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.

SEVENTH REPORT OF THE MONITOR

May 7, 2009

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INTRODUCTION

1. On December 2, 2008, Universal Settlements International Inc. ("**USI**", the "**Company**" or the "**Applicant**") 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 Honourable Court dated December 2, 2008 (the "**Initial Order**"). Pursuant to the Initial Order, Ernst & Young Inc. was appointed as monitor (the "**Monitor**") of the Applicant during these CCAA proceedings ("**CCAA Proceedings**").

2. On December 17, 2008, the Monitor filed its first report with this Honourable Court (the "**First Report**"), which provided this Honourable Court with information concerning USI's liquidity issues, activities of the Monitor since its appointment, the Applicant's cash management system, the Applicant's actual cash flow results for the period from the date of the Initial Order to December 12, 2008, the Applicant's updated cash flow projection to February 28, 2009, and the Monitor's analysis and recommendations concerning USI's request for an extension of the stay of proceedings established by the Initial Order (the "**Stay Period**").

3. On December 22, 2008, the Monitor filed its second report (the "**Second Report**"), which provided the Monitor's observations on the Applicant's proposed sale to SDM Holdings,

LLC of certain corporately owned policies that USI had purchased out of the receivership of Trade Partners, Inc. ("**TPI AIDS Portfolio**").

4. On January 8, 2009, the Monitor filed its third report (the "**Third Report**"), which provided this Honourable Court with information concerning the sale of the TPI AIDS Portfolio, certain policies surrendered to insurers for cash, the Applicant's cash management system, the Applicant's excess premium reserve funds, the Applicant's ongoing effort to verify policy coverages, the Applicant's actual cash flow results for the period from December 13 to 31, 2008, the Applicant's updated cash flow projection to March 7, 2009, and the Applicant's activities and intended course of action with respect to implementing a claims process and developing a proposed Plan of Arrangement.

5. On January 20, 2009, the Monitor filed its fourth report (the "**Fourth Report**"), which provided this Honourable Court with further explanation and clarification of changes in the premium reserve and escrow bank accounts that were described in paragraphs 19 and 20 of the Third Report, the results of Mills, Potoczak & Company's ("**Mills**") further review of the premium reserves contained in the USI Premium Reserve Account, and information regarding the Applicant's proposed claims process.

6. On February 23, 2009, the Monitor filed its fifth report (the "**Fifth Report**"), which provided this Honourable Court with information concerning the sale of the TPI AIDS Portfolio, the Monitor's meeting with Mills, the Applicant's actual cash balances as at February 7, 2009, the Applicant's updated cash flow projection to May 2, 2009 and the Applicant's activities and intended course of action with respect to developing a proposed plan of arrangement.

7. On April 21, 2009, the Monitor filed its sixth report (the "**Sixth Report**") which provided this Honourable Court with an update on the Claims Process, an update on the sale of the corporate interests of the Applicant in the TPI AIDS Portfolio, the Applicant's actual cash balances as at March 21, 2009, the Applicant's updated cash flow projection to May 23, 2009, an update on the Applicant's activities and intended course of action with respect to

developing a proposed plan of arrangement, and information on the relief sought by the Applicant to finance operations until implementation of a plan of arrangement.

8. The purpose of this seventh report (the "**Seventh Report**" or "**Report**") is to provide this Honourable Court with:

   i) information on the Company and its operations prior to, and following, the commencement of the CCAA Proceedings;

   ii) information on the material assets of the Company, including an analysis of the life insurance policies based upon information provided by the Applicant and verifications of coverage and annual policy statements received by the Applicant from the relevant insurance companies;

   iii) an update on the claims procedure;

   iv) a summary of the proposed plan of compromise and arrangement (the "**Plan**") to be presented to this Honourable Court by the Applicant and the Monitor's comments on the Plan;

   v) the Applicant's actual cash balances as at April 19, 2009 and commentary on variances from prior projections filed with this Honourable Court;

   vi) the Applicant's updated cash flow projection to July 4, 2009;

   vii) information on the motion by the Applicant requesting this Honourable Court's approval of an order (the "**Meeting Order**") to:

      a) approve the filing of the Plan;

      b) establish the manner in which the Applicant shall seek approval of the Plan by its creditors (the "**Creditors**");

      c) fix the date on which the meetings of Creditors (**"Creditors' Meetings"**) will vote on the Plan; and

d) establish the manner in which the Monitor shall notify the Creditors of the Creditors' Meetings and the materials to be provided to the Creditors in connection with such meetings and address other matters ancillary to the holding of the Creditors' Meetings to vote on the Plan.

viii) information on the relief sought by the Applicant to finance operations until implementation of the Plan, if approved;

ix) the Monitor's conclusions and recommendations.

TERMS OF REFERENCE

9. 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.

10. 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.

11. 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.

BACKGROUND INFORMATION ON THE COMPANY

Ownership of the Company

12. USI was incorporated in April 1997 under the laws of the Province of Ontario, Canada.

13. The shares of USI are owned equally by Jeffrey Panos and Christopher Halas, through their respective holding companies. Mr. Panos and Mr. Halas are directors and officers of the Company and also act as President and Vice-President of USI, respectively. In addition, Riaz J. Khan C.A. has acted in the role of Chief Financial Officer of USI since April 2007.

14. USI currently employs eight (8) employees (including Mr. Panos, Mr. Halas and Mr. Khan) who work from its leased offices at 5500 North Service Road, Suite 703, Burlington, Ontario, L7L 6W6, Canada.

Overview of the Company's Business

15. The following overview of the Company's business is based upon the affidavit of Christopher Halas dated December 2, 2008 filed in support of the Company's application for the Initial Order:

    i) USI is involved in the sale of life insurance policies, or fractional interests in life insurance policies ("**Life Settlements**"), to third-party purchasers. In these proceedings, USI's third-party purchasers are referred to as "**Purchasers**" or the "**Purchaser**". Life Settlements are financial transactions that allow typically terminally ill or elderly owners of life insurance policies (the "**Insured**") to sell the beneficiary entitlements under life insurance policies to third-parties at a discount from the face values of the benefits.

    ii) Among its main offerings, USI marketed the following Life Settlement programs:

        a) The Guarantee Life Settlement program ("**GLS**"), which offered an investment with a fixed return (i.e., the death benefits payable under the policy) without a guaranteed payment date; and

b) The Reinsured Guarantee Life Settlement program (“**Reinsured GLS**”), which was offered on the basis that it included contingent reinsurance purchased from a third-party, and as such could provide Purchasers with both a fixed return and a guaranteed maturity date (the “**Guaranteed Maturity Date**”) corresponding to the Insured’s life expectancy plus 2 years.

iii) In either case, the Purchaser’s actual interest could correspond to an entire policy or to a fractional interest in a policy.

iv) Part of the purchase monies received from Purchasers was used to pay policy premiums. These funds are known as the “**Premium Reserves**”. Typically, premiums were allocated to and paid from the Premium Reserves on a policy-by-policy basis. The amounts paid into the Premium Reserves were based on the anticipated life expectancy of the respective Insureds plus two (2) years.

v) USI’s main obligations are to locate and purchase the policy which reflects the Purchaser’s investment instructions; to pay the policy premiums required to maintain the underlying life insurance policies in good standing; to make claims for death benefits at the appropriate time; and to remit to Purchasers either the death benefits paid by Insurers upon the death of the Insured or the amounts payable at the Guaranteed Maturity Date, depending on the program chosen by the Purchaser (i.e., GLS or Reinsured GLS).

vi) The Management and employees of USI carry out the following day-to-day functions: sales and marketing of new Life Settlements to agents and Purchasers, sourcing of new life insurance policies for purchase, managing cash flow, communicating with Agents, Purchasers and insurance companies, and policy management and insured tracking and monitoring. USI also directs Mills, an accounting firm located in Ohio, which provides services to Life Settlement businesses and which carries out certain day to day responsibilities with regards to 138 of the 155 USI policies, including payment of premiums, collection of maturities, communicating with insurance companies, and storing documents relating to policies it services.

vii) Prior to the commencement of the CCAA Proceedings, USI set up trusts in order to provide a vehicle to purchase and administer the Life Settlements. In most cases a trust arrangement was established to hold in trust the funds and property related to the Life Settlement and administer other assets received by the trust. Mills has, for the most part, acted as trustee of these trusts. USI is the sole beneficiary under these trusts. According to the Applicant, prior to the date of the Initial Order, USI transferred policies held in trust by Mills to USI in Canada, in order to protect the policies and avoid the potential duplication of costs of a parallel insolvency proceeding in the United States.

viii) The Applicant has advised that two trusts referred to as the M-Series Trust and the USII Trust are structured differently. In such trusts individual investors are the direct beneficiaries of the trust and the trust purchases the policies directly from the sellers. USI only provides the policy tracking services. Upon maturity the trust files the claim with the insurer and the death benefit is received directly by the trust. Nine (9) policies are held in these two trusts.

Causes of Financial Difficulties

16. According to the Applicant, the following are the main causes of the Company's financial difficulties which have resulted in the current liquidity crisis and the need for these CCAA proceedings:

i) *Insufficient Premium Reserves* - USI's assumptions as to the amount of Premium Reserves needed in respect of each policy in order to preserve the value of the policy to maturity were understated as Insureds have generally lived longer than the life expectancy evaluators projected. In addition, in the cases of certain policies insufficient Premium Reserves were set aside to fund the anticipated life expectancy of the Insured plus two (2) years.

ii) *Default of reinsurer* - The reinsurance company that was paid to insure against the risk of an insured living longer than projected in order to provide the guaranteed return of the Reinsured GLS program suffered financial failure and failed to honour its financial obligations to USI. As a result, USI is currently unable to meet its guaranteed payment obligations in respect of certain Life Settlements in the Reinsured GLS program which attained their respective Guaranteed Maturity Dates in 2008. To date, these unsatisfied payment obligations are in excess of US$13.0 million. In addition, as a result of the default of the reinsurer, the Applicant was required to continue to fund ongoing premium payments for these policies.

iii) *Legal fees* – As described in the Affidavit of Christopher Halas dated December 2, 2008, in attempting to recover what the Applicant alleges are misappropriated funds in the amount of US$9.0 million by pursuing two litigation proceedings: (a) one against the former President and shareholder of the Applicant, Anthony Duscio (the "**Shareholder Litigation**"); and (b) another against parties to a transaction for the purchase of a certain portfolio of policies (the "**Policy Litigation**"), USI has incurred legal fees in the amount of approximately $3.6 million.

iv) *Insufficient Corporate Cash* - USI's corporate cash assets are insufficient to pay ongoing premium payments for policies for which there are no Premium Reserves.

17. As a result of this liquidity crisis, USI will be unable to maintain premium payments on certain policies in the coming months. Further discussion of USI's ability to fund premium payments is included in the "Updated Cash Flow Projection to July 4, 2009" section of this Report. Non-payment of premiums on these life insurance policies cannot be "cured", except in certain cases within a very short time period following payment default. In the event of non-payment, the policies will simply lapse, and the Purchasers' investments relating to those policies will become worthless. It may be possible in the case of certain policies to recover any remaining cash surrender value in the policy prior to the policy lapsing; however, typically, the cash surrender value will be far less than the death benefit of the policy minus costs of maintaining the policy to maturity.

