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CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

No.: 500-11-058116-209

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

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

# FOURTH MONITOR'S REPORT
# DATED SEPTEMBER 22, 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**").

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 accordance with the agreements in place.

7. On April 28, 2020, the Debtors filed a motion in the CCAA Proceedings for a declaratory judgment and the issuance of a safeguard order with respect to a lease and its expiration date on a property in Indiana, USA. This motion was subsequently withdrawn as a result of a settlement between the parties (see paragraphs 12 and 13 of the Third Monitor's Report with respect to the Becknell Lease Extension).

8. On April 30, 2020, the Monitor filed its first report with the Court, dated April 28, 2020, which reports about a material adverse change (Covid-19 pandemic), and presented an update of the financial situation and revised cash-flow projections of Spectra Group (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 on the proposed bulk sale transaction to Trico Group, LLC ("**Trico**") 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 vesting order of 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 seeking the approval of a settlement agreement and amendment to a lease, with Becknell regarding one of Spectra US' Greenfield, Indiana distribution centers, 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 contestations opposing the Chapter 15 Proceedings and two other creditors supported these contestations. These contestations were ultimately withdrawn by all creditors 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 granted relief to recognize and effect the CCAA filing and other matters, including the approval of the Becknell Lease Extension.

15. On June 4, 2020, the Monitor filed its third report with the Court, dated June 4, 2020, which presented an update on operations and restructuring, including the financial situation and cash-flow projections of Spectra Group (the "**Third Monitor's Report**").

16. On June 5, 2020, an order was issued by the Court granting the June 3, 2020 Motion extending the Stay Period until September 26, 2020 (the "**June 5, 2020 Order**").

17. On September 21, 2020, the Debtors filed a motion regarding (i) the issuance of a Second Amended and Restated Initial Order, including an extension of the stay of proceedings up to January 30, 2021, (ii) the approval of the wind-up of certain Debtors, and (iii) the approval of a claims process (the "**September 21, 2020 Motion**").

18. 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

19. The present Monitor's report ("**Fourth 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 and to address the orders being sought in the September 21, 2020 Motion.

20. The Fourth Monitor's Report is presented under the following headings:
    - Introduction;
    - Purpose;
    - Terms of reference and disclaimer;
    - Background, operations and operational restructuring update, including increase in the limit for transactions outside the ordinary course of business without Court approval, and wind-up of Spectra Shanghai and Spectra Chongqing;
    - Actual receipts and disbursements for the fifteen (15) week period from May 24 to September 12, 2020;
    - Updated cash flow projections for the twenty (20) week period from September 13, 2020 to January 30, 2021;
    - Claims Process;
    - Restructuring update and request for an extension of the Stay Period; and,
    - Overall Comments and Conclusions.

## TERMS OF REFERENCE AND DISCLAIMER

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

22. In preparing the Fourth 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 Fourth 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 Fourth 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 Fourth 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 Fourth 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.

23. 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.

24. This report has been prepared by the Monitor in order to provide additional information to the Court in connection with the Debtor's business and financial affairs. This Report may not be appropriate for any other purpose and consequently should not be used for any other purpose.

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

## BACKGROUND, OPERATIONS AND OPERATIONAL RESTRUCTURING UPDATE

26. 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.

27. 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.

28. 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 and Operational Restructuring update*

29. Since the date of the Third Monitor's Report, Spectra Group conducted the following significant activities:

    - Continued to manage the operations in the normal course, including negotiations with trade suppliers to obtain necessary goods and services.

    - Recalled almost all of the employees who were temporarily laid off in March 2020, as a result of the Covid-19 pandemic and the government of Quebec ordered temporary closure of all nonessential businesses.

    - Continued to review headcount levels with a view to optimize operations and in accordance with the closure of certain facilities. The total number of Spectra Group employees was approximately 831 at the end of August 2020 and is projected to be approximately 656 on January 30, 2021, as compared to 1,146 on February 1, 2020. This represents a projected permanent reduction in headcount of 490 in the period from

February 1, 2020 to January 31, 2021. Since the beginning of the CCAA Proceedings (March 10, 2020) through the end of August 2020, Spectra Group has terminated the employment of approximately 315 employees. The employees affected by the projected reductions in headcount of 175 between end of August 2020 and end of January 2021 have been informed of the situation. These reductions are attributable to the closure of Debert (province of Nova Scotia), Redlands (California) and Laval (province of Quebec) facilities.

– Mr. Denis Chabot, who was previously the Chief Financial Officer of Spectra Group, was named President and Chief Executive Officer replacing the former Chief Executive Officer, Mr. Jacques Mombleau who now acts as a consultant to Spectra Group.

– Issued notices of disclaimer of commercial leases and other agreements in respect of:

  - A commercial lease for distribution center in Knightstown, Indiana.
  - A supply agreement with a supplier of raw materials.
  - A sponsorship agreement with a U.S. race car team.
  - An office equipment lease.

– Carried out extensive negotiations with landlords with a view of reviewing terms on certain commercial leases.

– Wound down the operations of the distribution center in Knightstown, Indiana and transferred the remaining inventory to the distribution center of Greenfield, Indiana.

– Wound down the operations at the Debert, Nova Scotia facility (radiator parts manufacturing) and entered into discussions for the sale of various assets related to these operations.

***Trico Sale Transaction and other liquidation sales of inventory***

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 $9.0M (US$6.7M) has been collected from Trico up to September 12, 2020 for merchandise, of which approximately $3.7M (US$2.8M) was not yet delivered as at that date. Management has assumed that the sale of inventory to Trico will continue through the month of November 2020. Collections of $4.1M (US$3.1M) are projected to be collected over the Cash Flow Period. Compared to the estimated US$12.7M when the Trico Sale Transaction was signed, Spectra Group now estimates the total value of the Trico Sale Transaction to be US$9.8M. The estimated decrease of US$2.9M is the result of various sales of the related inventory by Spectra Group to customers other than Trico. Per Management, Trico is aware of these sales which decrease total value of the Trico Sale Transaction.

32. Several smaller transactions are anticipated to be made in the coming months to allow Spectra Group to liquidate certain inventories related to business lines which Spectra is exiting (mainly US aftermarket inventory for certain product lines, including distributors).

