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CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

No.: 500-11-058116-209

S U P E R I O R C O U R T
Commercial Division
Designated tribunal under the Companies' Creditors Arrangement Act[1]

IN THE MATTER OF THE PROPOSED PLAN OF COMPROMISE AND ARRANGEMENT OF SPECTRA PREMIUM INDUSTRIES INC., SPECTRA PREMIUM HOLDINGS (USA) CORP., SPECTRA PREMIUM (USA) CORP., SPECTRA PREMIUM PROPERTIES (USA) CORP., SPECTRA PREMIUM TAIWAN CO. LTD., SPECTRA PREMIUM (SHANGHAI) AUTOMOTIVE TECHNICAL SERVICES CO. LTD., AND SPECTRA PREMIUM (CHONGQING) AUTOMOTIVE SERVICES CO. LTD.

FIRST MONITOR'S REPORT (MATERIAL ADVERSE CHANGE) DATED APRIL 24, 2020

INTRODUCTION

1. On March 10, 2020, the Superior Court of Québec (the "**Court**") issued a first day initial order (the "**First Day Initial Order**") under the *Companies' Creditors Arrangement Act*[1] (the "**CCAA**") with respect to Spectra Premium Industries Inc. ("**Spectra**"), Spectra Premium Holdings (USA) Corp. ("**Spectra Holdings US**"), Spectra Premium (USA) Corp. ("**Spectra US**"), Spectra Premium Properties (USA) Corp. ("**Spectra Properties US**"), Spectra Premium Taiwan Co. Ltd. ("**Spectra Taiwan**"), Spectra Premium (Shanghai) Automotive Technical Services Co. Ltd. ("**Spectra Shanghai**"), and Spectra Premium (Chongqing) Automotive services Co. Ltd. ("**Spectra Chongqing**") (collectively referred to herein as the "**Spectra Group**" or the "**Debtors**"), containing among other things, a stay of proceedings in respect of the Debtors, originally until March 20, 2020 (as further extended from time to time, the "**Stay Period**"), and various other relief, including certain protections from their creditors.

2. Pursuant to the First Day Initial Order, Ernst & Young Inc. was appointed as monitor ("**EY**" or the "**Monitor**") of the Debtors in the present proceedings (the "**CCAA Proceedings**").

3. On March 12, 2020, the United States Bankruptcy Court for the District of Delaware (the "**U.S. Court**") issued various orders and relief under Chapter 15 of the *U.S. Bankruptcy Code* with respect to the recognition of the CCAA Proceedings in the United States, including an

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[1] *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended.

order granting provisional relief to recognize and effect the CCAA filing (the "**Chapter 15 Proceedings**"). EY acts as foreign representative (the "**Foreign Representative**") in the Chapter 15 Proceedings.

4. The comeback hearing and the hearing of certain objections before the U.S. Court with respect to the Chapter 15 Proceedings was initially scheduled to take place on April 8, 2020, but was postponed by the U.S. Court following the general postponement of all non-urgent matters by the U.S. Court, considering the Covid-19 pandemic. A date has yet to be scheduled as of the date hereof.

5. On March 24, 2020, an order was issued by the Court amending and restating the First Day Initial Order (the "**Amended and Restated Initial Order**") and extending the Stay Period until June 6, 2020.

6. On April 6, 2020, an order was issued by the Court regarding certain transactions in the normal course of business related to Truist Bank, Spectra US, Advance Stores Company, Inc. and O'Reilly Automotive Stores, Inc. authorizing the continuance of the factoring of invoices, in the normal course of business, in accordance with the agreements in place.

7. On April 28, 2020, the Debtors filed a motion in CCAA Proceedings for declaratory judgment and for the issuance of a safeguard order with regard to a leased property and the expiration date of its property lease. The hearing of this matter is planned to be held on April 30, 2020.

8. The Monitor has established a website to post information relating to the CCAA Proceedings, as well as the Chapter 15 Proceedings. The address of the Monitor's website is www.ey.com/ca/spectra.

PURPOSE

9. The present Monitor's report ("**First Monitor's Report**") is intended to inform the Court on the state of the Debtors' business and financial affairs in accordance with section 23(1)(d) CCAA, as the Monitor has ascertained that a material adverse change in the Debtors' financial circumstances and projected cash-flow has occurred.

10. The First Monitor's Report is presented under the following headings:

- Introduction
- Purpose
- Terms of reference and disclaimer
- Background
- Actual receipts and disbursements for the seven (7) week-period from March 1st to April 18, 2020
- Material Adverse Change
- Impact of current circumstances – financial circumstances and updated cash flow projections for the thirteen (13) week-period from April 19 to July 18, 2020
- Overall Comments and Conclusions

TERMS OF REFERENCE AND DISCLAIMER

11. Capitalized terms not defined herein have the meaning ascribed to them in the *Report of the Proposed Monitor*, dated March 9, 2020 (the "**Pre-Filing Monitor's Report**") filed in the present matter in support of the issuance of the First Day Initial Order and the Amended and Restated Initial Order.

12. In preparing the First Monitor's Report and making the comments herein, the Monitor has been provided with and has relied upon certain unaudited, draft and/or internal financial information, Debtors' records, management prepared financial information and projections, information from other third-party sources, and has engaged in discussions with the Debtors' directors, senior management team ("**Management**") and the Debtors' legal advisors (collectively, the "**Information**"). Except as described in this First Monitor's Report:

    12.1. The Monitor has assumed the integrity and truthfulness of the Information and explanations provided to it, within the context in which it was presented. To date, nothing has come to the attention of the Monitor that would cause it to question the reasonableness of this assumption.

    12.2. The Monitor has requested that Management bring to its attention any significant matters which were not addressed in the course of its specific inquiries. Accordingly, the First Monitor's Report is based solely on the Information (financial or otherwise) provided by the Debtors.

    12.3. The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with generally accepted assurance standards or generally accepted standards for review engagements and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of the Information.

    12.4. In view of the purpose of the First Monitor's Report, some of the financial information therein may not comply with generally accepted accounting principles.