CCAA PROCEEDINGS

Operations

18. During the CCAA Proceeding, the Applicant has taken the following steps to preserve the policies:

    i) Ensuring premiums for all policies have been paid to the relevant insurance companies by their due dates;

    ii) Requesting verifications of coverage for all policies to confirm, among other things, the ownership, beneficiary, face value, and status of each policy;

    iii) Managing issues relating to individual policies as they arise; and

    iv) Taking various measures to raise cash to fund costs to maintain policies and fund ongoing operations throughout the CCAA Proceedings.

19. As a result of its liquidity crisis, since the date of the Initial Order, the Applicant has not purchased any new life insurance policies or sold any new Life Settlements. However, the Applicant intends to continue its business of selling Life Settlements after implementation of the proposed Plan. In furtherance of this, the Applicant has carried out a number of meetings with prospective Purchasers with a view to arranging new Life Settlement transactions in the future.

20. Attached as **Appendix "A"** is a statement of the Applicant's cash receipts and disbursements since the Initial Order date (the "**Post-Initial Order Cash Flow**"). According to the Post-Initial Order Cash Flow, from December 2, 2008 to April 19, 2009 the Applicant has recorded:

    i) cash receipts and disbursements totalling approximately $4.3 million and $4.6 million, respectively, in its corporate accounts;

    ii) cash receipts and disbursements totalling $329,000 and $1.7 million, respectively, in its premium reserve account; and

iii) cash receipts totalling $6.7 million in its policy maturity accounts.

21. As described in the Second, Third, Fifth and Sixth Reports, on December 23, 2008 this Honourable Court approved the sale of the TPI AIDS Portfolio to SDM Holdings, LLC. for a purchase price totalling US $2,470,000 ("**Purchase Price**"). After payment of the broker's commission of US $270,000, US $2,200,000 (Cdn $2,587,000) was payable to USI ("**Net Purchase Price**"). The TPI AIDS Portfolio consisted of 549 corporately owned policies with face values totalling approximately US $35.1 million. As indicated in the Post-Initial Order Cash Flow, the Net Purchase Price released from escrow totalling approximately US $1.8 million has been utilised by the Applicant to fund premium payments for which there are no Premium Reserves or cash value and restructuring costs.

22. Prior to the sale of the TPI AIDS Portfolio, USI had approximately 700 policies under its administration on behalf of both its own corporate interests and the interests of Purchasers. As a result of the sale of the TPI AIDS Portfolio, USI now has 155 policies under its administration (the "**Policies**"). USI utilises Mills as its US servicing agent to service 138 policies which includes the payment of premiums and other policy related services. Following Plan Implementation, Mills will continue to service the 138 policies and the remaining 17 will continue to be serviced by USI directly.

23. The Policies do not include the eight other policies held in the USII Trust and the M-Series Trust which have face values totalling approximately US $21.3 million. As noted above, the Applicant has advised the Monitor that these policies are held in specific trusts designated for the investors who have purchased interests in these policies. According to the Applicant, the beneficiaries of these trusts are the respective Purchasers directly and not USI.

Conduct of the Applicant

24. Based upon the information provided to the Monitor by the Applicant and the Monitor's observations, the Applicant has not breached the CCAA or any order issued by this Honourable Court in the CCAA Proceedings.

25. The Monitor has not performed a review of any potential preferences, fraudulent conveyances, settlements, or other reviewable transactions that may have taken place prior to the commencement of these CCAA Proceedings.

MATERIAL ASSETS

<u>General</u>

26. As described in detail in Christopher Halas' affidavit dated December 2, 2009, the Applicant has alleged in the Shareholder Litigation that certain funds were misappropriated by Anthony Duscio. At the commencement of the CCAA Proceedings, the Applicant advised the Monitor that, as a result of the alleged misappropriation, the Applicant was of the view that the historical financial records of the Company could not be relied on. As a result, the Monitor requested that the Applicant prepare at least a current unaudited balance sheet. The Applicant provided an unaudited balance sheet to the Monitor as at September 30, 2008. Attached as **Appendix "B"** is the unaudited balance sheet prepared by the Applicant ("**Balance Sheet**").

27. The Applicant has not included on the Balance Sheet a value for the Policies in which the Purchasers have interests and the associated liabilities to Purchasers. It has only included an estimate of net present value for certain corporate interests that the Applicant has in certain Policies, as well as an estimate of the net present value of the TPI Portfolio. USI's beneficial interests in the Purchaser policies held in trusts are not recorded on the Balance Sheet.

28. As a result of the lack of financial statements, the Monitor has had to rely on the records supplied by the Applicant, and disclosures and representations made by the Applicant throughout the CCAA Proceedings to identify the Applicant's assets and liabilities for purposes of monitoring the Applicant's operations and evaluating the proposed Plan. According to the representations and disclosures made by the Applicant to the Monitor, the Policies are by far the most significant asset available to satisfy stakeholder claims.

29. According to the Applicant, there are 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) (the "**Policy Litigation**") and *Universal Settlements International Inc.* v. *Antonio Duscio et al.* (Ontario Superior Court of Justice, Court file no. 06-CV-323645 PD3), (the "**Shareholder Litigation**") from which the Applicant expects to receive a net recovery and which would be considered a contingent asset of USI. According to the December 2, 2008 affidavit sworn by Christopher Halas, if successful, the Applicant has estimated its potential recovery from the Actions to be US $9.0 million. According to the Applicant, to date it has incurred approximately US $3.0 million of legal costs to pursue the Actions.

30. Another contingent asset is cash currently held in an escrow fund, pending the outcome of the Shareholder Litigation, estimated to be in the amount of approximately $1.2 million (the "**Escrow Fund**"). The outcome of the Shareholder Litigation will determine the entitlement to the shareholders of USI to the money in this Escrow Fund. The Applicant has contributed legal fees to the Shareholder Litigation, is a party to the proceedings, and as a result, would have an interest in recovering proceeds from the escrow fund as repayment of legal fees it funded on behalf of the shareholders.

31. As described in further detail in the cash flow section of this Report, the Applicant holds cash in Canadian bank accounts designated for three purposes. One account is used for corporate purposes, the second account holds Premium Reserves associated with specific policies and the third account holds maturities received since the date of the Initial Order and amounts relating to stale dated maturity cheques. As at April 19, 2009, there were balances of approximately $960,000 in the corporate accounts, $3.6 million in the premium reserve account and $6.7 million in the maturity account.

Verifications of Policy Coverage

32. As described in the Second Report, in order for the Applicant to determine whether the data in its records associated with its policy portfolio is accurate, it has undertaken a

review of its policies, which review included requesting from insurers verifications of the Policies and reviewing annual statements from insurers (collectively, "**Verifications**"). To obtain policy information from insurers, USI is required to prove that it has a right to receive such information by proving that it, or its nominee, is the registered owner of the relevant Policy.

33. Attached as **Appendix "C"** is a listing of all Policies, including those which have matured since the Initial Order Date, as compiled by the Applicant based upon the Verifications received, where available. Where information could not be verified from Verifications but was compiled based upon information provided by the Applicant from another source, the information is marked as "not verified".

34. In the majority of cases the Verifications received included information such as the owner of the policy, the insured's name, the policy number, the policy face value and net death benefit, the current premiums associated with the policy, whether the policy is in force, the beneficiary of the policy, the accumulated cash value in the policy, the cash surrender value of the policy and whether there is the ability to obtain from the insurer a loan secured against the policy. However, in certain cases, the insurance companies did not verify all of the above information as each insurance company provides a different form of Verification that contains varying degrees of detail.

35. The Applicant has requested Verifications from insurers for all one hundred and fifty five (155) Policies which have not matured and are included in the proposed Plan. The Applicant began receiving Verifications from insurers in December 2008, which included verified information as at August 2008 or later. As at April 9, 2009, the Applicant had received one hundred and forty four (144) Verifications from insurers. The Applicant has continued its efforts to obtain Verifications from the remaining insurance companies from which it has not received Verifications to date. However, as described in further detail below, in certain cases the Applicant is not the owner of the policy and, therefore, must rely on the cooperation of the policy owner to request the Verification on its behalf. In certain cases it has not been possible to obtain the owner's cooperation.

36. The Applicant, in consultation with the Monitor, has carried out a detailed review of the Verifications received. As a result of this detailed review, the Applicant has identified ownership and valuation issues relating to seventeen (17) policies which in certain cases have affected, and in other cases could affect, the ultimate distributions available to creditors. Detailed descriptions of these issues is described in the following sections.

<u>Issues Identified Concerning Ownership of Policies</u>

37. Except as described below, the one hundred and forty four (144) Verifications received to date have confirmed that the Applicant, or its trust nominee, is the owner and beneficiary of those Policies. However, following the effective date of the Verifications the owner and beneficiary had been changed to the Applicant as described in paragraph 15(vii).

38. The balance of eleven (11) Verifications outstanding relate to six (6) policies owned by William Page & Associates ("**Page**"), four (4) group term life policies ("**Group**"), and one (1) policy which had lapsed without notice to the Applicant, and according to the Applicant, is in the process of being reinstated.

39. In the case of the Page and Group policies, Verifications could not be obtained because in both cases the Applicant is not the owner of the policies and, therefore, the insurer is not in a position to verify whether the Applicant is the beneficiary of the policies without the policy owner's consent.

Page Policies

40. The Page policies relate to viatical settlements with insureds residing in California. The Monitor is advised by the Applicant that according to California law, only life settlement companies licensed in the State of California are able to own viatical policies of residents of that State. Page has an agency relationship with Mills. In total there are ten (10) policies owned by Page. To date, Page has provided USI with Verifications for four of these policies which it had requested on behalf of the Applicant. According to the Applicant, it has asked Page to obtain Verifications for the remaining six (6) policies, but

to date they have not been received. According to the Applicant, often numerous requests for information must be made of Page before Page will respond to the initial request.

41. According to the Applicant, it is the beneficiary of the Page policies. However, in the majority of cases, it cannot be determined, from the information available to the Applicant, whether the beneficiary designations in the Page policies are irrevocable, or whether Page can revoke and alter beneficiaries of the policies. According to the Applicant's records, the ten (10) Page policies have aggregate face values of approximately US $2.4 million. There are sixty five (65) Purchasers who invested approximately US $1.2 million in these Page policies with associated maturities of approximately US $1.5 million. The remaining face value of US $900,000 represents USI's corporate interests in those policies.

Group Policies

42. According to the Applicant's records, there are 41 Purchasers who invested US $734,000 in fifteen group policies with associated maturities of approximately US $1.8 million, of which approximately US $680,000 is allocated to USI's corporate interests.

43. A group policy is a life insurance policy purchased by an employer for its employees. In the case of group policies, the employer is the owner of the policy. Typically, the employer would not release information relating to a policy to anyone other than the employee without first obtaining the consent of the employee, even if the request is made by a party to whom the employee had assigned his or her beneficial interest. According to the Applicant, it has been assigned as beneficiary of the Group policies by the respective employees. However, as with the Page policies, it is not clear whether the assignment of a beneficiary is revocable or not.

44. The Applicant will continue to attempt to verify information with respect to the Page and group policies, including whether USI is the beneficiary of the policies and whether its beneficial interest can be revoked by the owner of the policy. If the beneficial entitlement in the policy can be revoked by the owner of the policy, then the value of Purchasers' and

USI's interests in these policies could be at risk. According to the Applicant, to date, it has been able to collect Group and Page policy maturities.

