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CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

No.: 500-11-058116-209

**SUPERIOR COURT**
**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.**

# THIRD MONITOR'S REPORT
# DATED JUNE 4, 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. On March 9, 2020, Ernst & Young Inc. filed a report of the proposed monitor with the Court, dated March 9, 2020 (the "**Pre-Filing Monitor's Report**").

3. 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**").

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

4. 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 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.

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 granting the motion, dated April 2, 2020, 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 the CCAA Proceedings for declaratory judgment and for the issuance of a safeguard order with regard to a leased property in Indiana, United States, and the expiration date of said property lease. This motion has been subsequently withdrawn as a result of a settlement reached by the parties in that regard (see paragraphs 12 and 13 below with respect to the Becknell Lease Extension, as defined below).

8. On April 30, 2020, the Monitor filed its first report with the Court, dated April 28, 2020, which essentially reports about a material adverse change (Covid-19 pandemic), and presents an update of the financial situation and cash-flow projections of Spectra Group as a result (the "**First Monitor's Report**").

9. On May 19, 2020, the Monitor filed its second report with the Court, dated May 19, 2020, which reports about the proposed bulk sale transaction to Trico Group, LLC ("**Trico**" or the "**Purchaser**") of certain inventories (the "**Trico Sale Transaction**") by Spectra Group (the "**Second Monitor's Report**").

10. On May 21, 2020, an order was issued by the Court granting the motion, dated May 19, 2020, regarding the issuance of an approval and a vesting order on the Trico Sale Transaction.

11. On May 28, 2020, an order was issued by the Court granting a motion filed by Spectra on May 25, 2020 and seeking the approval of a settlement agreement and amendment to a lease (with Becknell regarding one of the Greenfield, Indiana distribution center of Spectra US) referred herein as "**Becknell Lease Extension**".

12. The comeback hearing 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 to May 28, 2020 by the U.S. Court following the general postponement of all non-urgent matters by the U.S. Court, considering the Covid-19 pandemic.

13. Two US creditors initially filed a contestation opposing the Chapter 15 Proceedings and two other creditors supported these contestations. These contestations were ultimately withdrawn by all creditors involved prior the comeback hearing before the U.S. Court on May 28, 2020.

14. On May 29, 2020, the U.S. Court issued various orders under Chapter 15 of the *U.S. Bankruptcy Code* with respect to the confirmation of the recognition of the CCAA Proceedings as foreign main proceedings and granting relief to recognize and effect the CCAA filing and on other matters, including the approval of the Becknell Lease Extension.

15. On June 3, 2020, the Debtors filed a motion for a first extension of the stay of proceedings (up to September 26, 2020) (the "**June 3, 2020 Motion**");

16. 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

17. The present Monitor's report ("**Third 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 in order to address the order being sought in the June 3, 2020 motion.

18. The Third Monitor's Report is presented under the following headings:

    - Introduction;
    - Purpose;
    - Terms of reference and disclaimer;
    - Background, operations update and restructuring;
    - Actual receipts and disbursements for the five (5) week period from April 19 to May 23, 2020;
    - Updated cash flow projections for the eighteen (18) week period from May 24 to September 26, 2020;
    - Restructuring update and request for an extension of the Stay Period; and,
    - Overall Comments and Conclusions.

## TERMS OF REFERENCE AND DISCLAIMER

19. Capitalized terms not defined herein have the meaning ascribed to them in the Pre-Filing Monitor's Report, First Monitor's Report and Second Monitor's Report, as the case may be.

20. In preparing the Third 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 Third Monitor's Report:

- 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;

- 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 Third Monitor's Report is based solely on the Information (financial or otherwise) provided by the Debtors;

- 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;

- In view of the purpose of the Third Monitor's Report, some of the financial information therein may not comply with generally accepted accounting principles; and,

- Some of the information referred to in this Third 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.

21. This report does not take into account all future impacts of Covid-19 pandemic on the forecasts or projections or other actions taken by Spectra Group as a result of the evolving virus situation. Any references made to the impact of the Covid-19 on Spectra Group in this report are based on preliminary enquiries and are not to be interpreted as a complete commentary or as an accurate assessment of the full impact of the virus. The potential for unknown ramifications on consumers, supply chains, commercial counterparties (both direct and indirect to the Spectra Group's operations), future decisions that the Spectra Group may make as a result of the evolving virus situation and potentially adverse geopolitical outcomes, means that the forecasts or projections may be impacted by the Covid-19. The full impact of the virus is not capable of being qualitatively or quantitatively assessed at this time.

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

## BACKGROUND, OPERATIONS UPDATE AND RESTRUCTURING

23. 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.

24. 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 in profitability of 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, 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 what is referred as the aftermarket division.

25. 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.

*Operations*

26. As mentioned in the First Monitor's Report, 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 the Boucherville, Laval and Québec City locations in the province of Québec and the Debert location in the province of Nova Scotia).

27. Note that this temporary shutdown of the Quebec and Nova Scotia locations, did not affect the operations of Spectra Group outside the provinces of Quebec and Nova Scotia.

28. Following March 24, 2020, the Quebec government broadened the definition of essential services to include some of Spectra's products/services, and the Boucherville operations began slowly reopening.

29. On May 11, 2020, in accordance with the Quebec government's directives, Spectra, along with all manufacturing companies in Quebec, gradually reopened and normal operations progressively resumed, with the gradual recovery expected to continue through mid July 2020.

*Trico Sale Transaction*

30. The Trico Sale Transaction was approved by the Court on May 21, 2020, authorizing the sale of fuel pumps and parts product lines inventories earmarked to the US aftermarket business of Spectra Group to Trico, which in turn commenced subsequent to the Court approval in May 2020. We refer you to the Second Monitor's Report for the details of this transaction.