    12.5. Some of the information referred to in this First Monitor's Report consists of forecasts and projections that were prepared based on Management's current estimates and assumptions. Such estimates and assumptions are, by their nature, not ascertainable and as a consequence, no assurance can be provided regarding any such forecasted or projected results. Actual results will vary from the forecasts or projections, even if the estimates and assumptions are accurate, and the variations could be significant.

13. All references to currency are in Canadian dollars unless otherwise noted.

BACKGROUND

14. Spectra Group is one of Quebec's largest manufacturers and distributors of automotive products, generating annual revenues of approximately $500.0M for the year ended January 31, 2020, which resulted in an EBITDA of $7.0M and a net loss of $13.3M.

15. As of the commencement of the CCAA Proceedings, Management has attributed the Debtors' financial difficulties to both the strain placed on the cash flow as a result of Spectra Group's venture in Sweden, as well as a general decrease of profitability in their North American activities over the past few years. This decreased profitability was apparently caused by a shift in customer demand towards products that have a lower price (and quality) as compared with the Debtors' products, an over capacity of production for the US market for particular products which creates a downward pressure on prices, and the impact of tariffs imposed in the US on goods imported from China. These factors affected most particularly the aftermarket division.

16. As stated in the Pre-Filing Monitor's Report, the difficulties encountered by the Debtors and the resulting cash flow strain rendered the Debtors insolvent, which led to initiation of the proceedings under the CCAA.

17. The corporate structure of the Spectra Group, description of activities, causes of financial difficulties and various other issues relevant to the restructuring proceedings of the Debtors are described in greater detail in the Pre-Filing Monitor's Report and will therefore not be addressed in this report. The Pre-Filing Monitor's Report and other relevant and accessory documents in the present matter are accessible through the Monitor's website, at www.ey.com/ca/spectra.

ACTUAL RECEIPTS AND DISBURSEMENTS FOR THE SEVEN (7) WEEK-PERIOD FROM MARCH 1st TO APRIL 18, 2020

18. As instructed by the Court, upon the issuance of the First Day Initial Order, the Monitor has monitored Debtor's receipts and disbursements for the period from March 10, 2020 to the date of this First Monitor's Report. Attached as **Appendix "A"** to this report, and summarized below, is a statement of receipts and disbursements for the seven (7) week-period from March 1st to April 18, 2020 (the "**Actual Period**"), with a comparison to the weekly cash flow projections attached as Appendix B (under seal) to the Pre-Filing Monitor's Report (the "**First Cash Flow**"). Receipts and disbursements are reflected on a cash basis, and not on an accrual basis and that actual receipts and disbursements are denominated in Canadian dollars.

For the seven (7) week-period from March 1st to April 18, 2020 In $000s CAD	Actual	Forecast	Variance
Cash Inflows	53 818	58 199	(4 381)
Cash Outflows (excl. Wells Fargo interests and fees)	(32 643)	(55 922)	23 279
Cash Outflows - Wells Fargo interests and fees	(1 322)	(600)	(722)
Net Cash Flow (incl. Wells Fargo interest and fees)	**19 853**	**1 677**	**18 176**
Opening Cash Balance	1 491	-	1 491
Closing Cash Balance	**1 224**	**-**	**1 224**
Cheques in Circulation	(249)	-	(249)
Closing Cash Balance, net of cheques in circulation	**975**	**-**	**975**
Opening Line of Credit	(100 568)	(100 549)	(19)
Ending Line of Credit	**(80 240)**	**(98 872)**	**18 632**
Other Wells Fargo Potential Obligations	(7 840)	(8 255)	416
Total Obligations to Wells Fargo	**(88 080)**	**(107 127)**	**19 047**
Maximum Allowable Obligations to Wells Fargo	**123 196**	**123 196**	**-**
Estimated Borrowing Base Availability	**124 494**	**114 047**	**10 447**
Availability Surplus[1]	**36 414**	**6 920**	**29 494**

Note 1: Based on the Estimated Borrowing Base Availability as compared to the Total Obligations to Wells Fargo and does not consider the Maximum Allowable Obligations to Wells Fargo.

19. Net Cash Flow (including Wells Fargo interests and fees (Debtor's operating lender)) for the Actual Period is $19,853K compared to the projected amount of $1,677K representing a favourable net cash flow variance of $18,176K. The better than projected Net Cash Flow is explained by lower than forecasted disbursements of $22,557K which were partially offset by lower than forecasted receipts of $4,381K over the Actual Period. This situation is in part explained by the Covid-19 pandemic, as further detailed below and in the next section of this report, Material Adverse Change.

20. The favourable net cash flow variance of $18,176K is primarily explained by the following:

Cash Inflows (Unfavourable variance of $4,381K):

- Collections: Unfavourable variance of $4,447K largely due to the impact of the Covid-19 pandemic on customers' ability to make payments, resulting in slower than forecasted collections of accounts receivable balances. Management expects these timing differences to reverse in the future. This unfavourable variance includes the receipt of unbudgeted sales tax refunds of $1,531K and a favourable estimated foreign exchange rate variance of $2,900K due to better that forecasted U.S. exchange rate; and,

- Other Cash Inflows: Favourable variance of $66K due to timing differences in Ford Edge reimbursements (capital expenditures) ($27K) and collections from Spectra Premium AB (Sweden) ($39K) from the sale of straps. Management expects the timing differences to reverse in coming weeks.