*Sale of excess equipment and real estate assets*

33. With the recent closure of certain Spectra Group facilities (manufacturing plant in Debert, Nova Scotia and distribution center in Knightstown, Indiana) and others to come (including a distribution center in Redlands, California), Spectra Group will have excess equipment to realize upon, as well as certain real estate assets in Debert, Nova Scotia (two buildings and two vacant lots). A portion of the assets located in the facilities which are slated to close are expected to be transferred to other facilities of Spectra Group which are to remain in operation.

34. The sale of certain real estate assets mentioned above are expected to occur in the short-term for which it is anticipated that Spectra Group will request Court approval of these transactions in the coming weeks.

35. In addition, several transactions are anticipated to be concluded in the coming weeks to allow Spectra Group to dispose of assets that are no longer required in the context of its restructuring, for example the racking or other equipment in locations that are no longer to be occupied by Spectra Group.

*Increase in the limit for transactions outside the ordinary course of business without Court approval*

36. The Debtors request certain modifications to the Amended and Restated Initial Order at paragraph 26 (c) that authorizes presently Spectra Group, with the authorization of the Monitor and subject to rights of the secured creditors, to complete sales of assets outside the ordinary course of business, provided that the price in each case does not exceed $50K or $250K in the aggregate.

37. Considering the size of Spectra Group, its level of operations and transactions, and the necessity to continue the restructuring in a cost-efficient manner, Spectra Group request that paragraph 26 (c) of the Amended and Restated Initial Order be modified to increase the maximum amount per transaction from $50K to $150K and that the maximum aggregate amount be increased from $250K to $750K.

38. Certain anticipated transactions mentioned in the paragraphs above will benefit from the requested increase in the maximum amounts described in the previous paragraph. For example, Spectra Group is about to sell the racking that is located in a warehouse in California that is no longer required for the future business. The anticipated sale should be made for an amount greater than the threshold determined at $50K in the Amended & Restated Initial Order.

39. The proposed modifications are designed to reduce the costs of the restructuring considering the scope of such small transactions now contemplated in the near term, and the Monitor believes these modifications would be in the best interests of the creditors in general. As for the secured creditors, any sale of assets requires consultation and approval

on a case by case basis depending on the assets being sold and the secured creditors will therefore not suffer any prejudice.

40. As Monitor, we believe the proposed modifications of the Amended & Restated Initial Order in paragraph 26 (c) in order to increase the limit for transactions outside the ordinary course of business without Court approval are reasonable in the circumstances.

***Wind-up of Spectra Shanghai and Spectra Chongqing***

41. Spectra Shanghai and Spectra Chongqing are two entities that are currently no longer in operation. The financial statements, including the balance sheets, of Spectra Shanghai and Spectra Chongqing as at January 31, 2020 are respectively communicated as Exhibit R-5 and Exhibit R-6 of the September 21, 2020 Motion.

42. Per the balance sheet of Spectra Shanghai as at January 31, 2020, the company has $132K in assets (cash and receivables), and $117K in liabilities of which 102K $ is owed to Spectra.

43. Per the balance sheet of Spectra Chongqing as at January 31, 2020, the company has $428K in assets (cash, receivables, prepaid expenses and fixed assets), and $126K in liabilities of which 116K $ is owed to Spectra.

44. Per Management, Spectra Shanghai and Spectra Chongqing currently have no ongoing or projected operations and consequently their balance sheets as at January 31, 2020 represented the actual assets and liabilities of these companies, before the wind-up process.

45. Spectra Group does not anticipate restarting the operations of these entities, consequently the decision was made to wind up the companies in accordance with the applicable Chinese laws. This winding-up process will allow for the payment of outstanding current creditor balances, which is mainly Spectra, and to transfer any remaining equity to Spectra, if applicable.

46. The Monitor understands that such a wind-up is impossible under the supervision of the Court considering the challenges surrounding the recognition of these CCAA proceedings in China.

47. Given the above, and the fact that none of the external creditors of Spectra Group will be affected by the wind-up of Spectra Shanghai and Spectra Chongqing, the Monitor supports the request of Spectra Group to complete the wind-up of Spectra Shanghai and Spectra Chongqing in accordance with the applicable Chinese laws.

## ACTUAL RECEIPTS AND DISBURSEMENTS FOR THE FIFTEEN (15) WEEK PERIOD FROM MAY 24 TO SEPTEMBER 12, 2020

48. 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 Fourth Monitor's Report. Attached as **Appendix "A"** to this report, and summarized below, is a statement of receipts and disbursements for the fifteen (15) week period from May 24 to September 12, 2020 (the "**Actual Period**"), the period from the issuance of the Third Monitor's Report, with a comparison to the weekly cash flow projections attached as Appendix B to the Third Monitor's Report (the "**Third Cash Flow**").

Appendix "A" also includes a cumulative statement of receipts and disbursements from March 1 to September 12, 2020 (27 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 fifteen (15) week period from May 24 to September 12, 2020**
**Unaudited - In $000s CAD**

| | Actual | Forecast | Variance |
|---|---|---|---|
| Cash Inflows | 95 812 | 80 347 | 15 465 |
| Cash Outflows (excl. Wells Fargo interests and fees) | (69 734) | (70 470) | 736 |
| Cash Outflows - Wells Fargo interests and fees | (1 614) | (1 181) | (433) |
| **Net Cash Flow (incl. Wells Fargo interest and fees)** | **24 464** | **8 695** | **15 769** |
| Opening Cash Balance | 3 537 | - | 3 537 |
| **Closing Cash Balance** | **1 448** | - | **1 448** |
| Cheques in Circulation | (178) | - | (178) |
| **Closing Cash Balance, net of cheques in circulation** | **1 270** | - | **1 270** |
| Opening Line of Credit | (71 167) | (78 730) | 7 563 |
| **Ending Line of Credit** | **(41 725)** | **(58 935)** | **17 210** |
| Other Wells Fargo Potential Obligations | (7 104) | (7 781) | 677 |
| **Total Obligations to Wells Fargo** | **(48 829)** | **(66 716)** | **17 887** |
| **Borrowing Base Availability** | **79 304** | **94 825** | **(15 520)** |
| **Availability Surplus & Cash Balance based on Borrowing Base Availability**[1] | **31 746** | **28 109** | **3 635** |

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

49. Net Cash Flow (including Wells Fargo interests and fees (Debtor's operating lender)) for the Actual Period is $24,464K compared to the projected amount of $8,695K representing a favourable net cash flow variance of $15,769K.

