

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
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.

(Applicants)

**APPLICATION RECORD
(Returnable October 31, 2016)
(Re: Initial Order)**

October 31, 2016

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Toronto, Canada M5L 1B9

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Lawyers for the Applicant

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INC., PERFORMANCE LACROSSE GROUP INC., PSG INNOVATION INC.

(Applicants)

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TAB 1

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DIAMOND SPORTS INC., BPS US HOLDINGS INC., EASTON BASEBALL/SOFTBALL
INC., PERFORMANCE LACROSSE GROUP INC., PSG INNOVATION INC.

(Applicants)

NOTICE OF APPLICATION

TO THE RESPONDENTS:

A LEGAL PROCEEDING HAS BEEN COMMENCED by the Applicants. The claim made by the Applicants appears on the following page.

THIS APPLICATION will come on for a hearing on October 31, 2016, at 10:00 am, at 330 University Avenue, Toronto, Ontario.

IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the applicants' lawyer or, where the applicants do not have a lawyer, serve it on the applicants, and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the applicants' lawyer or, where the applicants do not have a lawyer, serve it on the applicants, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but at least four days before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date October 31, 2016

Issued by

Local registrar

Address of 330 University Avenue, Toronto,
court office Ontario M5G 1R7

TO: **THE SERVICE LIST**

APPLICATION

1. Performance Sports Group Ltd. (“**PSG**”) and the other applicants (collectively, the “**Applicants**” and each an “**Applicant**”) make this application for:

- (a) An Initial Order substantially in the form attached at Tab 3 of the Application Record, seeking among other things:
 - (i) abridging the time for service of this Notice of Application and dispensing with service on any Person (defined below) other than those served;
 - (ii) declaring that the Applicants are parties to which the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) applies;
 - (iii) appointing Ernst & Young Inc. as monitor of the Applicants in these proceedings (in such capacity, the “**Monitor**”);
 - (iv) staying all proceedings taken or that might be taken in respect of the Applicants, the Applicants’ directors and officers and the proposed Monitor, subject to the terms and conditions set out in the draft Initial Order;
 - (v) authorizing the Applicants to file with this Court a plan of compromise or arrangement;
 - (vi) staying all rights and remedies of any person, individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being “**Persons**” and each being a “**Person**”) against or in respect of the Applicants or the proposed Monitor, or affecting the business of the Applicants (the “**Business**”) or the current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the “**Property**”);

- (vii) restraining all Persons having oral or written agreements with the Applicants to supply goods and/or services or statutory or regulatory mandates for the supply of goods and/or services to the Applicants from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Applicants;
- (viii) authorizing and empowering the Applicants to enter into and borrow under the Term Loan DIP Agreement (as defined in the Affidavit of Mark Vendetti sworn October 31, 2016 (the “**Vendetti Affidavit**”)) in accordance with its terms;
- (ix) authorizing and empowering the Applicants to enter into and borrow under the ABL DIP Agreement (as defined in the Vendetti Affidavit and together with the Term Loan Credit DIP Agreement, the “**DIP Agreements**”) in accordance with its terms;
- (x) authorizing, but not requiring, the Applicants to pay certain pre-filing amounts owed to:
 - (A) suppliers located in various jurisdictions in Asia (the “**Foreign Suppliers**”)
 - (B) certain North American suppliers that are critical to ensuring there is no disruption to the Applicant’s business (the “**Critical Suppliers**”);
 - (C) suppliers which delivered goods to the Applicants in the 20 days leading to the filing, in this case, October 11, 2016 (the “**20 Day Goods Suppliers**”);
 - (D) shippers, brokers, warehousers, distributors and logistics providers, based in various locations around the world, who

may assert possessory liens against the Applicants (the **“Shippers and Warehousemen”**);

- (E) third parties such as contractors, builders, and repairers, who may potentially assert liens under applicable law against the Applicants (the **“Lien Claimants”**); and
 - (F) taxes owing to governmental authorities (**“Taxes”**)
- (xi) authorizing the Applicants to maintain their customer programs (the **“Customer Programs”**) and authorizing, but not requiring, the Applicants to honour pre-filing amounts owing in respect of the Customer Programs;
 - (xii) approving the engagement letter between Alvarez & Marsal North America, LLC (**“A&M”**) and the Applicants dated October 24, 2016 and further approve the appointment of Brian J. Fox of A&M as Chief Restructuring Officer (**“CRO”**) of the Applicants;
 - (xiii) authorizing the Applicants to continue using their transfer pricing model;
 - (xiv) granting the following priority charges (collectively, the **“Charges”**) over the Property, such charges to rank in the priority set out in the Initial Order and described at Schedule “1” to the Vendetti Affidavit:
 - (A) a charge to secure payment of fees and disbursements incurred in connection with this proceeding (the **“Administration Charge”**) in favour of the proposed Monitor, U.S. and Canadian counsel to the proposed Monitor, U.S. and Canadian counsel to the Applicants, counsel to the directors of the Applicants and the CRO;
 - (B) a charge to secure obligations under the ABL DIP Agreement (the **“ABL DIP Charge”**);

- (C) a charge to protect the directors and officers of the Applicants (the “D&O Charge”); and
 - (D) a charge to secure intercompany advances intended to fund expected deficits incurred by certain Applicants (the “Intercompany Charge”).
- (xv) approving the retainer by the Applicants of Prime Clerk LLC to act as claims and noticing agent;
 - (xvi) approving a procedure by which parties affected by the relief sought may seek to amend or vary the Initial Order at a motion on a date to be set by the Court; and
- (b) Granting such further and other relief as this Court may deem just.

2. The grounds for the application are:

The Applicants

- (a) PSG is a public company incorporated under the laws of British Columbia. PSG is the ultimate parent of the other Applicants, who are incorporated under the laws of Canada, Delaware, and Vermont;
- (b) The Applicants are leading designers, developers and manufacturers of high performance sports equipment and related apparel in the hockey, baseball/softball, lacrosse and soccer markets;

Causes of Financial Difficulties

- (c) In the past 18 months, the Applicants have been affected by a confluence of significant adverse events, which have precipitated a severe liquidity crisis;
- (d) Due to a failure to file financial statements by a deadline established by a forbearance with their secured creditors, the Applicants are in default under their term loan credit agreement and their ABL credit agreement and do not have the ability to repay or refinance their secured debt in a timely manner;

The Applicants Are Insolvent

- (a) As at September 30, 2016, PSG had liabilities totalling approximately \$608 million;
- (b) As at October 28, 2016, the Applicants, except PSG Innovation Corp. and PSG Innovation Inc., owed approximately \$330 million under their term loan credit agreement and \$159 million under their ABL credit agreement;
- (c) The Applicants, except PSG Innovation Corp. and PSG Innovation Inc., have defaulted under their secured credit facilities and do not have the liquidity necessary to meet its obligations as they come due;
- (d) PSG Innovation Corp. has intercompany debts of approximately \$13 million and PSG Innovation Inc. has intercompany debts of approximately \$50,000, neither of which has the means to repay these debts as they have no operations of their own;
- (e) The Applicants require interim financing to continue their operations;

Relief Sought

- (f) The Applicants are entities to which the CCAA applies;
- (g) The Applicants are acting in good faith and with due diligence;
- (h) The Applicants require a stay of proceedings and the other relief sought herein in order to maintain their operations while giving them the necessary time to complete a going-concern restructuring transaction;
- (i) Authorizing the Applicants to pay pre-filing amounts owed to Foreign Suppliers, Critical Suppliers, 20 Day Goods Suppliers, Shippers and Warehousemen and Lien Claimants and on account of Taxes will ensure the Applicants' business operations are not interrupted during the CCAA proceedings;

- (j) Authorizing the Applicants to honour their Customer Programs and pay pre-filing amounts owing in respect of their Customer Programs will allow the Applicants to maintain goodwill and positive relationships with their customers for the duration of the CCAA proceedings
- (k) Approval of the A&M Engagement Letter and appointment of the CRO is appropriate in the circumstances as the CRO and A&M have worked extensively with the Applicants since its initial engagement and their involvement will be critical to the successful completion of a going-concern restructuring transaction as part of the CCAA proceedings;
- (l) Authorization of continue use of the Applicants' transfer pricing model during the CCAA proceedings will allow the Applicants to continue operating in an integrated manner and facilitate intercompany transactions in the ordinary course;
- (m) The Applicants require interim financing to continue operating and approval of the DIP Agreements will provide suppliers, customers and other stakeholders with confidence that the business of the Applicants will continue to operate smoothly throughout these CCAA proceedings;
- (n) The corresponding ABL DIP Charge is a condition for borrowing under the ABL DIP Agreement which will provide the liquidity necessary to allow the Applicants to continue operating in the ordinary course;
- (o) Notice of this application has been given to the Applicants' major secured creditors that are likely to be affected by the Charges;
- (p) The Administration Charge is necessary in order to ensure various professionals continue providing their services to the Applicants during the CCAA proceedings;

- (q) The Applicants require the continued participation of their directors and officers and such directors and officers have indicated that they cannot continue their service with the Applicants unless the D&O Charge is granted;
- (r) The Intercompany Charge will minimize the chance of potential prejudice to a creditors of a specific Applicant if such Applicant makes an intercompany advance during the CCAA proceedings;
- (s) The proposed Monitor supports the relief sought by the Applicants;

Other Grounds

- (t) The provisions of the CCAA and the inherent and equitable jurisdiction of this Court;
 - (u) Rules 2.03, 3.02, 14.05(2), 16 and 38 of the Ontario *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended and sections 106 and 137 of the Ontario *Courts of Justice Act*, R.S.O. 1990, c. C.43 as amended; and
 - (v) Such further and other grounds as counsel may advise and this court may permit.
3. The following documentary evidence will be used at the hearing of the application:
- (a) The Affidavit of Mark Vendetti sworn October 31, 2016, and the Exhibits attached thereto;
 - (b) The pre-filing report of the Monitor; and
 - (c) Such further and other evidence as counsel may advise and this Court may permit.

October 31, 2016

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Lawyers for the Applicants

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OF PERFORMANCE SPORTS GROUP LTD ET. AL.

Court File No: _____

**ONTARIO
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Proceeding commenced at Toronto

NOTICE OF APPLICATION

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Lawyers for the Applicants

TAB 2

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DIAMOND SPORTS INC., BPS US HOLDINGS INC., EASTON BASEBALL/SOFTBALL
INC., PERFORMANCE LACROSSE GROUP INC., PSG INNOVATION INC.

(Applicants)

AFFIDAVIT OF MARK VENDETTI
(Sworn October 31, 2016)

I, MARK VENDETTI, of the City of Exeter, in the State of New Hampshire, MAKE
OATH AND SAY:

1. I am the Executive Vice President and Chief Financial Officer of the applicant, Performance Sports Group Ltd. ("**PSG**"). I am also a director of each of 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. ("**KBAU**"), 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. ("**BPS U.S.**"), Easton Baseball/Softball Inc., Performance Lacrosse Group Inc., and PSG Innovation Inc. (collectively with PSG, the "**Applicants**" or the "**PSG Entities**"), each of which is a direct or indirect wholly-owned subsidiary of PSG.
2. As a result of my roles with the Applicants, I have knowledge of the matters to which I hereinafter depose. I have also reviewed the books and records of the Applicants

and have spoken with certain of the directors, officers and/or employees of the Applicants, as necessary and applicable, and where I have relied upon such information, I have set forth the source and believe such information to be true.

3. All references to currency in this affidavit are references to United States (“U.S.”) dollars, unless otherwise indicated.

I. INTRODUCTION

4. This affidavit is sworn in support of an application by the PSG Entities for an order (the “**Initial Order**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). On October 31, 2016 the Applicants will file for creditor protection in the U.S. Bankruptcy Court for the District of Delaware (the “**U.S. Court**”) under Chapter 11 of Title 11 of the U.S. Code (the “**Chapter 11 Proceedings**”). The first day hearing in respect of the Chapter 11 Proceedings is expected to take place on November 1, 2016.

5. The PSG Entities are leading designers, developers and manufacturers of high performance sports equipment and related apparel. Historically focused on hockey, the PSG Entities expanded their business to include equipment and apparel in the baseball/softball and lacrosse markets. The hockey business operates under the BAUER, MISSION and EASTON brands; the baseball/softball business operates under the EASTON and COMBAT brands, and the lacrosse business operates under the MAVERIK and CASCADE brands.

6. In the last 18 months, there have been significant negative events and circumstances affecting both PSG’s business and the retail sports equipment industry generally. Industry-wide events include, among others:

- (a) the insolvency of major sports equipment retailers in the U.S. who were key customers of the PSG Entities, leading to write-offs of accounts receivable, lower sales;
- (b) weakness in the baseball/softball equipment market;
- (c) consolidation of hockey retailers in the U.S. negatively impacting sales; and

- (d) the strengthening of the U.S. dollar relative to other world currencies, including the Canadian dollar, compressing the PSG Entities' margins and reducing profitability.

PSG specific events include, among others:

- (a) being significantly leveraged due to the purchase of a significant baseball/softball business in 2014, which was funded with debt;
- (b) considerable management attention directed toward, and outside professional fees incurred, responding to regulatory investigations and defending a recent securities class action lawsuit, both arising as a consequence of the recent fall in PSG's share price that was precipitated by the negative events referred to above;
- (c) considerable management attention directed toward, and incurrence of outside professional fees related to PSG's inability to file its audited annual financial statements for the fiscal year ended May 31, 2016,¹ related management discussion and analysis, its annual report on Form 10-K and related CEO and CFO certificates (together, the "**Reporting Materials**") by the filing deadline of August 15, 2016 (the "**Filing Deadline**") due to the initiation of an internal investigation regarding PSG's finalization of audited financial statements and the related certification process. The inability to file the Reporting Materials by August 29, 2016 was a breach of covenant sufficient to give rise to an event of default under PSG's secured loan documents. While the Secured Lenders (defined below) granted an extension to file the Reporting Materials to October 28, 2016, PSG has not completed its investigation and thus was unable to file the Reporting Materials by the extension deadline. As such, PSG is in default under its loan agreements as of October 28, 2016 and is not in a position to remedy this default or refinance its secured debt in a timely manner.

¹ The PSG Entities' fiscal year is June 1 to May 31.

Together, these events have contributed to the liquidity crisis currently faced by the Applicants necessitating this CCAA application.

7. In response to this crisis, the PSG Entities have developed a plan to preserve the value of their businesses for their stakeholders. The Applicants intend to sell substantially all of their businesses as a going concern through a comprehensive marketing process. To that end, the Applicants have negotiated a going-concern asset sale with Sagard Capital Ltd. ("**Sagard**") and Fairfax Financial Holdings Limited ("**Fairfax**" and together with Sagard, the "**Stalking Horse Purchasers**"), pursuant to the terms of which the Applicants will continue as a going-concern under new ownership, their secured debt will be repaid in full, and trade debt will be paid in the ordinary course of business.

8. The PSG Entities require the protection offered by the Initial Order and the CCAA to stabilize their businesses and provide the necessary breathing space to implement a sale of their businesses and property pursuant to a court-supervised sales process.

9. Due to the cross-border nature of the Applicants' businesses and the structure of the proposed transaction, the Applicants have filed for protection in the Chapter 11 Proceedings concurrently with this CCAA application.

10. Each of the boards of directors of the Applicants has authorized this CCAA application.

II. THE PSG ENTITIES

A. Corporate Structure

11. PSG is a public company incorporated under the British Columbia *Business Corporations Act*, SBC 2002, c 57. PSG's registered office is located at Suite 1700, Park Place, 666 Burrard Street, Vancouver, British Columbia and its head office is located at 100 Domain Drive, Exeter, New Hampshire.

12. PSG is the ultimate parent of the other PSG Entities and also is the indirect parent to a number of European subsidiaries and subsidiary in Asia. The European subsidiaries are not seeking any relief in respect of this Application or in the Chapter 11 Proceedings.

