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")

FOURTH REPORT OF THE MONITOR

January 5, 2017

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(the "Applicants")

FOURTH REPORT OF THE MONITOR

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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 and restated, 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 (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. 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 delisted the securities effective December 8, 2016, and the New York Stock Exchange has announced that it will apply to delist the securities.

4. 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**").

5. 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

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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*.

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

"***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**").

6. The Applicants have filed a motion seeking approval of a Key Employee Retention Plan (the "**KERP**") and a Key Employee Incentive Plan (the "**KEIP**") and a priority charge on the Applicants' property securing amounts payable under the KERP and KEIP (the "**Key Employee Charge**").

7. This fourth report of the Monitor (the "**Fourth Report**") provides the Court with information relevant to the *CCAA* Proceedings to date, in particular the matters referred to above.

8. This Fourth Report is presented under the following headings:

   a) Introduction and background;
   b) Terms of reference and disclaimer;
   c) Update on the restructuring proceedings to date;
   d) KERP and KEIP; and
   e) Overall comments and conclusions.

TERMS OF REFERENCE AND DISCLAIMER

9. The Monitor has prepared several reports since the commencement of the Restructuring Proceedings, all of which are accessible on the Monitor's Website. The Fourth Report should be read in conjunction with the previous reports.

10. In preparing this Fourth 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**") (the "**CRO**"), and other personnel from A&M and its affiliates (collectively, the "**Information**").

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

12. 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 Fourth Report is based solely on the Information (financial or otherwise) provided to the Monitor.

13. Except as described in this Fourth 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.

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

15. Some of the information referred to in this Fourth 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. Actual results will likely vary from the forecasts or projections, even if the assumptions materialize, and the variations could be significant.

16. The Monitor has prepared this Fourth 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. This Fourth Report may not be appropriate for any other purpose and consequently should not be used for any other purpose.

17. 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 and in the Monitor's previous reports.

UPDATE ON THE RESTRUCTURING PROCEEDINGS TO DATE

18. Since the Monitor's third report to the Court, filed December 16, 2016 (the "**Third Report**"), the U.S. Court issued the following orders:

    a) *Consumer Privacy Ombudsman Order*: an order directing the United States Trustee for the District of Delaware (the "**U.S. Trustee**") to appoint a consumer privacy ombudsman pursuant to section 332 of the *Code* that will consider issues such as privacy of customer personal identity information in connection with the sale;

    b) *OCP Employment & Payment Order*: an order authorizing the Applicants to retain and pay certain professionals in the ordinary course of business pursuant to certain procedures established by the order;

    c) *Bar Date Order*: an order setting bar dates by which certain entities must file proofs of claim in the Chapter 11 Proceedings (identical to those provided for in the corresponding Claims Procedure Order filed December 19, 2016 in the CCAA Proceedings) and establishing related procedures for providing notice of the bar dates for filing proofs of claim;

    d) *Order Scheduling an Omnibus Hearing Date*: an order scheduling January 23, 2017 at 11:00 a.m. as a date for the U.S. Court to hear relevant pending matters, including the Inaria Sale Motion as described below; and

    e) *Orders Authorizing the Equity Committee to Retain Professionals*: orders authorizing the Official Committee of Equity Security Holders (the "**Equity Committee**") to retain the following firms *nunc pro tunc* to November 28, 2016: (i) Brown Rudnick LLP, to act as co-counsel to the Equity Committee; (ii) Montgomery, McCracken, Walker & Rhoads LLP, to act as Delaware bankruptcy counsel to the Equity Committee; and (iii) McMillan LLP, to act as Canadian co-counsel to the Equity Committee.

19. Additionally, the following documents have been filed in the Chapter 11 Proceedings since the Third Report:

    a) *Fee Applications*: fee applications filed by the following firms pursuant to their respective retention orders: (i) A&M, requesting a total amount of $641,746.14 for the period of October