50. The favourable net cash flow variance of $15,769K is primarily explained by the following:

Cash Inflows (Favourable variance of $15,465K):

- Collections: Favourable variance of $13,797K largely due to timing differences as sales were higher than projected during the Actual Period. Additionally, there were collections of $2,236K in unbudgeted non-accounts receivables (including Quebec corporate tax refunds and GST and QST reimbursements) during the Actual Period (permanent difference);

- Government Wage Subsidy: Favourable variance of $366K largely due to permanent differences (favourable $1,276K) as more employees qualified for the Canada Emergency Wage Subsidy ("**CEWS**") program than budgeted during the Actual Period. The favourable variance was partially offset by an unfavourable timing difference regarding the July reimbursement ($910K) which was budgeted but not collected during the Actual Period;
- Trico Sale Transaction Collections: Favourable variance of $1,355K due to timing differences that are expected to reverse in the future; and,
- Collections from Spectra Premium AB (Sweden): Unfavourable variance of $53K due to timing differences that are expected to reverse in the future.

Cash Outflows, including Wells Fargo interests and fees (Favourable variance of $303K):

- Payment of AP balances: Unfavourable variance of $4,578K is largely due to timing differences that are expected to reverse in the future. The unfavourable variance is partially offset by lower than forecasted payments of pre-filing balances in accordance with the Amended and Restated Initial Order of approximately $2,300K;
- Payroll: Favourable variance of $1,060K is largely due to permanent differences resulting from lower than budgeted utilization of part-time employees, mainly at the Boucherville plant and lower than budgeted full-time employees at the head office. Certain one-time payments totaling $345K were budgeted but not paid during the Actual Period. Per management, these payments have been postponed and could be paid out at the end of CCAA Proceedings;
- Rent: Favourable variance of $75K largely due to permanent differences explained by budgeted not required to be paid during the Actual Period;
- Factoring fee: Favourable variance of $622K is largely due to permanent differences resulting from lower than budgeted factoring rates for an important customer and fewer than budgeted customers who use factoring to finance their accounts payable;
- US Duty/Tariff: Favourable variance of $46K due to timing differences that are expected to reverse in the future;
- Professional Fees (including Restructuring/CCAA): Favourable variance of $531K due to timing differences that are expected to reverse in the future;
- Financing costs / debt payments, including Wells Fargo interests and fees: Unfavourable variance of $494K mainly due to permanent differences in payment of Wells Fargo interest payments ($460K) and other financing costs / debt payments ($61K). These unfavourable variances are partially offset by favourable timing differences in Wells Fargo professional and other fees ($27K).

  The Wells Fargo interest payments are higher than budgeted as the interest calculation in the budget is calculated on a net basis (lines of credit, less cash), while during the Actual Period, Spectra US maintained a high level of Cash (approximately $32,1M as at September 12, 2020) in their cash accounts that were not applied against the lines of credit due to tax considerations. This situation will be settled shortly with Wells Fargo.

- Restructuring – closing/moving costs: Favourable variance of $310K is due to timing differences. Closing costs for the Debert facility of $100K were budgeted but not paid during the Actual Period as the facility shutdown later than initially anticipated in mid-September. Additional rent costs of $210K (US$150K) for the U.S distribution center in Greenfield, Indiana were budgeted but not paid during the Actual Period. These differences are expected to reverse in the coming weeks.
- Miscellaneous: Favourable variance of $1,207K is partially due to permanent differences from lower than budgeted losses on foreign exchange contracts of $526K. The remaining variance is due to forecasted miscellaneous expenses not incurred; and,
- CAPEX: Favourable variance of $1,523K due timing differences that are expected to reverse in the future.

Take note that as at September 12, 2020, the Debtors had post-filing outstanding cheques of $178K and post-filing account payables (excluding intercompany accounts) of $2,123K, mainly due to inventory purchases, sales taxes on exports, customs brokers, transportation suppliers and utilities suppliers for which payment terms have been provided that were not initially projected.

51. The Ending Cash Balance as at September 12, 2020 is $1,448K compared to the projected amount of $0, representing a favourable variance of $1,448K. 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 September 12, 2020, net of cheques in circulation of $178K, is $1,270K.

52. The Ending Line of Credit ("**LOC**") as at September 12, 2020 is $41,725K compared to the projected amount of $58,935K, representing a favourable variance of $17,210K, which is explained by the favourable variance in the Net Cash Flow of $15,769K and the reduction of U.S. exchange rate during the Actual Period. The Total Obligations to Wells Fargo as at September 12, 2020 of $48,829K include Other Wells Fargo Potential Obligations of $7,104K, which include various letters of credit $(5,637K) and reserves ($1,467K).

53. The Estimated Borrowing Base Availability as at September 12, 2020 is $79,304K compared to the projected amount of $94,825K, representing an unfavourable variance of $15,520K ($5,150K unfavourable variance for accounts receivable and $10,370K unfavourable variance for inventory).

    Given the Estimated Borrowing Base Availability of $79,304K as at September 12, 2020, the availability on the LOC as at September 12, 2020, considering the cash balance, is $31,746K ($30,475K if the cash balance is not considered).

    Note that the calculation of the borrowing base as at September 12, 2020 has been made using the actual credit conditions at this date, however, as mentioned in the next section of this report, these conditions will change with the execution of the upcoming amended and extended Wells Forbearance Agreement. The Fourth Cash Flow reflects these new credit conditions.