Policy Lapse

45. During 2003, one insured (DM241) with a policy face value of US$100,000 qualified for a waiver of her premium payments due to a disability. Following the purchase of her policy by USI, the disability waiver had continued. As in the case of all insureds who qualify for a disability premium waiver, in 2003 the Applicant sent to the insured a request to confirm that she continued to qualify for the waiver. The insured did not provide the Applicant or the insurance company with the confirmation. As a result, the insurance company cancelled the waiver and ongoing premiums became automatically due. The insurance company sent a letter to the insured in 2004 advising that the policy would lapse unless the waiver was reinstated or premium payments resumed. She did not advise the Applicant of having received this notice. The insurance company failed to provide notice to the Applicant as the new registered owner of the policy. Consequently, the policy lapsed in 2004.

46. The lapsed policy was discovered in March 2009 when it became apparent that the policy could not be verified. The Applicant had not realised that this policy had lapsed because it had assumed that the premium waiver remained in place.

47. Due to the lack of notice to the Applicant, the insurance company permitted the reinstatement of the policy by converting it from a group policy to an individual policy subject to payment of US$19,000 in accrued premiums for the periods since the policy lapsed. The Company agreed to reinstate the policy in April, 2009 and pay the accrued premiums. There is one (1) Purchaser associated with this policy.

Valuation of Purchaser Interests

48. The Verification process has also identified the following matters relating to the valuation of Purchasers' interests in certain policies which resulted from the partial cash surrender of one (1) policy, and policy loans taken out against three (3) other policies:

Policy VF343 and VF344

49. During October 2008, in order to raise cash to fund ongoing premium payments and the then anticipated CCAA Proceedings, the Applicant partially surrendered policy VF343 for US $600,000 which reduced the net death benefit payable at maturity from US $4.0 million to US $3.4 million (current net death benefit) ("**Partial Surrender**"). The Partial Surrender was allocated first against US $364,365 which represented the Applicant's interest in the face value of policy VF343. The remaining US $235,635 which represented Purchasers' interests in the face value of policy VF343 was transferred to policy VF344 and offset the Applicant's interest in the face value of VF344.

50. Policies VF343 and VF344 are for the same insured. In order to transfer Purchasers' interests from policies VF343 to VF344, the Applicant selected eight (8) Purchasers who had invested in policy VF343 with aggregate interests in the face value amount of US $237,097 and transferred these Purchasers' interests to VF344. As Policies VF344 and VF343 are for the same insured and, as a result, have the equivalent life expectancies, the Applicant had not notified, or sought consent from, the eight (8) Purchasers for the transfer of their interests to a new policy. While both policies are Universal Life policies, they are with different insurance companies and would typically have different terms and therefore risks.

51. In the context of the proposed Plan, the face values of the VF343 and VF344 policies have not changed as a result of the Partial Surrender and, therefore, the formulas in paragraphs 4.6 and 4.8 of the proposed Plan (as discussed below) are not affected, nor are the interests of the affected Purchasers in the Plan.

Policies RB278, RB279, RB280

52. During 2002, the Applicant purchased three separate policies (RB278, RB279, RB280) relating to one insured. According to the Applicant, at the time of purchase, it believed the three policies had aggregate face values totalling U$3.8 million. However, the Verifications for these three policies indicated aggregate face values totalling U$3.6

million. According to the Applicant, the difference of approximately U$230,000 relates to a partial surrender of cash value in the policies which occurred prior to the policies being purchased by the Applicant in 2002.

53. According to the Applicant, it was not revealed to the Applicant at the time it purchased the policies that cash value had been surrendered which reduced the face value and death benefits of the policies. Subsequently, the Applicant sold interests in these policies to Purchasers based upon the aggregate face values in those policies of U$3.8 million instead of U$3.6 million. For this reason, the interests of the 93 Purchasers who have invested in these three policies are over-stated by approximately 6%.

Term Policies

54. In the Applicant's portfolio there are eighteen (18) term policies with face values totalling in aggregate approximately US $6.6 million of which US $950,000 relates to corporate interests.

55. Generally, term policies are generally split into separate five year terms. At the end of each five year term, the policy is renewed for an additional term (also five years on average) at a higher premium amount. As detailed in **Appendix "C"**, the term policies' expiration dates vary with each policy.

56. A term policy is converted into a permanent policy (whole life or universal life) based upon the terms of the individuals policy contract. Generally, as the insured ages, the premiums of the term policy increase with every term renewal. The conversion date is specified in the policy contract at the inception of the policy. The insurance company will often include a deadline for conversion of the term policy to a permanent policy.

57. In addition, when the insured of a term policy reaches sixty (60) years of age, the premiums typically increase substantially. Due to this significant increase in premium payments, the insured generally converts the policy to a permanent policy resulting in less of an increase.

58. The insured's consent is almost always required by the relevant insurance company in order to convert a term policy to a permanent policy. Depending on the cooperation available from the insured, consent is not always easy to obtain.

59. There are eleven (11) term policies with face values totalling US $4.6 million that have insureds who are either over the age of 60 or reaching the age of 60 in the next six (6) years requiring conversion to a permanent policy to limit the substantial increase in premiums. If for any reason the insureds cannot be located or choose not to cooperate in executing the necessary conversion documents, conversion of the term policies will not be possible and future premium payments for these policies may increase, reducing the net realizable value of the affected policies.

Policies with Disability Premium Waivers

60. There are currently twelve (12) policies totalling $1.9 million in face value that are subject to a disability waiver (a "**Waiver**").

61. Under a Waiver, an insurance company waives future premium payments for the insured as long as the insured continues to meet the Waiver criterion, which includes the insured not being able to work at his/her regular occupation or any other occupation. In the case where a Life Settlement company owns the policy, it receives the benefit of not having to pay the premiums as long as the insured continues to qualify for the Waiver.

62. The insurance company typically requires the insured to confirm their disability status annually. Failure by the insured to complete the requisite form may result in the insured no longer qualifying for the Waiver and the resultant requirement to resume premium payments, as it is dependant on the cooperation available from the insured. Completion of the form is not a certainty. Failure to maintain a Waiver will result in the resumption of premium payments.

UPDATE ON CLAIMS PROCEDURE

General

63. 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.

64. The purpose of the Claims Procedure was to identify all Claims against the Applicant and its current and former directors as at January 23, 2009 (the "**Valuation Date**").

65. The Monitor reviewed the books and records of the Applicant and prepared a claims schedule which set 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 basic information relating to each Purchaser's respective Claims. The Sixth Report describes the steps taken by the Monitor in carrying out the Claims Procedure as of the date of that Report.

66. The following is a detailed summary of the Acknowledgements of Claim sent to Purchasers, Requests for Amendment received from Purchasers related to the information disclosed on their respective Acknowledgements of Claim, and Proofs of Claim received in the claims process from Ordinary Creditors, as of the date of this Seventh Report:

($Cdn - thousands)	Number	Value	Value Accepted by Monitor	Value Disallowed by Monitor	Value Under Review by Monitor	Value in Dispute by Claimant
Acknowledgements of Claim sent by Monitor (Note 1, 5)	6,258	$ 159,259	$ 159,259	n/a	n/a	n/a
Requests for Amendment received from Purchasers (Note 2, 5)	14	$ 112	$ -	$ 95	$ 17	$ -
Requests for Amendment received from Purchasers (Note 3, 5)	1,308	n/a	n/a	n/a	n/a	n/a
Proofs of Claim received from Purchasers (Note 4, 5)	1,408	$ 9,193	$ -	$ 9,152	$ 40	$ 196
Proofs of Claim received from Ordinary Creditors	12	$ 64,367	$ 0	$ 26,804	$ 37,563	$ -
Total	9,000	$ 232,931	$ 159,259	$ 36,051	$ 37,621	$ 196

Note 1 - Includes investors in the M-Series Trust and the USII Trust valued at US $3,633,897 and US $5,839,816, respectively, which are excluded from the Proposed Plan.
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. No changes were made to the Original Investment 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.

Notices of Revision and Disallowance

67. As of the date of this Report, the Monitor had issued one thousand, four hundred and twenty one (1,421) Notices of Revision or Disallowance totalling approximately $36.1 million of claim value. Most of these relate to Purchasers who had the amounts of their claims acknowledged in the Acknowledgements of Claim and who therefore did not need to file separate proofs of claim. To date, the Monitor has received Dispute Notices from five (5) Purchasers totalling approximately US$196,000, as a response to the Notices of Revision or Disallowance issued. However, the deadlines for the receipt of Dispute Notices for certain Notices of Revisions or Disallowance have not passed as of the date of this Report.

Claims Pending and Under Review

68. Currently, there remain twelve (12) Proofs of Claim and one (1) Request for Amendment pending and under review by the Monitor totalling approximately $37.6 million, of which approximately $36.2 million represents the claim advanced by one claimant. The Applicant and the Monitor have held joint discussions with this claimant with a view to reaching a settlement of its claim. Based upon these discussions, an agreement in principle has been reached, which remains subject to the claimant receiving approval of the terms of settlement from its shareholders and the terms of the Plan being acceptable to the claimant.

Disputed Claims

69. In respect of the proofs of claims submitted to date, the Monitor has received five dispute notices of disallowance. Of the five disputes received to date, three are relatives of Anthony Duscio, the former President and shareholder of USI. As noted, Mr. Duscio and the Applicant are currently involved in the Shareholder Litigation.

Related Party Claim

70. An unsecured claim in the amount of $1.35 million has been filed in the Claims Process by a third party related to one or more of the Applicant's shareholders (the "**Related Party**"). The Applicant has advised that this claim relates to the balance outstanding in respect of a certain loan provided in the original amount of $2.15 million pursuant to a promissory note dated June 27, 2007, which then was replaced on October 19, 2007 by a second promissory note in the amount of $1.8 million. Repayments and advances were made from time to time between June 27, 2007 and the date of the Initial Order. The balance of $1.35 million was claimed to be outstanding, before interest. The Applicant has provided to the Monitor its detailed general ledger account activity indicating amounts advanced and repaid from time to time. The Applicant has advised that no accrued interest has been paid on the amounts outstanding. The rate of interest provided for in the promissory notes is 15%.

71. 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 claim filed by the Related Party does not refer to or account for the transfer of these policies. The Monitor has requested and intends to review the details of the transfer and of the unsecured claim filed and consider how or whether the transfer of the policies relates to the unsecured claim asserted by the related party. The claim remains subject to acceptance or revision by the Monitor.

72. The Monitor has been advised by the Applicant that subsequent to the transfer of the policies, premiums continued to be paid by USI in respect of those policies, until December, 2008, which amounted to approximately US $200,000. The Applicant has

advised the Monitor that, based on the current market prices for similar policies, the value of the three (3) policies is approximately US $1.2 million. The Monitor has requested additional details relating to these policy valuations, but to date has not received this additional information. Two of the three policies with face values totalling US $2.0 million relates to a ninety two (92) year old insured, and the third policy with a face value of US $5.0 million relates to a seventy eight (78) year old insured.

Secured Creditors

73. The Monitor's legal counsel conducted a search in the Province of Ontario, personal property registry to determine whether any creditors have registered security with respect to their claims. There are three security registrations:

i) A general security agreement in favour of the Toronto Dominion Bank. According to the Applicant, this registration relates to a corporate Visa credit card with a borrowing limit of $2,000; and

ii) Two office equipment registrations in favour of CBSC Capital and Ikon Office Solutions Inc.