31. An amount of $1.4M was collected from Trico on May 21, 2020 which related to four initial purchase orders ("**POs**") received from Trico. To date all goods related to these POs were shipped. Management has assumed that the sale of inventory to Trico will continue through the month of November 2020. Collections of $15.1M are projected to be collected after May 23, 2020, including $7.1M over the Cash Flow Period and $8.0M after the Cash Flow Period (in October and November 2020).

*Customers who offset certain claims with amounts owed to Spectra Group*

32. Certain customers have offset pre-filing debts Spectra Group obligations (discount, returns, guarantees or other types of obligations) with amounts payable post-filing to Spectra Group. Our understanding of these offsets is that they would not be permitted by law in the current context and could be contested by Spectra Group within the CCAA Proceedings. However, the Debtors have made the decision, on a case by case basis, not to contest such transactions in order to maintain Spectra Group's business relationship with these customers, given that these customers are important in the context of the future of Spectra Group (Spectra 2.0) and the loss of these customers could jeopardize the ability of Spectra Group to have a profitable business plan for Spectra 2.0, and consequently, its restructuring process. At the date of the Third Monitor's Report, the best "high level" estimate of these amounts could represent between approximately $1M and $2M.

*Becknell Lease Extension*

33. Spectra Group has facilities in the US related to the distribution of its products and uses, among others, a 250,000 square foot warehouse located at in Greenfield, Indiana (the "**Greenfield Warehouse**") which is leased from Indiana Becknell Investors 2011 LLC ("**Becknell**").

34. Spectra Group was scheduled to move into a new larger warehouse also owned by Becknell in 2020. However, considering the intention to downsize the US aftermarket operation, assuming the costs of a larger warehouse would not have been appropriate or feasible. The lease for the new warehouse was therefore disclaimed by Spectra Group within the CCAA Proceedings.

35. The Management has reviewed various possible options, including negotiating with Becknell to remain in the Greenfield Warehouse and moving to another location.

36. Finally, on May 21, 2020, a settlement agreement and lease extension, i.e. the Becknell Lease Extension, was entered into with Becknell to secure the occupation of the existing Greenfield Warehouse for a period of at least of eight (8) months (and possibly up to May 31, 2021), allowing for the transition of Spectra Group's US operations. These agreements were approved by this Court on May 28, 2020, and by the U.S. Court on May 29, 2020.

*Employees*

37. As mentioned in the First Monitor's report, on or around March 25, 2020, Spectra temporarily laid off approximately 600 employees as a result of the Covid-19 pandemic. A portion of these employees (approximately 412) have been rehired as of May 23, 2020 and further rehires are projected to occur throughout the Cash Flow Period (mainly in July and August). By mid-August 2020, the Debtors anticipate having called back a large portion of the employees which were temporarily laid off in March. It is to be noted that the actual number of employees is 821 and that the total number of employees is projected to be 765 on October 2, 2020 as compared to 1,145 on February 28, 2020, representing a permanent reduction of 380 employees.

### *Canada Emergency Wage Subsidy*

38. Spectra is eligible for the Canada Emergency Wage Subsidy ("**CEWS**") program (the federal government's employer subsidy related to Covid-19, which consists of a subsidy of 75% of the employees' salary for the period from March 15 to August 29, 2020, with a cap of $847/employee/week), subject to meeting the established criteria/conditions. Spectra has projected to receive $5.1M related to the CEWS, including $4.2M over the Cash Flow Period.

## ACTUAL RECEIPTS AND DISBURSEMENTS FOR THE FIVE (5) WEEK PERIOD FROM APRIL 19 TO MAY 23, 2020

39. As instructed by the Court, upon the issuance of the First Day Initial Order, the Monitor has monitored the Debtors' receipts and disbursements for the period from March 10, 2020 to the date of this Third Monitor's Report. Attached as **Appendix "A"** to this report, and summarized below, is a statement of receipts and disbursements for the five (5) week period from April 19 to May 23, 2020 (the "**Actual Period**"), that is to say the period from the issuance of the First Monitor's Report, with a comparison to the weekly cash flow projections attached as Appendix B to the First Monitor's Report (the "**Second Cash Flow**").

40. Appendix "A" also includes a cumulative statement of receipt and disbursements from March 1 to May 23, 2020 (12 weeks) with a comparison to the weekly cash flow projections which relies upon the weekly forecasts detailed in note 1 of Appendix "A". Receipts and disbursements are reflected on a cash basis, and not on an accrual basis, and are denominated in thousands of Canadian dollars.

**Actual vs. Forecast Receipts and Disbursements**
**For the five (5) week period from April 19 to May 23, 2020**
Unaudited - In $000s CAD

| | Actual | Forecast | Variance |
|---|---|---|---|
| Cash Inflows | 30 423 | 20 682 | 9 741 |
| Cash Outflows (excl. Wells Fargo interests and fees) | (18 647) | (18 492) | (156) |
| Cash Outflows - Wells Fargo interests and fees | (485) | (681) | 196 |
| **Net Cash Flow (incl. Wells Fargo interest and fees)** | **11 291** | **1 509** | **9 782** |
| Opening Cash Balance | 1 224 | - | 1 224 |
| **Closing Cash Balance** | **3 537** | **-** | **3 537** |
| Cheques in Circulation | (18) | - | (18) |
| **Closing Cash Balance, net of cheques in circulation** | **3 519** | **-** | **3 519** |
| Opening Line of Credit | (80 240) | (80 240) | - |
| **Ending Line of Credit** | **(71 167)** | **(78 730)** | **7 563** |
| Other Wells Fargo Potential Obligations | (7 780) | (7 840) | 60 |
| **Total Obligations to Wells Fargo** | **(78 948)** | **(86 570)** | **7 623** |
| **Maximum Allowable Obligations to Wells Fargo** | **99 555** | **99 555** | **-** |
| **Borrowing Base Availability** | **112 737** | **114 250** | **(1 513)** |
| **Availability Surplus & Cash Balance based on Borrowing Base Availability[1]** | **37 309** | **27 680** | **9 629** |
| **Availability Surplus & Cash Balance based on Maximum Allowable Obligations to Wells Fargo[2]** | **24 127** | **12 985** | **11 142** |