## UPDATED CASH FLOW PROJECTIONS FOR THE TWENTY (20) WEEK PERIOD FROM SEPTEMBER 13, 2020 TO JANUARY 30, 2021

54. The Debtors, with the assistance of the Monitor, have prepared the updated consolidated cash flow projections (the "**Fourth Cash Flow**") for the twenty (20) week period from September 13, 2020 to January 30, 2021 (the "**Cash Flow Period**") for the purpose of projecting the estimated results of the Debtors' planned operating activities during the Cash Flow Period. The Fourth 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 ("**Spectra Sweden**"). The Fourth Cash Flow also excludes the results and operations of Spectra Shanghai and Spectra Chongqing which are expected to be wound-up by the end of the Cash Flow Period as mentioned previously in this report. In addition, the Fourth Cash Flow excludes the results and operations of Spectra Taiwan. Management has indicated that their operations are not material and that the entity is self-sufficient and does not require funding from other Debtors. A copy of the Fourth Cash Flow including notes and the main assumptions upon which it is based is presented herewith as **Appendix "B"**.

55. The Fourth Cash Flow projects that the Debtors will generate a net cash flow of $2.4M resulting from projected receipts of $87.0M less projected disbursements of $84.6M. Included in the projected disbursements of $84.6M is the reimbursement and settlement of a $3.0M letter of credit to the secured creditor of Spectra Sweden at the end of October 2020. It is to be noted that the $3.0M letter of credit has and will continue to be part of the total indebtedness to Wells Fargo until such time that it is reimbursed and settled. Without considering this one-time payment, the positive net cash flow generated over the Cash Flow Period is of $5.4M.

56. The Fourth Cash Flow projects the indebtedness to Wells Fargo to vary between a high of $48.8M at September 12, 2020 to a low of $40.6M in the week ending December 19, 2020 and finishes with a balance of $42.2M at the end of the Cash Flow Period on January 30, 2021.

57. As projected in the Fourth Cash Flow, the Debtors remain cash flow positive over the Cash Flow Period (i.e. $2.4M) and have a forecasted availability on the LOC as of January 30, 2021 of approximately $17.6M based on the estimated borrowing base. Noted that per the new credit conditions of Wells Fargo, the Debtors must respect a minimum of $15M of availability surplus based on the estimated borrowing base. Spectra projects to respect this condition over the Cash Flow Period.

58. The Fourth Cash Flow assumes that the secured creditors will continue to provide Spectra with a credit facility and that the Wells Forbearance Agreement currently in place, will be amended and extended throughout the Cash Flow Period under the similar terms and conditions, taking into consideration modifications to certain credit conditions which have been agreed upon between Spectra Group and Wells Fargo. These modified credit conditions have been reflected in the Fourth Cash Flow.

59. The Fourth Cash Flow includes assumptions that respond to the recent changes in operations resulting from the impacts of the Covid-19 pandemic. The Fourth Cash Flow assumes a stand-still in the evolution of the Covid-19 pandemic and that a second government-imposed

Covid-19 shutdown will not occur in the Cash Flow Period. Depending on the evolution on the Covid-19 pandemic and should further government-imposed shutdowns occur, the Fourth Cash Flow could be significantly impacted. 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 Fourth Cash Flow. The full impact of the Covid-19 pandemic is not able of being qualitatively or quantitatively assessed at this time.

60. The Fourth Cash Flow includes several adjustments and changes in assumptions that reflect Spectra's planned course of action over the Cash Flow Period as the restructuring plan continues to be executed. Included in the restructuring plan over the Cash Flow Period is the closure of three (3) facilities. Management intends to make a decision in the Cash Flow Period regarding the potential relocation of a fourth facility located in Greenfield, Indiana, for which no costs have been included in the Fourth Cash Flow. The Fourth Cash Flow also includes the liquidation of certain inventories related to business lines which Spectra is exiting (mainly US aftermarket inventory for certain product lines, including fuel pumps & parts, and distributors inventory).

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

62. The Monitor has reviewed the Fourth 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 Fourth 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 Fourth Cash Flow. The Monitor also reviewed the support provided by Management for the Probable and Hypothetical Assumptions and the preparation and presentation of the Fourth Cash Flow.

63. 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 Fourth 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 Fourth Cash Flow does not reflect the probable and hypothetical assumptions.

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

65. 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 amended and extended on July 8, 2020, extending Wells Forbearance Agreement to September 26, 2020. As mentioned above, the Wells Forbearance Agreement will be amended and extended throughout the Cash Flow Period under the similar terms and conditions, taking into consideration modifications to certain credit conditions which have been agreed upon between Spectra Group and Wells Fargo.

66. Spectra has also continued to receive the support of the 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.

67. 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 Fourth Cash Flow.

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

## CLAIMS PROCESS

69. The Debtors are seeking the Court's approval to conduct a claims process (the "**Claims Process**") to be managed in large part by the Monitor, in accordance with the proposed claims procedure order (the "**Proposed CPO**"), included as Exhibit R-4 of the September 21, 2020 Motion.

70. The contemplated Claims Process has the following significant objectives:

- Identify and ascertain the quantum of the claims that are subject to compromise in the context of an eventual plan of compromise or arrangement;

- Obtain enough information regarding individual claims to allow for a classification of creditors within the secured or unsecured creditor categories, if necessary;

- Provide a timeline to determine claims that promotes efficiency but that allows sufficient opportunity for all creditors to file their claim;

- Decrease the administrative burden of dealing with certain high volume claims, essentially the claims of employees, by allowing these claims to be predetermined without a need for a proof of claim form to be filed, subject to the right of employees to contest and seek modification of the amount assessed by the Debtors; and

- Provide a process that is flexible and efficient to determine disputes regarding individual claim, as the case may be.

71. In this regard, the Debtor has developed a Claims Process, described in the Proposed CPO. The Proposed CPO process contemplates:

  - Notification of the creditors through a publication in two newspapers (La Presse+ (Web newspaper) and the Globe & Mail, national edition (paper version));

  - Notification of the creditors through correspondence sent by the Monitor to the creditors' mailing address, fax number, or email as reflected in the Debtors' records;

  - Publication of all of the documentation necessary to file a claim (including proof of claim form, instructions, notice of scheduled employee's claim, notice of dispute (employee) and copy of the claims process order) on the Monitor's website (www.ey.com/ca/spectra);

  - An exemption from the requirement to file a claim for employees, subject to the right of individual employees to contest the determination made by the Debtor in respect of their claims;

  - A claims bar date for creditors, excluding employees, to be the later of November 20, 2020, or 30 days following the date of receipt by a creditor of a notice from the Debtors giving rise to a Restructuring Claim as defined in the Proposed CPO, further to a disclaimer of an agreement becoming final;

  - A claims bar date for employees, to be the later of November 20, 2020, or 30 days following the date of receipt by an employee of a notice from the Debtors giving rise to a Restructuring Claim as defined in the Proposed CPO, further to a disclaimer of an agreement becoming final, or 30 day after the date on which the Monitor sends a Notice of Scheduled Employee's Claim, as defined in the Proposed CPO;

  - A process to contest decisions made in respect of the claims, and an appeal to the Court to determine disputes.

