

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
COURT. No.: 500-11-055122-184

SUPERIOR COURT
Commercial Division

**IN THE MATTER OF THE COMPANIES'
CREDITORS ARRANGEMENT ACT, RSC 1985,
C C-36, AS AMENDED:**

LE GROUPE SMI INC. / THE SMI GROUP INC.

– and –

LE GROUPE S.M. INC. / THE S.M. GROUP INC.

– and –

CLAULAC INC.

– and –

SMi CONSTRUCTION INC.

– and –

ÉNERPRO INC.

– and –

**LE GROUPE S.M. INTERNATIONAL
(CONSTRUCTION) INC. / S.M. INTERNATIONAL
GROUP CONSTRUCTION INC.**

Debtors

– and –

THE ENTITIES LISTED IN APPENDIX "A"

Mises-en-cause

– and –

ALARIS ROYALTY CORP.

and

INTEGRATED PRIVATE DEBT FUND V LP.

Joint Applicants

– and –

DELOITTE RESTRUCTURING INC.

Monitor

**EIGHTH REPORT TO THE COURT
SUBMITTED BY DELOITTE RESTRUCTURING INC.
IN ITS CAPACITY AS MONITOR**

(Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended)

Introduction

1. On August 24, 2018, following the filing of a joint application (the "**Joint Application**") made by Alaris Royalty Corp. and Integrated Private Debt Fund V LP (collectively, the "**Applicants**"), the Superior Court of Quebec (Commercial Division) (the "**Court**") rendered an Initial Order (as amended, the "**Initial Order**"), pursuant to the *Companies' Creditors Arrangement Act* (the "**CCAA**" and the "**CCAA Proceedings**") in respect of each of the SMI Group Inc., The S.M. Group Inc., Claulac Inc., SMI Construction Inc., Énerpro Inc, S.M. International Group (Construction) Inc. (collectively, the "**Debtors**") and the entities listed in **Appendix A** (collectively, the "**Mises-en-cause**" and, together with the Debtors, the "**CCAA Parties**"), and a stay of proceedings was subsequently granted in their favour until November 15, 2019 (the "**Stay Period**").
2. As part of the Initial Order, Deloitte Restructuring Inc. ("**Deloitte**" or the "**Monitor**") was appointed to monitor the business and financial affairs of the CCAA Parties pursuant to the CCAA, and LGBM Inc. (Mr. Paul Lafrenière) was appointed as Chief Restructuring Officer (the "**CRO**") for the CCAA Parties.
3. On November 12, 2018, the Court rendered an order approving a transaction (the "**Transaction**") whereby substantially all of the assets of certain of the CCAA Parties (the "**Vendors**") were sold to FNX-Innov Inc. (formerly 11017870 Canada Inc., "**FNX**" or the "**Purchaser**"), Thornhill G.P. and 11054953 Canada Inc. (the "**Approval and Vesting Order**"). Pursuant to said Order, the Court also expanded the powers of the Monitor and discharged the CRO.
4. On May 10, 2019, the Court rendered a judgment assigning FNX the rights of the Debtors under various additional agreements, approving both the procedure for notifying the counterparties to such agreements and an additional "administrative" assignment procedure.

Purpose

5. The purpose of this eighth report of the Monitor (the "**Eighth Report**") is to provide the Monitor's views on the Joint Application For an Extension and Approval Order (the "**Application**") that will be presented by the Applicants on November 12, 2019 and to report to the Court with respect to:
 - a) The status of the CCAA proceedings;
 - b) The developments since the issuance of the Monitor's Seventh Report;
 - c) The financial performance of the CCAA Parties and its cash flow projections;
 - d) The extension of the stay period; and
 - e) The Monitor's recommendation.
6. In preparing this Eighth Report, the Monitor has been provided with and has relied upon unaudited financial information and the CCAA Parties' books and records and financial information. While the Monitor has reviewed the information obtained since it has been involved with the CCAA Parties, some of which information was in draft format, the Monitor has not performed an audit or other verification of such information. The forward-looking financial information included in the Eighth Report is based on assumptions regarding future events, and actual results achieved will vary from this information and the variations may be material.
7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined herein shall have the same meaning ascribed to them in the Application.
8. Copies of the relevant orders, procedures and reports in connection with the CCAA Proceedings are available on the Monitor's website at www.insolvencies.deloitte.ca/en-ca/sm-group. The Monitor has also established a toll-free telephone number and an email address (groupesmccaa@deloitte.ca) that is referenced on the Monitor's website so that parties may contact the Monitor if they have questions with respect to the CCAA Proceedings.