These parties have not yet received notice of the claims process. In the proposed Plan they are an Unaffected Creditor, however, they may have as well an unsecured claim.

PLAN OF COMPROMISE AND ARRANGEMENT

General

74. The Applicant has developed the Plan to effect a compromise and arrangement of all Claims against it (other than certain excluded claims and certain claims that are designated as unaffected) in a manner that provides ongoing funding to prevent the Policies from lapsing. The Plan is more fully explained in the Applicant's information circular (the **"Information Circular"**) that is to be circulated with the Plan. Although an overview of the Plan is provided in this Seventh Report and the Information Circular, reference should be made to the Plan for an understanding and detailed review of its provisions.

75. The Monitor has obtained an understanding of the business and financial affairs of the Applicant, has reviewed the terms of the Plan, and has prepared comments on the state of the Applicant's financial affairs and the Plan, which comments are set out below.

Liquidity

76. As noted above, the financial difficulty that the Applicant is facing arises from the fact that it does not have sufficient cash to maintain premium payments on all Policies until they reach maturity. If the premium payments are not made, Policies will lapse, and the value of the investments made by Purchasers and the Applicant will be lost.

77. The only sources of cash available to the Applicant to preserve and protect policies until maturity and to pay the Claims of Creditors are (a) premium reserves that have been established by the Applicant, and which are currently allocated to specific Policies; (b) the proceeds of Policy maturities as they arise; (c) corporate cash on hand and future proceeds from corporately owned Policies; (d) any cash value that can be drawn from Policies; and (e) any financing that it may be able to raise by borrowing against Policies. The Applicant also believes that it can generate cash from the proceeds of the Litigation, if it has funding to continue.

78. In order to maximize the recovery for investors, the Applicant, after considering a number of options, including a sale of the portfolio or distribution in kind of the Policies, has determined that the best approach to preserving value for all stakeholders is to pool all cash available to it, including premium reserves, proceeds of maturities, and corporate assets. The pooled cash will be used to pay the premiums necessary to maintain Policies and to pay the costs of administering the Plan, including the costs of the Monitor of performing its role under the Plan, and to pay certain administrative expenses of the Applicant by way of payment of a monthly administrative fee.

79. In order to facilitate any cash needs that might be required if available cash is not sufficient to maintain premium payments pending further maturities, the Plan permits the Applicant

to borrow against the security of the Policies and their proceeds. This borrowing is only permitted to maintain premium payments and costs of administration.

Summary of the Proposed Plan

80. By pooling the cash assets available, the Applicant intends to continue to pay premiums until maturities are realized and collected and until such time as sufficient funds have been realized from policy maturities to (a) repay to Purchasers the amount of their original investments in full (the "**Original Investments**"); and (b) pay a designated amount of cash into a pool for purposes of paying a pro-rata dividend to ordinary creditors of the Applicant (ie: those creditors who have obligations owing to them by the Applicant other than for the purchase of an interest in a Life Settlement, defined in the Plan as "**Ordinary Creditors**").

81. It has been calculated by the Applicant that it will take approximately six (6) years for sufficient policies to mature in order to return 100% of Original Investments to Purchasers. The Monitor notes that the actual timing of maturities and/or costs incurred may result in it taking longer than six (6) years to provide such a return. This would also result in additional premiums and costs of administration incurred to maintain the Policies for a longer period of time.

82. If the full amounts of their Original Investments have been repaid to Purchasers, the Plan contemplates any further cash being used to pay Purchasers a return on their Original Investments.

83. If Purchasers receive 110% of their Original Investments, the Applicant will be entitled to collect an initial success fee of $1 million. As Purchasers continue to receive further returns on their investments, the Applicant will be entitled to payment of a further success fee, consisting of 25% of all further distributions.

84. If the full amount of Purchasers' Original Investments are repaid, the Applicant will be entitled to consider selling the remaining balance of the portfolio of Policies in whole or in part, if it determines, in consultation with the Monitor, that selling the portfolio and

distributing the proceeds of that sale to Purchasers and Ordinary Creditors would be more advantageous to stakeholders.

85. All of the pooled funds and policies will be held in trust by the Applicant. A "**Monitored Trust Account**" will be established by the Applicant into which the Applicant will be required to deposit of all cash to be included in the pool. The Applicant will enter into an agreement with the Monitor that will provide that the Monitor will have strict oversight over all distributions to be made out of the Monitored Trust Account. The Monitor will be entitled to seek court direction in the event that the Applicant fails to comply with its obligations under the Plan or if it appears that the Plan or the interests of Creditors are at risk.

<u>Mechanics of the Proposed Plan</u>

86. The mechanics of the proposed Plan are as follows:

i) For purposes of voting and distribution under the Plan, the Plan establishes two classes of creditors: (i) Purchasers; and (ii) Ordinary Creditors. For the Plan to be approved under the CCAA, both classes of creditors must vote in favour of the Plan by a fifty percent (50%) plus one majority in number of Creditors and by a two-thirds plus one majority in value of Proven Claims, based on Creditors who vote either by proxy or in person at the Creditors' Meetings.

ii) The Plan provides that all policies, and all cash, including Premium Reserves, maturity proceeds, and corporate cash are to be held in trust for the benefit of distributions under the Plan, pursuant to declarations of trust to be executed by the Applicant and Mills. The Plan provides for the establishment of a trust account by the Applicant into which these funds are to be deposited. This account, called the "**Monitored Trust Account**", will be used to maintain a reserve for the payment of premiums and expenses related to the administration of the Plan, which will be calculated based on the projected premium expenses and administrative expenses for the following two years, as calculated by the Applicant from time to time (the

"**Reserve for Costs**"). The Reserve for Costs will be determined based upon a rolling two year projected cash flow prepared by the Applicant quarterly and reviewed by the Monitor for reasonableness.

iii) The funds in the Monitored Trust Account will first be used to pay the following: (i) Premiums on the Policies as and when due, (ii) the Administration Fee, (iii) Professional Costs, (iv) Borrowing Costs, (v) the Litigation Contribution and (vi) Unaffected Claims. The Plan does not articulate a scheme of distribution in the event that there are insufficient funds in the Monitored Trust Acocunt to pay all of the items listed above.

iv) While all assets are to be paid into the Monitored Trust Account, it is intended that the value of those assets that belong to the Applicant is to be designated for the benefit of Ordinary Creditors (the "**Corporate Assets**"), and the value of those assets in which the Purchasers have an interest (consisting of Policies and Premium Reserves) is to be designated for the benefit of Purchasers (the "**Purchaser Assets**"). The effect of this process is that all assets are pooled, but Ordinary Creditors and Purchasers each get paid based on the value of different components of the Applicant's assets.

v) Once the Monitored Trust Account contains funds equal to the calculated Reserve for Costs, plus $5 million, a distribution of dividends may be made to Purchasers and Ordinary Creditors.

vi) Distributions of dividends to Purchasers and Ordinary Creditors will be made by transfers from the Monitored Trust Account to two trust accounts established by the Applicant for the purposes of making distributions. One trust account will be established for the benefit of Purchasers (the "**Purchasers Pool**"), and one trust account will be established for Ordinary Creditors (the "**Ordinary Creditors Pool**"). Distributions will be divided as between these two Pools based on a formula intended to reflect the face value of corporately held Policies (to be paid to the Ordinary Creditor Pool) and the face value of Policies designated to Purchasers (to be paid to the Purchaser Pool). In addition, the Applicant's projected premium reserve balance was split based upon Purchaser and corporate interests The allocation formula is calculated to be at the rates of 96.15% to Purchasers and 3.85% to Ordinary Creditors as follows:.

Purchaser Pool Allocation:	**(US$)**
Purchasers' Policies' face values	$185,040,912
Purchasers' portion of premium reserve account[1]	$2,709,072
Subtotal (A)	$187,749,984
Face value of all Purchaser and Corporate Policies [2]	$192,514,368
Premium reserve balance [1]	$2,744,944
Subtotal (B)	$195,259,312
Purchaser Pool allocation (A/B)	96.15%
Ordinary Creditor Pool Allocation	**(US$)**
Corporate Policies' face values [2]	$7,473,456
Corporate portion of premium reserve account[1]	$35,872
Subtotal (C)	$7,509,328
Face value of all Purchaser and Corporate Policies	$192,514,368
Premium reserve balance [1]	$2,744,944
Subtotal (D)	$195,259,312
Ordinary Creditor Pool allocation (C/D)	3.85%

Note 1: Premium reserve balances projected as at July 4, 2009, estimated Plan Implementation date..

Note 2: Excludes the Applicant's interest in policies in the USII Trust, which the Applicant believes has negligible value.

vii) It is to be noted that this allocation calculation does not include the Policy interests of the Applicant in the USII Trust, which consist of fractional interests in three (3) policies, the USI proportion of which totals approximately US$3.4 million of face value. As a result, the Ordinary Creditor allocation is lower and the Purchaser allocation is higher by 1.64%. The Applicant's share of the proceeds from the maturity or sale of the Policies in the USII Trust are to be contributed to the Monitored Trust Account for distribution to Purchasers and Ordinary Creditors based upon the percentages described above. If the US$3.4 million were to be included in the calculation, the Ordinary Creditor Pool Allocation would be 5.49% and Purchaser Allocation would be 94.51%. However, the Applicant advises that the proceeds of US $3.4 million upon maturity or sale will be paid into the Monitored Trust Account.

viii) Distribution of dividends to Purchasers out of the Purchaser Pool will be made pro-rata based on the amounts of their Original Investments, as they were determined in the Claims Procedure, until Original Investments are repaid in full. Distribution of dividends to Ordinary Creditors out of the Ordinary Creditor Pool will be made pro-rata based on the amounts of their claims as proven in the Claims Procedure (acknowledged claims and proven claims referred to herein as "**Proven Claims**").

ix) If Original Investments are repaid in full, then any return on Original Investments will be paid to Purchasers based upon the formula described in Schedule "B" of the proposed Plan which assigns a greater proportionate entitlement to Purchasers who have had their investments outstanding for longer.

x) According to the Plan, dividends will be distributed to Creditors as they become available based on the funds available over and above the Reserve for Costs, and will not exceed twice per year.

Financial Model

87. As described in the First Report, in response to its liquidity issues and the Purchasers' increasing concerns, on October 1, 2008 USI retained Consol Asset, a boutique advisory firm which specializes in restructuring and engineered solutions, to assist it in its restructuring.

88. Consol Asset has continued to work with USI since the commencement of these CCAA Proceedings to assist it in preparing a financial model to assist the Applicant in determining the Plan distributions (the "**Financial Model**"). The Applicant has included

information from the Financial Model in its Plan Circular in order to assist Creditors in understanding and evaluating the Plan.

89. Consol Asset is not an actuarial firm. The Applicant has not engaged actuaries to assist it in preparing the Financial Model.

90. The Applicant's Financial Model is based upon a number of facts and assumptions, including the Applicant's historical experience with regards to prior maturities in its portfolio, ("**Facts and Assumptions**") which are stated in the notes to the Financial Model. If the actual events, in particular timing of maturities, deviate from the Facts and Assumptions made in the Financial Model or the Facts and Assumptions are inaccurate, then the Applicant's estimates of the amount and timing of distributions to Creditors as outlined in the proposed Plan will change and those changes may be material. The Financial Model assumes that taxes are not paid, payable or required to be withheld from the cash generated and/or to be distributed to Purchasers and Ordinary Creditors pursuant to the Plan. Any variances from this assumption would negatively affect the amount and timing of distributions.

