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CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

No.: 500-11-

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.

REPORT OF THE PROPOSED MONITOR – March 9, 2020

INTRODUCTION AND BACKGROUND

1. 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 "Companies" or the "Applicants") have brought a motion (the "First Motion") before this Honourable Court (the "Court") to commence proceedings under the Companies' Creditors Arrangement Act[1] (the "CCAA"), seeking an order (the "Initial Order") containing a stay of proceedings in respect of the Applicants, the appointment of Ernst & Young Inc., a licensed insolvency trustee, as monitor ("EY" or the "Proposed Monitor") and various other relief.

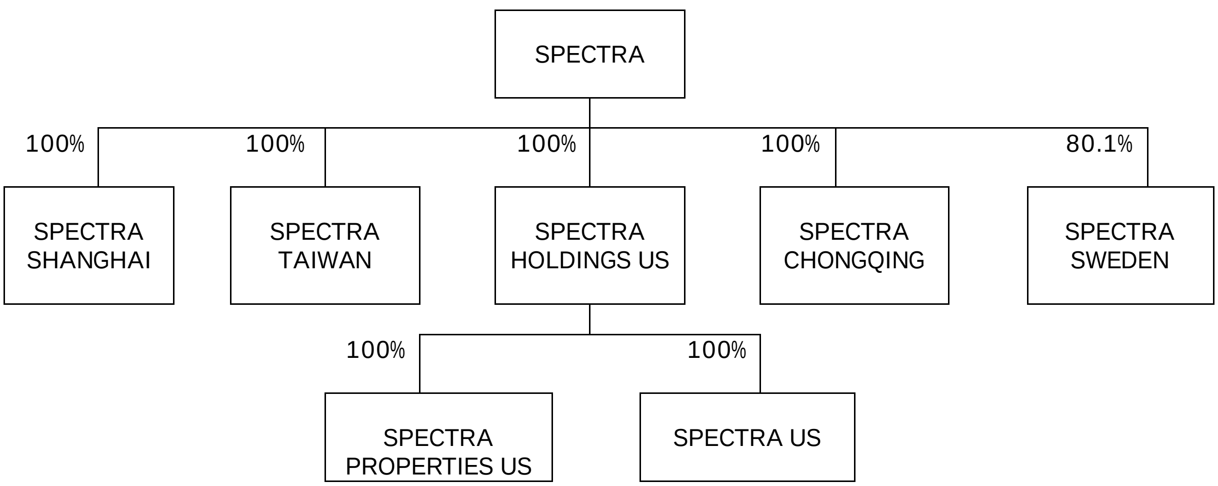
2. The present report ("Report") is intended to provide the Court with information relevant to the First Motion, based on the information that has been made available to the Proposed Monitor. The Report is presented under the following headings:

   - Introduction and background;
   - Foreign proceedings;
   - Appointment of monitor;

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

- Terms of reference and disclaimer;
- Financial position of the Applicants;
- Cash Flow Statement;
- Interim Financing;
- Financial Thresholds Contemplated;
- Upcoming Restructuring Measures; and
- Overall Comments and Conclusions.

3. The Companies, together with another foreign corporation that is not an applicant in the proceedings under the CCAA at this time ("Spectra Sweden")[2], form a corporate group that operates in the automotive market. The Companies and Spectra Sweden are hereinafter collectively referred to as the "Spectra Group". The corporate organization chart showing the relationship amongst the entities comprising the Spectra Group is reproduced hereunder:



4. Spectra Sweden is not an applicant in the proceedings under the CCAA at this time, primarily because this entity has already commenced insolvency proceedings under the laws of Sweden on February 12, 2020.

5. Spectra Group is a privately held group of companies. The significant shareholders are the Fonds de solidarité des travailleurs du Québec (F.T.Q.); CDP Investissements Inc.; Fondaction, Le fonds de développement de la confédération des syndicats nationaux pour la coopération et l'emploi; Desjardins Régional et Coopératif Desjardins; and the president and CEO of Spectra, Jacques Mombleau (directly or indirectly).

6. Spectra Group is one of the largest Quebec manufacturer and distributor of automotive products. It generated revenues of approximately $500M for the year ended January 31, 2020, which generated an EBITDA of $7M and a net loss of $13.3M.

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[2] The name of the Swedish affiliate is Spectra Premium AB, formerly known as TechRoi Fuel Systems AB ("Spectra Sweden").

7. Spectra Group's operations are segregated in four divisions:

    7.1. The "Aftermarket" division distributes generic spare automotive parts manufactured in Canada or purchased from third party suppliers (mainly in China). The sales of this division represent approximately 80% of the revenues of the Spectra Group. Approximately 80% of the sales of this division are in the US, and 20% in Canada.