The status of the CCAA Proceedings

9. On August 24, 2018, the date of the Initial Order, the Monitor began monitoring the CCAA Parties' cash flow. As part of this process, the Monitor performed, inter alia, an analysis of all cash inflows and outflows originating from the CCAA Parties' various bank accounts. The Monitor also did a weekly analysis and comparison of all cash inflows and outflows to the cash flow forecast previously submitted in Appendix C of the Monitor's Sixth Report dated May 8, 2019.
10. Since the issuance of the Preliminary Closing Certificate confirming the preliminary closing of the Transaction, the disbursements made by the Monitor have been minimal, considering that all business operations of the Vendors are now being performed by the Purchaser.

The developments since the issuance of the Monitor's Seventh Report

Potential monetization of remaining assets

Life insurance policies

11. On July 19, 2019, the Court rendered an order (the "**Approval and Vesting Order – Insurance**") approving a transaction (the "**Life Insurance Transaction**") whereby substantially all of the SM Group Inc.'s rights under and pursuant to seven (7) life insurance policies were sold and assigned to 11521446 Canada Inc., ("**11521446**").
12. On July 26, 2019, following the issuance of the Approval and Vesting Order – Insurance, the Monitor and 11521446 signed an asset purchase agreement ("**APA**") related to the sale and assignment of seven (7)

insurance life policies ("**Life Insurance Policies**") which were to the benefit of certain Debtors, and the purchase price payable by 11521446 pursuant to the APA (the "**Life Insurance Purchase Price**") was paid and transferred to the trust account of the Monitor's counsel, pending confirmation from the relevant insurance broker that the Life Insurance Policies were effectively assigned and transferred to 11521446. 11521446 agreed, as part of the APA, that during such time, it would also pay, in advance, the applicable monthly premiums payable pursuant to the Life Insurance Policies ("**Post-Closing Premiums Deposit**").

13. On November 6, 2019, the Monitor received confirmation from the insurance broker that the Life Insurance Policies had been assigned and transferred to 11521446.
14. On November 8, 2019, the Monitor received from Stikeman Elliott, the Monitor's Counsel, the Life Insurance Purchase Price as well as the Post-Closing Premiums Deposit.

Claims against Poulin

15. The Monitor will continue to assert the Bankruptcy Claims on behalf of the relevant members of the SM Group during the Stay Period. In the event further actions are necessary to assert such claims after the completion of the CCAA Proceedings appropriate measures will be implemented.