91. The Monitor has not reviewed the Financial Model for reasonableness nor has it engaged an independent actuary to review the Financial Model. The Monitor provides no assurance that the Financial Model is appropriate for its intended or any use. The Monitor considers the Financial Model to be illustrative of one of many possible scenarios that may occur under the Plan's structure and cautions readers that it should be read in such context. The Monitor accepts no responsibility or liability to any person for any reliance placed by that person on the Applicant's Financial Model. The Monitor has not relied upon the Financial Model in preparing its comments on the Plan contained in this Report.

Payment of Expenses and Fees

92. The costs of administering the Plan, which include the payment of premiums, the fees and costs of the Monitor, and a monthly administrative fee of $100,000 to the Applicant (the

"**Administration Fee**") for administering the Policies will be paid out of the Monitored Trust Account.

93. The Administration Fee payable to the Applicant is for the performance of administrative services outlined in Schedule "A" of the Plan starting on the date of implementation of the Plan and continuing until the earlier of (i) the date on which one hundred percent (100%) of the Original Investment of Purchasers is paid, (ii) six years from the Plan Implementation Date, and iii) termination of the administrative arrangement pursuant to the Plan and ancillary agreements. According to the Plan, the amount of Administration Fees which may be paid to the Applicant is $7.2 million over a six (6) year period.

94. If it should take longer than six (6) years for one hundred percent (100%) of the Original Investment of Purchasers to be paid and the administrative arrangement is not terminated during that time, payment of the Administrative Fee will cease and any further payments of fees relating to administration will only be paid with this Honourable Court's approval.

95. In addition, as noted, a Success Fee of US $1.0 million will be paid from the Purchaser Pool to the Applicant if Dividends totalling 110% of Purchasers' Original Investments are distributed to Purchasers. After payment of the US $1 million Success Fee, any additional proceeds are shared 75% / 25% (Purchasers / Applicant) for that portion in excess of 110% of Original Investments paid to Purchasers.

96. The Plan contemplates that the Applicant will assume responsibility to maintain regulatory compliance as part of its services to be provided in return for the Administrative Fee. The Monitor understands this to include preparation and filing of tax returns on behalf of the trusts. The Plan provides for the payment of Canadian taxes and withholdings from the Monitored Trust Account.

Litigation Contribution

97. The Plan contemplates that there will be a contribution of $500,000 out of the Monitored Trust Account to pay the costs of pursuing the Shareholder Litigation and the Policy Litigation (the "**Litigation Contribution**"). The full amount of this Litigation

Contribution will be allocated to the Ordinary Creditors. In return for the assumption of this cost by the Ordinary Creditors, the first $500,000 of recovery from the litigation, after repayment to the Ordinary Creditors of the Litigation Contribution, will be distributed to Ordinary Creditors. Thereafter, distributions shall be on the basis of the formula for distribution of dividends to Purchasers and Ordinary Creditors.

Escrow Funds

98. The Plan also anticipates a contribution to the Monitored Trust Account of the proceeds of the Escrow Funds in the event that the Shareholder Litigation is successfully resolved in favour of USI and the Shareholders and any part of the Escrow Fund is released to USI and the Shareholders. The total amount of the Escrow Fund is estimated to be in the amount of approximately $1.2 million. The outcome of the Shareholder Litigation will determine the entitlement of the shareholders to the money in this Escrow Fund. The Applicant has contributed legal fees to the Shareholder Litigation and is a party to the proceedings. According to the Plan, 50% of any amounts of the Escrow Fund paid to the Applicant, or its shareholders, will be paid into the Monitored Trust Account for the benefit of the Creditors.

99. However, the Applicant may in its sole discretion use all of the proceeds of the Escrow Fund that would otherwise be paid into the Monitored Trust Account to fund the Applicant's ongoing costs of the Shareholder Litigation and the Policy Litigation, in addition to the $500,000 Litigation Contribution, thereby eliminating any direct recovery to Creditors out of the Escrow Funds.

Unaffected Claims

100. The Plan also contemplates that certain creditors will be unaffected by the Plan. The claims of these creditors (the "**Unaffected Claims**") are to be paid in full out of the Monitored Trust Account. The Unaffected Claims are identified in the Plan as follows:

i) claims arising in respect of goods or services supplied since the commencement of the CCAA Proceedings;

ii) claims by the Monitor, counsel for the Monitor and the Applicant's legal counsels 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, and excludes fees and disbursements incurred with respect to the Actions;

iii) claims of individuals who are current officers or Directors of the Applicant for indemnity pursuant to indemnities provided by the Applicant;

iv) Secured Claims of any Persons;

v) claims arising in the ordinary course of business against the Applicant which are covered by insurance held by the Applicant; and

vi) claims of government entities referred to in paragraph 18.2(1) of the CCAA.

Excluded Claims

101. The Policies held by investors in the M-Series Trust and the USII Trust are excluded from the Plan, and investors with interests in these Policies will have no entitlement to distributions out of the proceeds of the Plan. The Applicant has determined that this is appropriate because these Policies are held specifically in trust for those investors.

102. Any claims that have been or may be raised by the counterparties to the litigation proceedings against the Applicant are also excluded from the Plan, and may continue to be prosecuted against the Applicant in the normal course. The Plan contemplates that such claimants shall not be entitled to assert any claim to the Policies nor to any funds paid into the Monitored Trust Account.

Sale Process

103. As noted, if Purchasers are paid one hundred percent (100%) of their Original Investments, the Applicant may request that the Monitor commence a Sale Process with respect to some

or all remaining Policies that have not matured. A Sale Process will be commenced only if market conditions are such that the financial recovery from the sale of the Policies is more advantageous to Purchasers and Ordinary Creditors than the continued payment of the Premiums administration costs and the continued collection of death benefits in respect of the Policies. Any Sale Process must be approved by this Honourable Court. The Plan does not prevent the Applicant, or a party related to the Applicant, from submitting an offer in any Sale Process.

Conditions for Plan Implementation

104. The following major conditions must be satisfied before the Plan will come into effect:

i) Acceptance of the Plan by both classes of Creditors pursuant to the CCAA;

ii) Fulfillment of corporate steps necessary to approve, execute, deliver and perform the obligations under this Plan;

iii) Issuance by the Court of an Order sanctioning the Plan pursuant to the CCAA and such order becomes a final order;

iv) Payment of all Unaffected Claims or a provision for payment has been made;

v) Execution by the Applicant and the Monitor of appropriate agreements satisfactory to the parties with respect to the their respective roles and the administration of the Plan, Policies and Insurance Proceeds;

vi) Execution and delivery by the Applicant of all instruments necessary in order to implement the Plan and perform its obligations; and

vii) Execution and delivery by all relevant Persons of all documents and other instruments necessary to implement the provisions of the Plan or the Sanction Order.

Effect of the Plan

105. On the Plan Implementation Date the treatment of Claims under the Plan will be final and binding on the Applicant and all Purchasers and Ordinary Creditors and the Plan will constitute (i) a full, final and absolute settlement of all rights of the holders of all Claims; and (ii) an absolute release and discharge of all indebtedness, liabilities and obligations of the Applicant and any current director of the Applicant. As a result of the trust arrangement to be established under the Plan, pursuant to declarations of trust to be executed by the Applicant and Mills, it is intended by the Applicant that creditors' claims will be limited to the assets held in trust and that USI will have no further claim itself to such assets held in trust other than as provided for in the Plan.

106. The Plan also will provide for a release of any agent that may have sold interests in Life Settlements for and on behalf of USI to Purchasers. The Applicant has determined that this is appropriate given that these agents were acting for USI in facilitating the transactions.

107. Upon implementation, the cash and Policies that are available within USI to potentially satisfy the claims of Purchasers, Ordinary Creditors and any other creditors will be transferred to a new trust or trusts, still to be administered by USI with assistance from Mills and under the continuing supervision (but not control) of the Monitor. Currently, the Applicant contemplates remaining the sole beneficiary of the Policies and the Plan undertakes to hold the Policies in trust. The sole beneficiaries of the trust(s) will be the Purchasers and Ordinary Creditors, who will release any and all claims they have against USI, its agents, shareholders, officers and directors, among others, for any Claims arising up to the Valuation Date (January 23, 2009). The Plan does not stipulate, and the Monitor is not in a position to comment on, the Purchasers' and Ordinary Creditors' rights and Claims against these parties for matters arising after the Valuation Date.

The Plan Does not Require a Determination of the Nature of Purchasers' Claims

108. The Plan does not recognize any claims to any property rights that might be asserted by any Purchasers to any Policies or Premium Reserves.

109. Purchasers of life settlements may be of the view (a) that they have an ownership interest in the Policy that is the subject of their investment and/or (b) that the premium reserves currently in possession of the Applicant for purposes of payment of premiums on Policies are held by the Applicant in trust for the Purchasers.

110. The Applicant has used a number of different forms of purchase agreements with Purchasers over its years of operation. The terms on which Purchasers acquired their investment in life settlements from the Applicant therefore vary depending on the form of purchase agreement executed.

111. There are a number of arguments that can be asserted both for and against the conclusion, based on the language of these various agreements, and the conduct of the parties, that Purchasers have acquired a property interest in the policies, as opposed to having entered into a simple debtor/creditor relationship with the Applicant. On the one hand, Policies are generally held in the name of the Applicant, and there is no direct relationship between the Purchasers and the insurance companies who have issued the Policies. However, the terms of a number of the contracts identify the Applicant as agent for the Purchaser in acquiring the Life Settlement investment, and purchase contracts contain trust provisions relating to the purchase monies paid by Purchasers to the Applicant. These provisions suggest an ownership interest exists for Purchasers in either particular Policies or in premium reserves.

112. The Plan does not contemplate recognizing such claims. The pooling of all premium reserves and maturities for distribution rateably to Purchasers based on the value of their Original Investments is to be done regardless of the nature of their interests.

113. The Applicant has articulated two main benefits in the pooling of assets:

i) There is a practical difficulty for almost all Purchasers in that to the extent they have an ownership interest in Policies or premium reserves, such interest is likely only fractional, as most Purchasers have been allocated only a partial interest in a Policy. In order for a Purchaser to take control or possession of a Policy on the basis of ownership, this would have to be coordinated with all other Purchasers of investments in that Policy. In addition, the premiums related to the Policies are sizable, and therefore would constitute a prohibitive burden on many Purchasers who might seek to act unilaterally to fund the full premiums coming due on their respective Policies. Attempting to determine the ownership rights of Purchasers will inevitably trigger a need to resolve the practical problem of fractional interests in Policies, and is anticipated to lead to potential costly time consuming litigation. The risk of such a scenario is that Policies lapse in the meantime, while these issues await resolution; and

ii) The Applicant has determined that the pooling of all maturities and premium reserves, regardless of ownership, is the most equitable and fair approach for the collective benefit of all Purchasers. Pooling will permit the Applicant to build a larger fund of maturities for distribution to a greater number of Purchasers than would be available if Policies without premium reserves were to be left to lapse. Without a pooling of assets, it is possible that many Policies would lapse causing a 100% loss to those Purchasers with investments in those Policies. As well, pooling mitigates the risk of insurance company failures, the risk that a benefit payment will be denied, and other potential losses, by spreading the risk throughout the pool. Pooling also ensures the payment of expenses necessary to ensure the Policies are maintained.