13. PSG's common shares are publicly traded on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE"), in each case under the symbol "PSG". An initial public offering was completed in Canada on March 10, 2011 and in the U.S. on June 25, 2014. Over the past 52 weeks, shares have traded between C\$1.55 and C\$19.16 on the TSX and \$1.18 and \$14.43 on the NYSE. The lowest trading value on both stock exchanges was reached on August 15, 2016, the date that PSG announced the delay in the filing of its Reporting Materials. On October 28, 2016, the closing price of PSG common shares was \$4.69 on the TSX and \$3.48 on the NYSE.

14. PSG's authorized share capital consists of an unlimited number of common shares without par value. As at October 28, 2016, PSG had 45,861,205 common shares issued and outstanding.

15. To my knowledge, Sagard is currently PSG's largest shareholder, with beneficial ownership of approximately 17% of PSG's issued and outstanding common shares.

16. PSG's directly owned subsidiaries are BPS U.S. and KBAU. KBAU, a company wholly-owned by PSG and incorporated under the *Canada Business Corporations Act*, R.S.C., 1985, c. C-44 (the "CBCA"), is a holding company that holds, directly or indirectly, the shares of the other Canadian subsidiaries and the European subsidiaries. BPS U.S. is a Delaware holding company that holds, directly or indirectly, the shares of the U.S. subsidiaries with the exception of PSG Innovation Inc., which is wholly owned by PSG Innovation Corp. PSG holds 77.93% of BPS U.S.'s equity and Bauer Hockey Corp., a wholly owned subsidiary of KBAU, holds the remaining 22.07%. A chart of the various entities is attached hereto as Exhibit "A".

17. The PSG Entities are generally structured so that there is a Canadian and U.S. subsidiary for each major business line. Set out in Exhibit "B" attached hereto is a chart detailing, on an entity-by-entity basis, the business line, region of operations, jurisdiction of incorporation and registered office of each of the Applicant entities as well as the non-applicant subsidiaries of PSG. In this affidavit, the PSG Entities which are incorporated in the U.S. shall be referred to as the "U.S. PSG Entities" and the PSG Entities which are incorporated in Canada shall be referred to as the "Canadian PSG Entities."

18. The PSG Entities operate along functional business lines which are intertwined in many respects. Each entity performs specific functions, certain of which benefit all of the PSG Entities. Each operating Applicant's general role within the PSG Entities' business is summarized below:

- (a) *Bauer Hockey Corp. ("Bauer Canada")*: Bauer Canada sells products for the Bauer Business (defined below) in the Canadian market, and also performs the majority of the research and development for the PSG Entities from its facility in Blainville, Quebec. Bauer Canada performs limited management functions for other PSG Entities, including risk management.
- (b) *Bauer Hockey, Inc. ("Bauer U.S.")*: Bauer U.S. sells products for the Bauer Business in the U.S. market and provides executive management services, including strategic decision-making and business oversight for the PSG Entities. The majority of the PSG Entities' senior management is employed by Bauer U.S.
- (c) *Easton Baseball/Canada Corp. ("Easton Canada")*: Easton Canada sells and distributes products for the Easton Business (defined below) in the Canadian market.
- (d) *Easton Baseball/Softball Inc. ("Easton U.S.")*: Easton U.S. designs and manufactures equipment for the Easton Business, such as bats, helmets, apparel and bags. Easton U.S. also sells and distributes these products in the U.S. market.
- (e) *BPS Diamond Sports Corp.*: BPS Diamond Sports Corp. performed research and development, engineering and manufacturing for COMBAT branded composite bats for the Easton Business. Effective September 30, 2016, the functions performed by BPS Diamond Sports Corp. were combined with Easton Canada and this entity now has limited operations and assets. While this entity retains its intellectual property assets, it no longer has any employees or inventory.

- (f) *BPS Diamond Sports Inc.:* BPS Diamond Sports Inc. sold and marketed products for the Easton Business in the U.S. market. Effective September 30, 2016, the functions performed by BPS Diamond Sports Inc. were combined with Easton U.S. and this entity now has limited operations and assets. While this entity retains its intellectual property assets, it no longer has any employees or inventory.
- (g) *Performance Lacrosse Group Corp.:* The primary function of Performance Lacrosse Group Corp. is sales and marketing for the Lacrosse Business (defined below) in the Canadian market.
- (h) *Performance Lacrosse Group Inc.:* Performance Lacrosse Group Inc. designs, develops and manufactures equipment for the Lacrosse Business from its facility in Liverpool, New York. The entity is also responsible for sales and marketing in the U.S. market.
- (i) *Bauer Performance Sports Uniforms Corp.:* Performance Sports Uniforms Corp. sources and customizes team sports and active apparel for soccer and each of the business lines. It is also manufacturers or sources products related to the Uniforms Business (defined below) and is responsible for distribution and sales of the Uniforms Business in the Canadian and U.S. markets.
- (j) *Bauer Performance Sports Uniforms Inc.:* Bauer Performance Sports Uniforms Inc. has minimal operations and does not record any sales.
- (k) *PSG Innovation Corp. and PSG Innovation Inc.:* the entities have limited operations and primarily hold certain intellectual property for the PSG Entities.
- (l) *Bauer Hockey Retail Corp.:* Bauer Hockey Retail Corp. is responsible for establishing and growing the Bauer Business' retail presence in Canada. The first store is planned to open in Vaughan, Ontario in June 2017.

- (m) *Bauer Hockey Retail Inc.*: Similar to Bauer Hockey Retail Corp., Bauer Hockey Retail Inc. operates the Bauer Business' retail presence in the U.S, selling BAUER branded products directly to end-users. There are currently two stores in the U.S near Boston, Massachusetts and Minneapolis, Minnesota. The stores operate under the brand name Own The Moment - Hockey Experience.

19. Performance Sports Group Hong Kong Limited ("**PSG HK**") is PSG's only subsidiary incorporated in Asia. PSG HK was established to manage certain aspects of the PSG Entities' supply chain, but has not yet commenced operations. Supply chain management is currently managed out of a representative office operated by Bauer U.S.

20. The European subsidiaries, Bauer Hockey AB, and Bauer Hockey GmbH² operate primarily sales and marketing hubs in Europe and BPS Luxembourg S.a.r.l. (together with Bauer Hockey AB, and Bauer Hockey GmbH, , the "**European Subsidiaries**") is a holding company with limited operations. No relief is being sought in this CCAA application or in the Chapter 11 Proceedings in respect of the European Subsidiaries or PSG HK.

21. Jacmal BV and Bauer CR spol (Czech Republic), two other subsidiaries, have no operations and were incorporated in relation to financing matters.

B. Corporate Governance

22. PSG's board of directors is comprised of seven individuals and each of the boards of directors of the other PSG Entities is comprised of three individuals.

C. Business Operations

Overview

23. The PSG Entities focus on designing, developing and manufacturing high performance sports equipment and apparel for hockey, baseball, softball, and lacrosse. The hockey and baseball/softball markets are the PSG Entities' largest business focus, generating approximately 60% and 30% of the Applicants' sales in fiscal 2015, respectively, with remaining sales derived from the lacrosse and apparel businesses.

24. The PSG Entities' history is traced back to a hockey equipment business started by the Bauer family in Kitchener, Ontario in 1927. The company was the first to manufacture ice skates with the blade attached to the boot and in 1976, the company introduced the TUUK blade holder, a predecessor to the holder currently used by more than 80% of National Hockey League ("NHL") players. A prior iteration of PSG, Canstar Sports Inc., owned and operated well-known brands such as MICRON, LANGE, MEGA, and DAOUST ice skates, as well as FLAK and COOPER hockey equipment. In 1995, the Bauer business was acquired by NIKE, Inc. ("Nike") which introduced a line of Nike branded equipment alongside the existing line of BAUER branded equipment. In 2008, Nike sold the business operated by Bauer Canada, Bauer U.S., and their respective subsidiaries to private investors. Through acquisitions, the PSG Entities expanded their business beyond hockey to the baseball/softball, lacrosse, soccer and uniforms markets.

25. The PSG Entities' products span age and experience groups from youth players to professional athletes. The PSG Entities own a number of leading and recognizable brands in the sports equipment market. The hockey business is primarily marketed under the BAUER, MISSION and EASTON brands; the baseball/softball business is marketed under the EASTON and COMBAT brands, the lacrosse business is marketed under the MAVERIK and CASCADE brands, and the uniforms business is marketed under the INARIA brand.

Hockey

26. The Bauer business, the historical business of PSG, primarily focuses on ice, roller and street hockey equipment and apparel and BAUER is a leading brand name in the industry.

27. Bauer grew its business both organically and through acquisitions. In September 2008, the PSG Entities acquired Mission-ITECH Hockey Inc. and the MISSION brand, another hockey equipment brand focused on roller hockey. In January 2016, the PSG Entities acquired substantially all of the assets and assumed certain liabilities of Easton Hockey Holdings, Inc., the manufacturer and designer of EASTON branded hockey equipment.

28. The BAUER, MISSION and EASTON brands currently offer performance-driven hockey equipment for players in every major market in the world (the "**Bauer Business**").

The equipment offerings include skates, sticks, protective equipment, helmets and goalie equipment for ice hockey, roller hockey and street hockey.

29. BAUER has a leading market share position in ice hockey equipment, which was estimated in fiscal 2015 at approximately 56% of the overall market share globally. BAUER and MISSION combined have the number one estimated market share position in roller hockey equipment with approximately 70% of the market. A significant majority of the Bauer Business' sales were derived in the Canadian and U.S. markets, with the remaining sales generated in various other countries primarily in Europe.

Baseball and Softball

30. In April 2014, PSG acquired the baseball and softball business of Easton-Bell Sports, Inc. in a \$330 million (plus adjustments and fees) asset purchase transaction (the "**Easton Baseball Acquisition**") funded by long-term debt. The Easton Baseball Acquisition significantly expanded the PSG Entities' baseball and softball market presence which previously consisted of COMBAT branded equipment, a business that was acquired in May 2013. Effective September 30, 2016, COMBAT operations were consolidated with EASTON operations, unifying the brands and allowing the relevant PSG Entities to have a more focused market presence.

31. With the EASTON and COMBAT brands, the PSG Entities offer a broad line of baseball and softball equipment for all ages and levels of play (the "**Easton Business**"). The equipment and accessories (bats, gloves, protective equipment and apparel) for athletes and enthusiasts serve the professional, inter-scholastic, and recreational levels of the diamond sports market across a variety of price points.

32. The acquisition of the Easton Business was intended to reduce the seasonality that previously affected the PSG Entities' business. The Easton Business typically experiences the majority of its sales during the winter, spring and summer seasons which compliments the Bauer Business as it experiences the majority of its sales during the summer and fall seasons. The more evenly distributed seasonality of the combined businesses was expected to provide more consistent working capital levels and allow the PSG Entities to improve efficiency in manufacturing, distribution and other efforts across their business lines. During fiscal 2016, PSG has experienced issues with the Easton Business, which have caused

adverse effects on the group of companies as a whole. The issues are described in greater detail below.

33. The Easton Business holds approximately 19% of the baseball/softball market share in North America. In fiscal 2015, the vast majority of the Easton Business' sales were generated in the U.S., and the remainder of sales were generated in Canada.

Lacrosse

34. In June 2010, the PSG Entities entered the lacrosse market with the acquisition of Maverik Lacrosse LLC, a leading manufacturer of lacrosse equipment branded as MAVERIK. On June 29, 2012, the PSG Entities expanded further into the lacrosse business by completing the acquisition of Cascade Helmets Holdings, Inc, a manufacturer of CASCADE branded head protection and other lacrosse equipment.

35. With the MAVERIK and CASCADE brands, the PSG Entities offer a comprehensive line of lacrosse equipment for all skill levels with an estimated market share of 28% (the "**Lacrosse Business**"). The MAVERIK brand offers a full line of gloves, heads, shafts and protective equipment, as well as a women's specific line of product, for players of all ages. The CASCADE brand offers primarily head protection for lacrosse players and is the number one brand in lacrosse head protection with approximately 97% market share in the segment. In addition to equipment, CASCADE and MAVERIK design and manufacture accessories and related apparel, including performance apparel and lifestyle apparel.

36. In fiscal 2015, the Lacrosse Business primarily generates its sales in the U.S. and the remainder of sales were generated in Canada.

Uniforms

37. On October 16, 2012, the PSG Entities acquired Inaria International Inc., a Toronto-based designer and manufacturer of soccer apparel. With the INARIA brand, the PSG Entities have expanded the business line continuing to sell pro-style jerseys, practice jerseys, socks, warm-up suits and training apparel (the "**Uniforms Business**"). The primary product of the Uniforms Business is a complete "player kit" that includes a jersey, shorts and matching socks for each member of a team or association. Each player kit is sized and personalized with team identifiers and numbering.

38. In fiscal 2015, the majority of the Uniforms Business' sales were generated in Canada with the balance generated in the U.S.

Strategic Relationships

39. The PSG Entities also have a number of strategic investments in the sports industry:

- (a) Q30: In October 2015, the PSG Entities purchased a \$1 million non-controlling interest in Q30 Sports Science, LLC ("**Q30 Sports Science**"). The PSG Entities also acquired an exclusive perpetual licence from a subsidiary of Q30 Sports Science, to use certain of its patents and technology assets in the development of products that are intended to address the issue of mild traumatic brain injury in sports and athletic activity. PSG Innovation Corp. holds the interest in Q30 Sports Science and licence assets;
- (b) Cocona: In September 2015, Bauer Canada purchased a non-controlling interest in Cocona, Inc. ("**Cocona**") for \$5 million, a privately held entity that created and owns 37.5™ technology, a patented moisture management technology that utilizes body heat to evaporate moisture from apparel and equipment. Contemporaneously with the investment, the PSG Entities entered into a new license agreement with Cocona as 37.5™ technology is used in the Bauer Business, Easton Business and Lacrosse Business;
- (c) Legacy: In March 2016, Bauer U.S. acquired one million Class A Units of Legacy Global Sports, L.P. (together with its affiliates, "**Legacy**") at the cost of \$1 per unit, representing a 5% stake. Legacy is a Portsmouth, New Hampshire-based sports event management company that primarily organizes and oversees youth hockey, lacrosse and soccer tours and tournaments; and
- (d) Kingsbridge: In August 2014, PSG loaned \$4 million to KNIC Properties LP ("**KNIC**"), a developer involved in efforts to transform the Kingsbridge Armory, located in the Kingsbridge section of the Bronx in New York City, into an ice center. In exchange for the loan, KNIC issued PSG a warrant for 47 common limited partnership units (representing less than five percent of

the Common Units of KNIC), executable at \$1,000 a unit. PSG has not yet executed the warrant. PSG also receives interest of twelve percent per year on the loan, which KNIC has elected to pay in kind. Political disputes and litigation related to New York City's turnover of the lease for the Kingsbridge Armory to KNIC have delayed the Kingsbridge project.

D. Customers

40. The PSG Entities have a diverse customer base, including over 4,000 retailers across the globe and more than 60 distributors. In fiscal 2015, approximately 58% of the PSG Entities' total sales were in the U.S., approximately 24% were in Canada, and approximately 18% were in the rest of the world.

41. The PSG Entities sell their products through diverse channels of distribution including to: (i) specialty retailers that cater to sports enthusiasts who typically seek premium products at the highest performance levels; (ii) national and regional full-line sporting goods retailers and distributors; (iii) institutional buyers such as educational institutions and athletic leagues; (iv) mass retailers that offer a focused selection of products at entry-level and mid-level price points; (v) directly to hockey consumers through their owned and operated Own The Moment - Hockey Experience retail stores in the U.S; and (vi) directly to end-user consumers through e-commerce channels operated by the PSG Entities.

42. The PSG Entities have a diverse customer base, with the ten largest customers making up 37% of total sales in fiscal year 2015, with the top customer, Canadian Tire Corporation, accounting for approximately 10% of those sales.