Dispute with Axor

16. On November 2, 2018, the Monitor filed with this Court an *Amended Application Seeking the Payment of Certain Amounts Owed by Les Ponts Jacques Cartier et Champlain Incorporée* (the "**PJCCI Application**"), pursuant to which the Monitor sought an order: (a) ordering the payment of an amount of \$563,395.90 (the "**PJCCI Payment**") owing by Les Ponts Jacques Cartiers et Champlain Incorporée ("**PJCCI**") to S.M. Consultants Inc. ("**SM Consultants**"), and (b) releasing PJCCI from all claims which could be asserted against it by SM Consultant's subcontractors, in connection with such payments (the "**PJCCI Release**").
17. The PJCCI Application was granted on November 8, 2018, and, as part of the order rendered by the Court, a *modus operandi* was established whereby a portion of the PJCCI Payment (i.e. \$207,975.48) (the "**Amounts Held in Trust**") would be held in trust by the Monitor for a period of 30 days to allow those subcontractors of SM Consultants to assert any rights they may have (if any) in respect of the Amounts Held in Trust, failing which, the Monitor would release same without further notice or order from the Court.
18. At the expiry of the above-mentioned 30-day period, although several of SM Consultants' subcontractors were owed money in respect of pre-filing claims related to the construction project involving PJCCI, only Axor Expert Conseil ("**Axor**") filed an application seeking the payment of an amount of \$65,476.83, out of the Amounts Held in Trust (the "**Axor Claim**").
19. The Monitor reviewed the Axor's Claim and advised its counsel that such claim constituted a pre-filing claim for which Axor was not entitled to a priority over the secured creditors, which Axor contested.
20. On October 22, 2019, the Monitor, with the support of the Applicants, and Axor, have reached a settlement agreement in respect of the Axor Claim, without any admission whatsoever, and for the sole purpose of limiting the cost of litigation.
21. Since then, the Monitor has circulated to each of Axor and the Applicants, a confidential draft settlement agreement, reflecting the terms and conditions of the proposed settlement. The terms of the proposed settlement can be found in the Draft Settlement Agreement filed *under seal* as Exhibit A-4 to the Application.
22. The Monitor is of the view that the settlement is fair and reasonable in the circumstances.

Dispute with the City of Montreal

23. On March 1, 2019, the Court rendered judgment granting an Application for Declaratory Judgment filed by the Monitor, declaring that the City of Montreal was not entitled to operate compensation between amounts purportedly owing to it prior to the issuance of the Initial Order and amounts owing to the Debtors in connection with services rendered after the issuance of the Initial Order (the "**Compensation Judgment**").
24. On April 10, 2019, the City of Montreal sought leave to appeal the Compensation Judgment, which leave was granted by the Court of Appeal of Quebec on the same day. As part of its judgment, the Court of Appeal established with the parties a timetable setting forth the various steps to be met in order to allow this matter to be heard and adjudicated upon on an expedited basis.
25. On September 12, 2019, the appeal filed by the City of Montreal was heard by the Court of Appeal and since then, the matter was taken under advisement.

Financial performance and cash flow projections

Cash flow results for the 27-week period ended November 9, 2019

26. For the cash flow period ended November 9, 2019, the net cash flow generated by the consolidated operations and other collections were \$619K higher than projected in the cash flow forecast prepared by the Debtors attached to the Monitor's Sixth Report (the "**CCAA-Proceedings Cash-Flow**").
27. The actual cash flow results and the variances from the CCAA-Proceedings Cash-Flow for the 27-week period are presented in further detail at **Appendix B** attached to this Eighth Report.

Cash flow forecast for the 26-week period ending May 9, 2020

28. To determine the CCAA Parties' post-closing cash flow and ongoing financing requirements during the CCAA Proceedings, the Monitor prepared a cash flow forecast (the "**CCAA Proceedings Cash-Flow**") for the 26-week period ending May 9, 2020. The CCAA Proceedings Cash-Flow forecast reflects the fees related to the ongoing CCAA Proceedings. Please note that the CCAA Proceedings Cash-Flow includes in the opening cash balance the proceeds coming from the sale of the Life Insurance Policies collected on November 8, 2019, as well as a partial distribution to the secured lender.
29. Since the CCAA Parties are no longer collecting accounts receivable, the fees related to the CCAA proceedings during the 26-week period ending May 9, 2020 will be funded, either by the Purchaser (if the work is related to the Transaction) or from the Excess Funds.
30. The CCAA Proceedings Cash-Flow is attached as **Appendix C** to this Eighth Report. Please note that the opening cash balance represents the Excess Funds that were held by the Monitor as at November 9, 2019.
31. The CCAA Proceedings Cash-Flow includes a partial distribution to a secured lender. The Monitor will keep a minimum amount to allow for the payment of the obligations during the CCAA Proceedings.