**Note 1:** Based on the Borrowing Base Availability as compared to the Total Obligations to Wells Fargo.

**Note 2:** Based on the Maximum Allowable Obligations to Wells Fargo compared to the Total Obligations to Wells Fargo.

41. Net Cash Flow (including Wells Fargo interests and fees (Debtor's operating lender)) for the Actual Period is $11,291K compared to the projected amount of $1,509K representing a favourable net cash flow variance of $9,782K. The better than projected Net Cash Flow is explained by higher than forecasted receipts of $9,741K over the Actual Period.

42. The favourable net cash flow variance of $9,782K is primarily explained by the following:

Cash Inflows (Favourable variance of $9,741K):

- Collections: Favourable variance of $9,981K largely due to timing differences (Second Cash Flow forecasted an important negative impact of the Covid-19 pandemic on Collections, which did not materialize), the sooner than projected reopening of operations in Canada and the $1,400K collected for the first tranche of Spectra's US fuel pump bulk sale to Trico (Trico Sale Transaction), resulting in higher than forecasted collections of accounts receivable balances. This favorable variance includes the receipt of unbudgeted U.S. tariff reimbursements of $450K; and,

- Other Cash Inflows: Unfavourable variance of approximately $240K due to permanent differences in Ford Edge reimbursements (capital expenditures) ($33K) and collections from Spectra Premium AB (Sweden) ($207K) from the sale of straps.

Cash Outflows, including Wells Fargo interests and fees (Favourable variance of $41K):

- Payment of AP balance: Unfavourable variance of $355K due to the sooner than projected re-opening of Boucherville and Laval operations, resulting in higher than forecasted purchases of inventory in May 2020. The unfavourable variance is partially offset by lower than forecasted payments of pre-filing balances in accordance with the Amended and Restated Initial Order;

- Payroll: Favourable variance of $299K due to permanent differences resulting from lower than forecasted US payroll expense and unpaid retention bonuses, partially offset by an increased number of employees at Boucherville and Laval facilities (rehired of employees who had been temporarily laid off on March 25, 2020). The Second Cash Flow did not forecast US terminations or the re-opening of manufacturing operations in Canada;

- Rent: Favourable variance of $367K is mostly due to additional rent for Greenfield, Indiana facility and municipal taxes for Boucherville and Laval facilities that were projected but not paid during the Actual Period (timing differences);

- US Duty/Tariff: Favourable variance of $29K due to timing differences that are expected to reverse in the future;

- Professional Fees (including Restructuring/CCAA): Favourable variance of $334K due to timing differences that are expected to reverse in the future;

- Financing costs / debt payments, including Wells Fargo interests and fees: Favourable variance of $187K due to timing differences in payment of Wells Fargo professional and other fees ($208K), partially offset by permanent unfavorable variances in the payment of Wells Fargo interest payments ($12K) and in other financing costs / debt payments ($9K);

- Factoring fee: Favourable variance of $98K primarily due to collections from an important customer (approximately $4,500K) who stopped using factoring to finance their accounts payable and the mix of customer collections, resulting in lower than projected factoring fees;

- Restructuring – closing/moving costs: Unfavorable variance of $1,087K primarily due to a settlement to get an extension of the lease agreement (approximately $1,050K) paid to landlord Becknell per the extension of the lease agreement (Becknell Lease Extension) for the U.S distribution center in Greenfield, Indiana;

- Miscellaneous: Favourable variance of $190K primarily due to forecasted Miscellaneous expenses not incurred; and,

- CAPEX: Unfavorable variance of $21K due to expenses incurred not projected (permanent difference).

Take note that as at May 23, 2020, the Debtors had post-filing outstanding cheques of $18K and post-filing account payables (excluding intercompany accounts) of $2,258K, mainly due to inventory purchases, sales taxes on exports, customs brokers, transportation suppliers and utilities suppliers for which payment terms have provided that were not projected.

43. The Ending Cash Balance as at May 23, 2020 is $3,537K compared to the projected amount of $0, representing a favourable variance of $3,537K. This is explained by the assumption that there are no timing differences between the receipt or the use of cash 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 May 23, 2020, net of cheques in circulation of $18K, is $3,519K.

44. The Ending Line of Credit ("**LOC**") as at May 23, 2020 is $71,167K compared to the projected amount of $78,730K, representing a favourable variance of $7,563K which is primarily explained by the favourable variance in the Net Cash Flow of $9,586K. The Total Obligations to Wells Fargo as at May 23, 2020 of $78,948K include Other Wells Fargo Potential Obligations of $7,780K, which include various letters of credit and reserves.

45. The Estimated Borrowing Base Availability as at May 23, 2020 is $112,737K compared to the projected amount of $114,250K, representing an unfavourable variance of $1,513K ($823K unfavourable variance for accounts receivable and $690K unfavourable variance for inventory).

    Given the Estimated Borrowing Base Availability of $112,737K as at May 23, 2020, the availability on the LOC as at May 23, 2020, considering the cash balance, is $37,309K ($33,790K if the cash balance is not considered).

When taking into consideration the Maximum Allowable Obligations to Wells Fargo ($99,555K as at May 23, 2020, i.e. 115% of the forecasted Total Obligations to Wells Fargo as at May 23, 2020 in the Second Cash Flow), the availability on the LOC as at May 23, 2020, considering the cash balance, is approximately $24,127K ($20,608K if the cash balance is not considered).

