Court File No.: CV-16-11582-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, RSC 1985, C. C-36, AS AMENDED.

AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT OF PERFORMANCE SPORTS GROUP LTD., PERFORMANCE SPORTS GROUP LTD., BAUER HOCKEY CORP., BAUER HOCKEY RETAIL CORP., BAUER PERFORMANCE SPORTS UNIFORMS CORP., BPS CANADA INTERMEDIATE CORP., BPS DIAMOND SPORTS CORP., EASTON BASEBALL/SOFTBALL CORP., KBAU HOLDINGS CANADA, INC., PERFORMANCE LACROSSE GROUP CORP., PSG INNOVATION CORP., BAUER HOCKEY RETAIL INC., BAUER HOCKEY, INC., BAUER PERFORMANCE SPORTS UNIFORMS INC., BPS DIAMOND SPORTS INC., BPS US HOLDINGS INC., EASTON BASEBALL/SOFTBALL INC., PERFORMANCE LACROSSE GROUP INC., PSG INNOVATION INC.

(the "Applicants")

SECOND REPORT OF THE MONITOR

December 13, 2016

December 13, 2016

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(the "Applicants")

SECOND REPORT OF THE MONITOR

December 13, 2016

INTRODUCTION AND BACKGROUND

1. On October 31, 2016 (the "**Petition Date**"), the Ontario Superior Court of Justice – Commercial List (the "**Court**") granted an order (as amended, the "**Initial Order**"), among other things: (i) declaring that Performance Sports Group Ltd. ("**PSG**") and certain of its subsidiaries and affiliates (collectively, the "**Applicants**")[1] were companies to which the *Companies' Creditors Arrangement Act* ("***CCAA***")[2] applied; (ii) granting certain relief including, *inter alia*, a stay of proceedings in favour of the Applicants until November 30, 2016 (the "**Stay of Proceedings**"); and (iii) appointing Ernst & Young Inc. ("**EY**") as monitor (in such capacity, the "**Monitor**") of the Applicants.

2. On the same date, the Applicants commenced proceedings (the "**Chapter 11 Proceedings**") in the United States ("**U.S.**") under Chapter 11 of the *U.S. Bankruptcy Code* (the "***Code***")[3] in the Bankruptcy Court for the District of Delaware (the "**U.S. Court**").

3. On November 30, 2016, through a joint-hearing with the U.S. Court, this Court approved a "stalking horse" asset purchase agreement (the "**SH Agreement**") for a going concern sale to 9938982 Canada Inc., an acquisition vehicle to be co-owned by affiliates of Sagard Capital Partners, L.P. and Fairfax Financial Holdings Limited (the "**SH Purchaser**") and bidding procedures for the purposes of creating a "stalking horse" sale process.

4. PSG is a public corporation whose securities were traded on the New York and the Toronto Stock Exchanges under the symbol "PSG" before trading was suspended by both exchanges on October 31, 2016. The Toronto Stock Exchange announced on November 8, 2016 that it will delist the securities effective December 8, 2016, and the New York Stock Exchange has announced that it will apply to delist the securities.

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1 The Applicants in the present proceedings are comprised of Performance Sports Group Ltd., Bauer Hockey Corp., Bauer Hockey Retail Corp., Bauer Performance Sports Uniforms Corp., BPS Canada Intermediate Corp., BPS Diamond Sports Corp., Easton Baseball/Softball Corp., KBAU Holdings Canada, Inc., Performance Lacrosse Group Corp., PSG Innovation Corp., Bauer Hockey Retail Inc., Bauer Hockey, Inc., Bauer Performance Sports Uniforms Inc., BPS Diamond Sports Inc., BPS Us Holdings Inc., Easton Baseball/Softball Inc., Performance Lacrosse Group Inc., PSG Innovation Inc.

2 *Companies' Creditors Arrangement Act,* RSC 1985, c. C-36, as amended.

3 11 U.S.C §§ 101 *et seq.*

5. Background on the Applicants, including their business operations, causes of insolvency and various other matters are described in more detail in the affidavit of Mark Vendetti[4] sworn October 31, 2016 in support of the Initial Order ("**Initial Affidavit**").