43. The Bauer Business sells directly to retailers in Canada, the U.S., and certain northern European countries. In fiscal 2015, approximately 83% of the Bauer Business' sales were directly to retailers in these markets. By specific channel, 18% of sales were to big box retailers and 82% were to hockey specialty retailers. The Bauer Business' secondary sales channel is through distributors primarily outside North America. In fiscal 2015, approximately 17% of sales were to distributors reaching over 1,000 retail outlets globally.

44. As mentioned, the PSG Entities also operate two hockey retail stores which sell BAUER branded products directly to consumers. These "Own the Moment - Hockey

Experience” stores are located near Boston, Massachusetts and Minneapolis, Minnesota. One more store is planned to open in the near term in Vaughan, Ontario.

45. The Easton Business’ sales and distribution network primarily focuses on North America but was also recently launched in Japan. The Easton Business’ customers are principally made up of online stores, big box retailers, sporting goods chains, and baseball specialty dealers. By channel in fiscal 2015, approximately 51% of the Easton Business’ sales were to big box and sporting goods chains and approximately 49% were to baseball specialty retailers.

46. The Lacrosse Business sells its products exclusively through dealers and retailers. In fiscal 2015, approximately 89% of its sales were generated from sales to lacrosse specialty and independent dealers, who then sell to individuals, teams and institutions. The remaining 11% of the Lacrosse Business’ sales were through big box retailers and sporting goods retail chains.

47. The Uniforms Business predominantly sells its products directly to teams and associations.

48. The PSG Entities strive to maintain the loyalty, support, and goodwill of their distributors, retailers, and consumers. Towards that end, in the ordinary course of business, the PSG Entities provide distributors, retailers and consumers with certain programs that engender goodwill, maintain loyalty, increase the PSG Entities’ sales opportunities, and allow the PSG Entities a comparative advantage over their competition (the “**Customer Programs**”).

49. Specifically, the Customer Programs include gift cards, loyalty programs, discounts, warranties allowing refunds and exchanges, and other offers or accommodations the PSG Entities, in their business judgment, provide to their wholesale customers and/or directly to retail consumers, as applicable. The Customer Programs also include consumer protection initiatives including recalls and customer reimbursement vouchers. Ongoing specific Customer Programs currently include a recall in respect of cages of certain hockey goalie masks which commenced in March 2015, and a settlement of product liability claims involving the distribution of vouchers to certain consumers.

50. In order to promote and communicate directly to end-users, the PSG Entities have agreements with approximately 100 industry experts, primarily comprised of amateur and professional athletes, who are a key part of marketing to consumers.

E. Employees

51. As of September 30, 2016, the PSG Entities, European Subsidiaries and PSG HK collectively had 728 employees globally. By location, 224 employees were located in Canada, 430 were located in the U.S., 23 were located in Taiwan, 35 were located in Sweden, 9 were located in Germany and 7 were located in Finland. By business line, 432 of the employees were employed by the Bauer Business and services shared among the PSG Entities, 165 of the employees worked in the Easton Business, 74 were employed by the Lacrosse Business and 57 were employed by the Uniforms Business and in apparel for the various business lines.

52. The majority of the PSG Entities' workforce is non-unionized. Canada is the only location with unionized employees, who are employed by Bauer Canada in Blainville, Quebec. 33 of 119 full-time Blainville situated employees are members of the United Steelworkers' Union of America (the "USW") Local 967 and are subject to a five-year collective bargaining agreement expiring on November 30, 2017.

53. In February, 2016, the PSG Entities closed a distribution facility in Mississauga, Ontario. Approximately 51 employees belonging to the Glass, Molders, Pottery, Plastics and Allied Workers International Union were terminated in January and February 2016 because of the closure.

54. Due to the consolidation of the COMBAT operations with the EASTON operations, the PSG Entities terminated the employment of an additional 85 individuals between July and October, 2016, of whom approximately 77% were employees located in Canada and 23% were employees located in the U.S. The workforce reductions, primarily related to consolidation of the COMBAT operations, have resulted in the number of the PSG Entities' employees falling by approximately 15% since the end of fiscal 2016 and approximately 19% since the end of calendar 2015.

F. Pensions and Benefits

Canada

55. Under the collective bargaining agreement with the unionized employees in Blainville, Quebec, Bauer Canada maintains a simplified defined contribution pension plan (the “**Union DC Plan**”) registered with Retraite Quebec. Under the Union DC Plan, Bauer Canada matches employee contributions up to C\$0.35/per hour worked by the employee up to a maximum of 80 hours bi-weekly. The Union manages the investments of the Union DC Plan on behalf of the participants.

56. Most non-unionized employees of certain of the Canadian PSG Entities are members of a defined contribution Registered Retirement Savings Plan (the “**Canadian RRSP Plan**”). The Canadian PSG Entities do not contribute directly to the RRSP, which is funded through payroll deductions and voluntary lump-sum payments by eligible employees. However, the Canadian PSG Entities match dollar for dollar contributions up to 4% of an employee’s regular pay.

57. Bauer Canada provides a supplemental pension plan (the “**Canadian SERP**”) for nine former executives which is not a registered pension plan and does not accept new participants. There is no funding obligation under these plans. As at May 31, 2016, the Canadian SERP had an accrued benefit obligation of approximately C\$4.53 million. The PSG Entities do not intend to continue paying the Canadian SERP obligations during the CCAA proceedings.

58. Finally, the PSG Entities provide a post-retirement life insurance plan to most Canadian employees. The life insurance plan is not funded and as at May 31, 2016 had an accrued benefit obligation of C\$614,000.

U.S.

59. The U.S. PSG Entities provide a 401(k) plan to certain of their employees which consists of matching, dollar for dollar, the first 4% contributed by the employee to the plan. Approximately 320 active employees participate in the 401(k) Plan.

60. Bauer U.S. provides a U.S. supplemental pension plan (the “**U.S. SERP**”) which is not qualified, is not funded, and does not accept new participants. As at May 31, 2016, there

is one participant in the U.S. SERP who is a former employee. As at May 31, 2016, the U.S. SERP had an accrued benefit obligation of approximately US\$871,000. The Applicants do not intend to continue paying the U.S. SERP obligations during the CCAA proceedings.

G. Suppliers

Sourcing and Manufacturing

61. The PSG Entities have an established and comprehensive manufacturing platform with key third party suppliers, which primarily have their facilities located in China, Thailand and Vietnam and which together produce the vast majority of PSG Entities' manufactured products. Many of these suppliers are legally or functionally exclusive to the PSG Entities such that their businesses are dependent on the Applicants. The PSG Entities also have some suppliers located in Canada and the U.S.

62. The Bauer Business orders the majority of its hockey equipment from suppliers based in Asia who are committed exclusively to supplying to the PSG Entities. The remaining hockey products are manufactured either at non-exclusive facilities in Asia or at the PSG Entities' in-house manufacturing facilities in Blainville, Quebec and Liverpool, New York. The Quebec facility manufactures professional hockey equipment for its sponsored athlete partners, including NHL players. Quality control of the Asian suppliers' manufacturing facilities is primarily managed from the PSG Entities' offices in Blainville, Quebec and Taichung, Taiwan.

63. The Easton Business sources the manufacturing of its composite bats from an exclusive supplier located in China. A small percentage of the Easton Business' products are sourced through vendors based in the U.S. and its wooden bats produced in-house by the PSG Entities at their facility located in West Lake Village, California. Its remaining baseball and softball products are manufactured in non-exclusive facilities that are located in China, Thailand, Indonesia and Vietnam.

64. For the Lacrosse Business, CASCADE branded helmets and other head protection is produced at an in-house facility in Liverpool, New York. MAVERIK branded products are primarily sourced from suppliers in China, Vietnam, and Taiwan.

65. The Uniforms Business' raw materials, work-in-process and non-custom apparel are primarily sourced from suppliers in Asia. For custom orders, production is finished at a facility in Toronto, Ontario.

Internal Supply Chain

66. The U.S. PSG Entities receive inventory from the third party suppliers described above, and the Canadian PSG Entities in turn purchase the inventory needed for their operations from the U.S. PSG Entities. The Canadian PSG Entities pay cost plus a mark-up based upon the value added to the goods provided. The Canadian PSG Entities generally purchase their inventory from the U.S. entity that operates along the same business line (e.g. Bauer Canada buys hockey inventory from Bauer U.S.).

67. For supplies received from outside of North America, the PSG Entities use customs brokers to handle duties, shipping charges and other related expenses. Generally, inventory is shipped free on board, so that title to the goods transfers at the point of shipping.

68. Approximately 40% of the PSG Entities' goods are shipped to warehouses leased by the PSG Entities, with the remaining 60% shipped directly, through third party logistics providers, to customer warehouses.

H. Intellectual Property

69. The PSG Entities protect their technologies, products and brands under the patent, copyright and trademark laws of those countries in which they conduct business in order to maintain a competitive advantage with respect to the technology and design incorporated into their products. Innovation in the PSG Entities' products enhances player performance and management believes it is a key differentiating factor between their products and those of their competitors.

70. The PSG Entities' patent portfolio includes hundreds of issued patents and pending patent applications. The patents are held by various entities and cover the following key areas:

- (a) Skate construction: designs, materials, and manufacturing of skates, including their skate boot, blade holder, and blade, to help make them lighter, perform better, customizable, and be manufactured more efficiently.

- (b) TUUK skate blade holders: innovative skate blade holders that allow quick and easy change of the holder and steel.
- (c) Quick-connect visors: patented visors that can be quickly connected to and disconnected from the helmet to allow the player to easily remove the visor to clean or replace it.
- (d) Sticks: composite hockey stick shaft technology to reduce stiffness of shafts, and enhance the elastomeric properties of shafts.
- (e) Composite baseball bats: multiple patents directed to achieve desired performance and durability characteristics and allow the bat to achieve a high performance with minimal vibration.
- (f) Helmets: advanced features to enhance protection, fit, and ease of adjustment.
- (g) Protective gear: optimizing various equipment, including leg pads, gloves and shoulder pads, for protection and performance.

71. In addition to the PSG Entities' patent portfolio, the Applicants have a number of registered trademarks to protect their brands which have become trusted by consumers in their respective markets. The trademarks have been registered in each of the jurisdictions in which the PSG Entities operate and are typically held by the legal entity that operates the business line that uses the trademark. For example, Bauer Canada and Bauer U.S. hold the majority of the trademarks used by the Bauer Business.

72. In addition to having their own registered trademarks, the PSG Entities use certain trademarks that are owned by Nike. Upon selling Bauer Canada, Bauer U.S. and their respective subsidiaries, Nike granted an exclusive, worldwide, royalty-free, perpetual license to use certain trademarks associated with the VAPOR and SUPREME sub-brands in the hockey equipment and apparel [markets](#). Nike continues to brand and mark certain products with the brands outside of the hockey equipment and apparel markets.

I. Properties and Facilities

73. As of October 28, 2016, the PSG Entities leased 17 facilities across the globe for various functions, including sales, marketing, research and development, warehousing and distribution and retail stores. The PSG Entities' global headquarters is located in Exeter, New Hampshire and another nine leased facilities are located in the U.S. Six facilities are located in either Ontario or Quebec, including the research and development centre in Blainville, Quebec. Bauer U.S. also leases a facility located in Taiwan.

74. The European Subsidiaries lease another 5 facilities located in Finland, Sweden, and Germany.

75. PSG has issued a letter of credit in respect of the Exeter, New Hampshire leased property in the amount of approximately \$1 million.

J. Cash Management System and Intercompany Transactions

Cash Management

76. In the ordinary course of their business, the PSG Entities use a centralized cash management system (the "**Cash Management System**") to, among other things, collect funds and pay expenses associated with their operations. The Cash Management System gives the Applicants the ability to quickly, cost-effectively and accurately track and control corporate funds and ensure cash availability

77. As described below, the PSG Entities maintain bank accounts in both Canada and the U.S. for their respective Canadian and U.S. operations as well as accounts related to the holding companies. Most of the PSG Entities' North American accounts are with Bank of America ("**BOA**"). While the Applicants' business is intertwined in many ways, in other ways there are low levels of integration, for example with respect to their cash management, which is complex and has only recently been standardized and integrated internally.

Canada

78. The PSG Entities maintain 23 bank accounts with BOA in Canada (the "**Canadian Accounts**"), consisting of:

- (a) Two bank accounts for Bauer Canada;

- (b) Two bank accounts for Bauer Performance Lacrosse Corp.;
- (c) Two bank accounts for Bauer Performance Sports Uniforms Corp.;
- (d) One bank account for BPS Diamond Sports Corp.;
- (e) Four bank accounts for Easton Canada;
- (f) Two bank accounts for PSG;
- (g) Two bank accounts for PSG Innovation Corp.; and
- (h) One bank account for each of the U.S. PSG Entities which hold approximately \$1,000 each.

79. The Canadian Accounts are all located at BOA's branch in Toronto, Ontario.

80. Four Canadian Accounts are used to deposit receipts (the "**Canadian Receipt Accounts**"), typically payments received from customers. All the Canadian Receipt Accounts are denominated in Canadian dollars. There is a Canadian Receipt Account for each business line, each of which is held by the respective entity operating the business line. The Canadian Receipt Accounts are blocked accounts and are swept daily by BOA to repay amounts outstanding under the ABL Facility (defined below).

81. Eleven Canadian Accounts are used as operating accounts (the "**Canadian Operating Accounts**") to make disbursements on account of expenses owed by the PSG Entities, including payroll and accounts payable. Eight Canadian Operating Accounts are denominated in Canadian dollars and two are denominated in U.S. dollars. The primary Canadian Operating Accounts are funded by draws on the ABL Facility as funds are required.

82. One Canadian Account is a concentration account that is held by Easton Canada. The concentration account disburses funds to two of the Canadian Operating Accounts.

83. The Canadian PSG Entities' Canadian dollar accounts are ultimately aggregated into the Bauer Canada operating account.

United States

84. The PSG Entities maintain another 19 bank accounts with BOA in the U.S. (the “**U.S. Accounts**”), consisting of:

- (a) Two accounts held by Bauer U.S.;
- (b) Two accounts held by Bauer Canada;
- (c) Two accounts held by Bauer Performance Lacrosse Inc.;
- (d) Two accounts held by Bauer Hockey Retail Inc.;
- (e) One account held by Bauer Performance Sports Uniforms Corp.;
- (f) Two accounts held by BPS Diamond Sports Inc.;
- (g) One account held by BPS Diamond Sports Corp.;
- (h) Four accounts held by Easton U.S.;
- (i) One account held by PSG Innovation Inc.;
- (j) One account held by BPS Canada Intermediate Corp.; and
- (k) One account held by BPS US Holdings Inc.

85. The U.S. Accounts are located at BOA branches in Concord, California and Farmington, Connecticut.

86. Six of the U.S. Accounts denominated in U.S. dollars are used to deposit receipts (the “**U.S. Receipt Accounts**”). Similar to Canada, there is a U.S. Receipt Account for each business line held by the respective entity operating the business line. There is also a U.S. Receipt Account for deposits in respect of the PSG Entities’ retail operations in the U.S. and a U.S. Receipt Account held by Bauer Canada which is not currently operational, but was set up to be used to allow Canadian customers to pay in U.S. dollars. The U.S. Receipt Accounts are all denominated in U.S. dollars. Five of the accounts are blocked accounts and are swept daily by BOA to repay amounts outstanding under the ABL Facility.

87. Twelve U.S. Accounts are used as operating accounts (the “**U.S. Operating Accounts**”) to make disbursements on account of expenses owed by the PSG Entities, including payroll and accounts payable. All of the U.S. Operating Accounts are denominated in U.S. dollars. The primary U.S. Operating Accounts are funded by draws on the ABL Facility.