**UPDATED CASH FLOW PROJECTIONS FOR THE EIGHTEEN (18) WEEK PERIOD FROM MAY 24 TO SEPTEMBER 26, 2020**

46. The Debtors, with the assistance of the Monitor, have prepared the updated consolidated cash flow projections (the "**Third Cash Flow**") for the eighteen (18) week period from May 24 to September 26, 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 Third Cash Flow includes the expected cash flow results of the Debtors over the Cash Flow Period and excludes any result pertaining to Spectra Premium AB (Sweden) a.k.a. TechRoi. A copy of the Third Cash Flow including notes and the main assumptions upon which it is based is presented herewith as **Appendix "B"**.

47. The Third Cash Flow projects that the Debtors will generate a net cash flow of $7.0M (receipts of $88.9M less disbursements of $81.9M), and as a result, the indebtedness to Wells Fargo will decrease from $79.0M at May 23, 2020 to $68.4M by September 26, 2020 considering the application of the cash balance of $3.5M as at May 23, 2020 on the LOC. The indebtedness to Wells Fargo is projected to vary between a high of $79.0M at May 23, 2020 to a low of $62.5M in the week ending August 1, 2020.

48. As projected in the Third Cash Flow, the Debtors remain cash flow positive over the Cash Flow Period (i.e. $7.0M) and have a forecasted minimum availability on the LOC as of September 26, 2020 of approximately $10.3M 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 ($26.0M based on the borrowing base availability).

49. The Third Cash Flow includes assumptions that respond 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 Third Cash Flow are based on preliminary inquiries 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, means that the actual results achieved during the Cash Flow Period may vary materially from the Third Cash Flow. The full impact of the Covid-19 pandemic is not able of being qualitatively or quantitatively assessed at this time.

50. The Third Cash Flow represents Management's estimates of the projected cash flow during the Cash Flow Period. The Third Cash Flow has been prepared by Management, using probable and hypothetical assumptions as set out in the notes to the Third Cash Flow (the "**Probable and Hypothetical Assumptions**" or the "**Assumptions**").

51. The Monitor has reviewed the Third 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 Third Cash Flow consisted of inquiries, analytical procedures and discussions 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 Third Cash Flow. The Monitor also reviewed the support provided by Management for the Probable and Hypothetical Assumptions and the preparation and presentation of the Third Cash Flow.

52. 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 Third 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 Third Cash Flow does not reflect the probable and hypothetical assumptions.

53. Since the Third 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 Third Cash Flow will be achieved. The Third Cash Flow has been prepared solely for the purpose described in the notes accompanying the Third Cash Flow Second, and readers are cautioned that it may not be appropriate for other purposes.

54. 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 expire August 31, 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.

55. Wells Fargo and LBC are the principal secured creditors of the Debtors, and both have been informed on a weekly basis of the financial situation and received a copy of the Third Cash Flow.

56. Wells Fargo and LBC support the continuation of the CCAA Proceedings in accordance with the Third Cash Flow.

## RESTRUCTURING UPDATE AND REQUEST FOR AN EXTENSION OF THE STAY PERIOD

57. Pursuant to the Amended and Restated Initial Order, the Stay Period continues until and including, June 6, 2020. In the June 3, 2020 Motion, Spectra Group is seeking an extension of the Stay Period to September 26, 2020.

58. The Monitor has considered the burden of evidence that resides with Spectra Group to demonstrate that an extension of the Stay Period by this Court is warranted, in the context of Covid-19, having regard to:

– The circumstances justifying the issuance of an extension order;

– The good faith efforts of the Debtors to effect and implement the restructuring; and,

– The due diligence with which the Debtors are implementing the restructuring.

*Circumstances that justify the Extension Order*

59. The Debtors require an extension of the Stay Period in order to pursue a value maximization strategy.

60. During the Stay Period requested, Spectra Group will continue to analyze the effect of the actual economic downturn on its operational restructuring plan and continue the negotiations with the main stakeholders in order to update and complete their business plan (Spectra 2.0). The Covid-19 pandemic has delayed some decisions and measures related to the restructuring process and plan. More precisely, during the Stay Period, and with the assistance of the Monitor, Spectra Group:

➢ Will continue the planning and execution of its operational restructuring plan that would involve a significant reduction to Spectra Group's activities in the US aftermarket division and a recentralization of its activities in Canada and in the newer and more profitable tooling and industrial divisions;

➢ Will review scenarios to restructure and enhance the business model, including making one or multiple transactions with strategic partners and/or selling some of Spectra Group's assets;

➢ Will continue its effort to rationalize its expenses and maximize the value of the assets;

➢ Will negotiate an extension of the Wells Forbearance Agreement that will be expire on August 31, 2020; and,

➢ Will prepare a plan for a claims process that is expected to be approved by the Court by the end of the Stay Period.

61. As mentioned above, the Monitor is also of the view that Spectra Group will have sufficient cash flow to sustain operations throughout the Stay Period requested.

*Good Faith Efforts and Due Diligence*

62. In the Monitor's view, Management is acting in good faith and with due diligence in these proceedings, as evidenced by the following:

- Spectra Group is compliant with their statutory obligations under the CCAA and have complied with the provisions of the Amended and Restated Initial Order;

- Spectra Group and the Monitor have maintained on-going discussions with key stakeholders;

- Spectra Group, with the assistance of the Monitor, has undertaken numerous activities in developing a restructuring process; and,

- Spectra Group continues to focus on operational improvements and value enhancement initiatives.

63. Based on the discussions held to date, it is the view of the Monitor, in the context of the Covid-19 pandemic, that the Debtors have been pursuing the advancement of their restructuring efforts in good faith and with due diligence.