6. Information regarding the Chapter 11 Proceedings, including copies of the "first day" orders entered by the U.S. Court are located on a website managed by the Applicants' claims agent, Prime Clerk LLC ("**Prime Clerk**"), at the following URL: https://cases.primeclerk.com/psg/ (the "**Prime Clerk Website**"). Information regarding the Applicants' proceedings under the CCAA (the "**CCAA Proceedings**", and together with the Chapter 11 Proceedings, the "**Restructuring Proceedings**"), including court orders and other materials related to the proceedings, are on the Monitor's website at the following URL: www.ey.com/ca/psg (the "**Monitor's Website**").

7. The Applicants have filed a motion seeking approval of the engagement letter dated August 19, 2016 (the "**CV Engagement Letter**") between the Applicants and Centerview Partners LLC ("**Centerview**") and extending the benefit of the Administration Charge to the fees and compensation owing under the CV Engagement Letter, including the success fee contemplated therein.

8. An update on the Applicants' cash position will be provided in the third report of the Monitor, to be filed in connection with the Applicants' motion returnable December 19, 2016, seeking approval of (a) the payment of additional severance owing to former employees on account of termination or severance obligations incurred; and (b) approving the process to solicit Claims and Restructuring Claims against the Applicants and the establishment of claims bar dates for filing Proofs of Claim (each capitalized term as defined in Tab 4 of the motion record of the Applicants for the motion returnable December 19, 2016).

9. This Second Report is presented under the following headings:

   (a) Introduction and background;

   (b) Terms of reference and disclaimer;

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[4] Mr. Vendetti is PSG's chief financial officer and an executive vice president.

(c) Overview of the Restructuring Proceedings to date;

(d) Assignment of Contracts; and

(e) CV Engagement Letter.

TERMS OF REFERENCE AND DISCLAIMER

10. EY prepared a report dated October 31, 2016 as the proposed monitor in the CCAA Proceedings ("**Pre-Filing Report**") and a first report of the Monitor dated November 28, 2016 (the "**First Report**"), both of which are accessible on the Monitor's Website.

11. In preparing this second report of the Monitor (the "**Second Report**") and making the comments herein, the Monitor has been provided with, and has relied upon certain unaudited, draft and/or internal financial information, company records, management prepared financial information and projections, discussions with management and employees of the Applicants, and information from other third party sources, including the Applicants' Chief Restructuring Officer, Brian J. Fox of Alvarez & Marsal North America LLC ("**A&M**") and other personnel from Alvarez & Marsal North America LLC and its affiliates ("**CRO**") (collectively, the "**Information**").

12. 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.

13. Finally, the Monitor has requested that management and the CRO bring to its attention any significant matters that were not addressed in the course of its specific inquiries. Accordingly, this Second Report is based solely on the Information (financial or otherwise) provided to the Monitor.

14. Except as described in this Second Report, 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 and accordingly the Monitor expresses no opinion or other form of assurance in respect of the Information.

15. In view of the purpose of the Second Report, some of the financial information herein may not comply with generally accepted accounting principles.

16. Some of the information referred to in this Second 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 the forecasted or projected results. Indeed, the reader is cautioned that the actual results will likely vary from the forecasts or projections, even if the assumptions materialize, and the variations could be significant.

17. The Monitor has prepared this Second Report in its capacity as the court-appointed Monitor in the *CCAA* Proceedings in order to provide additional information to the Court in connection with the *CCAA* Proceedings to date. The reader is cautioned that this Second Report may not be appropriate for any other purpose and consequently should not be used for any other purpose.

18. Unless otherwise stated, all monetary amounts contained herein are expressed in U.S. dollars and all terms not otherwise defined herein shall have the meaning ascribed to them in the Initial Order.

OVERVIEW OF THE RESTRUCTURING PROCEEDINGS TO DATE

19. Since the First Report, the Monitor has conducted the following activities:

(a) monitored the sale process by attending weekly update calls with Centerview and the CRO and reviewing received letters of intent;

(b) coordinated logistics for hosting the joint hearing returnable November 30, 2016 at the Monitor's offices;

(c) worked with the Applicants and their advisors to review the Applicants' actual cash flows as compared to the Applicants' projected cash flow filed in support of the application for the Initial Order;

(d) reviewed the Applicants' disbursements as contemplated in the Initial Order; and

(e) assisted in considering the most efficient form of a claims process for the dual proceedings.