Cash Outflows, including Wells Fargo interests and fees (Favourable variance of $22,557K):

- Payment of AP balance: Favourable variance of $17,440K due, in part, to the temporary closures of facilities in Quebec and Nova Scotia caused by Covid-19 pandemic resulting in lower than forecasted purchases of inventory in March and April 2020, as well as better than forecasted credit terms obtained from various suppliers. These represent both permanent and timing differences. The favourable variance is also attributed to lower than forecasted payments of pre-filing balances which represent timing differences which expected to reverse in the future;

- Payroll: Favourable variance of $1,376K due to permanent differences resulting from temporary lay-offs due to the Covid-19 pandemic;

- Rent: Favourable variance of $272K primarily caused by lower than forecasted additional rent payments for Spectra's Distribution Centers in the U.S. (permanent difference);

- US Duty/Tariff: Favourable variance of $1,287K is a timing difference that is expected to reverse in the future;

- Professional Fees (including Restructuring/CCAA): Favourable variance of $125K due to timing differences that are expected to reverse in the future;

- Financing costs / debt payments, including Wells Fargo interests and fees: Unfavourable variance of $612K due to timing differences in payment of Wells Fargo professional and other fees ($330K) and a permanent difference in the payment of forecasted interest payments ($391K), partially offset by favourable variances in other financing costs / debt payments ($109K);

- Factoring fee: Favourable variance of $651K which is directly related to the lower than forecasted collections from various U.S. aftermarket customers who finance their accounts payables to Spectra Group with factoring agreements. This timing difference is expected to reverse in the future;

- Restructuring – closing/moving costs, and Miscellaneous: Favourable variance of $647K mainly due to forecasted Miscellaneous expenses not incurred.; and,

- CAPEX: Favourable variance of $1,371K is primarily due to timing differences that are expected to reverse in the future.

Take note that as at April 18, 2020, the Debtors had post-filing outstanding cheques of $249K and post-filing account payables (excluding intercompany accounts) of $1,647K, mainly due to inventory purchases, sales taxes on exports, customs brokers, transportation suppliers and utilities suppliers.

21. The Ending Cash Balance as at April 18, 2020 is $1,224K compared to the projected amount of $0, representing a favourable variance of $1,224K. This is explained by the assumption that there are no timing differences between when cash is received or used to make payments in the blocked or operating accounts, i.e. no distinction between cash accounts and the line of credit. The Ending Cash Balance as at April 18, 2020, net of cheques in circulation of $249K, is $975K.

22. The Ending Line of Credit (“**LOC**”) as at April 18, 2020 is $80,240K compared to the projected amount of $98,872K, representing a favourable variance of $18,632K which is primarily explained by the favourable variance in the Net Cash Flow of $18,176K. The Total Obligations to Wells Fargo as at April 18, 2020 of $88,080K include Other Wells Fargo Potential Obligations of $7,840K, which include various letters of credit and reserves.

23. The Estimated Borrowing Base Availability as at April 18, 2020 is $124,494K compared to the projected amount of $114,047K, representing a favourable variance of $10,447K ($12,207K favourable variance for accounts receivable, offset by unfavourable variance of $1,760K for inventory).

    Given the Estimated Borrowing Base Availability of $124,494K as at April 18, 2020, the availability on the LOC as at April 18, 2020, without considering the cash balance, is $36,414K ($37,389K if the cash balance is considered).

    The availability on the LOC does not take into consideration the Maximum Allowable Obligations to Wells Fargo ($123,196K as at April 18, 2020, i.e. 115% of the forecasted Total Obligations to Wells Fargo as at April 18, 2020). When such Maximum Allowable Obligations are considered, the availability on the LOC as at April 18, 2020, without considering the cash balance, is approximately $35,116K ($36,091K if we include cash balance). Please note that the Debtors have asked from Wells Fargo a waiver of this condition to the Wells Forbearance Agreement during at least the Cash Flow Period and are awaiting their response as of the date of this report.

MATERIAL ADVERSE CHANGE

24. Following the issuance of the First Day Initial Order, the Debtors, with the assistance of the Monitor, have been implementing the CCAA Proceedings with the view to restructure their business and affairs in the manner presented to the Court in the proceedings that led to the issuance of the First Day Initial Order and the Amended and Restated Initial Order.

Coronavirus / Covid-19 Pandemic

25. During the preparation of the CCAA Proceedings, including the preparation of the First Cash Flow, the virus named *Coronavirus* and subsequently *Covid-19*, the existence of which is now common knowledge and the subject of judicial notice, had been declared a global health emergency by the *World Health Organization* (“**WHO**”), but had not yet been declared a pandemic, and its economic impact was still unforeseen.

26. Indeed, previously confined to a region of Asia and Iran, Italy became an epicentre of the epidemic on or about February 28, 2020, and the first death was recorded in the United States on that date.

27. On March 10, 2020, the First Day Initial Order was issued, based notably on the First Cash Flow prepared in the previous days, at a time when there were no material containment, isolation or mitigation measures in North America and in Europe generally, except for Italy.

28. On March 11, 2020, the day after the issuance of the First Day Initial Order, the WHO declared Covid-19 a pandemic, and the United States declared they would halt travellers from Europe from entering the United States for a period of 30 days, resulting in significant economic consequences and causing the start of the important decline of the stock markets that is currently ongoing.

29. Between March 11 and March 24, 2020, there was an exponential increase in both the spread of the Covid-19 pandemic worldwide, including in Québec, Canada and the United States, and of the containment, isolation and mitigation measures taken by governments worldwide, including complete lockdown of populations and generalized travel restrictions, causing unprecedented economic disruptions.

30. On the morning of March 24, 2020, the Amended and Restated Order was issued by the Court.

31. In the afternoon of March 24, 2020, the government of Québec issued a decree (*Décret #223-2020 – March 24, 2020*) ordering the shutdown of all non-essential businesses until at least April 13, 2020. Such measures have now been ordered in multiple jurisdictions worldwide. The Debtors' head office, as well as a significant part of their operations are located in Québec.