Extension of the Stay Period

32. As of the date of this report, the Compensation Appeal remains under advisement such that no judgment has been rendered. The requested extension to the Stay Period is necessary given that the Monitor is the respondent to the appeal.
33. As things currently stand, the Stay Period expires on November 15, 2019. The Applicants, therefore, seek an extension of the Stay Period up to and including May 10, 2020.
34. The Monitor is of the view that the extension of the Stay Period is necessary and appropriate to allow for the resolution of the Pending Appeal.

35. The Monitor is of the view that the Applicants have acted in good faith and with due diligence in accordance with the CCAA and the Initial Order and the subsequent orders rendered by the Court.

Monitor's recommendation

36. In light of the foregoing, the Monitor is of the opinion that the requested extension to the Stay Period is appropriate in the circumstances. Therefore, the Monitor recommends that the relief sought in the Application be granted.

The Monitor respectfully submits to the Court its Eighth Report.

DATED AT MONTREAL, this 11th day of November 2019.

DELOITTE RESTRUCTURING INC.
In its capacity as Court-Appointed Monitor

A handwritten signature in black ink, consisting of several overlapping loops and a final horizontal stroke, positioned above the name of the signatory.

Martin Franco, CPA, CA, CIRP, LIT,
Senior Vice President

Appendix A

Appendix A

Mises-en-cause

LE GROUPE S.M. INTERNATIONAL S.E.C. / THE S.M. GROUP INTERNATIONAL LP,
a limited partnership formed pursuant to the laws of Alberta, having its head office at 433, Chabanel Street West, 12th Floor, Montréal, Québec H2N 2J8.

LE GROUPE S.M. (ONTARIO) INC. / THE S.M. GROUP (ONTARIO) INC.,
a corporation incorporated pursuant to the laws of Canada, having its registered office at 205-6205B Airport Road, Mississauga, Ontario L4V 1E3.

AMÉNATECH INC.,
a corporation incorporated pursuant to the laws of Québec, having its head office at 740 Galt Street West, Sherbrooke, Québec, J1H 1Z3 and an elected domicile at 433, Chabanel Street West, 12th Floor, Montréal, Québec H2N 2J8.

LABO S.M. INC.,
a corporation incorporated pursuant to the laws of Québec, having its head office at 740 Galt Street West, Sherbrooke, Québec, J1H 1Z3 and an elected domicile at 433, Chabanel Street West, 12th Floor, Montréal, Québec H2N 2J8.

LES CONSULTANTS INDUSTRIELS S.M. INC. / S.M. INDUSTRIAL CONSULTANTS INC.,
a corporation incorporated pursuant to the laws of Québec, having its head office at 740 Galt Street West, Sherbrooke, Québec, J1H 1Z3 and an elected domicile at 433, Chabanel Street West, 12th Floor, Montréal, Québec H2N 2J8.

LES CONSULTANTS S.M. INC. / S.M. CONSULTANTS INC.,
a corporation incorporated pursuant to the laws of Québec, having its head office at 2111 Fernand-Lafontaine Blvd., Longueuil, Québec, J4G 2J4 and an elected domicile at 433, Chabanel Street West, 12th Floor, Montréal, Québec H2N 2J8.

LE GROUPE S.M. INTERNATIONAL (CONSTRUCTION) EURL,
a corporation incorporated pursuant to the laws of the People's Democratic Republic of Algeria, having its head office at Villa 40, cooperative El Amel, extension <D>, El Anhour, Alger, 16104, Algeria.

SM SAUDI ARABIA CO LTD,

a corporation incorporated pursuant to the laws of the Kingdom of Saudi Arabia, having its head office at 7958 Al Amir Muhammed Ibn Faisal Road, Hajar Unit No: 25, Dharan 34253-5296, Kingdom of Saudi Arabia.

THE S.M. GROUP INTERNATIONAL SARL,

a corporation incorporated pursuant to the laws of Grand Duchy of Luxembourg, having its head office at 595, 1er étage, rue de Neudorf, L-2220, Luxembourg.

