

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

**SEVENTH 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 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**").

5. 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.
6. 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

7. The purpose of this seventh report of the Monitor (the "**Seventh Report**") is to provide the Monitor's views on the Motion For the Issuance of an Approval and Vesting Order (the "**Motion**") that will be presented by the Monitor on June 6, 2019 and to report to the Court with respect to:
 - a) The Monitor's efforts in relation to the sale and assignment of the S.M. Group Inc.'s ("**SM Group**") rights under and pursuant to ten (10) life insurance policies ("**Life Insurance Policies**"); and
 - b) The Monitor's recommendation.
8. In preparing this Seventh Report, the Monitor has been provided with and has relied upon unaudited financial information and the CCAA Parties books, 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.
9. 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 Motion.
10. 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.

Update on the Monitor's Efforts in Relation to the Sale of the Life Insurance Policies

11. SM Group is currently the holder and beneficiary of the Life Insurance Policies, as presented in the Motion, and insuring the life of two of its former executives, Mr. Bernard Poulin ("**Poulin**") and Mr. Gérard Laganière ("**Laganière**").
12. Over time, an amount of approximately \$5.5M was paid in premiums under the Life Insurance Policies by SM Group and, as indicated in the Motion, the total amount insured under the Life Insurance Policies is approximately \$25.92M.
13. As mentioned in the Monitor's Sixth Report, the Monitor has been examining whether life insurance policies insuring Poulin or others, and with certain CCAA Parties as beneficiaries, are considered realizable assets.
14. Over the past few weeks, in light of the significant value associated with SM Group's rights under the Life Insurance Policies, the Monitor consulted the Applicants with respect to the potential monetization of such rights. Such monetization had to occur on an expedited basis, as monthly premiums of more than \$60K were payable under the Life Insurance Policies.

15. The Monitor received the consent of the Applicants to solicit interests and entertain offers. Due to the nature of the assets, the Monitor, in consultation with the Applicants, decided to make a private call for tender in order to monetize the Life Insurance Policies at a minimal cost.
16. During this process, the Monitor was approached by two interested parties, including Mr. Eddy Savoie (the "**Purchaser**").
17. The Monitor received an offer from each of the two interested parties on May 2, 2019 (amended on May 16, 2019) and May 9, 2019 respectively. These offers are presented in the Motion, under seal, as Exhibit R-12, Exhibit R-13, and Exhibit R-14. Both these offers indicated that any transaction would remain subject to approval by this Court.
18. In order to maximize the realization value on the Life Insurance Policies, the Monitor subsequently decided, in consultation with the Applicants, to invite the two interested parties to an auction (the "**Auction**") to provide the opportunity to each party to submit revised offers.
19. On May 16, 2019, the Monitor informed the two interested parties above that the Auction would take place on May 23, 2019 at 2:30 p.m. (subsequently rescheduled for 3:30 p.m.) at the offices of the legal counsel of the Monitor, Stikeman Elliott. The correspondence between the Monitor and the interested parties is presented in the Motion, under seal, as Exhibit R-15.
20. Both interested parties agreed to participate in the Auction and made a deposit in the amount of \$100,000 to the Monitor prior to the Auction.
21. The Auction took place on May 23rd and after 17 rounds, the highest offer was submitted by the Purchaser, as appears from the minutes of the Auction and Mr. Savoie's revised offer (the "**Winning Bid**"), presented in the Motion, under seal, as Exhibit R-16.
22. After the Auction, the Monitor advised the Purchaser that it would present the Motion as soon as possible and prepare an asset purchase agreement ("**APA**") with similar terms to those governing the Winning Bid.
23. The Winning Bid includes various conditions including:
 - i. The transaction contemplated by the APA shall be approved by the Court and the Life Insurance Policies shall be vested into the Purchaser free and clear of any lien, hypothec, charge, deemed trust or other encumbrance or title declared opposable to the parties to the Life Insurance Policies pursuant to a vesting order ("**Approval and Vesting Order**") (paragraph 3(b) of the Winning Bid);
 - ii. The Approval and Vesting Order is not to be stayed, varied in any material respect, set aside or appealed before the Closing Date (paragraph 3(c) of the Winning Bid);
 - iii. Prior to the hearing, the Motion must be duly served upon each insurance company listed in Schedule A attached to the Winning Bid (paragraph 3(d) of the Winning Bid); and
 - iv. No material adverse change has occurred with respect to the Life Insurance Policies and the premium payable pursuant to the Life Insurance Policies since the date upon which the Winning Bid is to be paid in the ordinary course (paragraph 3(f) of the Winning Bid).
24. The Monitor confirms that the premiums payable under the Life Insurance Policies were paid.

Monitor's Recommendation

25. The Monitor is of the view that, through the private call for tender described above and the Auction, the market was adequately tested and that the Winning Bid is likely the best offer that the Monitor can obtain.
26. The Monitor believes that it is highly unlikely that launching a broader sale process in the context of these CCAA Proceedings would result in any offer being received that would be materially better than the Winning Bid. Moreover, the Monitor is of the view that any delay will likely cause significant erosion of value of the

assets due to the payment of the monthly premiums, the whole without any assurance that the Monitor will be able to obtain a significantly higher offer than the Winning Bid.

27. Based on the above, the Monitor supports the Winning Bid and the transaction to be executed in relation thereto (the "**Proposed Transaction**").
28. Alaris Royalty Corp. and Integrated Private Debt Fund V LP ("**IAM**"), first ranking secured creditors of SM Group, have advised the Monitor that they are supportive of the Proposed Transaction.
29. In light of the foregoing, the Monitor submits that it is appropriate, in the present circumstances, for this Court to approve the Proposed Transaction contemplated by the Winning Bid and recommends that the Court grant the Motion.

The Monitor respectfully submits to the Court its Seventh Report.

DATED AT MONTREAL, this 4th day of June 2019.

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

A handwritten signature in black ink, appearing to read 'Martin Franco', written over a horizontal line.

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

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.

3215288 CANADA INC. (FORMERLY CSP SECURITY CONSULTING 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.

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 Anchour, 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