32. The Debtors are also operating in other jurisdictions throughout Canada with similar measures implemented by the authorities, as well as in the United States in the states of Indiana and California. With respect to Indiana and California, certain measures and decrees were implemented and issued by the authorities, including the following:

    - Enactment by the United States of the *Families First Coronavirus Response Act*, amending various employment legislation at the federal level in the United States (the *Emergency Family and Medical Leave Expansion Act*, the *Emergency Paid Sick Leave Act* and the *Tax Credits for Paid Sick and Paid Family and Medical Leave*), and providing for certain payments to employees affected directly or indirectly by Covid-19 and not in a position to work as a result;

    - In the state of Indiana, issuance of Executive Order 20-08, a "stay-at-home" order, with certain exceptions for essential businesses, which are determined in accordance with a *Memorandum on Identification of Essential Critical Infrastructure Workers During Covid-19 Response - March 19, 2020*, from the U.S. Department of Homeland Security, Cybersecurity & Infrastructure Security Agency;

    - In the state of California, issuance of Executive Order 33-20, essentially to the same effect as the Indiana "stay-at-home" order;

33. On April 3, 2020, the Government of Canada announced the implementation of the *Canada Emergency Wage Subsidy*, which is presented as potentially covering 75% of salaries for qualifying businesses, for up to twelve weeks (ending June 6, 2020), retroactive to

March 15, 2020, with a cap of $847/week/employee. The Debtors eligibility and the resulting impact on the Debtors' cash flow is currently being assessed.

34. The Debtors, with the assistance of the Monitor, have continuously attempted since the issuance of the First Day Initial Order to determine the impact of these unprecedented measures on their employees, operations and ultimately, their cash flow projections. This process is ongoing as such measures are being implemented and continuously adjusted by the various authorities involved.

Economic Consequences of the Covid-19 Pandemic

35. As a result of the circumstances detailed above, since the date of the First Monitor's Report, a material portion of the operations and economic activity of the Spectra Group has paused or slowed down, as well as the industry in which the Spectra Group operates, including its suppliers, customers and other stakeholders. The general economic context in which the Spectra Group operated has changed within the space of a few days and continues to evolve.

36. On March 24, 2020, in accordance with the order of the government of Québec to temporarily close all nonessential businesses, which represent a large portion of Spectra's business, the Spectra Group notified its employees in Québec of the closure of most of its installations which resulted in temporary lay-offs of a substantial portion of its workforce (approximately 600 employees at Boucherville, Laval and Québec City in the province of Québec and Debert in the province of Nova Scotia).

37. Since the beginning of April, the Debtors, with the assistance of the Monitor, have attempted to determine and quantify the impact of the current circumstances, which are continuously evolving, on the First Cash Flow.

38. In doing so, it became apparent that the forecasted results have been negatively impacted in a material way, and consequently the projections included in the First Cash Flow were impacted and could no longer be relied upon, as many of the assumptions on which they were based have changed as a result of the developments mentioned above. Notably, certain collections indicated in the First Cash Flow have been and will continue to be delayed and certain post-filing payments have been and will continue to be postponed.

IMPACT OF CURRENT CIRCUMSTANCES – FINANCIAL CIRCUMSTANCES AND UPDATED CASH FLOW PROJECTIONS

39. The Monitor has kept apprised and informed of the ongoing efforts of the Debtors to evaluate the impact and react to the Covid-19 pandemic on their operations. The Debtors, with the assistance of the Monitor, generated new cash flow projections and scenarios, and have adjusted the current restructuring measures accordingly, insofar as possible given the pace of change and uncertainty of the situation.

Updated cash flow projections for the thirteen (13) week-period from April 19 to July 18, 2020

40. As such, based on the changes resulting from the above-noted circumstances, the Debtors, with the assistance of the Monitor, have prepared an updated consolidated cash flow projections (the "**Second Cash Flow**") for the thirteen (13) week-period from April 19 to July 18, 2020 (the "**Cash Flow Period**") for the purpose of projecting the estimated results of the Debtors' planned operating activities during the Cash Flow Period. The Second Cash Flow include the expected cash flow results of the Debtors over the Cash Flow Period and exclude any result pertaining to Spectra Premium AB (Sweden) a.k.a. TechRoi. A copy of the Second Cash Flow and main notes and assumptions upon which it is based is communicated herewith as **Appendix B**.

41. The Second Cash Flow projects that the Debtors will generate a net cash flow of $5.4M (receipts of $55.3M less disbursements of $49.9M), and that as a result the indebtedness to Wells Fargo will decrease from $88.1M at April 18, 2020 to $82.7M by July 19, 2020. The indebtedness to Wells Fargo is projected to vary between a high of $90.1M in the week ending June 27, 2020 to a low of $82.7M in the week ending July 19, 2020.

42. As projected in the Second Cash Flow, the Debtors remain cash flow positive over the Cash Flow Period (i.e. $5.4M) and have a forecasted availability on the LOC as of July 18, 2020 of approximately $18.8M ($12.4M, when taking into consideration the cap on the Total Obligations to Wells Fargo under the Wells Forbearance Agreement, i.e. Maximum Allowable Obligations to Wells Fargo, which could possibly be waived by Wells Fargo during the Cash Flow Period as indicated in the paragraph 23 of this report). Please note that the Availability Surplus (i.e. availability on the LOC) presented in the Second Cash Flow is based on the Estimated Borrowing Base Availability as compared to the Total Obligations to Wells Fargo and does not take into consideration the Maximum Allowable Obligations to Wells Fargo.

43. Despite the fact that the Debtors have not forecasted their cash flow after the Cash Flow Period, and assuming that the Second Cash Flow's assumptions will materialize, it is probable that the Debtors will require the use of their forecasted availability on the LOC as at July 18, 2020 of $18.8M in order to resume their normal operations for a certain period of time after July 18, 2020, which period is estimated to be three to four months in order to transform inventory to cash.

44. The Second Cash Flow includes several adjustments and changes in assumptions further to the recent changes in operations resulting from the impacts of the Covid-19 pandemic. Note that the impacts of the Covid-19 pandemic on the Debtors operations and financial results reflected in the Second Cash Flow are based on preliminary enquiries and are not to be interpreted as an accurate assessment of the full impact of the Covid-19 pandemic. The potential for unknown ramifications on customers, suppliers, supply chains, commercial counterparties (both direct and indirect) to the Debtors' operations, future decisions that the Debtors may make as a result of the evolving Covid-19 pandemic and potentially adverse geopolitical outcomes, mean that the actual results achieved during the Cash Flow Period may vary materially from the Second Cash Flow. The full impact of the Covid-19 pandemic is not able of being qualitatively or quantitatively assessed at this time.