114. Pooling may, in the view of some Purchasers, have the legal effect of applying one Purchaser's asset to support of the asset of another Purchaser. However, it is the view of the Applicant that, if it is successful in implementing its Plan, the collective benefit to all will outweigh any delay or prejudice that may result to an individual Purchaser if it were ultimately to be determined that a Purchaser has an ownership interest in a Policy or in a premium reserve, without the need to resolve individual ownership claims.

115. Ordinary Creditors will be entitled to be paid a dividend out of the Ordinary Creditor Pool pro-rated based on the value of their claims. The amounts to be paid shall be paid first pro-rata based on 90% of the lesser of $300,000 or the total of each proven claim, and

thereafter pro-rata based on the total of proven claims. As a result, all Ordinary Creditors will be entitled, equally, to receive the lesser of 90% of their proven claim or $300,000. If their proven claim is less than $300,000, they will only share pro-rata with other creditors for the last 10% of their claim.

Risks of the Plan

116. There are a number of risks to the Plan. The following are some of the more apparent risks which have been identified by the Applicant and the Monitor:

i) it may take significantly longer than anticipated for Policies to mature, resulting in additional costs incurred to pay the Premiums and costs necessary to maintain the Policies;

ii) costs may be higher than expected in any given period;

iii) taxes may be determined to be payable by the trust(s) or required to be withheld from distributions to Purchasers;

iv) if funds are not available to pay Premiums at any time, Policies may lapse;

v) if there is a dispute with the insurance company with regards to any of the policies payment of Insurance Proceeds with respect to such Policies may be delayed or may not be received;

vi) if the insured Person under any Policy cannot be located by the Applicant, or if a death certificate for that Person cannot be obtained on maturity of the Policy, the death benefit payable under the Policy may be delayed or may not be received;

vii) certain Policies do not record the Applicant as the owner of such Policies, and such Policies could in some circumstances be revoked by the Person recorded as the owner of such Policies;

viii) certain Policies are term life insurance policies, and may not be convertible to whole life policies at the end of the term, and would therefore terminate at the end of the term resulting in no death benefit payable;

ix) should a life insurance company become insolvent the death benefit payable under the Policy may not be received;

x) risk of any unforeseen developments or circumstances in the Actions;

xi) the Applicant may default in the performance of its duties under the Plan; and

xii) a party who is not a Creditor as defined under the Plan may assert a claim to Plan assets thereby diluting the recovery to Creditors whether as a result of a successful judgment or by way of increased costs incurred to defend against the action.

117. To the extent these risks exist, the proposed pooling of assets provided for in the Plan, spreads this risk through the Pool, and helps to avoid the risk of any one Purchaser or group of Purchasers suffering a total loss although that is still a possibility.

Role of Monitor

118. It is the Applicant's duty and responsibility under the CCAA and the Plan to comply with the terms of the Plan and to ensure that its terms are fulfilled. The Monitor will continue to perform its role as a court-appointed officer overseeing the conduct of the Applicant in carrying out its obligations under the Plan. The Monitor will not be managing the portfolio of Policies and will have a limited court-approved role in overseeing the Applicant's administration of the cash.

119. The Monitor will maintain control of the Monitored Trust Account and other trust accounts established under the Plan, in accordance with agreements that will be executed by the Applicant and the Monitor that will provide the Monitor with the authority to approve all payments out of these accounts. Payments of premiums will be managed and determined by the Applicant and Mills. The Plan requires that the Reserve for Costs be maintained in the Monitored Trust Account to fund premiums and other costs. The Applicant will

provide the Monitor each quarter with a projected cash flow for the following two years which will be used to calculate the reserve, and on which the Monitor will be entitled to rely.

120. The Monitor will report to this Honourable Court and to Creditors from time to time, as needed, and subject to the direction of this Honourable Court. The Monitor will also note and report any material adverse change that might put the Plan at risk or require consideration by the Court and Creditors.

Role of Mills

121. Following Plan Implementation, Mills will continue to service 138 of the 155 open policies for the Applicant as the United States servicing agent. Mills will be asked to execute a declaration of trust pursuant to the terms of the proposed Plan. Included among Mills' responsibilities are to pay premiums net of cash value and premium reserves, collect death benefits, correspond with insurance companies directly and manage any issues that arise with regards to specific policies in consultation with the Applicant (i.e. convert a term policy). For its policy administration services Mills charges transactional based fees.

Plan Implementation Issues

122. The Monitor notes that the Plan provides that all Policies and all funds to be deposited into the Monitored Trust Account are to be held in trust by the Applicant pursuant to a declaration of trust that the Applicant will be required to execute. As described above, there is a risk to Creditors that the Applicant does not comply with its trust obligations, which is addressed in part in the Plan by the ongoing involvement of the Monitor to supervise the activities of the Applicant after Plan Implementation. The Monitor expects that the ancillary documents yet to be drafted and brought for the approval of this Honourable Court will be comprehensive and integral to the functioning of the Plan. As such, the Monitor's comments on the Plan are predicated on and subject to these agreements being finalized, approved and executed on terms consistent with the Monitor's comments contained in this Report.

123. The Plan does not provide for an order of priority of payment of Costs out of the Monitored Trust Account, which would be essential in the event of insufficient funds to pay all Costs in full. The Monitor intends to review with the Applicant an order of priority for the payment of costs that will be provided for in an amendment to the Plan that will be filed with this Honourable Court.

124. There may be tax consequences to the Plan that the Monitor and the Applicant are in the process of considering. The Plan provides for any tax obligations to be paid out of the Monitored Trust Account, and any tax withholding obligations to be complied with. Further, the Monitor considers that the Plan should be amended to provide that any clearance certificates required by the tax authorities, or any other regulatory or any other legal pre-conditions to any distribution, will be complied with. As discussed above, the Applicant's analysis of available distributions in its Financial Model does not take into account any tax liability.

125. The Initial Order provides for a $1 million Administration Charge over the assets of the Applicant in priority to all other claims, as security for the fees of the Monitor, its counsel, and counsel to the Applicant in respect of these proceedings. It is intended by the Monitor and the Applicant that a term of the Sanction Order will include a provision that the Administration Charge will continue to form a charge over the Property held in trust, to protect these obligations through the completion of Plan Implementation until the Monitor's appointment is discharged, and any other court sanctioned roles in respect of the Plan are terminated.

126. The Monitor, as a Court-appointed officer, has the ability to seek directions from the Court in the event of any default by the Applicant in implementing its obligations under the Plan. It is contemplated by the Monitor that it will seek, in the Sanction Order, a provision enabling it to take immediate steps to seek this Honourable Court's directions concerning the administration of the Plan in the event that it is apparent that the Applicant is no longer able or willing to administer the Plan on behalf of Creditors.

127. The Monitor also intends to seek, in the Sanction Order, provision for the continued protections afforded to it under the Initial Order and all other Orders issued in these proceedings and other necessary protections, which will survive Plan Implementation and will continue until such time as its role as Monitor and any other court-sanctioned roles in respect of the Plan are terminated.

128. It should be noted that under the Plan, all Creditors are deemed to release all Claims as exist as of the Valuation Date (January 23, 2009) including claims for trust or property entitlement. However, the Plan provides at Section 7.4 that any claims of Creditors in respect of a breach of an obligation under the Plan are not released. In the case of a breach, creditors would have the ability to claim for any loss or damage under that breach. However the Plan does not provide, in the event of a breach, for the revival of any claims that arose prior to the Valuation Date and were released under the Plan.

Discussion of Alternatives

129. In the event that the Plan is rejected by the Purchasers or the Ordinary Creditors, or not approved by this Honourable Court, the Plan will not be implemented. Furthermore, rejection of the Plan will require either an alternate or amended plan be put forward by the Applicant, or the appointment of a court officer to take possession of the policies and administer them. Described below are possible alternatives to the Plan.

Alternative #1 - Sale of Portfolio

130. The proposed Plan is structured to maintain the policy portfolio for a period of time to allow maturities to be realised and then to possibly sell the remaining policies. An alternative would be to sell the portfolio immediately through a sale process on the open market to be conducted by either the Applicant or a third party. The benefit of this alternative is that it avoids the uncertainty of there being insufficient financing available in the future to fund ongoing premiums resulting in policies lapsing. Net proceeds from the sale would be distributed to the Creditors. However, according to the Applicant, based

upon current market conditions, such a sale would realise far less for Creditors than the proposed Plan.

131. The Applicant has not obtained a formal valuation of the policy portfolio to make its evaluation of market price for the portfolio. It has based its estimates on discussions it had with various industry participants, as well as its experience in the life settlement business including the purchase of a portfolio from Trade Partners, Inc., in receivership, the majority of which included Policies of insureds with Aquired Immune Deficiency Syndrome. In this manner, the Applicant has determined a preliminary indication of value for the policies of US $40 million ("**Preliminary Indication of Value**") which represents approximately 32% of Purchasers Original Investments. The Applicant did not obtain an actuarial valuation, nor did it obtain offers for the portfolio as part of a sales process, in order to determine its Preliminary Indication of Value.

132. Currently, in the United States, two of the ongoing receiverships of life settlement companies, Mutual Benefits Corp. and Trade Partners, Inc. To date, the receivers in these receiverships have reported on their respective websites that they have made interim distributions to the Purchasers of 19% and 33% of Purchasers' Original Investments, respectively. In addition, it is expected that there will be additional distributions made to Purchasers in both receivership proceedings, however, based upon published court documents, it cannot be determined at this time what or over what timeframe the ultimate distributions will be.

133. According to the Applicant, current market conditions in the life settlement market are such that there is generally less available financing for prospective purchasers to purchase life settlement portfolios and to maintain the portfolios until maturities of policies. This translates into a market with fewer buyers offering less for the portfolio.

Alternative #2 - Purchasers obtain Policies

134. In this scenario there is no pooling of maturities as is contemplated in the proposed Plan. Instead, Purchasers would be assigned their interests in the specific policies associated

with their investments, would have the responsibility for funding premiums until maturity and would receive the death benefit at maturity.

135. The Purchasers who would benefit from this alternative are Purchasers associated with Policies which have already matured, have premiums which have been waived, have sufficient accumulated cash value or premium reserves on account to set off against future premium payments, or which have few investors on the same policy.

136. The Purchasers who would not benefit from this alternative are Purchasers associated with Policies with high premium payments due, have no accumulated cash value or premium reserve to fund future premium payments and which have many investors on the same policy who would have to share in the burden of financing the ongoing cost of maintaining the policy in good standing.

137. Attached as **Appendix "D"** is a schedule, prepared with information supplied by the Applicant and Mills, of Policies which includes the number of Purchasers who are associated with each policy, the number of Purchasers with greater than 10% interest in each policy, and the aggregate percentage ownership by Purchasers with greater than 10% interest in each policy.

138. Attached as **Appendix "E"** is the schedule, prepared with information supplied by the Applicant and Mills, of the estimated premium payments payable by policy over the next six (6) years after having reduced the premium payments by accumulated cash value in the respective policy accounts and utilising premium reserves, if available.