Europe and Asia

88. Outside of North America, Bauer U.S. (through its branch office in Taiwan), the European Subsidiaries and PSG HK hold three bank accounts with BOA, fifteen bank accounts with Handelsbanken, and two bank accounts with Cathay United Bank (the “**Eurasia Accounts**”). In particular:

- (a) BPS Luxembourg S.a.r.l. holds two bank accounts with BOA;
- (b) Bauer Hockey AB holds twelve bank accounts with Handelsbanken;
- (c) Bauer Hockey GmbH holds three accounts with Handelsbanken;
- (d) PSG HK holds an account with BOA; and
- (e) Bauer U.S. holds two accounts with Cathay United Bank through its representative office in Taiwan.

89. One of the Eurasia Accounts is a customs guarantee account and the remaining are general operating accounts used to deposit receipts and pay disbursements of the European Subsidiaries and PSG HK.

90. The cash management for the European Subsidiaries is structured so that each subsidiary retains sufficient cash to pay for ongoing operations. Funds received from sales are paid by customers to the applicable European Subsidiary, which converts the funds to U.S. dollars and sends them to Bauer Canada. The inventory sold is never owned by the European Subsidiaries and Bauer Canada retains title of the inventory until it is delivered to the customer.

91. Continued access to the Cash Management System is critical to the ongoing business of the Applicants.

Foreign Exchange Forward Contracts

92. With a global customer-base and operations in various jurisdictions, the PSG Entities' financial results are exposed to fluctuations in foreign currency exchange rates. Due to the significant amount of Canadian sales, a declining Canadian dollar is the most significant currency exposure of the PSG Entities. The PSG Entities are also exposed to fluctuations in the Swedish krona and the euro, among others.

93. The PSG Entities use foreign exchange forward contracts to manage these currency exchange risks, hedging the effect of changes in currency exchange rates on product costs. The hedging practice is designed to provide stability around the receipt of cash, and at least partially offset the impact of exchange rate changes on the underlying exposure.

94. Currently, the PSG Entities are not initiating new hedges or forward contracts. The PSG Entities hold approximately \$51.3 million in forward contracts allowing for the purchase of certain currencies at pre-determined exchange rates. Forward contracts with a current value of approximately \$7.5 million expire in the second quarter of fiscal 2017, forward contracts with a current value of approximately \$34.8 million expire in the third and fourth quarters of 2017 and the remaining contracts expire in fiscal 2018.

Transfer Pricing

95. The PSG Entities' business is integrated such that certain PSG Entities perform specific functions for the benefit of all of the Applicants. This organizational structure results in high levels of inter-company receivables and payables necessitating an inter-company transfer pricing model.

96. The PSG Entities' transfer pricing model (the "**Transfer Pricing Model**"), in most instances, involves allocating certain costs incurred by specific entities across the PSG Entities. Generally, the Transfer Pricing Model can be broken down as follows:

- (a) *Provision of Physical Goods:* Certain PSG Entities are responsible for the procurement and manufacturing of products. To access global markets these PSG Entities sell inventory and products to other PSG Entities who perform sales and marketing functions. When selling products between the PSG Entities, each company sells at cost plus a mark-up. Each business line

applies a mark-up of 5% or 25% based upon the value added to the products by the selling PSG Entity and the costs ancillary to the products, such as warehousing and arranging freight.

- (b) *Provision of Research and Development:* Certain entities provide research and development services to the other PSG Entities. In particular, Bauer Canada and Bauer U.S. focus on research and development and a majority of the employees responsible for product development are employed by these two entities. Research and development costs are allocated between the PSG Entities using a two-step methodology. First, the research and development costs are allocated to each functional division or business line. Second, the costs of each functional division are allocated to legal entities based upon the entity that benefits from such services. A mark-up of 10% based on the arm's length principle is applied when allocating the costs on each legal entity.
- (c) *Provision of Selling, General and Administrative Services:* The PSG Entities and the European Subsidiaries provide sales and marketing and administrative services to each other. Bauer Canada and Bauer U.S. employ the majority of the employees that are responsible for providing administrative services to the PSG Entities, such as legal, sourcing, finance and accounting. The main function of the European Subsidiaries is sales and marketing and therefore, they generally invoice Bauer Canada and the other relevant entities for their services. Generally, selling, general and administrative expenses costs are allocated in same fashion as research and development costs. First, the costs are allocated to each functional division and second, the costs are allocated to the legal entity that benefited from the services. General and administrative costs are allocated at cost without a mark-up. Sales and marketing costs are allocated either at cost or cost plus a mark-up of 10%.

97. The PSG Entities engage an independent accounting firm to analyze whether the transactions under the Transfer Pricing Model represent a reasonable measure of arm's length prices. The most recent report, consistent with past reports, concluded that the current Transfer Pricing Model provides a reasonable measure of the arm's length price

associated with the transactions which that the accounting firm analyzed. The report was based upon transfer pricing analysis on the accounting firm's expertise and analysis of comparable companies operating in similar industries.

III. ASSETS AND LIABILITIES OF THE PSG ENTITIES

98. A copy of the PSG Entities' fiscal 2015 audited financial statements are attached hereto as Exhibit "C" and a copy of the unaudited financial statements for the quarter ending November 30, 2015 are attached hereto as Exhibit "D". The PSG Entities' latest unaudited financial statements are for the quarter ending February 29, 2016, a copy of which are attached hereto as Exhibit "E". As detailed starting at paragraph 147 to this affidavit, as at the date of this affidavit, the fiscal 2016 financial statements have not been prepared and are pending, among other things, internal review.

A. Assets of PSG

99. As at September 30, 2016, PSG's assets had a book value of approximately \$594 million. The majority of these assets were comprised of accounts receivable, inventory and intangible assets. The bulk of the intangible net assets line item relates to the PSG Entities' proprietary research and development, license agreements with third parties, and brand names.

B. Liabilities of PSG

100. As at September 30, 2016, PSG had liabilities totalling approximately \$608 million. The major liabilities of the PSG Entities consisted of short term debt and long term debt. The majority of the PSG Entities' liabilities are obligations under the Term Loan Facility and ABL Facility (both defined below).

Term Loan Facility

101. PSG, as borrower, and a syndicate of lenders, as lenders, are among the parties to a term loan credit agreement dated as of April 15, 2014 (as amended from time to time, the "Term Loan Agreement") in the principal amount of \$450 million (the "Term Loan Facility"). The Term Loan Facility matures on April 15, 2021. As at October 28, 2016, approximately \$330.5 million was outstanding under the Term Loan Facility.

102. The rate of interest payable on amounts outstanding under the Term Loan Facility varies based on the type of advance, the appropriate applicable margin, and PSG's choice of LIBOR or the U.S. base rate. The current rate of interest under the Term Loan Facility is 4.83% per annum.

103. Principal amounts outstanding under the Term Loan Facility are repayable according to a repayment schedule set out in the Term Loan Agreement. The next scheduled payment of principal and interest is due on November 30, 2016.

104. PSG's obligations in respect of the Term Loan Facility are jointly and severally guaranteed by Bauer Canada, Bauer U.S., Performance Lacrosse Group Corp., Performance Lacrosse Group Inc., Bauer Performance Sports Uniforms Corp., Bauer Performance Sports Uniforms Inc., BPS Diamond Sports Corp., BPS Diamond Sports Inc., Easton Canada, Easton U.S., BPS U.S., KBAU, BPS Canada Intermediate Corp., Bauer Hockey Retail Inc., and Bauer Hockey Retail Corp. (collectively, the "**PSG Guarantors**"). PSG Innovation Corp. and PSG Innovation Inc. are the only Applicants which are not PSG Guarantors.

105. The obligations of PSG and the PSG Guarantors in respect of the Term Loan Facility are secured by, among other things, a U.S. security agreement and a Canadian security agreement (collectively, the "**Term Loan Security Agreements**") and a U.S. pledge agreement and a Canadian pledge agreement (collectively, the "**Term Loan Pledge Agreements**"), each dated as of April 15, 2014.

106. Pursuant to the Term Loan Security Agreements and the Intercreditor Agreement (as defined below), the administrative agent under the Term Loan Agreement (the "**Term Loan Agent**") was granted a first priority security interest in the following collateral, subject to permitted liens and certain exceptions:

- (a) all present and future shares of capital stock (or other ownership or profit interests) held by PSG or any PSG Guarantor (subject to certain exceptions);
- (b) all present and future debt owed to PSG or any of the PSG Guarantors;
- (c) all present and future property and assets, real and personal (other than assets constituting the ABL Priority Collateral, as defined below) of PSG and the PSG Guarantors, including, but not limited to, machinery and equipment,

patents, trademarks, trade names, copyrights, other intellectual property and other contract rights; and

- (d) all proceeds and products of the property and assets described above (collectively, the “**Fixed Asset (Term) Priority Collateral**”).

107. The Term Loan Facility is further secured by perfected second priority security interest in the ABL Priority Collateral (defined below), subject to permitted liens and certain exceptions.

108. Pursuant to the Term Loan Pledge Agreements, PSG and the PSG Guarantors pledged a security interest in, among other things, all accounts, shares, notes, interests, participations or other equivalents owned or acquired from time to time by PSG and the PSG Guarantors.

109. Repayment of the Term Loan Facility may be accelerated upon occurrence of an event of default, subject (in certain cases) to a requirement that the Term Loan Agent give notice that an event of default has occurred and to certain cure rights. Events of default under the Term Loan Agreement include, among other things, non-payment of the principal or interest when due, failure to file financial statements, defaults under any other indebtedness to which the PSG Entities or PSG’s other restricted subsidiaries are subject and the commencement of insolvency proceedings by any of those entities.

110. PSG did not file its annual audited financial statements for fiscal 2016 by the filing deadline, as described in greater detail below. As a result, the PSG Entities which were borrowers under the Term Loan Agreement would have been in default under same.

111. Pursuant to an amendment to the Term Loan Agreement dated as of August 29, 2016 (the “**Term Loan Amendment**”), the period of time granted to PSG to file its annual financial statements for fiscal 2016 was extended to October 28, 2016. A copy of the Term Loan Amendment is attached hereto as Exhibit “F”.

ABL Facility

112. Bauer Hockey Corp., Bauer Hockey, Inc., and most of the other U.S. and Canadian subsidiaries of PSG³ (collectively, the “**ABL Borrowers**”), as borrowers, and Bank of America, N.A., as administrative agent, collateral agent and lender (the “**ABL Agent**”), and others are parties to a revolving ABL credit agreement dated as of April 15, 2014 (as amended from time to time, the “**ABL Agreement**”), in the principal amount of \$200 million (the “**ABL Facility**”). The ABL Facility matures on April 15, 2019. As at October 28, 2016, approximately \$158.9 million was outstanding under the ABL Facility.

113. The ABL Facility is an asset-backed loan governed by a borrowing base calculation that is comprised of eligible accounts receivable and eligible inventory. The ABL Facility requires that a certain cash balance be maintained to meet a minimum calculated borrowing base equal to the outstanding principal amount. The ABL Facility contains various restrictive covenants which, among other things, limit PSG’s ability to incur additional indebtedness or encumber its assets.

114. The rate of interest payable on amounts outstanding under the ABL Facility is determined according to formulas set out in the ABL Agreement. The current rate of interest under the ABL Facility is 3.33%.

115. The ABL Borrowers’ obligations in respect of the ABL Facility are jointly and severally guaranteed by PSG and the PSG Guarantors.

116. The ABL Borrowers’ obligations in respect of the ABL Facility are secured by, among other things, a U.S. security agreement and a Canadian security agreement (collectively, the “**ABL Security Agreements**”) and a U.S. pledge agreement and a Canadian pledge agreement (collectively, the “**ABL Pledge Agreements**”), each dated as of April 15, 2014.

117. Pursuant to the ABL Security Agreements and the Intercreditor Agreement (defined below), the ABL Agent was granted a first priority security interest in certain collateral, including:

³ PSG Innovation Corp. and PSG Innovation Inc. are not parties to the ABL Facility. PSG and BPS Canada Intermediate Corp. are guarantors but not borrowers under the ABL Facility.

- (a) all present and future accounts receivable (except to the extent constituting proceeds of equipment, real property, intellectual property, or intercompany loans);
- (b) all present and future inventory;
- (c) all present and future instruments, chattel paper and other contracts, in each case, evidencing or substituted for, the accounts receivable;
- (d) all present and future guarantees, letters of credit, security and other credit enhancements for the accounts receivable;
- (e) all present and future documents of title for any inventory;
- (f) all present and future bank accounts, or investment property but excluding certain deposit accounts and any capital stock;
- (g) all present and future tax refunds;
- (h) all present and future supporting obligations, documents and books and records relating to any of the above; and
- (i) all substitutions, replacements, accessions, products or proceeds of any of the above, (collectively, the “**ABL Priority Collateral**”).

118. The ABL Facility is further secured by perfected second priority security interest in the Fixed Asset (Term) Priority Collateral, subject to permitted liens and certain exceptions.

119. Pursuant to the ABL Pledge Agreements, PSG and the PSG Guarantors pledged a security interest in, among other things, all accounts, shares, notes, interests, participations or other equivalents owned or acquired from time to time by PSG and the PSG Guarantors.

120. Repayment of the ABL Facility may be accelerated upon occurrence of an event of default, subject (in some cases) to a requirement that the ABL Agent give notice that an event of default has occurred and to certain cure rights. Events of default under the ABL Agreement include, among other things, non-payment of the principal or interest when due, failure to file financial statements, defaults under any other indebtedness to which the PSG

Entities and PSG's other restricted subsidiaries are subject and the commencement of insolvency proceedings by any of those entities.

121. As discussed above, PSG failed to file its annual financial statements, which would have triggered a breach of covenant sufficient to give rise to an event of default under the ABL Agreement without an amendment under same.

122. Pursuant to an amendment to the ABL Agreement dated as of August 29, 2016 (the "**ABL Loan Amendment**"), the period of time granted to PSG to file its annual financial statements for fiscal 2016 was extended to October 28, 2016. A copy of the ABL Loan Amendment is attached hereto as Exhibit "G".

Intercreditor Agreement

123. In connection with the Term Loan Facility and the ABL Facility (collectively, the "**Credit Facilities**"), PSG and the PSG Guarantors thereunder, entered into an intercreditor agreement with their lenders as contemplated by the Term Loan Agreement and the ABL Agreement (as amended from time to time, the "**Intercreditor Agreement**"), dated April 15, 2014.

124. Pursuant to the Intercreditor Agreement:

- (a) the lenders under the ABL Facility (the "**ABL Lenders**") have first-ranking security on the ABL Priority Collateral and second-ranking security on the Fixed Asset (Term) Priority Collateral ; and
- (b) the lenders under the Term Loan Facility (the "**Term Lenders**" and, together the "**Secured Lenders**") have first-ranking security on the Term Loan Collateral and second-ranking security on the ABL Priority Collateral.

IV. FINANCIAL DIFFICULTIES AND NEED FOR CCAA PROTECTION

A. Financial Difficulties

125. Over the last year, the PSG Entities have experienced significant unfavourable financial results due to the occurrence of a number of negative events in a relatively short timeframe. Sales for the first nine months of fiscal 2016 declined by 10%, as compared to the first nine months of fiscal 2015, contributing to a decrease in gross profit by \$25 million. At

the same time, expenses have increased significantly due to, among other things, write-offs of accounts receivables due to customer insolvencies and other non-operational expenses described below. Further, due in part to a decline in sales and gross margins of the products sold by the PSG Entities, PSG impaired goodwill by over \$145 million by February 29, 2016. As result of these and other events described below, for the nine-month period ending February 28, 2016, the PSG Entities experienced an operating loss of approximately \$164 million and a net loss of approximately \$197 million, as compared to a net profit of \$3.28 million in fiscal 2015 and \$19.99 million in fiscal 2014. The causes of these poor results are described in greater detail below.

Customer Insolvencies

126. A major factor leading to the PSG Entities' current liquidity position has been the consequences of the unexpected financial difficulties experienced by a number of key customers in late 2015 and 2016, primarily Team Express Distributing, LLC ("**Team Express**"), the Sports Authority ("**TSA**"), Vestis Retail Group, LLC ("**Vestis**") and Total Hockey Inc. ("**Total Hockey**").