    7.2. The "OEM" (or original equipment manufacturer) division manufactures and distributes gas tanks used by original manufacturers. The sales of the OEM division represent approximately 15% of the revenues of the Spectra Group.

    7.3. The "Tooling" division manufactures and distributes tooling equipment for the Spectra Group and for other manufacturers of auto parts. The external sales of the Tooling division represent approximately 4% of the revenues of the Spectra Group.

    7.4. The "Industrial" Division manufactures and distributes automotive parts and tooling for various types of industrial vehicles. The sales of the Tooling division represent approximately 1% of the revenues of the Spectra Group.

8. The activities of Spectra Sweden are included in the OEM division. The activities of Spectra Sweden started fairly recently in or about November 2019 and have not yet reached profitability. In addition to the cash flow strain caused by the lack of profitability and the ramping up of operations, the capital investments made to start operations in Sweden were substantially higher than originally anticipated, more than $37M compared with an originally anticipated investment of $24M. The difficulties encountered by Spectra Sweden resulted in it initiating insolvency proceedings under the laws of Sweden on February 12, 2020.

9. The management of the Spectra Group attributes the financial difficulties to the strain placed on the cash flow from the venture in Sweden (as outlined above), as well as a general decrease in profitability in the Companies' North American activities over the past few years. The decreased profitability is apparently caused by a shift in customer demand towards products that have a lower price (and quality) as compared with the Companies' products, an over capacity of production in the US market for one particular product which creates a downward pressure on prices, and the impact of tariffs imposed in the US on goods imported from China. These factors affect more particularly the Aftermarket division.

10. The difficulties encountered by the Companies and the resulting cash flow strain have rendered the Companies insolvent, which led to initiation of proceedings under the CCAA.

11. 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 Applicants are described in greater length in the First Motion and will therefore not be addressed herein. The First Motion is accessible through the Proposed Monitor's website, at www.ey.com/ca/spectra.

FOREIGN PROCEEDINGS

12. The Spectra Group has activities in North America (Canada and US), Europe and Asia. The activities of the principal entities described in the corporate organization chart in paragraph 3 hereof can be summarized as follows:

    12.1. Spectra: This corporation operates in each of the four divisions and has sales in Canada and in the US. This corporation operates from 14 leased locations across Canada and a property in Debert, Nova Scotia and employs in excess of 800 employees, the majority of which are in the Montreal region.

    12.2. Spectra US: This corporation operates in the Aftermarket division and has sales in the US. This corporation operates from three distribution centers, one in Greenfield Indiana, one in Knightstown Indiana and one in Redlands California, and employs in excess of 300 employees.

    12.3. Spectra Shanghai, Spectra Chongqing: These corporations operated in Asia (China). These entities no longer have activities but were used in the supply chain to source the Companies' products.

    12.4. Spectra Taiwan: This corporation operates in Asia and serves as an intermediary in the supply chain for the Companies' purchases, to purchase parts from Taiwanese suppliers and sell them to Chinese suppliers that use these parts to manufacture products that are later sold to the Spectra Group.

    12.5. Spectra Sweden: This corporation has activities in Europe (in Sweden) and operates in the OEM division.

13. In view of the extent of the operations in foreign jurisdictions, the Companies have determined the following with respect to the necessity to initiate recognition and companion proceedings with respect to the present CCAA proceedings:

    13.1. As mentioned earlier in this Report, due to the proceedings already initiated in Sweden, proceedings under the CCAA or recognition proceedings in a foreign jurisdiction are not contemplated at this time in respect of Spectra Sweden.

    13.2. Due to the limited operations, assets and liabilities in Asia, it does not appear necessary to initiate proceedings in a foreign jurisdiction in respect of Spectra Taiwan, Spectra Shanghai or Spectra Chongqing, although this may be reassessed from time to time.

    13.3. Subject to the issuance of the Initial Order in the proceedings under the CCAA as outlined in paragraph 1 above, Spectra, Spectra Holdings US., and Spectra US, Spectra Properties US will also seek before the United States Bankruptcy Court for the District of Delaware an order under Chapter 15 of the US Bankruptcy Code[3] ("Chapter 15 Proceedings") in order, inter alia, to recognise the CCAA proceedings

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[3] US Code, Title 11, as amended.

as the foreign main proceedings and obtain the required protection of their assets and operations in the United States during the restructuring process. The request for the assistance of foreign courts is therefore necessary in the circumstances.