<u>Monitor's Comments on the Plan</u>

Effect on Liquidity

139. The Company has commenced these CCAA Proceedings in order to enable it to explore, in an urgent manner through a structured process, options for refinancing or restructuring its portfolio of policies in order to prevent policies from lapsing for the benefit of Purchasers, as well as for the benefit of itself in order to preserve a portion of its ongoing business.

140. The Applicant has had numerous discussions with the Monitor, as well as with several major Creditors during the formulation and preparation of the proposed Plan. The proposed Plan has been developed with a view to i) allowing there to be additional liquidity in order that Policies do not lapse; ii) maximizing the cash distribution to Creditors over time; and iii) providing distributions to Creditors in as efficient and timely manner as possible.

141. According to the Applicant's cash flow projections, the Applicant will not have sufficient corporate cash to fund ongoing premiums after July 4, 2009 for policies with no premium reserves unless it is permitted to borrow further amounts from insurance companies utilising the Policies as collateral (over and above the interim financing currently being sought). The implementation of the proposed Plan will allow the Applicant to utilise proceeds from Policy maturities collected since the date of the Initial Order, as well as the premium reserve account, to fund ongoing premium payments for Policies which do not have sufficient premium reserves to fund future premiums. As a result, the proposed Plan allows the potential for there to be sufficient liquidity to fund the costs of maintaining the Policy portfolio until its maturity. If no pooling is permitted, the Applicant will need to seek Policy loans or third party financing which would be expensive given current market conditions.

Division of Creditors into Classes

142. The division of Creditors into the Purchaser Class and the Ordinary Creditor Class appears to be reasonable, given the apparent differences between their interests and the nature of their claims. It is anticipated that the number of Creditors in the Purchaser Class could number in the thousands. It is anticipated that there are approximately ten (10) Ordinary Creditors. In the Ordinary Creditor Class, one creditor has a claim of over $36 million, which is by far the largest claim in that Pool, and which will give that creditor veto power in respect of value in any vote.

143. According to the Applicant, as described in this Report, USI has personal corporate interests in Policy face values totalling approximately US$ 7.4 million, excluding interests in USII Trust Policies (described in paragraph 86 vii) totalling approximately US$ 3.4 million. In the claims process described herein, Ordinary Creditors have filed claims

totalling approximately $37.6 million that have not been withdrawn or finally disallowed and therefore may ultimately stand as Proven Claims. The Applicant believes a significant portion of these claims should not be Proven Claims.

144. The economic effect of the Plan is that, subject to the Litigation Contribution and Litigation Recovery, the Ordinary Creditor Pool will essentially recognize the corporate Policy interests described in the preceding paragraph, and related Premium Reserves, as being available solely to satisfy the claims of Ordinary Creditors. Notionally, the allocation formula provided in the Plan operates such that no Policies allocated to Purchasers in the Applicant's records will be available to satisfy Ordinary Creditors' claims.

145. In a liquidation it is possible that this segregation of assets as between the Purchasers and Ordinary Creditors could be upheld and would drive the recoveries for each group, along the lines set out in the Plan. It is also possible that it could be determined that all Creditors, including Purchasers, are creditors of USI and have claims in a single class against all of the assets of USI, including all Policies and Premium Reserves. If this were to be the case, then the claims of Purchasers and the claims of Ordinary Creditors might all rank equally against the total available assets of the Applicant. For illustrative purposes only, the Monitor notes that the face values of all Policies, before costs of realisation, plus cash in the Applicant's various bank accounts as at April 19, 2009, totals approximately US $196.3 million. The Claims of Purchasers (at face value) plus Ordinary Creditors, whose claims remain under review, totals US $198.0 million.

Administration Fee and Success Fee

146. The Applicant seeks under the Plan to be paid an Administration Fee for its continuing role in administering the Policies and providing the Monitor with the information required to act in its supervisory role. The Applicant is not required to account for its use of the amounts paid to it but is required under the Plan to perform specific duties and maintain standards of performance satisfactory to the Monitor. Any surplus will accrue to the Applicant and will not be reimbursed to the Monitored Trust Account for the benefit of the

Creditors. The Administrative Fee in the Plan amounts to $1.2 million a year for up to six (6) years to a maximum of $7.2 million.

147. The Monitor is of the view that the Administration Fee could lie within the range of potential costs that would be incurred by a court-appointed receiver, trustee or chief restructuring officer seeking to implement a strategy to manage the policies to maturity along the lines of the one underlying the Plan.

148. In addition, the Plan contemplates Success Fees for the Applicant in the event the Purchasers recover 110% of their Original Investments. The Applicant has included in the Plan Circular an illustrative analysis indicating that Purchasers will recover the Original Investments in approximately six years and that the Success Fee could be approximately US $1.0 million. A receiver or trustee would not typically be eligible to receive a Success Fee; however, a chief restructuring officer appointed to administer the Plan would likely seek some form of incentive compensation.

Shareholder Litigation and Policy Litigation

149. The Monitor has not been able to make any assessment of the likelihood of success of either the Shareholder Litigation or the Policy Litigation. There are allegations made by all parties that will ultimately require a credibility determination. While the amounts that could be awarded to USI may be substantial, so could be the costs and there is no assurance that any of these amounts will be awarded or collected. The Monitor cannot, therefore, provide any assurance with respect to any Litigation Recoveries that may be available to the Creditors.

ACTUAL CASH FLOW ACTIVITY FROM MARCH 22, 2009 TO APRIL 19, 2009 (the "Variance Period")

150. The following is a summary of actual ending cash flow balances as at April 19, 2009, 2009 as compared to the Applicant's projected cash balances as reflected in the cash flow projection included in the Sixth Report.

	Ending Cash Flow Balances ($ Cdn)		
	Projection	**Actual**	**Variance**
Applicant's Operating Account	1,141,765	959,143	(182,621)
Premium Reserve Account	3,586,737	3,585,548	(1,189)
Death Benefits Account	6,741,774	6,741,774	(0)

151. The net unfavourable variance in the Applicant's Operating Account of approximately $183,000 during the Variance Period is mainly a result of the following:

i) $211,000 (negative variance) relating to receipt of the premium payments made in respect of the TPI AIDS Portfolio. The funds were received by the Applicant on April 21, 2009; and

ii) $28,000 (positive variance) relating to various corporate expenses.

UPDATED CASH FLOW PROJECTION TO JULY 4, 2009

152. The Applicant has prepared an updated cash flow projection (the "**Projection**") for the period through to July 4, 2009 (the "**Projection Period**"). The Projection along with the cash flow assumptions have been attached as **Appendix "F"**.

153. The Projection has been prepared by the Applicant solely for the purpose of estimating the Applicant's future cash flow requirements and readers are cautioned that it may not be appropriate for other purposes.

154. The Monitor's review of the Projection has consisted of inquiries, analytical procedures and discussions related to information supplied by Management and employees of the Applicant. The Monitor has relied upon unaudited, Company-prepared financial

information, Company records and discussions with management. Actual results achieved may vary from this information and the variations may be material.

155. As detailed in the Projection, the Applicant is projecting the following changes in the cash accounts through the Projection Period:

i) A net decrease in cash held in the Applicant's Operating Account approximately \$950,000. The cash flow projection indicates that the Applicant's cash balance in the Operating Account on July 4, 2009 will be approximately \$9,000.

ii) A decrease in cash held in the Premium Reserve Account of approximately \$356,000 relating to premium payments, net of annuity receipts, resulting in a projected ending cash balance at July 4, 2009 of approximately \$3,229,000; and

iii) The Death Benefits Account balance is projected to decrease by approximately \$185,000. This is due to the projected transferring of Corporate owned matured policies from the Death Benefits Account to the Operating account (subject to approval from this Honourable Court).

156. As detailed in the Sixth Report, the Applicant has proposed to take the following steps in order to fund its ongoing operations:

i) Transfer \$185,000 from the Death Benefits Account to the Operating Account consisting of Corporate owned matured policy interests;

ii) Apply for a loan against policies owned by the Applicant totalling approximately \$802,000; and

iii) Utilise accumulated cash values in policies to pay ongoing premiums during the period of May 10, 2009 to July 4, 2009 (as described in the Fifth Report), a projected savings of \$456,000.

MEETING ORDER

157. The Applicant has sought this Honourable Court's approval of the Meeting Order. The Meeting Order sets out the process and materials for providing notice to Creditors and holding Meetings of Creditors.

Timetable

158. The Meeting Order establishes the following timetable:

Mailing of Notice of Meetings, Plan and related documents to Creditors, and posting on Monitor's website	May 19, 2009
Publication of Notice of Meetings of Creditors	Starting on or about May 19, 2009 and not less than 10 days before the Meeting of Creditors
Deadline for Notice of Preliminary Motion by any Person	June 1, 2009
Plan information session held in Vienna, Austria, for local Purchasers	On or around June 2, 2009
Deadline to serve on the Applicant and the Monitor all materials to be relied on for a Preliminary Motion	June 5, 2009
Preliminary motion heard and determined by this Court	June 11, 2009 and/or June 12, 2009, or such other date or dates as the Court may order
Deadline for receipt by the Monitor of proxy's from Creditors	June 15, 2009 at 5:00pm (Eastern Standard Time)
Meetings of Creditors to vote on the Plan of Arrangement	June 17, 2009 at 9:00am for Ordinary Creditors and at 1:00pm for Purchasers.
Motion for Sanction Order(s)	On or about June 22, 2009 or such later date as may be set
Implementation of Plan of Arrangement	During the week of June 29, 2009

159. The Monitor is of the view that while the proposed timetable may appear short in comparison to other large CCAA Proceedings with international creditors, in the context of the Applicant's dire liquidity situation and the resultant risk to the Policies, the proposed dates provide Creditors with sufficient time to consider the Plan prior to the Creditors Meetings.

Notice

160. The Monitor shall, on or before May 19, 2009 cause a notice of the Meetings of Creditors substantially in the form attached as **Appendix "G"**, to be published for a period of one business day in each of, *The Globe and Mail*, National Edition (English language); *Die Press,* an Austrian newspaper (German language); *Handle Press,* a German newspaper (German language); *Tages Anzeiger*, a Swiss newspaper (German language) and *La Nacion,* an Argentinean newspaper (Spanish language).

161. 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 in addition to a copy of this Report to all Creditors with Proven Claims by mail, registered mail, courier, fax or email. A copy of the meeting materials will also be posted on the Monitor's website at www.ey.com/ca/universalsettlements in English, German and Spanish.

162. As a supplement to the notice provisions in the Meeting Order, the Monitor will also send a notice of the Meetings of Creditors to the Creditors and Agents by e-mail for those for whom the Monitor has an e-mail address.

Preliminary Motion

163. The Applicant has provided for a mechanism to allow any Person wishing to bring a motion before this Honourable Court (i) with respect to any matter that might affect or delay the Meetings of Creditors or the implementation of the Plan, or alter the outcome of the Meetings of Creditors, (ii) to challenge the classes of Creditors set out in the Plan, or which Persons are affected by the Plan, or (iii) to assert and have determined any right other than a right to vote as a Creditor under the Plan (a "**Preliminary Motion**"), to do so

by notifying the Applicant and the Monitor in writing, on or before June 1, 2009, of that Person's intention to bring a Preliminary Motion and a detailed description of the Preliminary Motion to be brought. Additionally, all materials to be relied on by the Person bringing the Preliminary Motion must serve it on the Applicant and the Monitor, by no later than June 5, 2009,

164. The Applicant expects that all Preliminary Motions can be heard and determined by this Honourable Court on June 11, 2009 and/or June 12, 2009, or such other date or dates as this Court may order. It is possible that a Preliminary Motion will be heard and/or determined at a later date which may interfere with the timeline as set out in the Meeting Order. Should this occur, depending on the nature of the Preliminary Motion(s) brought forward, the Applicant will seek further direction from this Honourable Court.