20. Since the First Report, the Applicants have undertaken the following restructuring activities:

(a) continued to conduct a sale process with the assistance of their financial advisor, Centerview. The Monitor is participating in this process. Centerview reports it has already communicated with several prospective purchasers and as at December 7, 2016, had contacted 132 potentially interested parties, of which 34 have signed a non-disclosure agreement; and

(b) developed a procedure for requesting consents to the assumption and assignment of contracts to the successful purchaser in the sales process. This is further discussed in this Second Report.

21. As noted above, the Applicants commenced the Chapter 11 Proceedings on the Petition Date. Since the First Report, the U.S. Court issued the following orders:

(a) *Retention Orders* – orders authorizing the Applicants to employ and retain the following firms *nunc pro tunc* to the Petition Date: (i) Prime Clerk, to act as the Applicants' administrative agent in the Chapter 11 Proceedings; (ii) A&M, with respect to the services of the CRO; (iii) Young Conaway Stargatt & Taylor, LLP, to act as co-counsel to the Applicants, and (iv) Centerview, to act as the Applicants' investment banker (the "**Centerview Retention Order**") and provide the services set forth in the CV Engagement Letter, the terms of which are described in paragraphs 27-36 below;

(b) *Bidding Procedures Order and Final DIP Order* – orders entered following the joint hearing conducted on November 30, 2016: (i) authorizing the Applicants to obtain secured, superpriority, post-petition loans pursuant to the Superpriority Debtor-In-Possession ABL Credit Agreement and the Term Loan DIP Credit Agreement; and (ii) approving the SH Agreement and bidding procedures for the purposes sale process (the "**Bidding Procedures Order**"); and

(c) *Other Orders* – orders: (i) approving a cross border protocol to facilitate coordination between the Canadian and U.S. Courts and to maximize efficiency of the dual proceedings; (ii) granting the Applicants an extension of time to file required statements of financial affairs and schedules of assets and liabilities in the Chapter 11 Cases to and including December 15, 2016 (without prejudice to the Applicants right to seek further extensions); (iii) rejecting two leases of commercial real property, effective as of November 30, 2016; (iv) establishing compensation procedures for ordinary course professionals in the Chapter 11 Cases; and (v) authorizing the Applicants to make payments under certain bonus programs to non-insiders for prepetition obligations in an aggregate amount not to exceed $3.8 million, pay certain severance obligations up to a maximum of $12,850 per severed employee in the ordinary course of business, and setting a final hearing on such matters for December 19, 2016.

ASSIGNMENT OF CONTRACTS

22. Through the Bidding Procedures Order, the U.S. Court approved a form of notice (the "**Assignment Notice**") to be sent to all contract counterparties indicating that their contract may be assigned in accordance with the SH Agreement or an alternative successful bidder and the proposed cure amount of such contract. These notices were delivered by mail on December 12, 2016.

23. Those parties holding contracts with any of the Canadian Applicants[5] are requested to submit a form expressly consenting to the assignment of the contract to (a) the SH Purchaser; and/or (b) an alternative successful bidder. Parties are requested to deliver their consent forms on or before January 25, 2017. The procedure is slightly different with respect to those parties holding contracts with any of the U.S. Applicants[6], which are deemed to have consented to the assignment unless they file an objection on or before January 25, 2017, or if the objection is made with respect to adequate assurance of future performance of a successful bidder other than the SH Purchaser, the day before the sale hearing.

24. The Assignment Notice provides the cure amount, if any, that the Applicants attribute to the contract. Contract counterparties are given the opportunity to file an objection to the cure amount on or before January 25, 2017. Any objection solely to the cure amount may not prevent or delay the Applicants' assignment of the contract to either the SH Purchaser or an alternative successful bidder as long as the purchaser agrees to hold the claimed cure amount in reserve. As such, parties are given the opportunity to consent to the assignment, while limiting their objection to the cure amount.