64. The Monitor is of the view that an extension of the Stay Period is in the best interests of the stakeholders as a whole and that this Court would be justified to extend the Stay Period, subject to possible further extensions for such other periods as the Court may consider appropriate.

65. Based on the forgoing, the Monitor recommends that this Court grant an order extending the Stay Period until and including, September 26, 2020.

## OVERALL COMMENTS AND CONCLUSIONS

66. The Covid-19 pandemic has delayed (and could cause additional delays) certain decisions and the implementation of certain measures related to the restructuring process. The Monitor is of the view that an extension of the Stay Period is in the best interests of the stakeholders as a whole and will allow the Debtors to continue to analyze the effect of the actual economic downturn on their operational restructuring plan and continue the negotiations with the main stakeholders in order to update and complete their business plan (Spectra 2.0).

67. Considering the foregoing and notably the support of Wells Fargo and LBC, the Monitor believes that the continuation of the CCAA Proceedings in accordance with the Third Cash Flow, forecasting a net positive cash flow of $7.0M and a minimum availability of the LOC between $9.4M and $11.8M during the Cash Flow Period, is appropriate and to the benefit of the Debtors' stakeholders as a whole.

68. Consequently, the Monitor supports an extension of the Stay Period until and including September 26, 2020.

All of which is respectfully submitted this 4th day of June 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"

Appendix "A"

SPECTRA PREMIUM INDUSTRIES INC. & AL. (EXCLUDING SPECTRA PREMIUM AB (SWEDEN))
ACTUAL VS FORECAST RECEIPTS AND DISBURSEMENTS
FOR THE FIVE (5) WEEK PERIOD FROM APRIL 19 TO MAY 23, 2020
AND THE CUMULATIVE 12 WEEK PERIOD FROM MARCH 1 TO MAY 23, 2020
(UNAUDITED - IN $000s CAD)

| | Curent Period<br>Five (5) week period from April 19 to May 23, 2020 | | | Cumulative Period<br>Twelve (12) week period from March 1 to May 23, 2020 | | |
|---|---|---|---|---|---|---|
| | Actual | Forecast[1] | Variance | Actual | Forecast[1] | Variance |
| Cash Inflows | | | | | | |
| Collections | 29 523 | 19 542 | 9 981 | 82 295 | 76 762 | 5 533 |
| Ford Edge reimbursement | 667 | 700 | (33) | 1 454 | 1 459 | (6) |
| Collection Spectra Premium AB | 233 | 440 | (207) | 493 | 660 | (167) |
| Total Cash Inflows | 30 423 | 20 682 | 9 741 | 84 241 | 78 881 | 5 360 |
| Cash Outflows[2] (without Wells Fargo interests and fees) | | | | | | |
| Payment of AP balances | 11 444 | 11 089 | (355) | 30 010 | 47 096 | 17 086 |
| Payroll & benefits (including KERP) | 3 311 | 3 610 | 299 | 10 845 | 12 520 | 1 675 |
| Rent | 737 | 1 104 | 367 | 2 015 | 2 654 | 638 |
| Factoring fee | 267 | 365 | 98 | 754 | 1 502 | 749 |
| Financing costs / debt payments[2] | 129 | 120 | (9) | 1 278 | 1 377 | 99 |
| US Duty/Tariff | 1 161 | 1 190 | 29 | 3 199 | 4 515 | 1 316 |
| CAPEX | 21 | - | (21) | 100 | 1 450 | 1 350 |
| Restructuring - closing/moving costs | 1 087 | - | (1 087) | 1 240 | 240 | (1 000) |
| Professional Fees (including Restructuring/CCAA) | 430 | 764 | 334 | 1 702 | 2 161 | 459 |
| Miscellaneous | 60 | 250 | 190 | 149 | 900 | 751 |
| Total Cash Outflows[2] (without Wells Fargo interests and fees) | 18 647 | 18 492 | (156) | 51 291 | 74 415 | 23 124 |
| Net Cash Flow[2] (without Wells Fargo interests and fees) | 11 776 | 2 190 | 9 586 | 32 951 | 4 467 | 28 484 |
| Opening cash balance | 1 224 | - | 1 224 | 1 491 | - | 1 491 |
| Foreign currency transfers from HSBC accounts to LOC | (170) | - | (170) | (1 271) | - | (1 271) |
| Net cash flow from above | 11 776 | 2 190 | 9 586 | 32 951 | 4 467 | 28 484 |
| Net operating line draw / (repayment) | (9 293) | (2 190) | (7 103) | (29 633) | (4 467) | (25 167) |
| Closing cash balance | 3 537 | - | 3 537 | 3 537 | - | 3 537 |
| Cheques in Circulation | (18) | - | (18) | (18) | - | (18) |
| Closing cash balance (net of cheques in circulation) | 3 519 | - | 3 519 | 3 519 | - | 3 519 |
| Opening Line of Credit | (80 240) | (98 872) | 18 632 | (100 568) | (100 549) | (19) |
| Adjustment to Opening LOC in connection to change in budget | - | 18 632 | (18 632) | - | 18 632 | (18 632) |
| (Draw) / repayment | 9 293 | 2 190 | 7 103 | 29 633 | 4 467 | 25 167 |
| Transfer from HSBC CAD Account | 168 | - | 168 | 1 267 | - | 1 267 |
| Interest paid directly by LOC[2] | (391) | (379) | (12) | (1 227) | (824) | (403) |
| Other fees paid directly by LOC[2] | (94) | (302) | 208 | (578) | (456) | (122) |
| Change in FX rate | 96 | - | 96 | 305 | - | 305 |
| Closing Line of Credit | (71 167) | (78 730) | 7 563 | (71 167) | (78 730) | 7 563 |
| Other Wells Fargo potential obligations | (7 780) | (7 840) | 59 | (7 780) | (7 840) | 59 |
| Total Obligations to Wells Fargo | (78 948) | (86 570) | 7 623 | (78 948) | (86 570) | 7 623 |
| Borrowing Base | | | | | | |
| Inventory | 79 980 | 80 803 | (823) | 79 980 | 80 803 | (823) |
| AR | 32 757 | 33 447 | (690) | 32 757 | 33 447 | (690) |
| Borrowing Base Availability | 112 737 | 114 250 | (1 513) | 112 737 | 114 250 | (1 513) |
| Maximum Allowable Obligations to Wells Fargo | 99 555 | 99 555 | - | 99 555 | 99 555 | - |
| Availability Surplus & Cash Balance based on Borrowing Base Availability[3] | 37 309 | 27 680 | 9 629 | 37 309 | 27 680 | 9 629 |
| Availability Surplus & Cash Balance based on Maximum Allowable Obligations[4] | 24 127 | 12 985 | 11 142 | 24 127 | 12 985 | 11 142 |