45. The Second Cash Flow represents Management's estimates of the projected cash flow during the Cash Flow Period. The Second Cash Flow has been prepared by Management, using

probable and hypothetical assumptions as set out in the notes to the Second Cash Flow (the "**Probable and Hypothetical Assumptions**" or the "**Assumptions**").

46. The Monitor has reviewed the Second Cash Flow as to its reasonableness as required by Section 23(1)(b) of the CCAA. Pursuant to this standard, the Monitor's review of the Second Cash Flow consisted of inquiries, analytical procedures and discussion related to information supplied to it by certain key members of management. Since the Probable and Hypothetical Assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Second Cash Flow. The Monitor also reviewed the support provided by Management for the Probable and Hypothetical Assumptions and the preparation and presentation of the Second Cash Flow.

47. Based on this review, nothing has come to the Monitor's attention that causes it to believe that, in all material respects:

    - the hypothetical assumptions are not consistent with the purpose of the projection;
    - as at the date of this First Monitor's Report, the probable assumptions developed by the Debtors are not suitably supported and consistent with the plans of the Debtors or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or,
    - the Second Cash Flow does not reflect the probable and hypothetical assumptions.

48. Since the Second Cash Flow is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Second Cash Flow will be achieved. The Second Cash Flow has been prepared solely for the purpose described in the notes accompanying the Second Cash Flow Second, and readers are cautioned that it may not be appropriate for other purposes.

49. Since the commencement of the CCAA Proceedings, the Debtors have been operating and have financed their operations, as applicable, with the support of Wells Fargo Capital Finance Corporation Canada, in its capacity as administrative agent for itself and for the Canadian Imperial Bank of Commerce as lenders (collectively, "**Wells Fargo**"), in accordance with a Wells Forbearance Agreement entered into on March 9, 2020, and as well with the support of Laurentian Bank of Canada, in its capacity as administrative agent for itself and Export and Development Canada (collectively, "**LBC**"), in accordance with a Support Agreement entered into on March 23, 2020.

50. Wells Fargo and LBC are the principal secured creditors of the Debtors, and both have been informed of the present situation and received a copy of the Second Cash Flow. Please note that the following elements which were raised with Wells Fargo and LBC after their review of the Second Cash Flow:

    50.1. As already indicated in this report, the Debtors have asked from Wells Fargo a waiver of the condition to the Wells Forbearance Agreement related to the cap of the Total Obligations of Wells Fargo under the Wells Forbearance Agreement, i.e. Maximum Allowable Obligations to Wells Fargo (115% of the forecasted Total Obligations to

Wells Fargo) during at least the Cash Flow Period and are awaiting their response as at of the date of this report.

50.2. Also, LBC, after their review of the Second Cash Flow, informed the Debtors that for now they are not in agreement to provide a moratorium on the monthly capital payment of their term loan for the months of April, May and June 2020, which represents $383K/month ($1,149K over the Cash Flow Period). If the Debtors and BLC do not reach an agreement on this matter and the Debtors proceed with the payment of the monthly capital payments in question, the Net Cash Flow forecasted will be reduced by $1,149K during the the Cash Flow Period, the Total Obligation to Wells Fargo will be increased by the same amount, and the Availability Surplus (i.e. availability of LOC) will be reduced by the same amount.

51. Subject to our comments at paragraphs 50, 50.1 and 50.2, Wells Fargo and LBC support the continuation of the CCAA Proceedings in accordance with the Second Cash Flow, it being understood that such projections may have to be updated again as the Covid-19 pandemic unfolds and before June 6, 2020, which is the date on which the current stay of proceedings ends.

52. In that regard, the Debtors, with the assistance of the Monitor, will ascertain in the coming weeks as to whether the Second Cash Flow must be revised as the Covid-19 pandemic continues to evolve and resulting economic impacts unfold, and will proceed to update the cash flow projections whenever and as soon as appropriate.

OVERALL COMMENTS AND CONCLUSIONS

53. Considering the circumstances mentioned above, the Monitor ascertained that a material adverse change has occurred with respect to the financial circumstance of the Debtors, as a whole, and impacting their cash flow, and the First Cash Flow.

54. That said, the Monitor is of the view that:

- Such material adverse changes are the result of worldwide and unprecedented economic disruptions in the context of the Covid-19 pandemic;
- Such disruptions are not specific to the Spectra Group or its industry or market, but to the global economy as a whole, impacting most industries;
- That the extent to which, and the way in which, such disruption will continue or not is unknown and cannot be reasonably predicted at this time; and,
- That the material adverse changes noted are not and have not been caused by the actions of the Debtors.

55. Furthermore, per the Second Cash Flow, the Monitor is of the view that the Debtors have sufficient cash availability to maintain their operations during the Cash Flow Period and the Debtors have forecasted an availability on the LOC as at July 18, 2020 of approximately $18.8M at the end of the Cash Flow Period ($12.4M, if we consider the cap of the Total

Obligations of Wells Fargo under the Wells Forbearance Agreement, i.e. Maximum Allowable Obligations to Wells Fargo, which could be possibly waived by Wells Fargo during the Cash Flow Period as indicated above). However, as already indicated in this report, despite the fact that the Debtors have not forecasted their cash flow after the Cash Flow Period, and assuming that the Second Cash Flow's assumptions will materialize, it is probable that the Debtors will need their forecasted availability of the LOC as at July 18, 2020 of $18.8M in order to resume their normal operations during a certain period after July 18, 2020, estimated to three to four months, to transform inventory to cash.

56. Considering the foregoing and notably the support of Wells Fargo and BLC, the Monitor believes that the continuation of the CCAA Proceedings in accordance with the Second Cash Flow, as they may be revised further depending of the evolution of the Covid-19 pandemic and its economic consequences, is appropriate and to the benefit of the Debtors' stakeholders as a whole.

57. The Monitor will report further to this Court regularly as this situation unfolds.

All of which is respectfully submitted this 28th day of April 2020.