31, 2016 through November 30, 2016; (ii) Prime Clerk, requesting a total amount of $1,679.00 for the period of November 1, 2016 through November 30, 2016; (iii) Province Inc., requesting a total amount of $318,253.97 for the period of November 10, 2016 through November 30, 2016; (iv) Paul, Weiss, Rifkind, Wharton & Garrison LLP, requesting a total amount of $1,787,120.09 for the period of October 31, 2016 through November 30, 2016; (v) Young Conway Stargatt & Taylor, LLP, requesting a total amount of $327,470.83 for the period of October 31, 2016 through November 30, 2016; (vi) Cassels Brock & Blackwell LLP, requesting a total amount of CAD $270,380.22 for the period of November 14, 2016 through November 30, 2016; (vii) Blank Rome LLP, requesting a total amount of $341,371.06 for the period of November 10, 2016 through November 30, 2016; and (viii) Centerview Partners LLC, requesting a total amount of $128,658.84 for the period of October 31, 2016 through November 30, 2016;

b) *Declarations of Disinterestedness*: declarations of disinterestedness filed pursuant to the procedures established in the OCP Employment & Payment Order by the following firms: (i) Perkins Coie LLP; (ii) Nixon Peabody LLP; (iii) CBIZ Tofias; (iv) LightGabler; (v) Pierce Atwood LLP; (vi) Strongin Rothman & Abrams LLP; (vii) IP Breach Limited; (viii) Beijing East IP Law Firm / Beijing East IP Ltd; and (ix) Black Helterline LLP;

c) *UCC Motion Regarding Creditor Access to Information*: a motion filed by the Official Committee of Unsecured Creditors (the "**UCC**") requesting that the U.S. Court enter an order confirming that the UCC has no duty to provide privileged or confidential information to creditors and authorize procedures by which third parties may request such information;

d) *KPMG Retention Motion*: a motion filed by the Applicants to retain KPMG LLP as auditor to the Applicants effective *nunc pro tunc* to the Petition Date;

e) *KERP/KEIP Motion*: a motion filed by the Applicants with the support of the UCC, the U.S. Trustee and the Equity Committee for an order approving the KEIP and KERP, each as described below, and authorizing payments thereunder;

f) *Motion to File KERP/KEIP Under Seal*: a motion filed by the Applicants for an order authorizing them to file a redacted version of the KERP/KEIP Motion publicly and an unredacted version of the KERP/KEIP Motion under seal;

g) *Notice Clarifying Exhibit B to KERP/KEIP Motion*: a notice making minor clarifying changes to Exhibit B of the KERP/KEIP Motion;

h) *Notice of Partial Withdrawal of Employee Wage Motion*: a notice filed by the Applicants withdrawing their pending request to pay severance obligations to certain employees in excess of U.S. statutory caps;

i) *US Trustee's Objection to Houlihan Retention Motion*: an objection filed by the U.S. Trustee to the Equity Committee's motion to retain Houlihan Lokey Capital, Inc. ("**Houlihan**") as their financial advisor (the "**HL Retention Motion**") asserting the following arguments: (i) the HL Retention Motion contemplates that the Applicants reimburse fees and disbursements of Houlihan's legal counsel incurred in connection with any fee dispute or objection, regardless of outcome, which violates section 328(a) of the Code and is unreasonable; and (ii) the U.S. Court should not authorize the $2.5 million deferred fee payable to Houlihan as contemplated by the HL Retention Motion because it guarantees Houlihan a substantial fee even if Houlihan produces no demonstrable benefit to shareholders;

j) *Inaria Sale Motion*: a motion filed by the Applicants for an order to approve an asset purchase agreement with Saverio Michielli and a corporation to be incorporated by Saverio Michielli for the assets of the Applicants' soccer uniform business (the "**Inaria APA**") and authorizing the transactions contemplated therein. The Inaria Sale Motion is scheduled to be heard by the U.S. Court on January 23, 2017;

k) *Certificates of No Objection*: documents certifying that no objections were timely filed or received by the relevant moving party and requesting that the U.S. Court therefore enter orders with respect to the following motions: (i) KERP/KEIP Motion; (ii) Motion to File KERP/KEIP Under Seal; and (iii) UCC Motion Regarding Creditor Access to Information; and

l) *Certification of Counsel Regarding KPMG Retention Order*: a document filed by the Applicants certifying that minor revisions were made to the form of order attached to the KPMG Retention Motion, which resolved informal comments raised by the UCC and requesting that because no other objections were filed or received with respect to the motion, the U.S. Court should therefore enter the revised form of order.

20. The Monitor continues the processes described in the previous reports, namely responding to creditors' enquiries; monitoring the Applicants' receipts and disbursements; monitoring the sale process; exchanging with the Applicants and their advisers on aspects related to the restructuring; and coordinating the claims process with representatives of Prime Clerk.