**Note 1:** The forecast from March 1 to May 23, 2020 uses: (i) the First Cash Flow attached in the Pre-Filing Monitor's report, dated March 9, 2020, for the period (7 weeks) from March 1 to April 18, 2020; and (ii) the Second Cash Flow filed with the First Monitor's Report, dated April 28, 2020, for the period (5 weeks) from April 19 to May 23, 2020.

**Note 2:** Cash Outflows and Net Cash Flow do not include Wells Fargo interests and fees. They are include direclty in the roll forward of the Line of Credit, see operations detail in the section Line of Credit for Wells Fargo interests and fees.

**Note 3:** The Availability Surplus & Cash Balance based on the Borrowing Base Availability as compared to the Total Obligations to Wells Fargo.

**Note 4:** The Availability Surplus & Cash Balance based on the Maximum Allowable Obligations to Wells Fargo compared to the Total Obligations to Wells Fargo.

# Appendix "B"

**SPECTRA PREMIUM INDUSTRIES INC. & AL. (EXCLUDING SPECTRA PREMIUM AB (SWEDEN))**
**WEEKLY FORECAST RECEIPTS AND DISBURSEMENTS**
**FOR THE EIGHTEEN (18) WEEK PERIOD FROM MAY 24 TO SEPTEMBER 26, 2020**
**UNAUDITED - IN $000s CAD**
**(See Notes and Assumptions attached)**