APPOINTMENT OF MONITOR

14. EY has been informed that the Applicants are seeking its appointment as monitor in the context of proceedings under the CCAA. In regard to this proposed appointment, EY hereby confirms that it fulfills the requirement of section 11.7(1) of the CCAA, and that neither EY nor its affiliates, directors and officers is subject to the restrictions referred to in section 11.7(2)(a) and (b) of the CCAA.

15. EY further confirms that it has consented to act as monitor in these proceedings, if the Court chooses to appoint it as monitor.

16. Norton Rose Fulbright Canada LLP has been retained to act as the Proposed Monitor's independent counsel in these CCAA proceedings if the Court chooses to appoint EY as monitor.

17. As well, EY has been informed of the Applicants' intention to have the Proposed Monitor appointed in the proceedings under the CCAA designated as the Companies' foreign representative in the context of the Chapter 15 Proceedings. EY further confirms that it has consented to act in that capacity, if appointed as monitor and if the Court authorises its appointment as the designated foreign representative.

18. Norton Rose Fulbright US LLP and Landis, Rath & Cobb LLP (Delaware, US) have been retained to act as the foreign representative's independent counsel in the Chapter 15 Proceedings if the Court authorises EY's appointment as foreign representative.

TERMS OF REFERENCE AND DISCLAIMER

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

    19.1. The Proposed 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 Proposed Monitor that would cause it to question the reasonableness of this assumption.

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

19.3. The Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. The Proposed 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 Proposed Monitor expresses no opinion or other form of assurance in respect of the Information.

19.4. In view of the purpose of the Report, some of the financial information therein may not comply with generally accepted accounting principles.

19.5. Some of the information referred to in this 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.

20. This Report has been prepared by the Proposed Monitor in order to provide additional information to the Court in connection with the First Motion for the issuance of the Initial Order and the current status of the Applicants' financial affairs and prospects. This Report may not be appropriate for any other purpose and consequently should not be used for any other purpose.

21. Unless otherwise stated all monetary amounts contained herein are expressed in Canadian dollars.

FINANCIAL POSITION OF THE APPLICANTS

22. The recent financial statements of the Spectra Group and each of the entities comprising the Spectra Group (except for Spectra Sweden) have been filed by the Applicants in support of the First Motion.

23. As Spectra Group is a private corporation, its financial statements may include information that could provide insight into its operations that could put it at a competitive disadvantage. Accordingly, the Applicants have requested that the financial information be sealed and kept confidential.

24. However, for greater transparency, the Applicants have prepared summary information extracted from the consolidated financial statements of Spectra Group, to provide financial information on the results of operations and the balance sheet for each of the fiscal years ended January 31, 2017 to 2020. This summary financial information is reproduced in Appendix "A" of this Report.

25. The financial information extracted from the consolidated financial statements of the Spectra Group indicates that the revenues decreased from $593.4M in fiscal 2017 to $499.0M in fiscal 2020, an overall loss of revenues of $94.4M or 15.9% over 4 years. During that period, the earnings before interest, taxes, depreciation and amortization ("EBITDA")

decreased from $49.2M to $7.1M (a decrease of $42.1M or 85.6%). As well, during that period the results of operations changed from a net profit of $27.9M in 2017 to a net loss of $13.3M in 2020.

26. During that period, the financial position deteriorated substantially, as a result of the losses sustained, and the capital investments made in connection with the Spectra Sweden set-up costs.

27. It should be noted that the consolidated balance sheet at January 31, 2020 still indicates substantial equity. However, these financial statements are prepared on a consolidated basis for the entire Spectra Group, and do not take into consideration any loss in the value of the investment that is likely to occur as a result of the insolvency proceedings initiated by Spectra Sweden, or any other asset impairment charge that might be required to reflect the loss in value of the assets of the Companies, or any potential additional liability that could result, if and when any of the Companies' operations are fundamentally changed in the course of the restructuring proceedings. In view of the foregoing, EY believes that the financial position as reflected on the estimated consolidated balance sheet attached to this Report as Appendix A, may require adjustment.

28. EY will review the Applicants' financial position at a later date, if it is appointed as monitor in the CCAA proceedings, and will report thereon to the creditors and the Court in due course.

CASH FLOW STATEMENT

29. Management of Spectra, with the assistance of the Proposed Monitor, has prepared a weekly consolidated cash flow projection (the "Cash Flow Statement") for the fourteen (14) week period from March1st to June 6, 2020 (the "Cash Flow Period"). The cash flow projections include the expected cash flow results of the Companies and exclude any result pertaining to Spectra Sweden.

    A copy of the Cash Flow Statement along with its notes and assumptions and Management representation letter required by Section 10(2) of the CCAA have been filed by the Applicants in support of the First Motion.