KERP AND KEIP

21. The Applicants request that the Court approve the KERP, KEIP and Key Employee Charge. The terms of the KERP and the KEIP are more fully explained in the affidavit of Brian Fox sworn January 3, 2017, in support of the Applicants' motion.

The KERP

22. The KERP was developed out of a concern that the Applicants may have difficulty retaining certain key employees until the sale process is completed. The objective of the KERP is to provide an incentive to the identified key employees to remain in the Applicants' employ until the sale process is completed and a closing has occurred. The KERP is designed to accomplish this by providing compensation to the key employees beyond their regular compensation package if they support the Applicants' restructuring efforts unless terminated for cause prior to a closing.

23. The KERP is directed at approximately 60 employees identified by the management of the Applicants as fulfilling key functions and having a medium to high risk of leaving. The plan provides an incentive expressed as a percentage of the individual employee's base annual compensation if certain conditions are met. The aggregate cost of the KERP is estimated to be $1.7 million.

The KEIP

24. The KEIP was developed with an objective of providing an incentive for six key members of the senior management team to maximize recoveries for the Applicants' stakeholders through the sale process. The key members of the management team participating in the KEIP are not participants under the KERP. The incentive provided depends on the level of performance, as follows:

a) if the sale proceeds[5] reach an amount of \$580 million, the first level of compensation ("**Tier 1**") would be attained, triggering an incentive compensation of \$1,776,753 in aggregate for all participants of the KEIP;

b) if sale proceeds reach an amount of \$625 million ("**Tier 2**"), an additional incentive compensation of \$1,776,752 would be payable. This compensation would accrue and be payable progressively, on proceeds in excess of \$580 million; and

c) if sale proceeds exceed \$625 million ("**Tier 3**"), an additional incentive compensation of 3% of the excess sale proceeds would be payable.

The cost of the KEIP depends on the gross proceeds that will be realized. The cost of the KEIP is estimated to be \$1.8 million if the threshold amount of \$580 million is reached, then rise progressively to \$3.6 million if the threshold amount of \$625 million is reached and then rise at a rate of 3% of additional proceeds.

25. The obligations of the Applicants under the KERP and KEIP are intended to be secured by the Key Employee Charge in the maximum amount of \$3.4 million, which shall rank behind the Administration Charge and each of the Term Loan DIP Charge, Pre-Filing Term Loan Charge, ABL DIP Charge and Pre-Filing ABL Facility Security (not necessarily in that order), and ahead of each the Bid Protection Charge, Directors' Charge and the Intercompany Charge. The amount of the Key Employee Charge corresponds to the Applicants' estimated obligations if all employees addressed by the KERP become entitled to the payments contemplated thereby and if all employees addressed by the KEIP become entitled to the incentive at the Tier 1 level.

26. The KERP and the KEIP have been explained to the Monitor and the Monitor is of the view that the KERP and the KEIP are reasonable.

27. The Monitor has been advised that: a) the KERP and the KEIP have been developed by the Applicants with the assistance of advisers knowledgeable in the area of employee compensation and retention and are within market range; b) the KERP and the KEIP have been approved by the Board of Directors of PSG on the recommendation of a committee comprised of independent directors; and c) the KERP and the KEIP have been discussed with each of the U.S. Trustee, UCC

[5] Reference to "sale proceeds" in this section refers to gross sale proceeds after deducting the bid protections payable to the SH Purchaser, as the case may be.

and Equity Committee, that changes were made to preliminary drafts of the plans to take into consideration comments received from the UCC and Equity Committee and that as a result of these changes the UCC and the Equity Committee support the KERP and the KEIP.

28. Based on the foregoing, the Monitor supports the Applicants' request for an approval of the KERP and the KEIP and for a Court ordered charge over all of the assets of the Applicants to secure the obligations of the Applicants under the KERP and the KEIP.

OVERALL COMMENTS AND CONCLUSIONS

29. The Monitor understands and concurs with the rationale for the implementation of the KERP and the KEIP and believes that the Applicants' motion for the approval of the KERP, KEIP and Key Employee Charge is reasonable. The Monitor recommends that the Court grant the relief sought.

All of which is respectfully submitted this 5th day of January, 2017.

ERNST & YOUNG INC.
In its capacity as the Monitor
in the matter of a proposed plan of compromise or
arrangement of Performance Sports Group Ltd. *et al.*

Per:

Brian M. Denega, CPA, CA, CIRP, LIT
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