127. On December 16, 2015, Team Express filed chapter 11 proceedings in the U.S. Team Express was primarily an online retailer of baseball and softball equipment. At the time of its filing, the PSG Entities were owed approximately \$4.75 million in accounts receivable and have since written-off approximately \$4.5 million of that amount. In fiscal 2015, the Easton Business' sales to Team Express totalled approximately \$9.5 million.

128. On March 2, 2016, TSA filed chapter 11 proceedings in the U.S. TSA was a major sports retailer in the U.S. with approximately 450 locations. TSA was one of the Easton Business' most significant customers with fiscal 2015 sales totalling approximately \$19.9 million. According to initial news reports and TSA's own public disclosure, it intended to close only 140 of its 450 stores during the course of its restructuring. However, according to subsequent news reports, after failing to reach an agreement with its creditors on a restructuring plan, TSA proceeded to close all remaining stores and liquidate its remaining assets. At the time of TSA's bankruptcy, the PSG Entities were owed approximately \$2.6 million in accounts receivable and have since written-off the entire amount. The PSG

Entities also entered into settlement agreements with TSA with respect to consignment inventory and other anticipated liabilities.

129. On April 16, 2016, Vestis, the company operating Sport Chalet, a network of sporting goods store in the southwest U.S, filed for chapter 11 protection. The Sport Chalet stores were a customer of the Easton Business, stocking various baseball and softball products. After commencing its chapter 11 proceedings, Vestis proceeded to shut down approximately 47 Sport Chalet stores. At the time of its filing, the PSG Entities were owed approximately \$800,000 in accounts receivable.

130. Finally, Total Hockey, a hockey and lacrosse retailer with approximately 30 stores and a significant online presence, filed chapter 11 proceedings in the U.S. in July 2016. Total Hockey was a significant customer of the Bauer Business and the Lacrosse Business. In fiscal 2015, the PSG Entities' sales to Total Hockey were approximately \$19 million and upon Total Hockey's filing for creditor protection, the PSG Entities were owed approximately \$14 million. Since the filing the PSG Entities have written-off approximately \$13 million of that amount.

131. Ultimately, Team Express and Total Hockey's insolvency proceedings resulted in sales of these businesses to other sporting goods retailers in May and July 2016, respectively. Though continuing as going-concerns, Team Express and Total Hockey have reduced the size of their operations through the course of their respective chapter 11 cases, affecting the amount of product that the PSG Entities are able to sell to the businesses. These hockey and lacrosse retailer insolvencies were compounded by the fact that in 2015, two large retailers consolidated the market through acquisitions such that the industry was already more concentrated when the insolvencies and resulting tightening of the industry occurred.

132. TSA and the Sports Chalet stores owned by Vestis have both wound down operations and liquidated their inventories.

133. The insolvency of these customers significantly negatively affected the PSG Entities' financial performance by causing a number of receivables to become fully or partially uncollectable within a short-period of time. Compounding the negative impact on receivables is the fact that as these customers have entered into restructuring and/or

liquidating proceedings, they have reduced purchase orders from the PSG Entities and their unsold existing inventory is being liquidated in the market.

Below-Target Performance of Key Business Lines

134. As noted above, in 2014, PSG acquired the Easton baseball/softball business line for \$330 million (plus adjustments and fees). The Easton Baseball Acquisition, funded by proceeds of the Credit Facilities, substantially increased the leverage of the PSG Entities.

135. In fiscal year 2015, the Easton Business' sales were strong and new product launches and a geographical expansion was expected to roll out in 2016.

136. However, in fiscal 2016, the Easton Business suffered from a reduction in sales attributed to weakness in the baseball/softball market generally and the above-noted challenges faced by the PSG Entities' customers. During fiscal 2016, PSG wrote down the value of the Easton Business due to these events.

137. The PSG Entities also experienced lower than expected sales in the Bauer Business, in part due to a consolidation of hockey retailers in the U.S. and the insolvency of the hockey equipment retailers noted above.

138. The underperformance in the two most significant of the PSG Entities' business lines has significantly negatively affected the PSG Entities' overall profitability.

Unfavourable Exchange Rates

139. As explained above, the PSG Entities' financial results are exposed to fluctuations in currency exchange rates. With the Bauer Business' significant amount of Canadian dollar denominated sales while the majority of production costs are denominated in U.S. dollars, a declining Canadian dollar compresses the PSG Entities' margins and reduces overall profitability.

140. Despite the PSG Entities' hedging efforts, in fiscal 2015, the PSG Entities experienced a \$19.5 million currency loss and, as of February 29, 2016, had experienced a further \$8.7 million loss. The losses were primarily due to the weakening Canadian dollar starting in late 2014, which weakened by 8.3% over the course of fiscal 2015 and 4.2% over the course of fiscal 2016. The declining Canadian dollar resulted in lower revenue realized by the PSG Entities relative to their cost of goods sold.

141. In all, responding to the significant number of adverse events affecting the Applicants in the past year has taken up a considerable amount of management time in an effort to improve profitability and turn around the business for the benefit of all stakeholders.

Commencement of Regulatory Investigations

142. In response to the difficulties experienced by their customers and the below target performance of the Easton Business, the PSG Entities reduced their earnings guidance for the third quarter of fiscal 2016 and entire fiscal 2016. The press releases issued in respect of the revisions in January and March 2016 are attached hereto as Exhibits “H” and “I”, respectively. After issuing the revised earning guidance, on March 8, 2016, the PSG Entities common share price fell by approximately 67%.

143. The Ontario Securities Commission (the “OSC”) has commenced an issue-oriented review of PSG’s continuous disclosure record, and the Securities and Exchange Commission (the “SEC”) Enforcement Division has opened an inquiry into PSG’s revised earnings guidance and several other related topics of interest, in response to PSG’s revised third quarter and full fiscal year earnings guidance. Following the August 15, 2016 announcement that an internal investigation was ongoing which would impact the filing of audited financial statements, the OSC and SEC extended their inquiries to related matters. In addition, the Financial Industry Regulatory Authority (“FINRA”) conducted a review of trading in PSG’s common shares surrounding (i) PSG’s March 8, 2016 revised earnings guidance announcement and (ii) PSG’s August 15 announcement that its Annual Report on Form 10-K would not be filed by the required filing date. PSG provided the information requested by FINRA pursuant to these reviews.

144. The PSG Entities have cooperated with the OSC, SEC and FINRA throughout their reviews.

Commencement of U.S. Securities Litigation

145. Connected to the revised earnings guidance, on May 16, 2016, certain equity investors commenced a class action lawsuit in the U.S. against PSG and certain former officers of PSG (the “Class Action”). The lead plaintiff in the Class Action is the Plumbers & Pipefitters National Pension Fund and it is proceeding before the U.S. District Court,

Southern District of New York (Case No. 1:16-cv-03591) (the “**U.S. District Court**”). The former officers of PSG named by the Class Action are Kevin Davis, the former Chief Executive Officer of PSG and Amir Rosenthal, the former President of PSG.

146. Per the filed complaint, the Class Action alleges that (i) PSG and the named officers withheld information from investors about PSG’s sales practices and their impact on the PSG’s financial performance; and (ii) that shareholders were injured as a result of this misconduct because they purchased PSG shares at inflated prices. PSG has filed a comprehensive defence to the Class Action denying the allegation contained in the complaint. The PSG Entities also filed to a motion to dismiss the Class Action on October 13, 2016. Paul, Weiss, Rifkind, Wharton & Garrison LLP represents PSG in its defence of the Class Action.

Inability to File Fiscal 2016 Financial Statements

147. Pursuant to securities laws in both Canada and the U.S., PSG was required to file the Reporting Materials by the Filing Deadline.

148. However, on August 15, 2016, PSG announced that the Reporting Materials would not be filed by the Filing Deadline. The delay was the result of the decision of the audit committee (the “**Audit Committee**”) of PSG’s board of directors to commence an internal investigation in connection with the finalization of the Reporting Materials. The press release issued in respect of the internal investigation is attached hereto as Exhibit “J”.

149. The Audit Committee retained Richards Kibbe & Orbe LLP (“**RKO**”) as outside independent legal counsel to assist with the internal investigation. RKO subsequently retained Alix Partners, LLP to provide accounting services, including forensic services, if necessary. The Audit Committee is working closely with these professionals as well as the PSG Entities’ Canadian and U.S. outside counsel during this investigation.

150. The Audit Committee’s investigation remains ongoing as of the date of this affidavit and consequently, the Applicants remain unable to file the Reporting Materials.

151. As noted above, not filing the Reporting Materials in a timely manner constitutes a breach of covenant sufficient to give rise to an event of default under the Credit Facilities. The Secured Lenders and PSG initially agreed to extend the period for filing the Reporting

Materials to October 28, 2016. However, PSG has not been able to file the Reporting Materials by the extended deadline and are now in default under the Credit Facilities.

B. Responses to Financial Difficulties

152. Taken together, the events of the past year have presented significant and unforeseen challenges to the business and operations of a group of companies that had undertaken an assertive acquisition approach to its business in the past eight years.

153. The PSG Entities have undertaken significant efforts to counteract the recent financial difficulties experienced, including:

- (a) Reorganizing certain key members of management within the company, including replacing the CEO;
- (b) Consolidating the EASTON and COMBAT brands into one business line;
- (c) Other cash generating initiatives , including workforce reductions, operating consolidation and reducing overall working capital requirements through reductions in inventory and accounts receivable;
- (d) Efficiency improvements including inventory quality improvements, reduced product costs and reduced working capital requirements in the PSG Entities' supply chain;
- (e) Hiring a restructuring advisor (Alvarez & Marsal North America, LLC ("A&M")) to assist with liquidity management; and
- (f) Forming a special committee of the board of directors of PSG which has hired an investment bank (Centerview Partners LLC ("Centerview")) to assist with reviewing strategic alternatives and finding a potential financier to or purchaser of the Applicants' businesses.

C. The Applicants are Insolvent

154. The Applicants have experienced a net loss for the first nine months of fiscal year 2016, and significantly reduced expectations, and have limited cash with which to run a business of this size.

155. The Applicants (with the exception of the PSG Innovation Corp. and PSG Innovation Inc.) are in default under the Credit Facilities as of October 28, 2016. The Applicants have not been able to enter into any further amendments or forbearances under the Credit Facilities with respect to the delayed filing of the Reporting Materials on commercially reasonable terms. Further, the Applicants are not able to repay the amounts owing under the Credit Facilities. The Applicants are not able to obtain further funding on reasonable terms or at all given the inability to file the Reporting Materials.

156. Further, PSG is expending significant funds each month in professional fees responding to the OSC, SEC and FINRA regulatory inquiries, conducting the internal investigations and defending the Class Action, which is not sustainable in the long and likely even short term.

157. PSG Innovation Corp. has intercompany debts of approximately \$13 million and PSG Innovation Inc. has intercompany debts of approximately \$50,000, neither of which has the means to repay these debts as they have no operations of their own.

158. As a result, the Applicants are insolvent. The PSG Entities cannot meet their liabilities as they come due and do not have sufficient cash to fund their operations without CCAA protection and access to DIP Financing (defined below). Without the protection of the CCAA, a shut-down of operations is inevitable, which would be extremely detrimental to the PSG Entities' stakeholders, including employees, suppliers, and customers. CCAA protection will allow the PSG Entities to access DIP Financing and maintain operations while giving them the necessary time to consult with their stakeholders regarding the future of their business operations and structure, including the proposed sales process.

V. RESTRUCTURING THE PSG ENTITIES

159. The Applicants, in response to the myriad of issues leading to the current liquidity crisis and in particular in response to their failure to timely file the Reporting Materials,

engaged in a thorough review of the PSG Entities' strategic alternatives with the advice and guidance of their legal and financial advisors. The PSG Entities concluded that negotiating a going-concern sale of their businesses was the optimal course to maximize value, and structured a process by which to do so. As part of that process, the PSG Entities have entered into an asset purchase agreement (the "**Stalking Horse Agreement**") for the sale of substantially all of their assets to a group of investors led by the Stalking Horse Purchasers.

160. The bid contemplated under the Stalking Horse Agreement will, subject to Court approval, serve as the stalking horse bid in a CCAA/Chapter 11 sales process to take place over the next 60 days of the proceedings and which is expected to conclude early in 2017. As noted in greater detail herein, the Stalking Horse Purchasers will provide the Term Loan DIP Facility (defined below) to fund the CCAA proceeding.

161. The Stalking Horse Agreement provides for the sale of substantially all of the Applicants' business for a base purchase price of \$575 million in the aggregate plus the assumption of certain liabilities. The Stalking Horse Agreement contemplates that the Applicants will continue as a going concern under new ownership, their secured debt will be fully repaid and payment of trade creditors. The Stalking Horse Agreement further contemplates the preservation of a significant number of jobs in Canada and the U.S. Other features of the Stalking Horse Agreement include:

- (a) The assignment of substantially all of the contracts to which the PSG Entities are party;
- (b) Payment of a good faith deposit of 5% of the base purchase price by the Stalking Horse Purchasers;
- (c) The option to pay part of the purchase price by offsetting as against the amounts funded under the Term Loan DIP Facility;
- (d) A break-up fee of 3.5% of the base purchase price (the "**Break Fee**") and an expense reimbursement fee of \$3.5 million due only in certain instances;
- (e) Payment of a work fee of approximately \$2.5 million paid pursuant to a side letter of Stalking Horse Agreement, which shall be credited against the Break

Fee and returned if the transaction contemplated by the Stalking Horse Agreement closes.

- (f) Court approval of the Stalking Horse Agreement and the bidding procedures governing the sale process; and
- (g) Closing of the transaction within two business days of the satisfaction of the conditions to closing, which is expected to be in early February, 2017.

162. It is anticipated that the Applicants will commence the sale process contemplated by the Stalking Horse Agreement on November 1, 2016 and seek approval of the sale process (including the Stalking Horse Agreement) at a motion returnable on November 21, 2016. It is further anticipated that the bid deadline will be January 4, 2017, and auction (if necessary) will take place on January 9, 2017 and the motion to approve the sale of assets will be heard by January 11, 2017.

VI. CASH FLOW FORECAST

163. As set out in the 13-week cash flow projection (the “**Cash Flow Statement**”) that was prepared by the PSG Entities in consultation with their restructuring advisor, A&M, and reviewed by the proposed Monitor for the period from October 31, 2016 to the week ending January 27, 2017, the Applicants’ estimated principal uses of cash will consist of the payment of ongoing day-to-day operational expenses and professional fees and disbursements in connection with these CCAA proceedings. I understand from counsel to the Applicants that a copy of the Cash Flow Statement will be attached to the pre-filing report of the proposed Monitor which is to be filed with the Court.

164. As at the time of execution of this affidavit, the Applicants have \$7.2 million cash on hand. The Cash Flow Statement projects that, subject to obtaining the relief outlined herein including approval of the DIP Financing (defined below), they will have sufficient cash to fund their projected operating costs until the end of the stay period. If the DIP Financing is not approved, the Applicants do not have sufficient cash to support their operations during the stay period.

165. The Cash Flow Statement is consolidated so that it includes the U.S. PSG Entities, the Canadian PSG Entities and all of their subsidiaries. The PSG Entities do not maintain country-by-country cash flows, and the interconnected nature of the business and the operation along business lines prevents the PSG Entities' restructuring advisors from creating country-by-country basis without significant expenditures of cost and time.

166. The PSG Entities, in consultation with their restructuring advisor, have conducted a high level analysis of cash flows as between the Canadian PSG Entities and the U.S. PSG Entities and have estimated that, on a cash basis, the European Subsidiaries will realize net positive cash flows of approximately \$31 million and the Canadian PSG Entities will realize net positive cash flows of approximately \$9 million for the 15 week period ended January 20, 2017.

167. These cash amounts do not include operational obligations borne by the Canadian PSG Entities (with respect to the European Subsidiaries) and certain operational and non-operational obligations borne by the U.S. PSG Entities (with respect to the Canadian PSG Entities).