| | Actual | Weekly Forecast | | | | | | | | | | | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Week ending** | 23-May | 30-May | 6-Jun | 13-Jun | 20-Jun | 27-Jun | 4-Jul | 11-Jul | 18-Jul | 25-Jul | 1-Aug | 8-Aug | 15-Aug | 22-Aug | 29-Aug | 5-Sep | 12-Sep | 19-Sep | 26-Sep | |
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | |
| **Net Cash Flow, LOC and Total Obligations to Wells Fargo:** | | | | | | | | | | | | | | | | | | | | |
| **Cash Inflows** | | | | | | | | | | | | | | | | | | | | |
| Collections | | 3 093 | 6 611 | 3 192 | 7 661 | 2 851 | 6 976 | 4 585 | 6 350 | 1 470 | 5 927 | 3 355 | 4 709 | 519 | 4 442 | 2 879 | 4 703 | 3 353 | 3 975 | 76 650 |
| SPI AB (Sweden) collections | | - | 176 | - | - | - | 166 | - | - | - | - | 274 | - | - | - | 288 | - | - | - | 904 |
| Trico Sale Transaction collections | | - | - | - | - | 1 180 | - | - | - | 2 360 | - | - | | 2 360 | - | - | - | - | 1 180 | 7 079 |
| Government wage subsidy | | - | - | - | 580 | 910 | - | 910 | - | - | - | 910 | - | - | - | - | 910 | - | - | 4 220 |
| **Total Cash Inflows** | | **3 093** | **6 787** | **3 192** | **8 241** | **4 941** | **7 141** | **5 495** | **6 350** | **3 829** | **5 927** | **4 540** | **4 709** | **2 879** | **4 442** | **3 167** | **5 613** | **3 353** | **5 154** | **88 854** |
| **Cash Outflows** | | | | | | | | | | | | | | | | | | | | |
| Payment of AP balances | | 2 768 | 2 768 | 3 218 | 2 818 | 3 218 | 1 649 | 2 149 | 1 649 | 2 099 | 1 699 | 3 080 | 2 780 | 3 080 | 2 780 | 3 210 | 2 910 | 3 210 | 2 910 | 47 995 |
| Payroll & benefits (including KERP) | | 1 191 | 722 | 1 309 | 709 | 1 304 | 499 | 1 303 | 512 | 1 225 | 525 | 1 446 | 574 | 1 700 | 603 | 1 666 | 578 | 1 617 | 493 | 17 976 |
| Rent | | 426 | 234 | - | - | 470 | - | 394 | - | - | 470 | 426 | - | - | 470 | - | 426 | - | 470 | 3 786 |
| Factoring fees | | 25 | 159 | 17 | 138 | 24 | 116 | 24 | 96 | 17 | 83 | 17 | 70 | 13 | 62 | 13 | 62 | 15 | 71 | 1 022 |
| Financing costs / debt payments | | - | 821 | 12 | - | - | 416 | 12 | - | - | 29 | 746 | 12 | - | - | 392 | - | 127 | - | 2 567 |
| US Duty/Tariff | | - | - | - | 230 | - | - | - | 488 | - | - | - | - | 604 | - | - | - | 682 | - | 2 005 |
| Capital expenditures | | 98 | 289 | 289 | 289 | 289 | 68 | 68 | 68 | 68 | 68 | 77 | 77 | 77 | 77 | 68 | 68 | 68 | 68 | 2 172 |
| Restructuring - closing/moving costs | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 260 | 50 | 50 | 50 | 410 |
| Miscellaneous | | 134 | 50 | 50 | 50 | 50 | 250 | 50 | 50 | 50 | 250 | 50 | 50 | 50 | 150 | 50 | 50 | 50 | 150 | 1 584 |
| Professional Fees (Restructuring/CCAA) | | - | 113 | 347 | 115 | 127 | 182 | 174 | 92 | 127 | 150 | 104 | 92 | - | 247 | 72 | 225 | 58 | 121 | 2 343 |
| **Total Cash Outflows** | | **4 641** | **5 156** | **5 243** | **4 349** | **5 482** | **3 180** | **4 174** | **2 955** | **3 585** | **3 273** | **5 945** | **3 656** | **5 524** | **4 390** | **5 729** | **4 368** | **5 877** | **4 332** | **81 860** |
| **Net Cash Flow** | | **(1 548)** | **1 631** | **(2 051)** | **3 892** | **(541)** | **3 962** | **1 321** | **3 395** | **244** | **2 653** | **(1 406)** | **1 053** | **(2 645)** | **52** | **(2 562)** | **1 245** | **(2 524)** | **822** | **6 994** |
| Opening Line of Credit | | (71 167) | (69 178) | (67 547) | (69 598) | (65 706) | (66 246) | (62 285) | (60 964) | (57 569) | (57 325) | (54 671) | (56 077) | (55 024) | (57 670) | (57 618) | (60 180) | (58 935) | (61 458) | (71 167) |
| Net Cash Flow | | (1 548) | 1 631 | (2 051) | 3 892 | (541) | 3 962 | 1 321 | 3 395 | 244 | 2 653 | (1 406) | 1 053 | (2 645) | 52 | (2 562) | 1 245 | (2 524) | 822 | 6 994 |
| Cash Balance as at May 23, 2020 | | 3 537 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 3 537 |
| **Closing Line of Credit ("LOC")** | **(71 167)** | **(69 178)** | **(67 547)** | **(69 598)** | **(65 706)** | **(66 246)** | **(62 285)** | **(60 964)** | **(57 569)** | **(57 325)** | **(54 671)** | **(56 077)** | **(55 024)** | **(57 670)** | **(57 618)** | **(60 180)** | **(58 935)** | **(61 458)** | **(60 636)** | **(60 636)** |
| Other Wells Fargo potential obligations | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) | (7 781) |
| **Total Obligations to Wells Fargo** | **(78 948)** | **(76 959)** | **(75 328)** | **(77 379)** | **(73 487)** | **(74 027)** | **(70 066)** | **(68 745)** | **(65 350)** | **(65 106)** | **(62 452)** | **(63 858)** | **(62 805)** | **(65 451)** | **(65 399)** | **(67 961)** | **(66 716)** | **(69 239)** | **(68 417)** | **(68 417)** |
| **Estimated Borrowing Base and Availability LOC:** | | | | | | | | | | | | | | | | | | | | |
| **Total Estimated Borrowing Base** | | | | | | | | | | | | | | | | | | | | |
| Inventory | 79 980 | 78 807 | 77 677 | 76 547 | 75 417 | 74 287 | 72 809 | 71 331 | 69 853 | 68 375 | 66 898 | 66 162 | 65 427 | 64 692 | 63 957 | 63 679 | 63 401 | 63 124 | 62 846 | 62 846 |
| AR | 32 757 | 33 912 | 32 984 | 33 789 | 32 107 | 33 075 | 31 399 | 30 931 | 29 569 | 30 622 | 29 473 | 29 895 | 29 633 | 31 439 | 31 310 | 31 823 | 31 423 | 31 704 | 31 570 | 31 570 |
| **Total Estimated Borrowing Base** | **112 737** | **112 719** | **110 661** | **110 336** | **107 524** | **107 362** | **104 208** | **102 263** | **99 423** | **98 998** | **96 370** | **96 058** | **95 060** | **96 131** | **95 267** | **95 502** | **94 825** | **94 828** | **94 416** | **94 416** |
| **Maximum Allowable Obligations to Wells Fargo** | **90 790** | **88 503** | **86 627** | **88 986** | **84 510** | **85 131** | **80 576** | **79 057** | **75 152** | **74 872** | **71 820** | **73 437** | **72 226** | **75 269** | **75 208** | **78 155** | **76 723** | **79 625** | **78 680** | **78 680** |
| **Availability Surplus (LOC) based on Estimated Borrowing Base** | **33 789** | **35 759** | **35 332** | **32 957** | **34 037** | **33 335** | **34 142** | **33 518** | **34 073** | **33 892** | **33 918** | **32 200** | **32 255** | **30 680** | **29 868** | **27 541** | **28 109** | **25 589** | **25 999** | **25 999** |
| **Availability Surplus (LOC) based on Maximum Allowable Obligations** | **11 842** | **11 544** | **11 299** | **11 607** | **11 023** | **11 104** | **10 510** | **10 312** | **9 802** | **9 766** | **9 368** | **9 579** | **9 421** | **9 818** | **9 810** | **10 194** | **10 007** | **10 386** | **10 263** | **10 263** |
| **Working Capital items:** | | | | | | | | | | | | | | | | | | | | |
| **A/R** | 68 610 | 70 982 | 69 076 | 70 730 | 67 795 | 69 784 | 66 341 | 65 381 | 62 584 | 64 747 | 62 386 | 63 254 | 62 715 | 66 423 | 66 159 | 67 212 | 66 391 | 66 968 | 66 867 | 66 867 |
| **A/P - Pre-filing** | 69 307 | 69 307 | 69 307 | 68 857 | 68 857 | 68 407 | 68 407 | 67 957 | 67 957 | 67 507 | 67 507 | 67 207 | 67 207 | 66 907 | 66 907 | 66 607 | 66 607 | 66 307 | 66 307 | 66 307 |
| **A/P - Post-filing** | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 | 2 258 |
| **Inventory** | 123 660 | 121 813 | 120 067 | 118 320 | 116 574 | 114 827 | 112 543 | 110 258 | 107 974 | 105 689 | 103 405 | 102 268 | 101 132 | 99 996 | 98 859 | 98 430 | 98 001 | 97 572 | 97 143 | 97 143 |