30. For the reasons outlined in paragraph 23 above, the Applicants have requested that the Cash Flow Statement be sealed and kept confidential. A copy of the Cash Flow Statement along with its notes and assumptions and Management representation letter required by Section 10(2) of the CCAA are attached hereto as Appendix "B" but will only be accessible by the Court and the interested stakeholders who will have complied with the requirements set by the Court through the sealing order.

31. The Cash Flow Statement suggests that the Companies will generate a net cash flow of $6.6M (receipts of $105.5M less disbursements of $98.9M), and that as a result the indebtedness to Wells Fargo (discussed later in this Report) will decrease from $108.8M at February 29, 2020 to $102.2M by June 6, 2020. The indebtedness to Wells Fargo is projected to vary between a peak of $111.6M (in the week of March 28, 2020) to a low of $101.5M (in the week of May 23, 2020).

32. The Proposed Monitor has reviewed the Cash Flow Statement as to its reasonableness as required by Section 23(1)(b) of the CCAA. The Proposed Monitor's review consisted of inquiries, analytical procedures and discussion related to information supplied by the Applicants. Since hypothetical assumptions need not be supported, the procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Proposed Monitor also reviewed the support provided by Management for the probable assumptions, and the preparation and presentation of the Cash Flow Forecast.

33. Based on this review, nothing has come to the Proposed 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 Report, the probable assumptions developed by the Applicants are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or,
- the Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

34. Since the Cash Flow Forecast 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 Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. The Cash Flow Forecast has been prepared solely for the purpose described in the notes accompanying the Cash Flow Forecast, and readers are cautioned that it may not be appropriate for other purposes.

35. The Cash Flow Statement has been prepared solely for the purpose described in the notes accompanying the Cash Flow Statement and readers are cautioned that it may not be appropriate for other purposes.

INTERIM FINANCING

36. The Companies have an operating line of credit granted jointly by Wells Fargo and the Canadian Imperial Bank of Commerce. Wells Fargo acts as the administrative agent for the lenders and as such is responsible to manage the credit relationship with the Companies. The operating credit facility is available by way of revolving loans to a maximum aggregate amount of $150M, limited however by a formula that takes into account the value of accounts receivable and inventories (the "Borrowing Base").

37. The Companies also have term loan facilities granted by the Laurentian Bank of Canada ("BLC") and Export and Development Canada ("EDC"). BLC acts as the administrative agent for the lenders and as such is responsible to manage the credit relationship with the Companies, as regards to the term loan facilities.

38. Wells Fargo and BLC have been kept apprised of the Companies' difficulties, and of their intention to seek relief under the provisions of the CCAA. The information was shared by the

Companies in order to obtain the secured creditors' support through the restructuring process.

39. After discussions in particular with Wells Fargo, the Companies were able to negotiate a forbearance agreement ("Wells Forbearance Agreement") that will allow the Companies a continued access to the Wells Fargo operating credit facility during the restructuring process.

40. In view of Wells Forbearance Agreement and the opportunity to continue to access the existing operating credit facility, the Applicants have determined at this point that it will not be necessary for them to seek out an interim lender to finance the operations during the restructuring progresses.

FINANCIAL THRESHOLDS

41. The draft Initial Order provides for a number of charges and financial thresholds that are described below.

Administration Charge

42. The Administration Charge as described in the draft Initial Order provides for an initial amount of $300,000 for the Monitor, the Monitor's counsels (including in the context of the Chapter 15 Proceedings in the US) and the Applicants' legal counsel, as security for the professional fees and disbursements incurred in respect of these proceedings. The initial Administration Charge threshold has been established based on the various professionals' previous history and experience with large restructurings of similar magnitude and complexity. The Proposed Monitor believes that such a charge is required and reasonable under the circumstances.

43. The Proposed Monitor points out that the Administration Charge as contemplated in the Initial Order is only intended to cover the initial steps in connection with the proceedings under the CCAA, until the expiry of the order made on the initial or first application, i.e. no more than 10 days after the making of the order on the initial application. The Applicants have indicated that at the hearing to obtain a more fulsome relief at the expiry of the order on the initial application (the "Comeback Hearing"), the Applicants will be seeking an increase in the Administration Charge, to $750,000. In view of the size and expected complexity of this file, the Proposed Monitor believes that such a charge is required and reasonable under the circumstances.

D&O Charge

44. The draft Initial Order does not provide for a directors and officers' charge (the "D&O Charge") at this time. However, the Applicants have indicated that they will be seeking the approval of a D&O Charge at the Comeback Hearing, in an amount of $800,000 to indemnify the Applicants' directors and officers for the liabilities they may incur in their capacity as directors and officers after the date of the Initial Order.