ERNST & YOUNG INC.,
Licensed Insolvency Trustee
in its capacity as the Monitor in the matter of the proposed compromise and arrangement of Spectra Premium Industries Inc. *et al*

Per: Éric St-Amour, CPA, CA, CIRP, LIT Senior Vice-President	Per: Mario Denis, CPA, CA, CIRP, LIT Senior Vice-President

Appendix "A"

SPECTRA PREMIUM INDUSTRIES
ACTUAL VS FORECAST RECEIPTS AND DISBURSEMENTS
FOR THE SEVEN (7) WEEK-PERIOD FROM MARCH 1st TO APRIL 18, 2020
(UNAUDITED - IN $000s CAD)

	Seven (7) week-period from March 1st to April 18, 2020		
	Actual	**Forecast**	**Variance**
Cash Inflows			
Collections	52 773	57 220	(4 447)
Ford Edge reimbursement	786	759	27
Collection Spectra Premium AB	259	220	39
Total Cash Inflows	**53 818**	**58 199**	**(4 381)**
Cash Outflows[1] (without Wells Fargo interests and fees)			
Payment of AP balances	18 566	36 006	17 440
Payroll	7 534	8 910	1 376
Rent	1 278	1 550	272
Factoring fee	487	1 138	651
Financing costs / debt payments	1 147	1 256	109
US Duty/Tariff	2 038	3 325	1 287
CAPEX	79	1 450	1 371
Restructuring - closing/moving costs	153	240	87
Professional Fees (including Restructuring/CCAA)	1 272	1 397	125
Miscellaneous	89	650	561
Total Cash Outflows[1] (without Wells Fargo interests and fees)	**32 643**	**55 922**	**23 279**
Net Cash Flow[1] (without Wells Fargo interests and fees)	**21 175**	**2 277**	**18 898**
Opening cash balance	1 491	-	1 491
Foreign currency transfers from HSBC accounts to LOC	(1 101)	-	(1 101)
Net cash flow from above	21 175	2 277	18 898
Net operating line draw / (repayment)	(20 341)	(2 277)	(18 064)
Closing cash balance	**1 224**	**-**	**1 224**
Cheques in Circulation	(249)	-	(249)
Closing cash balance (net of cheques in circulation)	**975**	**-**	**975**
Opening Line of Credit	**(100 568)**	**(100 549)**	**(19)**
(Draw) / repayment	20 341	2 277	18 064
Transfer from HSBC CAD Account	1 099	-	1 099
Interest paid directly by LOC [1]	(836)	(445)	(391)
Other fees paid directly by LOC[1]	(485)	(155)	(330)
Change in FX rate	209	-	209
Closing Line of Credit	**(80 240)**	**(98 872)**	**18 632**
Other Wells Fargo potential obligations	(7 840)	(8 255)	415
Total Obligations to Wells Fargo	**(88 080)**	**(107 127)**	**19 047**
Borrowing Base			
Inventory	83 477	85 237	(1 760)
AR	41 017	28 810	12 207
Estimated Borrowing Base Availability	**124 494**	**114 047**	**10 447**
Maximum Allowable Obligations to Wells Fargo	**123 196**	**123 196**	**-**
Availability Surplus[2]	**36 414**	**6 920**	**29 494**
Availability Surplus & Cash Balance[2]	**37 389**	**6 920**	**30 469**

Note 1: Cash Outflows and Net Cash Flow do not include Wells Fargo interests and fees. See operations detail in the section Line of Credit below for Wells Fargo interests and fees.

Note 2: Based on the Estimated Borrowing Base Availability as compared to the Total Obligations to Wells Fargo and does not consider the Maximum Allowable Obligations to Wells Fargo.

Appendix "B"

SPECTRA PREMIUM INDUSTRIES
WEEKLY FORECAST RECEIPTS AND DISBURSEMENTS
FOR THE 13 WEEK-PERIOD FROM APRIL 19 TO JULY 18, 2020
UNAUDITED - IN $000s CAD