72. The Proposed CPO has been discussed with the Monitor, who believes it to be reasonable in the circumstances.

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

73. Pursuant to the June 5, 2020 Order, the Stay Period continues until and including, September 26, 2020. In the September 21, 2020 Motion, Spectra Group is seeking an extension of the Stay Period to January 30, 2021.

74. 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 the Covid-19 pandemic, 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*

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

76. 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 post-restructuring business plan (Spectra 2.0). 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 its business model, including making one or multiple transactions with strategic partners and/or selling certain of Spectra Group's assets;
    - Will continue its effort to rationalize its expenses and maximize the value of the assets;
    - Will execute the second extension of the Wells Forbearance Agreement that will expire on January 30, 2021, and, in relevant time, will negotiate an additional extension of it for the period after January 30, 2021;
    - Will implement, with the Monitor the Claims Process that is expected to be approved by the Court in accordance with the September 21, 2020 Motion; and,
    - Will prepare a plan of compromise and arrangement to it its creditors.

77. As mentioned above, based on the Fourth Cash Flow, 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*

78. 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 and other consultants, has undertaken numerous activities in developing a restructuring process; and,
- Spectra Group continues to focus on operational improvements and value enhancement initiatives.

79. 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.

80. 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.

81. Based on the foregoing, the Monitor recommends that this Court grant an order extending the Stay Period until and including, January 30, 2021.

## OVERALL COMMENTS AND CONCLUSIONS

82. Based on the work performed to date, the Monitor has no reason to question the Debtors diligence, good faith and proper intentions in pursuing these restructuring proceedings.

83. The Monitor considers that the restructuring efforts implemented by the Debtors in the proceedings herein and within the context of the Covid-19 pandemic, are reasonable.

84. 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 conduct the Claims Process with the assistance of the Monitor, complete the negotiations with the main stakeholders, as well as their post-restructuring business plan (Spectra 2.0), and submit a plan to its creditors.

85. 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 Fourth Cash Flow, forecasting a net positive cash flow of $2.4M and a minimum availability of the LOC between $2.6M and $8.7M during the Cash Flow Period, is appropriate and to the benefit of the Debtors' stakeholders as a whole.

86. Consequently, the Monitor supports:

    - The modifications to Amended and Restated Initial Order concerning the increasing of the limit for transactions outside the ordinary course of business without Court approval so that the maximum amount per transaction be raised from $50K to $150K and that the maximum aggregate amount be raised from $250K to $750K, as well as, the extension of the Stay Period until and including January 30, 2021;

- The wind-up of Spectra Shanghai and Spectra Chongqing in accordance with the applicable Chinese laws; and,
- The commencement of the Claims Process request by the Debtors, in accordance with the proposed Claims Procedure Order attached to the September 21, 2020 Motion.

All of which is respectfully submitted this 22sd day of September 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 FIFTEEN (15) WEEK PERIOD FROM MAY 24 TO SEPTEMBER 12, 2020
## AND THE CUMULATIVE TWENTY SEVEN (27) WEEK PERIOD FROM MARCH 1 TO SEPTEMBER 12, 2020
## (UNAUDITED - IN $000s CAD)