168. With respect to the positive net cash flows of the European Subsidiaries, as described above, Bauer Canada retains title to the inventory sold by the European Subsidiaries. Substantially all of the cash brought in by the European Subsidiaries is flowed to Bauer Canada in the normal course to cover inventory costs. The European Subsidiaries maintain approximately 5% from the collection in order to fund limited operating expenses, facilities, employees and sale agent commissions.

169. With respect to the positive net cash flows of the Canadian PSG Entities, certain of this cash would be owed to the U.S. PSG Entities to cover some transfer pricing amounts for cost of goods sold and sales, as well as to cover certain non-operating costs, such as interest payments and professional fees. Even incorporating these adjustments, however, the Canadian PSG Entities are predicted to have net positive cash flows over the CCAA Proceeding, while the U.S. PSG Entities are predicted to have net negative cash flows over the CCAA proceedings.

VII. PROPOSED INITIAL ORDER

A. Payment of pre-filing amounts

170. The Applicants believe that authority to pay the pre-filing amounts set out below is vital to their efforts to preserve and maximize the value of their estates and to their reorganization efforts.

Foreign Suppliers

171. As noted above, the PSG Entities source the majority of their manufacturing operations out to suppliers located in various jurisdictions in Asia (such suppliers being the “**Foreign Suppliers**”). The PSG Entities’ business is reliant on those suppliers, many of which are committed exclusively to the PSG Entities and integrated with the PSG Entities’ ongoing operations, including their technology and quality specifications. Further, the PSG Entities do not have sufficient inventory to complete the CCAA proceedings and Chapter 11 Proceedings and will need to order from the Foreign Suppliers.

172. It is the opinion of management of the PSG Entities that, without payment of the pre-filing amounts owing to them, the Foreign Suppliers may refuse to deliver goods which are critical to the PSG Entities’ ongoing business, leading to a supply chain disruption during the first critical weeks of the CCAA proceedings. Finding replacement suppliers would interrupt operations and require a lengthy qualification process. Enforcing an order of a Canadian court in multiple countries in Asia could take weeks or longer, during which time the Applicants would be at significant risk of not being able to supply their customers with product.

173. As such, the Applicants are seeking authorization to pay pre-filing amounts of the Foreign Suppliers, with consent of the proposed Monitor on individual payments in excess of \$10,000. The CRO has calculated the pre-filing amount owing to Foreign Suppliers as being approximately \$19.2 million, as discussed with and reviewed by the proposed Monitor. The Applicants believe that payment to the Foreign Suppliers is in the best interests of their stakeholders. The proposed Monitor will be kept apprised of any payments that are made on a weekly basis.

Critical Suppliers

174. The PSG Entities also have a number of suppliers in North America who are critical to ensuring there is no disruption to the Applicants' business, such suppliers being the **"Critical Suppliers"**.

175. The PSG Entities have worked with their financial advisors in determining the list of Critical Suppliers and have discussed this list with the proposed Monitor, considering (i) the importance of each supplier to the PSG Entities' operations; (ii) the nature of the goods or services supplied and whether there are alternative supply sources; (iii) the ability of the supplier to either remain in business or continue normal operations if not paid for pre-filing goods and services; (iv) the ability and likelihood that the supplier may delay or otherwise restrict supplying goods or services in the event of the PSG Entities' non-payment; (v) the volume of goods or services supplied; (vi) the potential for disruption of the PSG Entities' operations if the supplier delays or fails its supply of goods pursuant to its existing contracts; and (vii) the amount that the PSG Entities currently owe the supplier.

176. The Critical Suppliers are the most cost-efficient and, in many cases, the only source from which the Applicants can procure critical goods and services within a timeframe that would permit the Applicants to avoid unanticipated interruptions, delays or shutdowns in their operations. The proposed Monitor will be kept apprised of any payments that are made on a weekly basis.

177. Based on the above criteria, the PSG Entities identified approximately 31 Critical Suppliers which are owed in the aggregate approximately \$1.2 million. The PSG Entities are seeking authorization, but not the requirement, to make those payments with consent of the proposed Monitor on individual payments in excess of \$10,000.

178. To the extent that the PSG Entities determine that additional critical suppliers are paid, the PSG Entities are seeking authorization to pay pre-filing amounts to those suppliers with the approval of the proposed Monitor.

179. The PSG Entities intend to continue to rely on their suppliers during the CCAA proceedings and require the flexibility to pay these suppliers to ensure adequate and timely supply of required products and services to attempt to obtain and negotiate credit terms.

20 Day Goods Suppliers

180. Pursuant to 503(b)(9) of the U.S. Bankruptcy Code, the Applicants are required to pay any suppliers who delivered goods to the Applicants in the 20 days leading to the filing, in this case, October 11, 2016 (the “**20 Day Goods Suppliers**”).

181. As the Applicants have commenced the Chapter 11 Proceedings, the Applicants are required to pay the 20 Day Goods Suppliers. The proposed Initial Order seeks authorization, but not the requirement, for the PSG Entities to pay 20 Day Good Suppliers, with consent of the proposed Monitor for individual amounts over \$5,000.

182. The amounts owing to the 20 Day Goods Suppliers total approximately \$1.4 million in the aggregate.

Shippers and Warehousemen

183. The PSG Entities depend on an extensive shipping, warehousing and distribution network to move raw materials from the PSG Entities’ suppliers, which are largely based overseas, and to move finished products to the PSG Entities customers, including those in Europe. This network is dependent on shippers, brokers, warehousemen, distributors and logistics providers, based at various locations around the world, including in Canada (together, the “**Shippers and Warehousemen**”).

184. The failure to pay any of these parties for charges incurred in connection with the transportation and storage of any goods or materials may result in Shippers and Warehousemen asserting possessory liens against the Applicants’ Property. In addition, in respect of the Shippers and Warehousemen, shipments may be stopped in transit if customs duties are not paid by the PSG Entities or their customs agents when due in the ordinary course.

185. The PSG Entities rely on Shippers and Warehousemen to provide the inventory necessary to continue their business without interruption. The successful uninterrupted operation of the Applicants’ business during the CCAA proceedings is critical to the Applicants’ restructuring, and the payment of the amounts owing to the Shippers and Warehousemen.

186. As at October 28, 2016, the PSG Entities estimate that approximately \$2.5 million is owed in the aggregate to the Shippers and Warehousemen.

187. To the extent that additional amounts are found to be outstanding to Shippers and Warehousemen (most likely due to delayed invoicing or the timing of certain shipments), for shipments that are important to the PSG Entities' ongoing operations, the PSG Entities must be able to pay such amounts, and thus request the authority to make such payments, with the consent of the proposed Monitor for amounts in excess of \$5,000.

188. Payment to these parties will avoid disruption in the Applicants' business, prevent the possibility of possessory liens being asserted against merchandise, and enable the PSG Entities to realize the value of the merchandise and other property and allow the PSG Entities' to continue their business operations uninterrupted.

Lien Claimants

189. The Applicants also routinely transact with third parties such as contractors, builders, and repairers, who may potentially assert liens under applicable law against the PSG Entities (collectively, "**Lien Claimants**") if they are not paid for goods or services rendered. The Lien Claimants may be able to assert possessory liens against the Applicants' Property. Lien Claimants without violating the automatic stay in the U.S. These possessory liens could cause interruptions to the Applicants' business.

190. The Applicants are requesting the authorization, but not the requirement, to pay Lien Claimants with consent of the proposed Monitor and up to a maximum of \$3 million in the aggregate.

Taxes

191. In the ordinary course of business, the PSG Entities are responsible for paying or collecting and remitting various taxes to governmental authorities, including (i) sales taxes; (ii) use taxes (iii) franchise taxes; (iv) property taxes; (v) import duties; (vi) goods and services taxes; and (vii) certain other miscellaneous taxes ("**Taxes**"). The proposed Initial Order includes the standard relief from the Model Order regarding the collection and remittance of priority source deductions and property taxes; however, the PSG Entities are also seeking the authority, but not the obligation, to pay Taxes outstanding as of the filing

date up to an individual maximum amount of \$1,000 and up to \$15,000 in the aggregate. The PSG Entities are seeking similar relief in the Chapter 11 Proceedings.

192. Failure to pay certain Taxes could damage the PSG Entities' relationships with the taxing authorities or could cause the taxing authorities to exercise action contrary to the stay of proceedings, including conducting audits, filing liens or seeking to impose liability against the directors of the Applicants. Such actions could disrupt the PSG Entities' business and restructuring efforts and cause the PSG Entities to incur professional fees as result of needing to seek relief from this Court or the U.S. Court. The PSG Entities believe that authorizing, but not requiring, them to pay pre-filing Taxes with the approval of the proposed Monitor would minimize the interruptions to their business operating in the ordinary course and benefit stakeholders generally.

B. Maintenance of Customer Programs

193. As described above, consistent with industry practice, the PSG Entities maintain various Customer Programs to generate sales and maintain customer loyalty. The Customer Programs often result in the PSG Entities' accruing liabilities for the benefit of their customers, some of which will not have been paid upon commencement of the CCAA proceedings.

194. Maintaining the loyalty, support, and goodwill of their wholesale and retail customers is critical to the business of the PSG Entities and their efforts to maximize the value for the benefit of stakeholders. Accordingly, the proposed Initial Order provides that the PSG Entities are authorized, but not required, to continue to honour and fulfill their obligations under the Customer Programs, including those relating to the pre-filing period. The PSG Entities are seeking similar relief in the Chapter 11 Proceedings.⁴

195. Allowing the PSG Entities to honour their Customer Programs will maintain goodwill and positive relationships with customers for the duration of the CCAA proceedings and Chapter 11 Proceedings. It will also allow the PSG Entities to maintain

⁴ In the Chapter 11 Proceedings, the PSG Entities are not seeking authorization to pay liabilities accruing in respect of certain indemnity obligations under standard form agreements with certain wholesale customers. The proposed Initial Order also provides a carve-out of these indemnity obligations and the PSG Entities are not seeking authorization to pay such amounts. As of September 30, 2016, the PSG Entities are not aware of any amounts owing in respect of the indemnity obligations.

their operations in the ordinary course without any interruption. The Cash Flow Statement presents customer receipts on a net basis after the deduction of such applicable Customer Program amounts.

C. Engagement of A&M and Chief Restructuring Officer

196. As described above, A&M was previously retained by the Applicants and A&M has played a central role in advising and assisting the PSG Entities with liquidity management and operational restructuring initiatives. PSG and A&M have entered into an engagement letter dated as of October 24, 2016 (the “**A&M Engagement Letter**”), conditional upon the initiation of the CCAA proceedings and Chapter 11 Proceedings and the appointment of Brian J. Fox as the Chief Restructuring Officer (the “**CRO**”) of the PSG Entities, with respect to A&M’s mandate moving forward. A copy of the A&M Engagement Letter is attached hereto as Exhibit “K”.

197. Pursuant to the A&M Engagement Letter, A&M will provide restructuring personnel to assist the PSG Entities during the CCAA and Chapter 11 Proceedings. Brian J. Fox of A&M will serve as CRO of the PSG Entities, subject to Court approval. The A&M Engagement Letter provides that A&M will be compensated based on the services of the CRO and the engagement team at their hourly rates, and that PSG shall be responsible for the payment of the fees and expenses of A&M for the services provided by A&M to the PSG Entities. A&M is not entitled to a success fee under the A&M Engagement Letter.

198. In the proposed Initial Order, the PSG Entities are seeking the Court’s confirmation of the retention of A&M and the CRO and the approval of the A&M Engagement Letter. The PSG Entities will also be seeking confirmation of the retention of A&M and the CRO in the Chapter 11 Proceedings. The approval of the engagement of A&M, including the CRO, is appropriate in the circumstances as A&M has worked extensively with the PSG Entities since its initial engagement and has significant knowledge with respect to their business, operations and finances. A&M’s continued involvement will be critical to the successful completion of the going-concern restructuring transaction as part of the CCAA proceedings and Chapter 11 Proceedings that will maximize value for stakeholders. The Applicants believe that the retention of A&M and appointment of the CRO, is in the best interests of the PSG Entities and their stakeholders.

D. Continuance of Transfer Pricing System

199. As described above, the PSG Entities operate as hubs for certain operations that are used in their business necessitating use of the Transfer Pricing Model to record intercompany transactions. The Transfer Pricing Model is critical to ensuring that intercompany transactions are recorded at fair market value and a PSG Entity providing goods or services to another PSG Entity receives appropriate value for those goods or services. Accordingly, the proposed Initial Order contemplates approval of the continued use of the Transfer Pricing Model. Use of the Transfer Pricing Model during the CCAA proceedings will allow the PSG Entities to continue operating in an integrated manner and facilitate intercompany transactions in the ordinary course, preserving going-concern value for benefit of their stakeholders.

200. During the CCAA proceedings, the PSG Entities will continue to settle inter-company receivables and payables arising from use of the Transfer Pricing Model in the ordinary course.

E. Administration Charge

201. The Applicants seek a Charge (defined below) on the assets, property and undertakings of the Applicants (the “**Property**”) in the maximum amount of \$7.5 million to secure the fees and disbursements incurred in connection with services rendered to the Applicants both before and after the commencement of the CCAA proceedings by the proposed Monitor, U.S. and Canadian counsel to the Monitor, U.S. and Canadian counsel to the Applicants, counsel to the directors of the Applicants and the CRO (the “**Administration Charge**”).

202. The PSG Entities worked with A&M to estimate the proposed quantum of the Administration Charge. The proposed Monitor has reviewed the quantum of the Administration Charge and believes it is reasonable and appropriate in view of the complexities of the Applicants’ CCAA proceedings and the services to be provided by the beneficiaries of the Administration Charge.

203. The Initial Order provides that the Administration Charge shall rank first on the Property of the Applicants.

204. At the Comeback Motion (defined below), the Applicants will be seeking to split the Administration Charge between the Fixed Asset (Term) Priority Collateral and the ABL Priority Collateral such that the Administration Charge will be two separate \$3.5 million Charges against each class of collateral.

F. DIP Financing

205. As described above, the Applicants have insufficient liquidity to maintain operations through the proposed CCAA proceedings and require interim debtor-in-possession financing (“**DIP Financing**”) to provide suppliers, customers and other stakeholders with confidence that the business of the PSG Entities will continue to operate smoothly throughout these CCAA proceedings. Further, the liquidity position of the PSG Entities and the inability to file the Reporting Materials and the corresponding default under the Credit Facilities, resulted in the PSG Entities not having the time nor resources to run a comprehensive pre-filing sales process making access to DIP Financing critical to preserve value for the PSG Entities and their stakeholders and allow them the appropriate time to run a post-filing sales process.

206. I am advised by Kathryn Esaw of Stikeman Elliott LLP, counsel to the PSG Entities, that the counsel to the ABL Lenders and counsel to the Term Loan Lenders will receive notice of this application.

Process for Selecting DIP Financing

207. Due to the current capital structure of PSG and its recent business performance, the PSG Entities, with the assistance of Centerview, determined that obtaining DIP Financing from a third party would be extremely challenging, unless such facility was provided either junior to the ABL Facility and Term Loan Facility or on unsecured basis or paired with a refinancing of the PSG Entities’ existing indebtedness. In both cases, the only third parties likely to provide such financing were those evaluating a potential purchase of the PSG Entities’ businesses (with the DIP Financing effectively serving as a “down payment” on such purchase). As such, the PSG Entities focused their efforts on negotiating with the three parties most likely to provide DIP Financing: the ABL Lenders, the Term Loan Lenders and Sagard, due to its interest in acquiring the Applicants’ businesses.

208. The PSG Entities received three DIP Financing proposals: one from each of the above noted parties. The PSG Entities evaluated the DIP Financing proposals with the assistance of Centerview, A&M and their counsel, considering, among other things, the costs and fees associated with each proposal, the priority ranking of charges securing the proposed DIP Financing and the liquidity requirements to fund the sales process and operations during these CCAA proceedings and Chapter 11 Proceedings.

