispute Notices are from family members of the former President of the Applicant.

25. In the Detailed Summary, the Monitor reported that it had received 1,408 Purchaser POCs totalling approximately $9.2 million (US $7.8 million). In the Amended Summary, the Monitor has reported 1,406 Purchaser POCs totalling approximately US $39.3 million. As a result, the Amended Summary reflects a reduction in the number of Purchaser POCs by two (2) and an increase in value of Purchaser POCs of approximately $31.1 million (US $26.4 million).

26. The decrease in number of POCs from 1,408 to 1,406 was due to an inadvertent counting error in the Detailed Summary.

27. The increase in value relates to the value of the 1,265 Purchaser POCs submitted on behalf of Purchasers by a European agent which totalled approximately $31.1 million (US $26.4 million) and claimed priority. The Purchaser POCs were included in the Detailed Summary in number, but not in value. The Monitor has reviewed these POCs in detail and confirmed that all, except for one (1) claimant, represent duplicates of the Purchaser Information in the Acknowledgements of Claim issued by the Monitor and, accordingly, have been disallowed on that basis.

The Purchaser POCs did not include any support for their priority claim and, therefore, on that basis, their claim for priority was disallowed. The one (1) exception described above (in the amount of US $10,000) did not receive an Acknowledgement of Claim since the Applicant has no record of an investment having been made by that individual. The Monitor has issued to this individual a NORD for which the appeal period has not yet lapsed.

Proofs of Claim Received from Ordinary Creditors

28. If an Ordinary Creditor had a Claim against the Applicant, he or she was required to file a Proof of Claim ("**Ordinary POC**") by the Claims Bar Date.

29. The Monitor received 11 Ordinary POCs totalling approximately $66.4 million (US $56.4 million) on or before the Claims Bar Date of which the Monitor has accepted one (1) claim for approximately $80,000 (US $68,000), $53,000 (US $45,000) less than the amount claimed. The Monitor disallowed two (2) claims in their entirety, totalling approximately $26.6 million (US $22.6 million). Prior to the expiration of the appeal period for the two (2) NORDs, the claimants submitted Dispute Notices. There remains eight (8) Ordinary POCs with total claims of approximately $39.7 million (US $33.7 million) which remain pending and under review by the Monitor, of which $36.2 million (US $30.8 million) relates to a claim advanced by one Creditor, as described in Paragraph 68 of the Seventh Report. The remaining $3.5 million (US $3.0 million) relates to seven (7) other Ordinary POCs which remain pending and under review.

30. The two (2) claims totalling approximately $26.6 million (US $22.6 million) which are in dispute relate to two duplicate claims, made by two related agents, each for $13.3 million (US $11.3 million). These claims are for damages alleged to have been caused by the Applicant, as well as associated projected legal fees expected to be incurred to defend against claims from these clients. These claims appear to be contingent and unliquidated since they would only arise if certain Purchasers successfully asserted claims against the Agents which then can be successfully asserted against the Applicant.

31. The Detailed Summary indicated that the value of the Ordinary POCs received, and the value of the Ordinary POCs pending and under review were $64.4 million (US $54.7 million) and $37.6 million (US $32.0 million), respectively. The Amended Summary indicates that the value of the Ordinary POCs received, and the value of the Ordinary POCs pending and under review are $66.4 million (US $56.4 million) and $39.7 million (US $33.7 million), respectively. The increase in value is the result of an error in the value in the Detailed Summary which was corrected in the Amended Summary.

Related Party Claim

32. As described in the Seventh Report, included among the Ordinary POCs which remain pending and under review by the Monitor is an unsecured claim in the amount of $1.35 million which has been filed in the Claims Procedure by a third party related to one or more of the Applicant's shareholders (the "**Related Party**"). To date, to assist the Monitor in its review of the Related Party claim, the Applicant has provided to the Monitor its detailed general ledger account activity indicating amounts advanced and repaid from time to time.

33. According to the Applicants, as described in the Seventh Report, prior to the commencement of these CCAA Proceedings, during 2008 USI transferred to the Related Party three (3) life insurance policies that had been corporately owned by USI with face values totalling US $7.0 million. The Proof of Claim filed by the Related Party does not refer to or account for the transfer of these policies. The Monitor requested additional details from the Related Party to account for the transfer of the policies and to support the claim.

34. On May 11, 2009 the Monitor received a letter and documents from the Related Party claimant which included additional information to support its unsecured claim but did not include the documents or explanation requested by the Monitor with regards to the policies transferred. The letter refers to the policies transferred having a value in the range of $500,000 to $700,000 but does not include any

support for this valuation, nor does it clarify how the transfer of the policies should be accounted for in the Applicant's books and records.

35. The Monitor cannot determine based on the information available to it at present whether the transfer of the policies related to the Related Party's unsecured claim. As a result, the Monitor remains unable to determine whether any portion of the claim should be admitted.

CASH FLOW PROJECTION TO JULY 4, 2009

36. The Applicant's cash flow projection (the "**Projection**") for the period through to July 4, 2009 (the "**Projection Period**") was appended to the Seventh Report.

37. As described in Paragraph 161 of the Seventh Report, it is proposed that on or before May 19, 2009, the Monitor will send the Notice of Meetings of Creditors, the form of proxy and instructions, a copy of the Plan and Information Circular and the Seventh Report as supplemented, and this Report ("**Mailing Materials**") to all Creditors with Proven Claims by mail, registered mail, courier, fax or email.

38. Due to the increase in size of the Mailing Materials, the Monitor has asked the service provider retained to prepare the mailing to recalculate the cost of the mailing, including postage. Previously, the estimated cost to organize, compile, label and mail the Mailing Materials was approximately $90,000. This amount was provided for in the Applicant's Projection. Currently, the cost is estimated to be approximately $130,000, resulting in an additional cost of approximately $40,000 which has not been provided for in the Applicant's Projection.

39. According to the Projection, a cash balance of approximately $9,000 will remain at July 4, 2009. If the Projection were adjusted to reflect just the additional estimated cost of approximately $40,000 relating to the mailing of the Mailing Materials, then it would indicate that the Applicant will run out of cash earlier in the week ending July 4, 2009, and would not have sufficient cash to fund operations until the end of the Stay of Proceedings on July 3, 2009 (the "**Stay**") unless it reduces other costs or proposed disbursements or obtains additional funds or financing.

40. The Monitor has asked the Applicant to prepare a further update of the Projection as soon as possible.

ALL OF WHICH is respectfully submitted this 14th day of May, 2009.

ERNST & YOUNG INC.,
Court-appointed Monitor of
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