| | Current Period<br>Fifteen (15) week period from May 24 to September 12, 2020 | | | Cumulative Period<br>Twenty Seven (27) week period from March 1 to September 12, 2020 | | |
|---|---|---|---|---|---|---|
| | Actual | Forecast[1] | Variance | Actual | Forecast[1] | Variance |
| **Cash Inflows:** | | | | | | |
| Collections | 83 120 | 69 323 | 13 797 | 163 675 | 146 085 | 19 330 |
| Government wage subsidy | 4 586 | 4 220 | 366 | 4 586 | 4 220 | 366 |
| Ford Edge reimbursement | - | - | - | 1 454 | 1 459 | (6) |
| Trico Sale Transaction Collections | 7 254 | 5 899 | 1 355 | 8 994 | 5 899 | 1 355 |
| Collection Spectra Premium AB | 852 | 904 | (53) | 1 345 | 1 564 | (221) |
| **Total Cash Inflows** | 95 812 | 80 347 | 15 465 | 180 053 | 159 228 | 20 825 |
| **Cash Outflows[2] (without Wells Fargo interests and fees):** | | | | | | |
| Payment of AP balances | 46 453 | 41 875 | (4 578) | 76 462 | 88 971 | 12 509 |
| Payroll & benefits (including KERP) | 14 806 | 15 866 | 1 060 | 25 651 | 28 386 | 2 735 |
| Rent | 3 240 | 3 316 | 75 | 5 256 | 5 970 | 714 |
| Factoring fee | 314 | 936 | 622 | 1 068 | 2 439 | 1 371 |
| Financing costs / debt payments[2] | 1 321 | 1 260 | (61) | 2 598 | 2 636 | 38 |
| US Duty/Tariff | 1 277 | 1 323 | 46 | 4 475 | 5 838 | 1 363 |
| CAPEX | 514 | 2 036 | 1 523 | 614 | 3 486 | 2 872 |
| Restructuring - closing/moving costs | - | 310 | 310 | 1 240 | 550 | (690) |
| Professional Fees (including Restructuring/CCAA) | 1 633 | 2 165 | 531 | 3 336 | 4 326 | 990 |
| Miscellaneous | 177 | 1 384 | 1 207 | 325 | 2 284 | 1 959 |
| **Total Cash Outflows[2] (without Wells Fargo interests and fees)** | 69 734 | 70 470 | 736 | 121 025 | 144 885 | 23 860 |
| **Net Cash Flow[2] (without Wells Fargo interests and fees)** | 26 077 | 9 876 | 16 201 | 59 028 | 14 343 | 44 685 |
| **Opening cash balance** | 3 537 | - | 3 537 | 1 491 | - | 1 491 |
| Foreign currency transfers from HSBC accounts to LOC | (926) | - | (926) | (2 198) | - | (2 198) |
| Net cash flow from above | 26 077 | 9 876 | 16 201 | 59 028 | 14 343 | 44 685 |
| Net operating line draw / (repayment) | (27 240) | (9 876) | (17 364) | (56 874) | (14 343) | (42 531) |
| **Closing cash balance** | 1 448 | - | 1 448 | 1 448 | - | 1 448 |
| Cheques in Circulation | (178) | - | (178) | (178) | - | (178) |
| **Closing cash balance (net of cheques in circulation)** | 1 270 | - | 1 270 | 1 270 | - | 1 270 |
| **Opening Line of Credit** | (71 167) | (78 730) | 7 563 | (100 568) | (100 549) | (19) |
| Adjustment to Opening LOC in connection to change in budget | - | 11 101 | (11 101) | - | 29 733 | (29 733) |
| (Draw) / repayment | 27 240 | 9 876 | 17 364 | 56 874 | 14 343 | 42 531 |
| Transfer from HSBC CAD Account | 925 | - | 925 | 2 192 | - | 2 192 |
| Interest paid directly by LOC[2] | (1 393) | (934) | (459) | (2 621) | (1 758) | (863) |
| Other fees paid directly by LOC[2] | (220) | (247) | 27 | (798) | (703) | (95) |
| Change in FX rate | 2 890 | - | 2 890 | 3 196 | - | 3 196 |
| **Closing Line of Credit** | (41 725) | (58 935) | 17 210 | (41 725) | (58 935) | 17 210 |
| Other Wells Fargo potential obligations | (7 104) | (7 781) | 677 | (7 104) | (7 781) | 59 |
| **Total Obligations to Wells Fargo** | (48 829) | (66 716) | 17 887 | (48 829) | (66 716) | 17 887 |
| **Borrowing Base[3]:** | | | | | | |
| Inventory[3] | 53 031 | 63 401 | (10 370) | 53 031 | 63 401 | (10 370) |
| AR[3] | 26 273 | 31 423 | (5 150) | 26 273 | 31 423 | (5 150) |
| **Borrowing Base Availability[3]** | 79 304 | 94 825 | (15 520) | 79 304 | 94 825 | (15 520) |
| **Availability Surplus (LOC) based on Borrowing Base[3]** | 30 475 | 28 109 | 2 366 | 30 475 | 28 109 | 2 366 |
| **Availability Surplus & Cash Balance based on Borrowing Base Availability[3]** | 31 746 | 28 109 | 3 637 | 31 746 | 28 109 | 3 637 |

**Note 1:** The forecast from March 1 to September 12, 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; (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; and (iii) the Third Cash Flow filed with the Third Monitor's Report, date June 4, 2020, for the period (15 weeks) from May 24 to September 12, 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**

**Note 3:** Note that the calculation of the borrowing base as at September 12, 2020 has been made using the actual credit conditions at this date, however, these conditions will change with the execution of the upcoming amended and extended Wells Forbearance Agreement. The Fourth Cash Flow reflects these new credit conditions.

# Appendix "B"

**SPECTRA PREMIUM INDUSTRIES INC. & AL. (EXCLUDING SPECTRA PREMIUM AB (SWEDEN))**
**WEEKLY FORECAST RECEIPTS AND DISBURSEMENTS**
**FOR THE 20 WEEK PERIOD FROM SEPTEMBER 13, 2020 TO JANUARY 30, 2021**
**UNAUDITED - IN $000s CAD**
**(See Notes and Assumptions attached)**

