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CANADA
DISTRICT OF QUEBEC
DIVISION No.: 01-MONTRÉAL
COURT NO.: 500-11-055860-197
FILE NO.: 41-2463815
OFFICE NO.: 157678-004

SUPERIOR COURT
"In Bankruptcy and Insolvency"

IN THE MATTER OF THE PROPOSAL OF: **THE S.M. GROUP INTERNATIONAL
INC.**

The Proposer

- and -

RAYMOND CHABOT INC., (SR0163)

Jean Gagnon, CPA, CA, CIRP, LIT
Trustee in Charge

Licensed Insolvency Trustee

**REPORT OF THE TRUSTEE IN CHARGE ON THE STATEMENT
OF THE PROPOSER'S BUSINESS AND FINANCIAL AFFAIRS**

(Subsections 50(10) and 50(5) of the Bankruptcy and Insolvency Act)

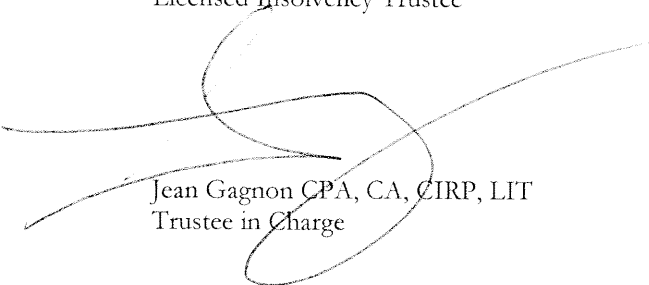
PREAMBLE

The *Bankruptcy and Insolvency Act* orders the Trustee to monitor the business and financial affairs of the Proposer, from the filing of the Proposal until the Proposal is approved by the Court. The Trustee is also required to make an appraisal and investigation of the affairs and property of the Proposer so as to enable the Trustee to estimate, with reasonable accuracy, the financial situation of the Proposer and the cause of the Proposer's financial difficulties and report the result thereof to the creditors.

Accordingly, please read this report, which deals with the statement of the Proposer's business and financial affairs and summarizes the Proposal to the creditors.

Dated in Montréal on January 23, 2019.

RAYMOND CHABOT INC.
Licensed Insolvency Trustee


Jean Gagnon CPA, CA, CIRP, LIT
Trustee in Charge

1. PURPOSE OF THE PROPOSAL AND BACKGROUND

On August 24, 2018, all of the entities in the S.M. Group,¹ including the Proposer, placed themselves under the protection of the *Companies' Creditors Arrangement Act* (hereafter, "CCAA") and Deloitte Restructuring Inc. is serving as Monitor in this process.

Deloitte Restructuring Inc. continued the sale process that had been commenced in the month of January 2018 which had identified several potential purchasers and/or investors for the acquisition of S.M. Group's assets. At the conclusion of this process, FNX-Innov Inc. (formerly 11017870 Canada Inc., hereafter "FNX") was identified as one of the purchasers of substantially all of the S.M. Group's assets.

The courts approved the sale transaction with FNX in a decision rendered on November 12, 2018 and the assignment of the contracts in decisions rendered on December 10 and 13, 2018 (the "Transaction").

A significant portion of S.M. Group's activities involves undertaking a number of contracts abroad. The objective is therefore to make it possible for FNX to acquire the Proposer's shares if this Proposal is accepted by the creditors and the courts and thus, to continue these contracts without having them assigned, which would likely be very complex given the various jurisdictions involved.

2. FINANCIAL SITUATION

Substantially all of the assets of the S.M. Group's companies² included in the Transaction, including the Proposer's assets, were sold to FNX, and as a result, the Proposer has no assets other than the shares it owns in the following companies:

- CSP Security Consultants Inc.;
- The S.M. Group International VAM inc.;
- The S.M. Group International (SA) inc.;
- The S.M. Group International (Construction) EURL;
- S.M. Oil and Gas inc.;
- SMI Horizon Engineering LLC;
- SM Saudi Arabia Co Ltd.;
- The S.M. Group International SARL;

¹ SMi Group Inc., S.M. Group Inc., Claulac Inc., SMi Construction Inc., Énerpro inc., S.M. Group International Construction Inc. (collectively the "Debtor Companies"), and the following entities involved (collectively with the Debtor Companies, the "S.M. Group"): S.M. Group International LP; Enerpro LP; Les services de personnels S.M. inc.; The S.M. Group (Ontario) Inc.; Aménatech Inc.; Labo S.M. inc.; S.M. Industrial Consultants Inc.; S.M. Consultants Inc.; Faciliop Experts Corp.; The S.M. Group International Inc.; CSP Security Consultants Inc.; The S.M. Group International (S.A.) Inc.; Le Groupe S.M. International (Construction) EURL; SM Saudi Arabia Co Ltd; The S.M. Group International SARL; The S.M. Group International Algérie EURL; S.M. United Emirates General Contracting LLC; SMi-Enerpro Green Fund GP Inc.; SMi-Enerpro Green Fund LP; 9229-4263 Québec inc.