25. Contract counterparties are also given the opportunity to file an objection in respect of (a) the adequate assurance of future performance, and (b) any other factors considered in s. 11.3(3) of the CCAA.

26. The Monitor is of the view that this is a fair process designed to maximize the number of consents received with an outline for filing objections.

CV ENGAGEMENT LETTER

27. The Applicants seek approval of the CV Engagement Letter *nunc pro tunc*. A copy of the CV Engagement Letter is attached at Tab 3 of the Applicants' motion record in support of this

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[5] The Canadian Applicant include: Performance Sports Group Ltd., Bauer Hockey Corp., Bauer Hockey Retail Corp., Bauer Performance Sports Uniforms Corp., BPS Canada Intermediate Corp., BPS Diamond Sports Corp., Easton Baseball/Softball Corp., KBAU Holdings Canada, Inc., Performance Lacrosse Group Corp., PSG Innovation Corp.

[6] The U.S. Applicants include: Bauer Hockey Retail Inc., Bauer Hockey, Inc., Bauer Performance Sports Uniforms Inc., BPS Diamond Sports Inc., BPS Us Holdings Inc., Easton Baseball/Softball Inc., Performance Lacrosse Group Inc., PSG Innovation Inc.

motion. As mentioned in paragraph 21(a) above, the U.S. Court approved the CV Engagement Letter on December 6, 2016, subject to the provisions of the Centerview Retention Order. The relevant provisions of the Centerview Retention Order provide: (i) there is no limitation of liability in favour of Centerview during the Chapter 11 Proceedings; (ii) Centerview is not authorized to seek reimbursement for its defense of any fee application; (iii) any indemnification, reimbursement, or contribution claim of Centerview pursuant to the CV Engagement Letter will be subject to U.S. Court approval and such claims are further limited in the event of Centerview's gross negligence, wilful misconduct, breach of fiduciary duty, bad faith, self-dealing, and in certain events where it is alleged that Centerview breached its contractual obligations to the Applicants; (iv) 50% of Centerview's earned Financing Fee (as defined below) will be credited against any Sale Fee or Restructuring Fee (each as defined below); and (v) the Applicants are authorized to pay Centerview $1.65 million of the Financing Fee (as defined below), with the remainder due upon the closing of the sale. Accordingly, the Canadian order seeking approval of the CV Engagement Letter contains substantially similar provisions.

28. According to the CV Engagement Letter, Centerview will provide, at the Applicants' request, a broad range of advisory and investment banking services, including restructuring advisory, financing and sales services (collectively, the "**Services**"). Further details of the scope of Centerview's engagement are found in the CV Engagement Letter and described in the affidavit of Brian Fox, sworn December 8, 2016 in support of this motion (the "**Fox Affidavit**").

29. The compensation structure for Centerview's Services includes:

(a) a monthly financial advisory fee of $150,000;

(b) a success fee of up to $2 million if the Applicants enter into an agreement that materially modifies the pre-filing credit facility agreements (the "**Amendment Fee**");

(c) a success fee calculated as a percentage of the financing commitment received by the Applicants, such percentage being 0.5% if the financing is by way of interim financing granted by specified parties, 1% of any interim Financing granted by any other party, 1.5% of equity investments made by specified parties, or 3% of equity investments made by any other party (the "**Financing Fee**");

(d) a success fee of $5 million contingent upon the consummation of a restructuring (the "**Restructuring Fee**");

(e) a success fee of 1% of the aggregate consideration received by the Applicants in the context of a sale of their assets. The aggregate consideration is intended to capture all value attributed to the Applicants in consideration for the sale, i.e. the amounts paid in cash, through a credit bid, through assumption of liabilities, etc (the "**Sale Fee**");

(f) certain adjustments to limit the aggregate fees payable (e.g., 50% of monthly fees in excess of $450,000 are credited against any Restructuring Fee or Sale Fee; any Amendment Fee is credited toward any Restructuring Fee or Sale Fee; 50% of any Financing Fee is credited against any Restructuring Fee or Sale Fee; and in the event that there is both a restructuring and a sale under paragraphs (d) or (e) above, only the higher of the two will apply); and

(g) the fees will be limited to an aggregate amount of $8 million.