209. After evaluating the proposals, on an informed basis and in good faith with a view to the best interests of the Applicants and their stakeholders, the PSG Entities, with the assistance of their advisors, focused on negotiating with Sagard and the ABL DIP Lenders due to the superiority of their proposals. After negotiating, through Centerview and their Canadian and U.S. counsel, the PSG Entities selected the DIP Financing proposal from Sagard and an interim DIP Financing proposal from the ABL Lenders to provide supplementary liquidity.

210. The DIP facility provided by Sagard (the “**Term Loan DIP Facility**”) is provided on terms that are fair and reasonable and the product of significant arms’-length negotiation and compromise. For example, Sagard initially sought to link its DIP Financing package to its stalking horse bid, including by inserting cross-default provisions in its proposed Term Loan DIP Credit Agreement (defined below) and the Stalking Horse Agreement. The PSG Entities were successfully able to persuade Sagard to “de-link” its Term Loan DIP Facility from the Stalking Horse Agreement, resulting in greater flexibility and value for the PSG Entities. In addition, the economic terms of the Term Loan DIP Credit Agreement were subject to significant negotiation and the interest rate and fees embedded in the Term Loan DIP Facility are on economic and other terms significantly better than those initially proposed by Sagard. In fact, the interest rate on the Term Loan DIP Facility provided by Sagard is equivalent to the default rate on the Term Loan Facility. As well, as set out below, the Term Loan DIP Facility is structured as a delayed draw term loan facility so the PSG Entities may borrow and incur concomitant interest expenses, only as needed. The PSG Entities also requested that Sagard provide the Applicants with the required financing on a junior basis to the Term Loan Facility, so it would not need to be refinanced early in the CCAA proceedings and Chapter 11 Proceedings, but Sagard declined to provide the requisite financing on such terms.

211. The DIP Financing proposal submitted by the Term Loan Lenders was predicated on the Term Loan Lenders credit bidding their approximately \$330 million of secured debt and being named the stalking horse bidder in connection with the sale process. The Term Loan Lenders were not willing to provide the PSG Entities with DIP Financing without also being named the stalking horse bidder. Further, the overall economic terms of their initial DIP Financing proposal, were less favourable than the combined proposals of Sagard and the ABL Lenders, including higher fees, interest rates and tighter sale process milestones. Also important, the Stalking Horse Agreement provides value well in excess of the PSG Entities' aggregate secured indebtedness and, therefore, by definition well in excess of any potential credit bid offered by the Term Loan Lenders. For these and other reasons, the PSG Entities determined in their business judgment not to accept the Term Loan Lenders' DIP Financing proposal.

212. While evaluating the other DIP Financing proposals, the PSG Entities with the assistance of their advisors, engaged in extensive discussions and good faith, arms'-length negotiations with the ABL Lenders on the terms of a DIP Financing proposal. In the view of the PSG Entities, with the eligible inventory and receivables levels forecasted in the near term, the borrowing base is not sufficient to support an asset-backed facility large enough to fund the entirety of the CCAA proceedings and Chapter 11 Proceedings and supplemental liquidity is required. However, given that the PSG Entities' ABL Facility is their lowest cost form of indebtedness, the Applicants negotiated extensively and in good faith, terms of a DIP facility to be provided by the ABL Lenders (the "**ABL DIP Facility**") and together with the Term Loan DIP Facility, the "**DIP Facilities**") to supplement the liquidity provided by the Term Loan DIP Facility, reducing the PSG Entities' overall weighted average cost of DIP Financing.

Summary of DIP Financing

213. In connection with the selection, the PSG Entities, through Centerview, A&M and their Canadian and U.S. counsel, have negotiated the Term Loan Superpriority Debtor-In-Possession Credit Agreement (as amended, supplemented or otherwise modified from time to time, the "**Term Loan DIP Credit Agreement**") with the Stalking Horse Purchasers and the other lenders party thereto (the "**Term Loan DIP Lenders**") pursuant to which the PSG

Entities will obtain access to the Term Loan DIP Facility in the maximum amount of \$361 million. A copy of the Term Loan DIP Credit Agreement is attached hereto as Exhibit “L”.

214. The PSG Entities also negotiated the ABL Superpriority Debtor-In-Possession Credit Agreement (as amended, supplemented or otherwise modified from time to time, the “**ABL DIP Agreement**” and together with the Term Loan DIP Credit Agreement, the “**DIP Agreements**”) with the ABL Lenders (in such capacity, the “**ABL DIP Lenders**”) giving the PSG Entities’ access to the ABL DIP Facility in a maximum principal amount of \$200 million. A copy of the ABL DIP Agreement is attached hereto as Exhibit “M”.

215. The ABL DIP Facility and Term Loan DIP Facility are coordinated facilities. The ABL DIP Facility will be available to the PSG Entities on an interim basis upon entry of the appropriate orders of the Canadian and U.S. Courts (the “**Interim DIP Orders**”) in order to provide immediate liquidity to the Applicants. The Term Loan DIP Facility, which is proposed to be approved by the Initial Order, but shall not be funded until entry of the applicable final orders of Canadian and U.S. Courts (the “**Final DIP Orders**”), will be used to refinance the existing Term Loan Facility and provide the PSG Entities with incremental liquidity for the remainder of the CCAA proceedings and Chapter 11 Proceedings.

216. It is essential that both the ABL DIP Facility and Term Loan DIP Facility be committed to the Applicants upon entry of the Initial Order, with borrowing on the Term Loan DIP Facility subject to entry of the Final DIP Orders, so that the PSG Entities may be certain that adequate financing is available from the first day of the CCAA proceedings and Chapter 11 Proceedings to support operation of the business, vendor and customer relationships, and execution of the sales process to completion.

ABL DIP Agreement

217. Some of the material terms of the ABL DIP Agreement are set out below:

- (a) **Borrowers:** Bauer Canada, Bauer Hockey Retail Corp., Bauer Performance Sports Uniforms Corp., BPS Canada Intermediate Corp., BPS Diamond Sports Corp., Easton Canada, KBAU, Performance Lacrosse Group Corp., Bauer Hockey Retail Inc., Bauer U.S., Bauer Performance Sports Uniforms Inc., BPS Diamond Sports Inc., BPS U.S., and Easton U.S., Performance Lacrosse Group Inc.

- (b) **Guarantors:** PSG, PSG Innovation Corp. and PSG Innovation Inc.
- (c) **Facility Amount:** US\$200,000,000
- (d) **Availability:** Subject to a borrowing base calculated by adding the U.S. borrowing base and Canadian borrowing base *less* a carve-out reserve, and *less* the amount outstanding under the ABL Facility. The Canadian borrowing base is calculated as follows: (i) the book value of the eligible accounts of the Canadian PSG Entities *multiplied by* 85%; *plus* (ii) the book value of the foreign eligible accounts of the Canadian PSG Entities *multiplied by* 85% of; *plus* (iii) the lesser of (x) the cost of eligible inventory of the Canadian PSG Entities *multiplied by* the advance rate of 70% and (y) the net recovery cost percentage *multiplied by* the cost of eligible inventory of the Canadian PSG Entities *multiplied by* the advance rate of 85%; *plus* (iv) the cost of eligible in-transit inventory of the Canadian PSG Entities *multiplied by* the advance rate of 30%; *minus* (v) any reserves established from time to time by the administrative agent under ABL DIP Agreement. The U.S. borrowing base is calculated as follows: (i) the book value of eligible accounts of the U.S. PSG Entities *multiplied by* the advance rate of 85%; *plus* (ii) the lesser of (x) the cost of eligible inventory of the U.S. PSG Entities *multiplied by* the advance rate of 70% and (y) the net recovery cost percentage *multiplied by* the cost of eligible inventory of the U.S. PSG Entities *multiplied by* the advance rate of 85%; *plus* (c) the cost of eligible in-transit inventory of the U.S. PSG Entities *multiplied by* the advance rate of 30%; *minus* (d) any reserves established from time to time by the administrative agent under ABL DIP Agreement.
- (e) **Maturity:** The earlier of (i) February 28, 2017; (ii) the date on which the PSG Entities consummate a sale transaction approved in the Canadian and U.S. Courts; (iii) the acceleration of the ABL DIP Facility in accordance with the ABL DIP Agreement; (iii) three (3) business days after the filing date if the Interim DIP Orders are not issued; and (iv) 30 days after the date of the issuance of the Interim DIP Orders, if the Final DIP Orders are not issued.

- (f) **Conditions:** The essential terms for drawing on the ABL DIP Facility are: (i) issuance of the Interim DIP Orders; (ii) all reasonable fees of the administrative agent and other lenders under the ABL DIP Facility will be paid in accordance with the ABL DIP Agreement; (iii) the ABL Lenders have received and approved the most recent budget prepared by the PSG Entities; and (iv) the ABL DIP Facility shall be in full force and effect.
- (g) **Milestones:** The milestones to the ABL DIP Agreement are set out in section 8.15 thereof, the key provisions of which are as follows: (i) the PSG Entities will obtain the Interim DIP Orders within three business days of the filing date and the Final DIP Orders within 30 days of the filing date; (ii) that the PSG Entities will file a motion to approve bidding procedures as soon as reasonably possible and obtain orders from the Canadian and U.S. Courts approving the bidding procedures within 21 days of the filing date; and (iii) certain bid deadlines set out in subsections 8.15(e)-(h) will be complied with in full.
- (h) **Negative Covenants:** The PSG Entities shall not, amongst other things, (i) create, incur, or assume any liens on the Property except for certain permitted liens; (ii) convey, sell, lease or otherwise dispose of all or any part of their property or assets; (iii) pay any dividends; (iv) create, incur, or assume any indebtedness except certain permitted indebtedness; (v) make any investments except in certain permitted instances; (vi) permit the proceeds of the ABL DIP Facility to be used in a manner other than for permitted uses in accordance with a budget approved by the Term Loan DIP Lenders; (vii) appoint a CRO, other than a CRO employed by A&M or as otherwise agreed to by the ABL DIP Lenders; or (viii) make payments to critical vendors except in accordance with orders of the Canadian and U.S. Courts.
- (i) **Interest Rate:** Canadian prime rate plus 3.5% per annum in respect of Canadian prime rate loans and CDOR rate (annual yield rates applicable to banker's acceptances) plus 4.5% per annum in respect of CDOR rate loans.

The US prime rate and LIBO rate also apply as a base rate to certain loans, which are equivalent to the Canadian prime rate and CDOR rate.

- (j) **Fees:** The fees under the ABL DIP Agreement are (i) an unused line fee of 0.5% per annum of the average daily unused availability; (ii) an agent fee of \$120,000; (iii) an origination fee of \$600,000; and (iv) a letters of credit fronting fee of 0.125% per annum of face amount of issued letters of credit.
- (k) **Charge:** The obligations under the ABL DIP Agreement are proposed to be secured by a Charge over the Property (the “**ABL DIP Charge**”) having second-ranking priority on the ABL Priority Collateral, subject only to the Administration Charge, and third-ranking priority on the Fixed Asset (Term) Priority Collateral, described in more detail below. The

218. The ABL DIP Agreement provides that any amounts collected in accounts controlled by the ABL DIP Lenders will be applied to reduce the outstanding amount of the ABL Facility. Amounts repaid under the ABL Facility will create additional availability for the PSG Entities under the ABL DIP Facility. Refinancing the ABL Facility in such a fashion is a requirement of the ABL Lenders agreeing to provide additional liquidity to the PSG Entities under the ABL DIP Facility. Further, pursuant to the Stalking Horse Agreement, the ABL DIP Facility will be paid in full at closing of the sale transaction.

219. Because the proposed ABL DIP Facility is provided by the ABL Lenders and the ABL Lenders have first-ranking security on the ABL Priority Collateral, the PSG Entities believe there will be no material prejudice to any of their existing creditors. Further, the PSG Entities do not believe that the ABL Lenders would consent to any DIP Financing that primed their security position. Accordingly, the ABL DIP Facility is the only option to provide immediate liquidity to the PSG Entities until at least the Final DIP Orders are issued and the Term Loan DIP Facility is able to be advanced.

220. Altogether, the PSG Entities believe in their business judgement that the repayment provisions of ABL DIP Agreement are a necessary component to the ABL DIP Facility and will ensure the PSG Entities have access to sufficient liquidity for working capital and general corporate purposes during the CCAA proceedings and Chapter 11 Proceedings.

Term Loan DIP Credit Agreement

221. Some of the material terms of the Term Loan DIP Credit Agreement are set out below:

- (a) **Borrower:** PSG
- (b) **Guarantors:** The PSG Entities, other than PSG.
- (c) **Facility Amount:** The Term Loan DIP Facility consists of two facilities: (i) a delayed draw term loan, funded in cash in one or more drawings occurring after the closing date in the principal amount of approximately \$30 million; and (ii) a refinancing term loan, funded in cash on the closing date in the principal amount of approximately \$331 million, which will be used to refinance the Term Loan Facility.
- (d) **Maturity:** The earlier of (i) February 28, 2017; (ii) the date on which the PSG Entities consummate a sale transaction approved by the Canadian and U.S. Courts; (iii) the acceleration of the Term Loan DIP Facility in accordance with the Term Loan DIP Credit Agreement; (iii) three business days after the filing date, if the Interim DIP Orders are not issued; and (iv) 30 days after the date of the issuance of the Interim DIP Orders, if the Final DIP Orders are not approved.
- (e) **Conditions:** The essential terms for drawing on the delayed draw term loan facility are: (i) the issuance of the Interim DIP Orders; (ii) all reasonable fees of the administrative agent and other lenders under the Term Loan DIP Facility will be paid in accordance with the Term Loan DIP Credit Agreement; (iii) the PSG Entities will comply with the budget in the Term Loan DIP Credit Agreement; and (iv) the ABL DIP Facility shall be in full force and effect. The refinancing term loan is functionally a debt roll-over of the PSG Entities' secured term loan facility, whose central condition is that the PSG Entities pre-filing term loan facility is paid in full.

- (f) **Milestones:** The milestones to the Term Loan DIP Credit Agreement are set out in section 8.15 thereof, the key provisions of which are as follows: (i) the PSG Entities will obtain the Interim DIP Orders within three (3) business days of the filing date and the Final DIP Orders within 30 days of the filing date (ii) that the PSG Entities will file a motion to approve bidding procedures as soon as reasonably possible and the PSG Entities' obtain orders from the Canadian and U.S. Courts approving the bidding procedures within 21 days of the filing date; and (iii) that certain bid deadlines set out in subsections 8.14(e)-(h) of the Term Loan DIP Credit Agreement will be complied with in full.
- (g) **Negative Covenants:** The PSG Entities shall not, amongst other things, (i) create, incur, or assume any liens on the Property except for certain permitted liens; (ii) convey, sell, lease or otherwise dispose of all or any part of their property or assets; (iii) pay any dividends; (iv) create, incur, or assume any indebtedness except certain permitted indebtedness; (v) make any investments except in certain permitted instances; (vi) permit the proceeds of the Term Loan DIP Facility to be used in a manner other than permitted uses in accordance with a budget approved by the Term Loan DIP Lenders; (vii) appoint a CRO, other than a CRO employed by A&M or otherwise agreed to by the Term Loan DIP Lenders; or (viii) make payments to critical vendors except in accordance with orders of the Canadian and U.S. Courts.
- (h) **Interest Rate:** 8% per annum.
- (i) **Fees:** The fees under the Term Loan DIP Credit Agreement are (i) an unused line fee of 1% per annum of the delayed draw term loan; (ii) a commitment fee of 1% on the portion of the Term Loan DIP Facility being used to refinance the Term Loan Facility; (iii) a commitment fee of 3% on the delayed draw term loan; (iv) an agent fee of \$100,000; and (v) 1% on amounts prepaid that were used to refinance Term Loan Facility and 2.5% on amounts prepaid that were from the delayed draw term loan, reducing to 0% in each case if the

Stalking Horse Agreement and corresponding Break Fee are approved by Canadian and U.S. Courts.