Week ending	Notes - See attached	Actual	Weekly Forecast													Total
		18-Apr	25-Apr	2-May	9-May	16-May	23-May	30-May	6-Jun	13-Jun	20-Jun	27-Jun	4-Jul	11-Jul	18-Jul	
			1	2	3	4	5	6	7	8	9	10	11	12	13	
Cash Inflows																
Collections	2	-	2 740	6 147	4 330	4 295	3 170	2 635	3 410	2 075	4 050	2 518	4 494	5 389	10 082	55 335
Total Cash Inflows		**-**	**2 740**	**6 147**	**4 330**	**4 295**	**3 170**	**2 635**	**3 410**	**2 075**	**4 050**	**2 518**	**4 494**	**5 389**	**10 082**	**55 335**
Cash Outflows																
Payment of AP balances	3	-	2 575	2 416	2 136	1 826	2 136	1 686	2 367	1 992	1 832	1 992	2 706	2 331	2 171	28 163
Payroll & benefits (including KERP)	4	-	723	692	761	673	761	673	761	1 018	761	673	761	1 184	959	10 400
Rent	5	-	-	615	489	-	-	615	216	228	-	615	-	441	-	3 219
Factoring fees	6	-	44	62	101	86	70	63	71	32	82	26	91	63	217	1 011
Financing costs / debt payments	7	-	-	801	-	-	-	536	-	-	-	501	71	-	-	1 909
US Duty/Tariff	8	-	-	-	-	1 190	-	-	-	-	359	-	-	-	321	1 870
Capital expenditures	9	-	-	-	-	-	-	-	-	-	-	-	-	921	-	921
Restructuring - closing/moving costs		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	10	-	50	50	50	50	50	50	50	50	50	50	50	50	50	650
Professional Fees (Restructuring/CCAA)	11	-	230	132	99	160	144	293	140	115	104	238	42	86	-	1 782
Total Cash Outflows		**-**	**3 622**	**4 767**	**3 636**	**3 985**	**3 161**	**3 916**	**3 605**	**3 435**	**3 187**	**4 095**	**3 721**	**5 076**	**3 718**	**49 925**
Net Cash Flow		**-**	**(882)**	**1 380**	**694**	**310**	**9**	**(1 281)**	**(195)**	**(1 360)**	**863**	**(1 577)**	**773**	**312**	**6 364**	**5 409**
Opening Line of Credit			**(80 240)**	**(81 122)**	**(79 742)**	**(79 048)**	**(78 739)**	**(78 730)**	**(80 011)**	**(80 206)**	**(81 566)**	**(80 703)**	**(82 280)**	**(81 507)**	**(81 195)**	**(80 240)**
Closing Line of Credit		**(80 240)**	**(81 122)**	**(79 742)**	**(79 048)**	**(78 739)**	**(78 730)**	**(80 011)**	**(80 206)**	**(81 566)**	**(80 703)**	**(82 280)**	**(81 507)**	**(81 195)**	**(74 831)**	**(74 831)**
Other Wells Fargo potential obligations		(7 840)	(7 840)	(7 840)	(7 840)	(7 840)	(7 840)	(7 840)	(7 840)	(7 840)	(7 840)	(7 840)	(7 840)	(7 840)	(7 840)	(7 840)
Total Obligations to Wells Fargo		**(88 080)**	**(88 962)**	**(87 582)**	**(86 888)**	**(86 579)**	**(86 570)**	**(87 851)**	**(88 046)**	**(89 406)**	**(88 543)**	**(90 120)**	**(89 347)**	**(89 035)**	**(82 671)**	**(82 671)**
Borrowing Base																
Inventory		83 477	84 536	83 720	82 779	81 744	80 803	79 862	79 169	78 381	77 688	76 995	75 872	74 748	73 530	73 530
AR		41 017	36 258	34 655	34 026	33 520	33 447	33 151	32 706	33 005	32 253	31 756	31 481	30 778	27 932	27 932
Estimated Borrowing Base Availability		**124 494**	**120 794**	**118 375**	**116 806**	**115 264**	**114 250**	**113 013**	**111 874**	**111 386**	**109 941**	**108 751**	**107 353**	**105 526**	**101 461**	**101 461**
Maximum Allowable Obligations to Wells Fargo		**123 196**	**102 306**	**100 720**	**99 921**	**99 565**	**99 555**	**101 029**	**101 253**	**102 817**	**101 825**	**103 638**	**102 749**	**102 390**	**95 071**	**95 071**
Availability Surplus*		**36 414**	**31 832**	**30 793**	**29 918**	**28 686**	**27 680**	**25 162**	**23 829**	**21 980**	**21 398**	**18 631**	**18 006**	**16 491**	**18 791**	**18 791**
***: Based on the Estimated Borrowing Base Availability as compared to the Total Obligations to Wells Fargo and does not consider the Maximum Allowable Obligations to Wells Fargo.**																
A/R		78 717	78 777	75 431	74 119	73 062	72 909	72 292	71 362	71 987	70 417	69 379	68 806	67 338	61 396	61 396
A/P - Pre-filing		68 896	68 127	68 059	67 584	67 418	66 943	66 917	66 892	66 567	66 401	66 076	66 076	65 776	65 636	65 636
A/P - Post-filing		1 647	1 647	1 647	1 647	1 647	1 647	1 647	1 647	1 647	1 647	1 647	1 647	1 647	1 647	1 647
Inventory		129 409	128 003	126 764	125 339	123 772	122 347	120 922	119 872	118 680	117 631	116 581	114 880	113 178	111 333	111 333

In the Matter of the CCAA of Spectra Premium Industries Inc., Spectra Premium Holdings (USA) Corp., Spectra Premium (USA) Corp., Spectra Premium Properties (USA) Corp., Spectra Premium Taiwan Co. Ltd., Spectra Premium (Shanghai) Automotive Technical Services Co. Ltd., Spectra Premium (Chongqing) Automotive Services Co. Ltd. (the "Companies")

Notes to the Companies' Unaudited Cash Flow Projection for the thirteen 13 week-period from April 19 to July 18, 2020

Purpose:

The attached statement of projected cash flow (the "**Second Cash Flow**"), for the thirteen week-period from April 19 to July 18, 2020 (the "**Cash Flow Period**"), has been prepared by the Companies' management to present the anticipated cash inflows and outflows resulting from current operations during the Cash Flow Period in the context of proceedings in virtue of the *Companies' Creditors Arrangement Act* ("**CCAA**").

Since the projection is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Cash Flow Period will vary from the Second Cash Flow, even if the assumptions materialize, and such variations may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized.

The Second Cash Flow includes several adjustments and changes in assumptions resulting from recent changes in operations due to the impacts of the Covid-19 pandemic. Note that the impact of the Covid-19 pandemic on the Companies Second Cash Flow are based on preliminary enquiries and estimates and are not to be interpreted as an accurate assessment of the full impact of the Covid-19 pandemic. The potential for further ramifications on customers, suppliers, supply chains, commercial counterparties (both direct and indirect) on the Companies' operations, future decisions that the Companies may make as a result of the evolving Covid-19 pandemic and potentially adverse geopolitical outcomes, mean that the actual results achieved during the Cash Flow Period may vary materially from the Second Cash Flow. The full impact of the Covid-19 pandemic cannot be qualitatively or quantitatively assessed at this time.

The Second Cash Flow is based on the following general assumptions:

- On or around March 25, 2020 the Companies temporarily laid off approximately 600 employees. A portion of these employees (approximately 89) were rehired on April 13, 2020 and further rehires are projected to occur over the Cash Flow Period (mainly in July);
- From March 25 to June 26, 2020, the Companies' Quebec (including Debert, Nova Scotia) operations are projected to be significantly reduced as a result of the government ordered closure of all "non-essential" businesses.
- As of June 27, 2020, the Companies' normal operations are assumed to progressively resume, and a gradual recovery will take place during the month of July 2020.

- No closures or shutdowns have been projected for the operations in the U.S. or Canada, other than those in Quebec and Nova Scotia noted above.

Overview:

The Second Cash Flow reflects cash flows from the Companies' operations. The Companies have prepared the Second Cash Flow based primarily on historical results and the Companies' current expectations. The Second Cash Flow is presented in thousands of Canadian dollars. Receipts and disbursements denominated in US currency have been converted into Canadian dollars using an exchange rate of USD $0.72 = CAD $1.00.