**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 eighteen (18) week period from May 24 to September 26, 2020

## Purpose:

The attached statement of the Companies projected cash flow (the "**Third Cash Flow**"), for the eighteen (18) week period from May 24 to September 26, 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 Third 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 Third 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 Third 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 Third Cash Flow. The full impact of the Covid-19 pandemic cannot be qualitatively or quantitatively assessed at this time.

The Third Cash Flow is based on certain events, including the following main events:

- **Sale of inventory to Trico** - The sale of inventory to Trico commenced in May 2020. Management has assumed that the sale of inventory to Trico will continue through the month of November. Included in the Cash Flow Period are collections of $7.1M ($1.4M was collected prior to the Cash Flow Period), with the balance of sale of approximately $8.0M to be collected after the Cash Flow Period in October and November 2020.
- **Re-hiring of employees temporarily laid off** - On or around March 25, 2020, Spectra temporarily laid off approximately 600 employees as a result of the Covid-19 pandemic. A portion of these employees (approximately 412) have been rehired as of May 23, 2020 and further rehires are projected to occur throughout the Cash Flow Period (mainly in July and August). By mid-August 2020 the Company anticipates having

called back a large portion of the employees which were temporarily laid off in March. The Company intends to permanently layoff those not re-hired, as well as others, including in the Debert location, by the end of the Cash Flow Period. It is to be noted that the total headcount is projected to be 765 on October 2, 2020 as compared to 1,145 on February 28, 2020, representing a permanent reduction in headcount of 380.

- **Operation progressively resumed** - Since May 11, 2020, the Companies' normal operations have progressively resumed, and a gradual recovery will continue to take place through mid July 2020.
- **Termination of production at Debert location** – Management has assumed that production at the Debert location will cease by August 31, 2020, however the majority of the employees will remain employed through the end of September in order to transfer the assets to the remaining Spectra facilities and prepare the building for its eventual sale.
- **Ongoing operation restructuration plan** – The Covid-19 pandemic have delayed some decisions and measures related to the restructuring process. The Companies continue to analyse the effect of the actual economic downturn on its operational restructuring plan and continue the negotiations with the principal's stakeholders in order to update and complete their business plan (Spectra 2.0).

**Overview:**

The Third Cash Flow reflects cash flows from the Companies' operations. The Companies have prepared the Third Cash Flow based primarily on historical results and the Companies' current expectations. The Third 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 May 23, 2020.

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

## Notes and Assumptions:

### 1. Creditor support

The Third 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 $84.6M over the Cash Flow Period are based on forecasted collections from opening accounts receivable as of May 23, 2020 and collections of projected sales during the Cash Flow Period ($76.6M), collections related to the bulk sale of U.S aftermarket inventory (Trico Sale Transaction) ($7.1M), as well as the collection of sales to Spectra Premium AB (Sweden) ($0.9M). 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 Third Cash Flow.

3. **Government wage subsidy**

Spectra is eligible to the Canada Emergency Wage Subsidy ("**CEWS**") program (the federal government's employer subsidy related to Covid-19, which consists of a subsidy of 75% of the employees' salary for the period from March 15 to August 29, 2020, with a cap of $847/employee/week), subject to meeting the established criteria/conditions. The Company has projected to receive $4.2M related to the CEWS in the Cash Flow Period. This amount relates to the subsidies eligible for period from March 15 to August 1, 2020. An additional amount of $910K related to the month of August is projected to be received subsequent to the Cash Flow Period.

4. **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.

5. **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 $345K in payments related to the Key Employee Retention Plan (KERP).

6. **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 Third Cash Flow includes certain temporary savings in rent resulting from the Covid-19 pandemic that have been negotiated with certain landlords. Also included are additional rent amounts related to a re-negotiated and extended lease agreement entered into for the Greenfield Indiana facility, which could extend through May 31, 2021.

7. **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 rates of 3% to 4% of customer collections subject to these factoring agreements (main customers in U.S. aftermarket).

8. **Financing costs / Debt payments**

These disbursements relate to interest and financing fee payments, as well as, interest payments made on the LBC/EDC loan and various capital leases entered into by the Companies. Further to discussions with the LBC no capital repayments are projected in July and September 2020. 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.

9. **US duty/tariff payments**

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

10. **Capital expenditures**

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

11. **Restructuring - closing/moving costs**

These disbursements include the costs associated with the closure of the Debert facility as well as the second installment of the payments related to the re-negotiation of the Greenfield Indiana lease noted above.

12. **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.

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

Professional fees related to the restructuring 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 eighteen (18) week-period from May 24 to September 26, 2020 (the "**Third Cash Flow**"), as of the 4th day of June, 2020.

The probable and hypothetical assumptions are reasonable and consistent with the purpose of the projection described in the notes accompanying the Third 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 attached to the Third 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 Third Cash Flow, using a set of probable and hypothetical assumptions set out in the said notes. Consequently, readers are cautioned that it may not be appropriate for other purposes.

**DATED AT MONTREAL**, this 4th day of June 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