| | Actual | September = 2 weeks | | October = 5 weeks | | | | | November = 4 weeks | | | | December = 5 weeks | | | | | January = 4 weeks | | | | Total (20 weeks) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Weekly Forecast | | | | | | | | | | | | | | | | | | | | |
| Week ending | 12-Sep | 19-Sep | 26-Sep | 3-Oct | 10-Oct | 17-Oct | 24-Oct | 31-Oct | 7-Nov | 14-Nov | 21-Nov | 28-Nov | 5-Dec | 12-Dec | 19-Dec | 26-Dec | 2-Jan | 9-Jan | 16-Jan | 23-Jan | 30-Jan | |
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | |
| **Net Cash Flow, LOC and Total Obligations to Wells Fargo:** | | | | | | | | | | | | | | | | | | | | | | |
| **Cash Inflows** | | | | | | | | | | | | | | | | | | | | | | |
| Collections | | 4 559 | 1 415 | 4 400 | 6 361 | 3 521 | 2 762 | 3 120 | 5 246 | 2 388 | 3 625 | 4 388 | 4 430 | 3 309 | 5 853 | 711 | 4 211 | 5 146 | 2 355 | 6 448 | 2 355 | 76 601 |
| Collections - Liquidation | | 1 655 | - | - | - | - | 1 237 | 401 | - | 401 | 1 237 | 401 | - | - | - | - | - | - | - | - | - | 5 331 |
| Spectra Premium AB (Sweden) reimbursement | | - | - | 55 | - | - | - | - | 56 | - | - | - | 70 | - | - | - | - | 56 | - | - | - | 237 |
| Collection CEWS - Gov. Subsidy | | - | 1 791 | - | - | - | 1 791 | - | - | 585 | - | - | - | 503 | - | - | - | 188 | - | - | - | 4 858 |
| **Total Cash Inflows** | | **6 214** | **3 206** | **4 455** | **6 361** | **3 521** | **5 790** | **3 521** | **5 302** | **3 373** | **4 862** | **4 788** | **4 500** | **3 812** | **5 853** | **711** | **4 211** | **5 390** | **2 355** | **6 448** | **2 355** | **87 028** |
| **Cash Outflows** | | | | | | | | | | | | | | | | | | | | | | |
| Payment of AP balances | | 2 300 | 2 600 | 2 121 | 2 071 | 2 371 | 2 071 | 2 121 | 2 714 | 3 014 | 2 714 | 2 764 | 1 908 | 2 208 | 1 908 | 1 908 | 1 958 | 2 482 | 2 782 | 2 482 | 2 532 | 47 028 |
| Payroll & benefits (including KERP) | | 1 230 | 953 | 1 344 | 678 | 1 344 | 678 | 1 594 | 678 | 1 353 | 387 | 1 542 | 354 | 1 417 | 351 | 1 417 | 335 | 1 417 | 321 | 1 417 | 321 | 19 129 |
| Rent | | - | 407 | - | 555 | - | - | 143 | 502 | - | - | 249 | - | 446 | - | - | 249 | 446 | - | - | - | 2 997 |
| Factoring fees | | 29 | 1 | 1 | 39 | 1 | 39 | 1 | 33 | 1 | 33 | 1 | 26 | 1 | 26 | 1 | 1 | 30 | 0 | 33 | 0 | 296 |
| Financing costs / debt payments | | 12 | - | 885 | - | 14 | - | 19 | 761 | - | 0 | 19 | 744 | - | 0 | 19 | - | 749 | - | - | 19 | 3 240 |
| US Duty/Tariff | | 423 | - | - | - | 580 | - | - | - | - | 520 | - | - | - | 418 | - | - | - | - | 547 | - | 2 488 |
| Capital expenditures | | 91 | 91 | 62 | 62 | 62 | 62 | 62 | 72 | 72 | 72 | 72 | 56 | 56 | 56 | 56 | 56 | 72 | 72 | 72 | 72 | 1 345 |
| Restructuring - closing/moving costs | | 195 | 200 | - | 200 | - | - | 315 | - | 200 | - | 200 | - | - | - | - | - | - | - | - | - | 1 310 |
| Miscellaneous | | 50 | 274 | 50 | 50 | 50 | 50 | 3 050 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 4 224 |
| Professional Fees (Restructuring/CCAA) | | - | 104 | 171 | 132 | 220 | 104 | 58 | 104 | 220 | 104 | 58 | 104 | 220 | 104 | 58 | 104 | 220 | 132 | - | 381 | 2 591 |
| **Total Cash Outflows** | | **4 330** | **4 631** | **4 632** | **3 788** | **4 641** | **3 004** | **7 361** | **4 913** | **4 908** | **3 880** | **4 953** | **3 241** | **4 397** | **2 913** | **3 508** | **2 752** | **5 464** | **3 357** | **4 600** | **3 373** | **84 647** |
| **Net Cash Flow** | | **1 884** | **(1 425)** | **(177)** | **2 573** | **(1 120)** | **2 786** | **(3 840)** | **389** | **(1 535)** | **982** | **(164)** | **1 259** | **(586)** | **2 940** | **(2 797)** | **1 459** | **(74)** | **(1 002)** | **1 847** | **(1 019)** | **2 380** |
| Opening Line of Credit | | (41 725) | (38 571) | (39 996) | (40 173) | (37 600) | (38 720) | (35 933) | (39 773) | (39 384) | (40 919) | (39 938) | (40 102) | (38 843) | (39 428) | (36 489) | (39 286) | (37 827) | (37 901) | (38 903) | (37 056) | (41 725) |
| Net Cash Flow | | 1 884 | (1 425) | (177) | 2 573 | (1 120) | 2 786 | (3 840) | 389 | (1 535) | 982 | (164) | 1 259 | (586) | 2 940 | (2 797) | 1 459 | (74) | (1 002) | 1 847 | (1 019) | 2 380 |
| Cash Balance as at September 12, 2020 (net O/S cheques) | | 1 270 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1 270 |
| **Closing Line of Credit ("LOC")** | **(41 725)** | **(38 571)** | **(39 996)** | **(40 173)** | **(37 600)** | **(38 720)** | **(35 933)** | **(39 773)** | **(39 384)** | **(40 919)** | **(39 938)** | **(40 102)** | **(38 843)** | **(39 428)** | **(36 489)** | **(39 286)** | **(37 827)** | **(37 901)** | **(38 903)** | **(37 056)** | **(38 075)** | **(38 075)** |
| Other Wells Fargo potential obligations | (7 104) | (7 104) | (7 104) | (7 104) | (7 104) | (7 104) | (7 104) | (4 104) | (4 104) | (4 104) | (4 104) | (4 104) | (4 104) | (4 104) | (4 104) | (4 104) | (4 104) | (4 104) | (4 104) | (4 104) | (4 104) | (4 104) |
| **Total Obligations to Wells Fargo ("Wells Obligations") (Limited to a max. of $90M)** | **(48 829)** | **(45 675)** | **(47 099)** | **(47 277)** | **(44 704)** | **(45 824)** | **(43 037)** | **(43 877)** | **(43 488)** | **(45 023)** | **(44 041)** | **(44 206)** | **(42 947)** | **(43 532)** | **(40 593)** | **(43 389)** | **(41 931)** | **(42 005)** | **(43 007)** | **(41 160)** | **(42 179)** | **(42 179)** |
| **Estimated Borrowing Base and Availability LOC:** | | | | | | | | | | | | | | | | | | | | | | |
| **Estimated Borrowing Base** | | | | | | | | | | | | | | | | | | | | | | |
| Inventory | 53 031 | 44 360 | 43 459 | 43 190 | 42 921 | 42 652 | 42 382 | 42 113 | 41 174 | 40 234 | 39 295 | 38 355 | 38 312 | 38 269 | 38 226 | 38 183 | 38 098 | 37 853 | 37 608 | 37 363 | 37 118 | 37 118 |
| AR | 26 273 | 24 684 | 26 226 | 25 835 | 24 482 | 24 522 | 24 327 | 24 366 | 24 120 | 25 078 | 25 020 | 24 998 | 24 226 | 24 003 | 22 533 | 23 584 | 22 919 | 22 335 | 23 120 | 21 898 | 22 683 | 22 683 |
| **Total Estimated Borrowing Base** | **79 304** | **69 044** | **69 685** | **69 025** | **67 403** | **67 173** | **66 709** | **66 479** | **65 293** | **65 312** | **64 315** | **63 353** | **62 538** | **62 272** | **60 760** | **61 767** | **61 017** | **60 188** | **60 728** | **59 261** | **59 801** | **59 801** |
| **Maximum Allowable Obligations to Wells Fargo (Represents Wells Obligations + $15M)** | **63 829** | **60 675** | **62 099** | **62 277** | **59 704** | **60 824** | **58 037** | **58 877** | **58 488** | **60 023** | **59 041** | **59 206** | **57 947** | **58 532** | **55 593** | **58 389** | **56 931** | **57 005** | **58 007** | **56 160** | **57 179** | **57 179** |
| **Availability Surplus (LOC) based on Estimated Borrowing Base (Min. $15M)** | **30 475** | **23 369** | **22 586** | **21 748** | **22 700** | **21 350** | **23 672** | **22 602** | **21 805** | **20 289** | **20 273** | **19 147** | **19 591** | **18 740** | **20 167** | **18 378** | **19 086** | **18 184** | **17 721** | **18 102** | **17 622** | **17 622** |
| **Working Capital items:** | | | | | | | | | | | | | | | | | | | | | | |
| **A/R** | 54 631 | 52 979 | 56 125 | 55 326 | 52 567 | 52 647 | 52 249 | 52 329 | 51 827 | 53 782 | 53 664 | 53 619 | 52 043 | 51 588 | 48 590 | 50 733 | 49 376 | 48 185 | 49 786 | 47 294 | 48 895 | 48 895 |
| **A/P - Pre-filing** | 70 734 | 70 734 | 70 434 | 70 434 | 70 434 | 70 134 | 70 134 | 70 134 | 70 134 | 69 834 | 69 834 | 69 834 | 69 834 | 69 534 | 69 534 | 69 534 | 69 534 | 69 534 | 69 234 | 69 234 | 69 234 | 69 234 |
| **A/P - Post-filing** | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 | 2 123 |
| **Inventory** | 85 675 | 83 970 | 82 266 | 81 756 | 81 247 | 80 737 | 80 227 | 79 718 | 77 939 | 76 161 | 74 382 | 72 604 | 72 522 | 72 441 | 72 360 | 72 279 | 72 118 | 71 654 | 71 190 | 70 726 | 70 262 | 70 262 |