The opening balances (Total Obligations to Wells Fargo, including the balance of the line of credit, accounts receivable, accounts payable and inventories) represent actual balances as at April 18, 2020.

The numbered notes hereunder set out the significant hypothetical assumptions made by the Companies' management in preparing the Second Cash Flow.

Notes and Assumptions:

1. Creditor support

The Second Cash Flow is based on the assumption that the secured creditors will continue to provide the Companies with a credit facility, and that the trade creditors will continue to provide support to the Companies through the delivery of goods and services.

2. Sales Collections

Spectra's sales collections of $55.3M over the Cash Flow Period are based on forecasted collections from opening accounts receivable as of April 18, 2020 ($43.4M), collections of projected sales during the Cash Flow Period ($8.4M), as well as collections related to the potential bulk sale of U.S aftermarket inventory ($3.5M). Projected sales are estimated based on Spectra's order book, production plan and estimated prices. The timing of collections could vary substantially from the projections. Receipt amounts exclude sales taxes. The sales tax impact of sales is considered a flow through and is thus ignored for the purposes of the Second Cash Flow.

3. Payment of AP balance

Spectra's payment of accounts payable ("**AP**") balance relates primarily to the purchase of materials from third party suppliers. Also included are various freight costs, utilities, general and administrative payments, as well as the payment of certain supplier deposits and the potential payment of various Court approved pre-filing balances. The disbursements are projected based on the Companies' forecast of cost of goods sold, ending inventory balances, and cash availability. Subject to operational constraints and material shipments, the timing of payments could vary substantially from the projections. All payments are projected to be made on COD terms.

4. Payroll & Benefits

Payroll and benefit related payments include payroll costs for all salaried and hourly employees and are forecast based on historical run rates, projected headcount levels and expected disbursements. Salaried and hourly wages are paid bi-weekly through external payroll service providers who disburses the net salaries, payroll remittances and related fringe benefits. Benefit payments are based on the estimated weekly activity rate. Included in the Cash Flow Period are $19K in payments related to a retention incentive program and $345K in payments related to the Key Employee Retention Plan (KERP), which are anticipated to commence on May 1st, 2020 and continue throughout and past the Cash Flow Period.

5. **Rent**

These disbursements represent monthly rental payments for various manufacturing facilities, distribution centers and offices across the world (mainly Canada and U.S.) pursuant to leases with third parties. The Second Cash Flow assumes that there will be some temporary savings in rent resulting from the Covid-19 pandemic which are to be negotiated with certain landlords.

6. **Factoring Fees**

These disbursements relate to the fees paid on the various accounts receivable subject to "US customers factoring agreements" in place and have been estimated at 1.85% of customer collections subject to these factoring agreements (main customers in U.S. aftermarket).

7. **Financing costs / Debt payments**

These disbursements relate to interest and financing fee payments, as well as, interest payments made on the BLC/EDC loan (it is assumed that no capital repayments will occur in April, May and June 2020) and capital leases entered into by the Companies. The financing costs also include various Well Fargo Capital Finance ("**Wells Fargo**") fees and professional fees in regard to the Companies' restructuring proceedings and amendments to the credit agreement.

8. **US duty/tariff payments**

These disbursements relate to tariffs required to be paid in the US for goods imported from China.

9. **Capital expenditures**

These disbursements relate to repairs and maintenance and certain capital projects (OEM production lines).

10. **Miscellaneous**

These disbursements represent a provision for payments to other suppliers not included in other specific line items and/or reserves for disbursements not forecasted.

11. **Professional Fees (Restructuring/CCAA)**

Restructuring costs include the estimated fees and disbursements of the CCAA Monitor, their legal counsels, the Companies' legal counsels, as well as, the fees for other professional services in relation to the Companies' restructuring proceedings.

Appendix "B"

Insolvent Person's Report on Cash-flow Forecast
(Section 10(2) of the *Companies' Creditors Arrangement Act*)

In the matter of the proposed plan of compromise and arrangement with respect to SPECTRA PREMIUM INDUSTRIES INC., SPECTRA PREMIUM HOLDINGS (USA) CORP., SPECTRA PREMIUM (USA) CORP., SPECTRA PREMIUM PROPERTIES (USA) CORP., SPECTRA PREMIUM TAIWAN CO. LTD., SPECTRA PREMIUM (SHANGHAI) AUTOMOTIVE TECHNICAL SERVICES CO. LTD., SPECTRA PREMIUM (CHONGQING) AUTOMOTIVE SERVICES CO. LTD. **(the "**Companies**")**

The Companies' management has developed the assumptions and prepared the attached statement of consolidated weekly cash-flow forecast of the Companies for the thirteen (13) week-period from April 19 to July 18, 2020 (the "Second Cash Flow"), as of the 28th day of April, 2020.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in the notes accompanying the Second Cash Flow, and the probable assumptions are suitably supported and consistent with the plans of the Companies and provide a reasonable basis for the forecast. All such assumptions have been disclosed in notes 1 to 13 attached to the Second Cash Flow.

Since the forecast is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The forecast has been prepared solely for the purpose described in the notes accompanying the Second Cash Flow, using a set of probable and hypothetical assumptions set out in notes 1 to 13. Consequently, readers are cautioned that it may not be appropriate for other purposes.

DATED AT MONTREAL, this 28th day of April 2020.

SPECTRA PREMIUM INDUSTRIES INC.,
SPECTRA PREMIUM HOLDINGS (USA) CORP.,
SPECTRA PREMIUM (USA) CORP.,
SPECTRA PREMIUM PROPERTIES (USA) CORP.,
SPECTRA PREMIUM TAIWAN CO. LTD.,
SPECTRA PREMIUM (SHANGHAI) AUTOMOTIVE TECHNICAL SERVICES CO. LTD., and
SPECTRA PREMIUM (CHONGQING) AUTOMOTIVE SERVICES CO. LTD.

Per: Mr. Denis Chabot, CPA, CA
Vice President and Chief Financial Officer