30. As indicated in the Fox Affidavit, as at December 8, 2016, Centerview had earned and been paid a Financing Fee in the amount of $3.525 million and monthly advisory fees for August, September and October in the aggregate amount of $450,000 plus expenses.

31. By way of an illustration, assuming that a sale is completed in a six month time frame on terms consistent with the SH Agreement, and that the sale price is assumed to be $600 million, the Monitor estimates the fees payable to Centerview would be $8.0 million, as follows:

	$000s
Monthly financial advisory fees - 6 months	900
Term Loan financing fee	1,830
ABL Loan financing fee	2,000
Sale fee	6,000
Fee reductions/credits	(2,140)
Total	8,590
Limited to	8,000

32. This level of fees would represent total fees payable to Centerview in connection with the proposed restructuring of approximately 1.5% of the pre-filing funded debt of approximately $530 million.

33. The Monitor has gathered and reviewed certain available data with respect to financial advisory fees in 20 U.S. and Canadian restructuring proceedings in recent years. The data sources include court filings, third party market data providers and certain non-public information that is accessible to the Monitor at the time of preparing this First Report. This data is summarized in the chart below. The 18 non-confidential U.S and Canadian restructuring proceedings reflected in the said table are listed in **Appendix "A"**.

Financial Advisor Fee Analysis (1) **USD in millions (1)**	**Pre-filing Funded Debt**	**Estimated advisory fees, assuming a six month assignment duration**	
		Amount (2)	**%**
High	$4,585	$17.91	1.31%
Average	$953	$8.83	0.57%
Median	$1,665	$7.56	0.47%
Low	$412	$4.60	0.34%

Note 1: Amounts denominated in Canadian dollars are converted into U.S. dollars at
Note 2: Financial advisor fees include various components, such as monthly fees, completion fees, financing fees, M&A fees and others. For comparison purposes, this analysis sums completion fees, success fees, monthly fees and any other applicable fees for a period of 6 months.

34. The data presented in the above table suggest that Centerview's fee structure may be slightly above market range, although it is noted that the ultimate fee could be affected by the number of different transactions that are required in the context of these Restructuring Proceedings (refinancing, new financing, sales processes, etc.).

35. The Monitor understands the Special Committee selected Centerview after reviewing three separate proposals from investment banking firms.

36. The Monitor supports the Applicants' engagement of an investment banking firm to advise the Applicants during these Restructuring Proceedings given the size, complexity and expedited timeline of the proposed transaction. In light of the foregoing, the Monitor views the Applicants' engagement of Centerview on the terms set out in the CV Engagement Letter as reasonable.

37. The Applicants are also seeking to extend the Administration Charge (as defined in the Initial Order) to fees and compensation owing under the CV Engagement Letter, including the success fee contemplated therein. The Monitor considers that this request is reasonable.

OVERALL COMMENTS AND CONCLUSIONS

38. In light of the comments made herein, the Monitor recommends the approval of the CV Engagement Letter and inclusion of Centerview's fees and compensation in the Administration Charge (as defined in the Initial Order).

All of which is respectfully submitted this 13th day of December, 2016.

ERNST & YOUNG INC.
In its capacity as the monitor
in the matter of the proposed compromise and
arrangement of Performance Sports Group Ltd. *et al.*

Brian M. Denega, CPA, CA, CIRP, LIT
Jean-Daniel Breton, CPA, CA, FCIRP, LIT
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Senior Vice-Presidents

APPENDIX A

U.S. and Canadian Proceedings Reviewed Regarding Financial Advisory Fees

Hercules Offshore, Inc.

Great Atlantic & Pacific Tea Co.

Molycorp Inc.

Quicksilver Resources, Inc.

Altegrity, Inc.

Genco Shipping & Trading Ltd.

USEC Inc.

Sorenson Comm.

Longview Power

Excel Maritime

Central European Distribution Corp.

Dex Media

Lightsquared

Arcapita Bank

Eastman Kodak Company

Nortel Networks Corporation

U.S. Steel Canada Inc.

AbitibiBowater

Two confidential engagements

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