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. (“Spectra” or the “Companies”)

# Notes to the Companies’ Unaudited Cash Flow Projection for the twenty (20) week period from September 13, 2020 to January 30, 2021

## Purpose:

The attached statement of projected cash flow (the “Fourth Cash Flow”), for the twenty (20) week period from September 13, 2020 to January 30, 2021 (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 Fourth 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 Fourth Cash Flow includes a number of adjustments that reflect Spectra’s planned course of action over the Cash Flow Period as the Companies continue to execute their restructuring plan. The Fourth Cash Flow assumes that a second government-imposed Covid-19 shutdown will not occur in the Cash Flow Period. Should further government-imposed shutdowns occur, the Fourth Cash Flow will be significantly impacted resulting in a decrease in the forecasted results.

## General:

The Fourth Cash Flow reflects cash flows from the Companies’ operations. The Companies have prepared the Fourth Cash Flow based primarily on historical results and the Companies’ current expectations. The Fourth 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 $0.7692 = CAD $1.00.

The opening balances (Total Obligations to Wells, including the balance of the line of credit, accounts receivable, accounts payable and inventories) represent actual balances as at September 12, 2020. Take note that the opening balances denominated in US currency have been converted into Canadian dollars using an exchange rate of USD $0.7584 = CAD $1.00.

The receipts and disbursements amounts exclude sales taxes. The sales tax impact on sales and expenses (input tax credit) is considered a flow through and is thus not considered for the purposes of the Fourth Cash Flow.

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

## Notes and Assumptions:

1. Creditor support

   The Fourth 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 $82.2M over the Cash Flow Period are based on forecasted collections from opening accounts receivable as of September 12, 2020 and collections of projected sales during the Cash Flow Period ($76.6M), collections related to the liquidation of U.S. aftermarket inventory for certain product lines, including fuel pumps and parts, and distributors ($5.3M), as well as the collection of sales to Spectra Premium AB (Sweden) ($0.3M). Projected sales are estimated based on Spectra’s order book, estimated aftermarket sales, production plan and estimated prices. The timing of collections could vary substantially from the projections.

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), subject to continuing to meet the established criteria/conditions. The Companies have projected to receive $4.9M related to the CEWS in the Cash Flow Period. This amount relates to the subsidies eligible for the period from July 5 to November 21, 2020.

4. Payment of AP balance

   Spectra’s payment of accounts payable (“AP”) balance relates to the purchase of materials from third party suppliers as well as various freight costs, utilities, general and administrative payments including 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 those projected. 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 $650K in payments related to the retention of certain key employees required to execute the restructuring plan and closure of various facilities. Management has not included any amounts related to the Key Employee Retention Plan and other retention plans (“KERP”) in the Cash Flow Period, which could be paid in conjunction with the exit of CCAA proceedings, and thus outside of the Cash Flow Period.

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 Fourth Cash Flow considers the termination of several lease agreements as further noted above.

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 (one large and one small US Aftermarket customer).

8. Financing costs / Debt payments

These disbursements relate to interest and financing fee payments, as well as, interest payments made on the Laurentian Bank of Canada ("LBC")/Export Development Canada ("EDC") loan and various capital leases entered into by the Companies. The financing costs also include various Wells Fargo Capital Finance ("Wells") 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 (mostly OEM production lines).

11. Restructuring - closing/moving costs

These disbursements include mainly the costs associated with the closure of the Laval and Debert facilities, as well as, the costs to move various pieces of equipment from the Laval facility to the Boucherville facility.

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 twenty (20) week-period from September 13, 2020 to January 30, 2021 (the "Fourth Cash Flow"), as of the 21st day of September 2020.

The probable and hypothetical assumptions are reasonable and consistent with the purpose of the projection described in the notes accompanying the Fourth 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 Fourth 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 Fourth 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 21st day of September 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
President and Chief Executive Officer