THE S.M. GROUP INTERNATIONAL ALGÉRIE EURL,

a corporation incorporated pursuant to the laws of the People's Democratic Republic of Algeria, having its head office at Villa 40, cooperative El Amel, extension <D>, El Anhour, Alger, 16104, Algeria.

S.M. UNITED EMIRATES GENERAL CONTRACTING LLC,

a corporation incorporated pursuant to the laws of the United Arab Emirates, having its head office at Mezzanine 2, bâtiment n. 295, Mohammed Ben Zayed, Mussoffah Shabiya Khalifa, ME-11 P.O. Box 91777, Abu Dhabi, United Arab Emirates.

COMMANDITÉ SMi-ÉNERPRO FONDS VERT INC. /

SMi-ENERPRO GREEN FUND GP INC.,

a corporation incorporated pursuant to the laws of Canada, having its head office at 433, Chabanel Street West, 12th Floor, Montréal, Québec H2N 2J8.

SMi-ÉNERPRO FONDS VERT S.E.C. /

SMi-ENERPRO GREEN FUND LP,

a corporation incorporated pursuant to the laws of Canada, having its head office at 433, Chabanel Street West, 12th Floor, Montréal, Québec H2N 2J8.

9229-4263 QUÉBEC INC.,

a corporation having its registered office at 433, Chabanel Street West, 12th Floor, Montréal, Québec H2N 2J8

Appendix B

Groupe SM - Budget to Actual - CCAA Proceedings Cash-flow

For the twenty-seven-week period ended November 9, 2019

Consolidated - (\$000)	Actual	Budget	Variance	Note
Collections				
Collection of the Hexagone Receivable (Excluded Assets as per the APA)	225	225	-	
Sale proceed of life insurance policies	839	-	839	1
Post-Closing Premiums Deposit	19	-	19	1
Surrender value of life insurance policies	102	-	102	2
Transition financing (partial reimbursement)	-	198	(198)	3
Advances from FNX-Innov	131	308	(177)	
Other	41	-	41	
Total Collections	1,357	731	626	
Disbursements				
Professional fees - CCAA proceedings	131	308	177	4
Professional fees - Other	260	130	(130)	5
Insurance premiums	477	423	(54)	6
Total Disbursements	868	861	(7)	
Net Cash-Flow	489	(130)	619	
Net cash (Shortfall) - Beginning	818	818	-	
Net cash (Shortfall) - End	1,307	688	619	

SM Group
Budget to actual
Main explanations

- 1. Sale proceed of the life insurance policies:** This positive variance is due to the fact that the sale of the life insurance policies was uncertain as at the date of the last cash-flow.
- 2. Surrender value of life insurance policies:** This positive variance is due to the fact that the Monitor filed a request to the insurance companies to get the reimbursement of the surrender value before closing.
- 3. Transition financing (partial reimbursement):** This advance under the Transition Financing was not received, therefore, the net impact is an overstatement of the receipts of \$198k.
- 4. Professional fees - CCAA proceedings:** This positive variance is due to a timing difference of \$134k and a permanent variance of \$43k due to lower professional fees related to the Compensation Appeal.
- 5. Professional fees -Other:** This negative variance is mainly due to higher professional fees than anticipated related to the sale of the life insurance policies.
- 6. Insurance premiums:** This negative variance is mainly due to the fact that the sale of the life insurance policies took longer than expected, therefore, the Company needed to assume the monthly premiums for two additional months.

Appendix C

SM Group

Cash flow projections – Main assumptions

1. Represents the projected amounts to be received from FNX-Innov in order to cover the professional fees related to the CCAA proceedings.
2. Represents the distribution to the secured lender.
3. Represents the professional fees related to the CCAA proceedings payable to the Monitor, the Monitor's counsel and the Applicants' counsels.
4. Represents the professional fees related to all other matters in these CCAA proceedings payable to the Monitor, the Monitor's counsel and the Applicants' counsels.