² The SMi Group Inc., The S.M. Group Inc., Claulac inc., SMi Construction Inc. Énerpro inc., S.M. International Group (Construction) Inc., The S.M. Group International LP, Enerpro LP, The S.M. Group (Ontario) Inc., Aménatech Inc., Labo S.M. inc., S.M. Industrial Consultants inc., S.M. Consultants Inc., The S.M. Group International Inc., CSP Security Consulting, inc., The S.M. Group International (S.A.) Inc. Le Groupe S.M. International (Construction) EURL, SM Saudi Arabia Co Ltd., The S.M. Group International SARL, The S.M. Group International Algérie EURL, S.M. United Emirates General Contracting LLC, SMi-Enerpro Green Fund GP inc., SMi-Enerpro Green Fund LP and 9229-4263 Québec inc.

- The S.M. Group International Algérie EURL;
- S.M. United Emirates General Contracting LLC;
- RBI Experts Conseils.

3. SUMMARY OF PROPOSAL

The Proposal is summarized below.

In the event of any discrepancy, the complete text shall prevail over this summary, and the French version of the Proposal shall prevail over the English version.

Secured claims

The value attributed to the sureties of the secured creditors is nil. Accordingly, these creditors will be considered as unsecured creditors without the right to priority.

Employee claims

The Proposal provides for payment of amounts due to employees in the normal course of business.

Unsecured claims

The Proposal provides for payment to the Trustee by the Proposer within ten days following court approval of this Proposal of an overall amount of \$100,000 to cover unsecured claims as follows:

- For each unsecured claim, payment of the lesser of (i) one thousand dollars (\$1,000) and (ii) the total amount of the unsecured claim (the “First Tranche”); and
- For the portion of each unsecured claim in excess of one thousand dollars (\$1,000), as the case may be, the balance of the amount offered for distribution minus the amount necessary for payment of the First Tranche will be prorated among the unsecured creditors.

The creditors in question include, but are not limited to, Alaris Royalty Corp., Integrated Private Debt Fund V LP., Export and Development Canada, Intact Insurance Company, Investissement Québec, Signaterre Environnement Inc., and the City of Montréal lawsuit (Minister of Justice and Attorney General) under the Voluntary Repayment Program.

Reorganization of Articles of Incorporation

The Proposal is conditional on a reorganization of the articles of incorporation under Sections 191 and 212 of the *Canada Business Corporations Act* (“CBCA”) pursuant to which FNX will become the sole shareholder of the Proposer.

4. STATEMENT OF ESTIMATED REALIZATION

According to the information contained in the Proposer's statement of affairs, the estimated dividend payable to unsecured creditors would be as follows:

(In thousands of dollars)	
Amount provided in the Proposal	100
Less :	
Crown Claims	Should be nil
Trustee's fees and disbursements	Assumed
Preferred claims	Should be nil
Amount available for distribution to Creditors	100
Based on the creditors' list, the affected claims amount to	85,483
Estimated Dividend	
For claims of \$1,000 or less	100%
For claims between \$1,000 and \$5,000	> 20%
For claims greater than \$5,000	0.03% + \$1,000

5. CONCLUSION AND RECOMMENDATIONS

Considering that:

- In a bankruptcy context, no dividend would be available for the unsecured creditors or for creditors having priority under Section 136 of the *Bankruptcy and Insolvency Act*;
- The amounts provided in the Proposal will be paid to the Trustee very quickly, that is, within ten days following approval of the Proposal by the Court; and
- The Proposal will make it possible for the Proposer to continue its contracts abroad without having them assigned, which would likely be very complex given the various jurisdictions involved.

We consider that this Proposal is advantageous to all creditors and therefore recommend its acceptance.

6. INSTRUCTIONS FOR VOTING ON PROPOSAL

You shall find enclosed a proof of claim and voting letter. All creditors are required to complete the proof of claim and attach a statement of account or copy of their invoices. Creditors who are unable to attend or arrange representation for February 6, 2019 at 10:30 a.m. may also complete and mail in the attached voting letter, indicating whether they are voting for or against accepting this Proposal.

Creditors are reminded that, in order to vote on the Proposal, their proof of claims must be submitted to the Trustee before the meeting on February 6, 2019 at 10:30 a.m. To be accepted, the Proposal must be approved by a majority in number and a majority of two thirds (2/3) in value of each class of creditors, who will vote in person or by proxy at the meeting, or by fax at 514-858-3303, email at ReclamationMtl@rcgt.com or mail.