45. It is noted that the Applicants' directors and officers benefit from an insurance policy that provides some measure of protection, but that there remains some level of risk if the coverage is denied or subsequently cancelled. The D&O Charge is intended to offer additional protection beyond what is available under the insurance policy coverage.

46. Given the foregoing and the explanations contained in the First Motion, the Proposed Monitor believes that such charge is required and reasonable under the circumstances.

KERP Charge

47. The draft Initial Order does not provide for a key employee retention plan ("KERP") at this time. However, the Applicants have indicated that they will be seeking the approval of a KERP Charge at a later date, when a KERP is implemented, and the Applicants have suggested that the KERP Charge that will be requested will likely be in the amount of $850,000.

48. The Applicants have also indicated an intention to establish a retention incentive program ("RIP") for certain employees, although this RIP is not expected to necessitate a priority charge

49. Given the foregoing and the explanations contained in the First Motion, the Proposed Monitor believes that such charge is required and reasonable under the circumstances.

UPCOMING RESTRUCTURING MEASURES

50. At this preliminary stage, it is not possible to unveil a comprehensive restructuring strategy in respect of the Applicants, as further research, discussions and negotiations still need to be held to determine if a going concern solution can be developed. However, the restructuring process is likely to include, in the very short term:

    50.1. Initiating proceedings in the US under Chapter 15 of the US Bankruptcy Code and developing a protocol to provide information to the US Court and coordinate all proceedings between the Court and the US Court;

    50.2. Develop and implement a KERP, including one with a KERP charge and one, as retention incentive, without a charge;

    50.3. Spectra, with the assistance of the Proposed Monitor, will assess whether any additional relief measure is necessary to allow for limited payments of pre-filing debts to suppliers in connection with hardship measures or to ensure the continuation of the business in the normal course and may formulate a request from this Court in this respect;

    50.4. With the assistance of the Proposed Monitor, Spectra will work on its plan of restructuring that would involve a significant reduction of Spectra's activities of the Aftermarket division and a recentralisation of its activities in Canada and in its newer and more profitable Tooling and Industrial divisions.

50.5. With the assistance of the Proposed Monitor, Spectra's reviewing all possible scenarios to restructure and enhance the business model, including making one or multiple transactions with strategic partners and/or selling some of the Spectra's assets.

OVERALL COMMENTS AND CONCLUSIONS

51. Although the Proposed Monitor has been provided full access and disclosure, it has only recently become involved. Based on the Proposed Monitor's review thus far, the Petitioners have displayed diligence, good faith and proper intentions in pursuing these restructuring proceedings.

52. The Proposed Monitor has reviewed Spectra's filing materials and has consented to act as monitor in these proceedings under the CCAA, should the Court grant the relief sought by the Applicants.

53. In view of the foregoing and the information received since its recent engagement, EY considers that the restructuring efforts implemented by the Applicants in the proceedings herein are reasonable. EY considers that the First Motion and the relief sought therein are necessary and appropriate in the circumstances.

All of which is respectfully submitted this 9th day of March 2020.

ERNST & YOUNG INC.,
Licensed Insolvency Trustee
in its capacity as the proposed 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 CONSOLIDATED

Income Statement (in $000's CAD)				
	Jan 31. 2017	Jan 31. 2018	Jan 31. 2019	Jan 31. 2020
Sales	593,365	558,140	523,186	498,998
EBITDA	49,225	18,003	1,528	7,098
Net profit/loss	27,878	1,957	(10,373)	(13,256)

Balance Sheet (in $000's CAD)				
	Jan 31. 2017	Jan 31. 2018	Jan 31. 2019	Jan 31. 2020
Current Assets:				
A/R	89,534	102,821	85,066	80,675
Inventories	138,145	163,278	169,906	155,453
Other	11,643	17,242	23,194	26,579
Total	239,322	283,341	278,166	262,707
Property Plant and Equipment	33,277	32,230	39,634	52,820
Other	23,375	12,147	32,133	34,127
Total Assets	295,974	327,718	349,933	349,654
Current Liabilities:				
Wells Credit	80,366	106,270	114,771	101,736
A/P	82,869	87,419	116,142	117,811
Deferred Revenue	3,082	247	-	3,436
Other	1,803	697	225	-
Total	168,120	194,633	231,138	222,983
LTD	30,828	34,158	24,954	35,897
Other	2,692	5,469	4,288	4,165
Total Liabilities	201,640	234,260	260,380	263,045
Equity	94,334	93,458	89,553	86,609
Total Liabilities and Equity	295,974	327,718	349,933	349,654

Appendix «B»

(Filed Under Seal)