Meetings of Creditors

165. The Applicant will hold an information session in Vienna, Austria on or around June 2, 2009 to review the terms of the Plan with Creditors and Agents in that region. A representative of the Monitor will be present at the information session. As described in the Fourth Report, approximately 78% of investments were made by Purchasers who reside in this region (Austria - 56%, Germany - 16%, Switzerland – 6%). A translator (English/German) will be present to orally translate what is said at the meeting.

166. All Creditors with Proven Claims will be entitled to vote on the Plan at two Meetings of Creditors which will take place on June 17, 2009 at the InterContinental Toronto Centre, 225 Front Street West, Toronto, Ontario, Canada. The first Meeting of Creditors will take place at 9:00am for the Ordinary Creditor class, and the second Meeting of Creditors will take place at 1:00pm for the Purchasers class. At the Meetings of Creditors the Creditors will have the opportunity to consider, and if deemed advisable, to approve the proposed Plan, with or without variation.

167. A representative of the Monitor shall preside as the chair (the "**Chair**") of the Meetings of Creditors and, subject to the terms of the Meeting Order, will decide all matters relating to the conduct of the Meetings of Creditors.

Vote at the Meetings of Creditors

168. At the Meetings of Creditors, the Chair will direct the vote, by written ballot, on a resolution to approve the Plan and any amendments to the Plan as the Monitor and the Applicant may consider appropriate.

169. A vote by Creditors at the Meeting and by Proxy will be binding upon all Creditors, whether or not the Creditor was present or voted at the Meeting.

170. A passing vote on the proposed Plan at the Meeting of Creditors requires a two-thirds majority by value of Claims in each Class, and a fifty percent (50%) plus one (1) majority in number of each Creditor by class, who are present at the Meeting of Creditors in person or have submitted a proxy pursuant to the rules for submitting proxies. Each Creditor will be entitled to vote, without duplication, the amount of their Proven Claims. For the purpose of calculating a majority in number at each Meeting, each Creditor will only be counted once, even if that Creditor holds more than one claim in the Class then voting.

171. If the amount of a Claim for voting purposes has not been resolved in accordance with the Claims Procedure Order so as to be a Proven Claim at least three (3) Business Days prior to the date of the Meeting, the Claim will be deemed to be an unconfirmed Claim ("**Unconfirmed Claim**") and will be entitled to vote the amount of the Unconfirmed Claim in accordance with the provisions of this Meeting Order, without prejudice to the rights of the Applicant, the Monitor or the Creditor with respect to the final determination of the Claim for voting or distribution purposes and the Unconfirmed Claim will be separately tabulated by the Monitor. In the event that the aggregate Unconfirmed Claims are sufficient to alter the outcome of the vote to approve the Plan (by number or dollar value), the Monitor will apply to this Honourable Court for directions.

Plan Implementation

172. It is the Applicant's intention to implement the Plan as soon as practicable once the Plan has been sanctioned by this Honourable Court and, in any event, by no later than July 3, 2009.

PROPOSED INTERIM FINANCING RELIEF

173. As noted above, without the ability to borrow as an interim financing measure, the Applicant will run out of cash during the week ending June 13, 2009 and will be unable to fund premium payments and operating costs.

174. In accordance with the Order granted by this Honourable Court on April 20, 2009, the Applicant has commenced the administrative procedures necessary to apply for four (4) policy loans and use its corporate interests in those policies as security. Therefore, the Purchaser's interests in those policies will not be affected. The Applicant projects it will receive the loan proceeds in the month of May, which is in advance of when it will need the funds according to its most recent cash flow projection.

175. In the event the loans are not received when expected, or are far less than projected, the Applicant will notify the Monitor immediately and the Applicant will return to Court to seek further direction.

176. The following table lists the policies which will be affected by these interim borrowing measures:

($US) Insured ID	Purchasers' Portion of Face Value Before Costs	Applicant's Portion of Face Value Before Costs	Face Value	Proposed Loan Amount	Proposed Loan Interest Rate	Applicant's Portion of Face Value Before Costs and Post-Loan
MH 219	$0	$1,000,000	$1,000,000	$226,119	7.8%	$773,881
IA 342	$1,057,193	$462,807	$1,520,000	$210,511	7.4%	$252,296
RM & DM 337	$1,677,274	$322,726	$2,000,000	$108,675	7.4%	$214,051
DF 277	$343,018	$222,109	$565,127	$136,000	6.4%	$86,109
Total	$3,077,485	$2,007,642	$5,085,127	$681,305		$1,326,337

177. If the interest charged for the borrowings is not paid to the insurance companies then it is added to the outstanding loan balances. There exist sufficient corporate interests in the policies' face values after the loans are made to absorb accrued interest until Plan Implementation, at which time the loans can be repaid from pooled funds.

MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

178. The assets available to partially satisfy the claims of Purchasers and Ordinary Creditors consist of the Premium Reserves, Policies (and proceeds from the Policies) and the Litigation Recoveries (if any). The Applicant has concluded, and the Monitor agrees, that the preservation of the potential value of the Policies represents the greatest opportunity and also the biggest threat to maximizing the recovery to both Purchasers and Ordinary Creditors alike. Accordingly, this overriding objective has guided and driven the development of the Plan.

179. The existing Premium Reserves are insufficient, on a pooled basis, to fund the future premiums required to preserve all the Policies to their respective maturities unless the Policies all matured within approximately the next 8 months, which the Applicant and the Monitor believe to be an extremely unlikely possibility.

180. There are numerous forms of agreements governing the individual arrangements with Purchasers. The Applicant is of the view that the nature of each Purchaser's interest in the Policies and Premium Reserves (ie trust or property interest versus indirect creditor interest through USI) is highly uncertain and would be difficult, lengthy and costly to determine through litigation. The Monitor believes that if the issue were required to be determined as a prerequisite to taking the necessary steps to preserve the Applicant's assets then at the very least groups representing the Ordinary Creditors, Purchasers with meaningful Premium Reserves allocated to "their" Policies or interests in Policies that have matured and been paid into the Maturity Account and those Purchasers with interests in Policies that have not matured and do not have meaningful Premium Reserves would each take materially different positions concerning the nature of the Purchasers' interests.

181. In light of this, the Monitor concurs with the Applicant's view that given the Applicant's depleted cash resources and the resulting risk to the Policies, it is preferable to seek a resolution that avoids the uncertainty, delay and cost of obtaining a legal determination of nature of the Purchasers' interests in the Policies and various cash accounts. The Plan is structured to achieve this objective if implemented by pooling the cash on hand and Policies for the benefit of all Purchasers as a single class and providing for the use of available cash to fund the administration of the Policies and continued payment of all premiums out of the consolidated pool. This has the effect of mitigating the risk that individual policies could lapse or otherwise not be realized upon and the potential impact on Purchasers who were associated with such Policies. It eliminates the potential interpretation of the current structure that could result in some Purchasers recovering 100% of their face amounts now or soon while others could see their investments completely eliminated with no recovery.

182. The Plan provides for the Applicant to remain in the role of managing the Policies on the Purchasers' behalf with the Monitor continuing in a supervisory role reporting to the Court. All cash will be overseen by the Monitor pursuant to the terms of the Plan and a comprehensive agreement that will be drafted for which Court approval will be sought in the near future. The Plan contemplates the Applicant being responsible for determining a rolling forward-looking two year reserve for premiums and other costs. This reserve, coupled with ongoing reporting by the Applicant and the Monitor should, in the Monitor's view, enable the Monitor, Purchasers and Ordinary Creditors to take appropriate steps to obtain assistance from the Court on a timely basis if the maturity experience of the Policies or costs incurred put the preservation of the Policies and realization of their values at risk.

183. The Applicant seeks under the Plan to be paid an Administration Fee for its continuing role in administering the Policies and providing the Monitor with the information required to act in its supervisory role. The Applicant is not required to account for its use of the amounts paid to it but is required under the Plan to perform specific duties and maintain standards of performance satisfactory to the Monitor. Any surplus will accrue to the Applicant and will not be reimbursed to the Monitored Trust Account for the benefit of the

Creditors. The Monitor is of the view that the Administration Fee could lie within the range of potential costs that would be incurred by a court-appointed receiver, trustee or chief restructuring officer seeking to implement a strategy to manage the policies to maturity along the lines of the one underlying the Plan.

184. The Plan also contemplates Success Fees for the Applicant in the event the Purchasers recover 110% of their Original Investments. The Applicant contends that this structure aligns its principals' personal interests with those of the Purchasers and provides a reasonable sharing of the fruits of a successful realization in this restructuring.

185. As discussed above, the Monitor is not in a position to provide any assurance as to the accuracy or appropriateness for any party's purposes of the Applicant's analysis, Financial Model or projected timeframe for realization of the Policies. The time required, recoveries and costs incurred may vary materially from the Applicant's estimates and the Plan should be considered in this context.

186. The Applicant has not conducted a sale process or commissioned a valuation to determine the possible realizations if the Policies were offered for sale immediately; however, the Monitor has no basis upon which to disagree with the views expressed in the Plan Circular that the current market conditions support the assertion that the net recoveries achievable from maintaining the Policies through maturity should exceed the potential net recoveries in a liquidation.

187. Similarly, the Applicant asserts that the legal uncertainty concerning the nature of the Purchasers' interests and the many fractional interests into which many of the Policies have been divided renders a piecemeal distribution of the Policies to each of their respective Purchasers impractical, potentially contentious, costly and time-consuming.

188. Subject to the satisfactory resolution of the implementation issues and ancillary agreements described herein and the full performance by the Applicant of its duties and responsibilities as contemplated under the Plan, the Monitor is of the view that the Plan offers Purchasers and Ordinary Creditors collectively a better structure to balance their respective interests,

mitigate their risks and pursue an optimal overall recovery of value than does an immediate liquidation or piecemeal distribution.

189. The Applicant is requesting an extension of the Stay Period, during which it intends to present the proposed Plan to its creditors, mail the plan to Creditors to consider and vote on the plan, conduct meetings of creditors and apply for sanctioning of the proposed Plan. Assuming the interim financing measures are approved by this Honourable Court, the Projection indicates that the Applicant will have sufficient funding to maintain its operations and premium payments coming due through to July 4, 2009; however, there is very little margin for variance during this period.

190. The Monitor is of the view that the Applicant is acting in good faith and with due diligence and that an extension of the Stay Period to July 3, 2009, and granting of the interim financing relief, is in the best interests of its stakeholders.

191. In light of the foregoing, the Monitor recommends that this Honourable Court extend the Stay Period to July 3, 2009, approve the interim financing relief and grant the Meeting Order.

ALL OF WHICH is respectfully submitted this 7th day of May, 2009.

ERNST & YOUNG INC.,
Court-appointed Monitor of Universal Settlements International Inc.

Name: Brian Denega
Title: Senior Vice-President