- (j) **Charge:** The obligations under the Term Loan DIP Credit Agreement will not be secured by a Charge under the Interim DIP Orders, including the Initial Order. However, it is proposed that under the Final DIP Orders obligations under the Term Loan DIP Credit Agreement will be secured by a Charge (the “**Term Loan DIP Charge**” and together with the ABL DIP Charge, the “**DIP Lenders’ Charges**”) having second-ranking priority on the Fixed Asset (Term) Priority Collateral, subject only to the Administration Charge, and fourth-ranking priority on the ABL Priority Collateral, described in more detail below. For greater certainty, the Applicants are not seeking the Term Loan DIP Charge in the proposed Initial Order but will seek it at the Comeback Motion.

222. Although funds under the Term Loan DIP Facility are not being advanced until after the Comeback Motion, the PSG Entities are seeking approval of it under the Initial Order. Obtaining approval on the first day of the CCAA proceedings and Chapter 11 Proceedings will allow the Applicants to communicate to its employees, vendors, regulators and customers, as well as potential bidder’s assets, that the PSG Entities are entering creditor protection on strong financial footing and will continue operating without interruption.

223. In addition, interim relief is critical to prevent any value destruction that could diminish the likelihood of receiving bids in connection with the sales process. By approving the Term Loan DIP Facility at the outset of these proceedings, the PSG Entities will be able to maintain the value of their business during the course of the sale process.

224. Given the PSG Entities’ current projections, and absence of meaningful unencumbered assets, immediate access to the DIP Facilities is necessary for continued operations, including to fund wages, salaries, and benefits of the PSG Entities’ employees, procure necessary goods and services (and maintain trade terms with the PSG Entities’ vendors), finance the cost of these CCAA proceedings and Chapter 11 Proceedings and meet other working capital needs.

225. Following the competitive selection process between the ABL Lenders, the Term Lenders and Sagard, the Applicants have determined that the DIP Facilities, as reflected by the DIP Agreements, represent the best interim financing available under the circumstances. Based on current projections, the DIP Facilities are necessary to fund their continued operations. In the circumstances, the PSG Entities believe in their business judgement, that the pricing, fees, interest rates, and other terms and conditions of the DIP Facilities are reasonable and are generally consistent with those contained in the pre-filing ABL Facility and Term Loan Facility. In addition, the milestones, covenants, and restrictions included in the DIP Agreements are reasonable and are not designed to make the PSG Entities disproportionately susceptible to a breach of their terms.

226. The DIP Facilities are expected to provide sufficient liquidity to allow the Applicants to pursue a restructuring in these CCAA proceedings and the Chapter 11 Proceedings. Accordingly, the Applicants seek an order authorizing and empowering the Applicants to obtain and borrow under the DIP Facilities in order to refinance the Term Loan Facility and finance the operations of the Applicants during the CCAA proceedings and Chapter 11 Proceedings.

227. I understand from counsel to the Applicants that the proposed Monitor supports approval of the DIP Agreements.

DIP Lenders' Charges

228. The proposed Initial Order only contains an ABL DIP Charge. The ABL DIP Charge is proposed to rank below the security interests, charges, and liens securing the obligations under the Term Loan Agreement (the "**Pre-Filing Term Loan Security**") on the Fixed Asset (Term) Priority Collateral, avoiding any need to prime the Term Loan Lenders in respect of their first-ranking Pre-Filing Term Loan Security. Only the ABL DIP Lenders' Charge and only Administration Charge will prime the Pre-Filing Term Loan Security in respect of the ABL Priority Collateral.

229. The ABL DIP Charge will prime the security interests, charges, and liens securing the obligations under the ABL Facility Agreement (the "**Pre-Filing ABL Facility Security**") in respect of the ABL Priority Collateral. However, the ABL DIP Charge will cause no

prejudice as it is being granted to the ABL Lenders themselves in their capacity as the ABL DIP Lenders.

230. The ABL DIP Charge is also proposed to be over the Property that is not Fixed Asset (Term) Priority Collateral or ABL Priority Collateral, including the assets of PSG Innovation Corp. and PSG Innovation Inc. The ABL DIP Lenders have indicated that extending this Property is a condition to them providing DIP Financing. Under the proposed Initial Order, with respect to the assets, property and undertakings of PSG Innovation Corp. and PSG Innovation Inc. (the “**PSG Innovation Collateral**”), the ABL DIP Charge is proposed to rank second, behind the Administration Charge. With respect to all other Property that is not Fixed Asset (Term) Priority Collateral, ABL Priority Collateral and PSG Innovation Collateral (the “**Other Unencumbered Collateral**”), the ABL DIP Charge is also proposed to rank second, again behind the Administration Charge.

231. The Applicants will be seeking relief with respect to the Term Loan DIP Charge at the Comeback Motion.

232. I understand from counsel to the Applicants that the proposed Monitor supports approval of the ABL DIP Charge. The priority with respect to the other Charges is explained further below.

G. Directors’ Charge

233. To ensure the ongoing stability of the Applicants’ business during the CCAA proceedings, the Applicants require the continued participation of their respective directors, officers, managers and employees.

234. The Applicants are seeking, what I am informed by counsel are, typical provisions staying all proceedings against the directors and officers of the PSG Entities with respect to all claims against the directors or officers that relate to any obligations of the Applicants whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers of the Applicants.

235. I am advised by counsel to the Applicants that in certain circumstances directors can be held liable for certain obligations of a corporation owing to employees and government entities. As of October 21, 2016, the Applicants are potentially liable for accrued but unpaid

vacation pay, wages, source deductions and sales tax in the aggregate amount of approximately \$7.5 million.

236. The Applicants maintain directors' and officers' liability insurance (the "**D&O Insurance**") that benefit the directors and officers of the Applicants. The current D&O Insurance policy provides \$70 million in aggregate coverage (plus certain additional amounts in respect of certain claims). In addition, there are also contractual indemnities which have been given to the directors and officers by the PSG Entities. The Applicants may not have sufficient funds to satisfy those indemnities should their directors and officers be found responsible for the full amount of the potential directors' liabilities. Lastly, there is a deductible for certain claims and the presence of a number of exclusions creates a degree of uncertainty.

237. The directors and officers of the Applicants have indicated that, due to the potentially significant personal exposure arising going forward, they cannot continue their service with the Applicants unless the Initial Order grants a charge on the Property in the amount of \$7.5 million (the "**D&O Charge**").

238. The D&O Charge is proposed to rank fifth in priority on the Property.

239. The D&O Charge will allow the Applicants to continue to benefit from the efforts and knowledge of their directors and officers. The Applicants and the proposed Monitor believe the D&O Charge is reasonable in the circumstances.

H. Intercompany Charge

240. As described above, the Canadian PSG Entities are expected to have positive net cash flows during the first 26 weeks of the CCAA Proceeding. Certain of these monies will be used to fund the deficit expected to be experienced by the U.S. PSG Entities during the first 26 weeks of the CCAA proceedings. To the extent that one or more of the Canadian PSG Entities have cash on hand that could be utilized by other Applicants, the Applicants are seeking authorization to effect intercompany advances secured by a charge (the "**Intercompany Charge**") on the Property of the borrowing Applicant. The provision of an Intercompany Charge will minimize the amounts needed to be borrowed under the DIP Facilities.

241. The Intercompany Charge is proposed to rank sixth on the Property.

I. Ranking of the Court Ordered Charges

242. As mentioned above, each of the DIP Agreements requires issuance of Interim DIP Orders and Final DIP Orders which include Court-ordered charges (the “**Charges**” and each a “**Charge**”) on the Property for the DIP Facilities. Under the proposed Initial Order, the Applicants are only seeking the ABL DIP Charge and the Term Loan DIP Charge will only be sought at the Comeback Motion for the Final DIP Orders. The Applicants are also seeking an Administration Charge, D&O Charge and Intercompany Charge in the Initial Order.

243. The Administration Charge is proposed to have first-ranking priority on all the Property. The D&O Charge is to rank in priority to the Intercompany Charge, and both are proposed to rank junior to the Administration Charge, ABL DIP Charge, the Pre-Filing ABL Facility Security and the Pre-Filing Term Loan Security on all the Property. In the Chapter 11 Proceedings, the PSG Entities are seeking liens from the U.S. Court with the same priority scheme as in Canada except for slightly minor difference with respect to the PSG Innovation Collateral and Other Unencumbered Collateral.

244. The full proposed waterfall priority scheme being sought in the Interim DIP Orders is set out at Schedule “1” to this affidavit.

245. The PSG Entities believe the provision of protections to ABL Lenders and Term Loan Lenders, the payment of default rate interest, fees and expenses (including certain reasonable fees and expenses of counsel and financial advisors, as agreed), is reasonable and appropriate under the circumstances. Absent such provisions, the ABL Lenders and Term Loan Lenders likely would not consent to the ranking of the Charges, including the priming of the Pre-Filing ABL Facility Security and Pre-Filing Term Loan Security. Thus, the PSG Entities likely would have been required to litigate with the ABL Lenders and Term Loan Lenders over the imposition of priming Charges, if the above-mentioned protections were not granted. Given the distraction, uncertainty, and costs associated with such a dispute, the PSG Entities believe that the protections agreed to be provided by the PSG Entities to the ABL Lenders and Term Loan Lenders is in the best interest of the PSG Entities and their stakeholders.

J. Retention of Prime Clerk

246. As part of the Chapter 11 Proceedings, the Applicants have retained Prime Clerk LLC ("**Prime Clerk**") as claims and noticing agent. In order to realize efficiencies within the two proceedings, the Applicants propose to use the noticing services of Prime Clerk for the services of all notices and motion materials in these CCAA proceedings.

247. In selecting Prime Clerk, the Applicants solicited proposals from a number of agents. Prime Clerk was determined by U.S. Counsel to the Applicants to provide the most value to the Applicants. A copy of the Prime Clerk engagement letter is attached hereto as Exhibit "N".

248. Any party who advises the Applicants in writing that it prefers to be served via the E-Service Protocol will be served as such going forward.

VIII. COMEBACK MOTION

249. The Applicants intend to return to Court on notice to the service list for a motion (the "**Comeback Motion**") seeking, among other things:

- (a) Approval of a Cross Border Protocol;
- (b) Approval of the Term Loan DIP Charge;
- (c) Amendments to the priority and structure of certain Charges;
- (d) A super-priority ranking for the Charges;
- (e) Approval of the Stalking Horse Agreement and bidding procedures;
- (f) Approval of the Centerview engagement letter, including the success fee contemplated therein;
- (g) Approval of the key employee incentive and retention programs; and
- (h) Extension of the stay of proceedings established by the proposed Initial Order.

250. Pursuant to the Stalking Horse Agreement, the Applicants are required to serve and file the Comeback Motion materials within two business days of the commencement of the CCAA proceedings, at which point all parties will have the full details and documents relating to the relief sought at the Comeback Motion.

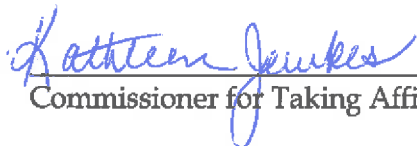
IX. MONITOR

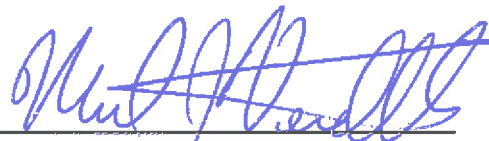
251. Ernst & Young Inc. ("EY") has consented to act as the Court-appointed Monitor (the "Monitor") of the PSG Entities, subject to Court approval.

252. EY is a trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act* as amended, and is not subject to any of the restrictions on who may be appointed as Monitor set out in section 11.7(2) of the CCAA.

253. I am advised by Brian Denega of EY that the proposed Monitor is supportive of the relief being sought in favour of the PSG Entities, including authorization to pay certain pre-filing amounts, approval of the DIP Agreements and approval of the Charges. Mr. Denega has also advised me that the proposed Monitor will be filing a pre-filing Monitor's report in respect of that relief.

SWORN BEFORE ME at the City of
Exeter, State of New Hampshire, on
October 31, 2016.


Commissioner for Taking Affidavits


MARK VENDETTI

KATHLEEN A. JEWKES, Notary Public
My Commission Expires April 6, 2021

Schedule "1"

Charges Priority Waterfall⁵

		US	Canada
		Interim Order	Initial Order
1.	ABL Priority Collateral	1.Carve-Out 2.ABL DIP Facility 3.Prepetition ABL Facility / adequate protection liens of Prepetition ABL Lenders 4.Prepetition Term Loan Facility / adequate protection liens of Prepetition Term Loan Lenders	1.Administration Charge (professional fees/Carve-Out) 2.ABL DIP Charge 3.Pre-Filing ABL Facility Security 4.Pre-Filing Term Loan Security 5.D&O Charge 6.Intercompany Charge
2.	Fixed Asset (Term) Priority Collateral	1.Carve-Out 2.Prepetition Term Loan Facility / adequate protection liens of Prepetition Term Loan Lenders 3.ABL DIP Facility 4.Prepetition ABL Facility / adequate protection liens of Prepetition ABL Lenders	1.Administration Charge (professional fees/Carve-Out) 2.Pre-Filing Term Loan Security 3.ABL DIP Charge 4.Pre-Filing ABL Facility Security 5.D&O Charge 6.Intercompany Charge
3.	PSG Innovation Collateral⁶	1.Carve-Out 2.Prepetition Term Loan Facility / adequate protection liens of Prepetition Term Loan Lenders 3.ABL DIP Facility 4.Prepetition ABL Facility / adequate protection liens of Prepetition ABL Lenders	1.Administration Charge (professional fees/Carve-Out) 2.ABL DIP Charge 3.D&O Charge 4.Intercompany Charge
4.	Other Unencumbered Collateral (other than avoidance actions)⁷	1.Professional fees Carve-Out 2.Prepetition Term Loan Facility / adequate protection liens of Prepetition Term Loan Lenders 3.ABL DIP Facility 4.Prepetition ABL Facility / adequate protection liens of Prepetition ABL Lenders	1.Administration Charge (professional fees/Carve-Out) 2.ABL DIP Charge 3.D&O Charge 4.Intercompany Charge

⁵ Capitalized terms used in this summary have the same meaning used in the Interim Order and Initial Order.

⁶ To the extent these assets would otherwise constitute ABL Priority Collateral, they shall be treated as such. Otherwise, they shall be treated as Fixed Asset Priority Collateral as reflected above. In addition, these assets will not be available as adequate protection under the CCAA order.

⁷ To the extent these assets would otherwise constitute ABL Priority Collateral, they shall be treated as such. Otherwise, they shall be treated as Fixed Asset Priority Collateral as reflected above. In addition, these assets will not be available as adequate protection under the CCAA order.

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED Court File No. _____

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF PERFORMANCE SPORTS GROUP LTD. ET. AL.

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

AFFIDAVIT OF MARK VENDETTI SWORN ON
OCTOBER 31, 2016

STIKEMAN ELLIOTT LLP
Barristers & Solicitors
5300 Commerce Court West
199 Bay Street
Toronto, Canada M5L 1B9

Peter Howard LSUC#: 22056F
Tel: (416) 869-5613

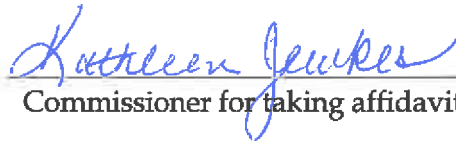
Maria Konyukhova LSUC#: 52880V
Tel: (416) 869-5230

Kathryn Esaw LSUC#: 58264F
Tel: (416) 869-5230
Fax: (416) 947-0866

Lawyers for the Applicants

EXHIBIT "A"

Exhibit "A" to the Affidavit
Of Mark Vendetti, sworn
October 31, 2016


Commissioner for taking affidavits

KATHLEEN A. JEWKES, Notary Public
My Commission Expires April 6, 2021

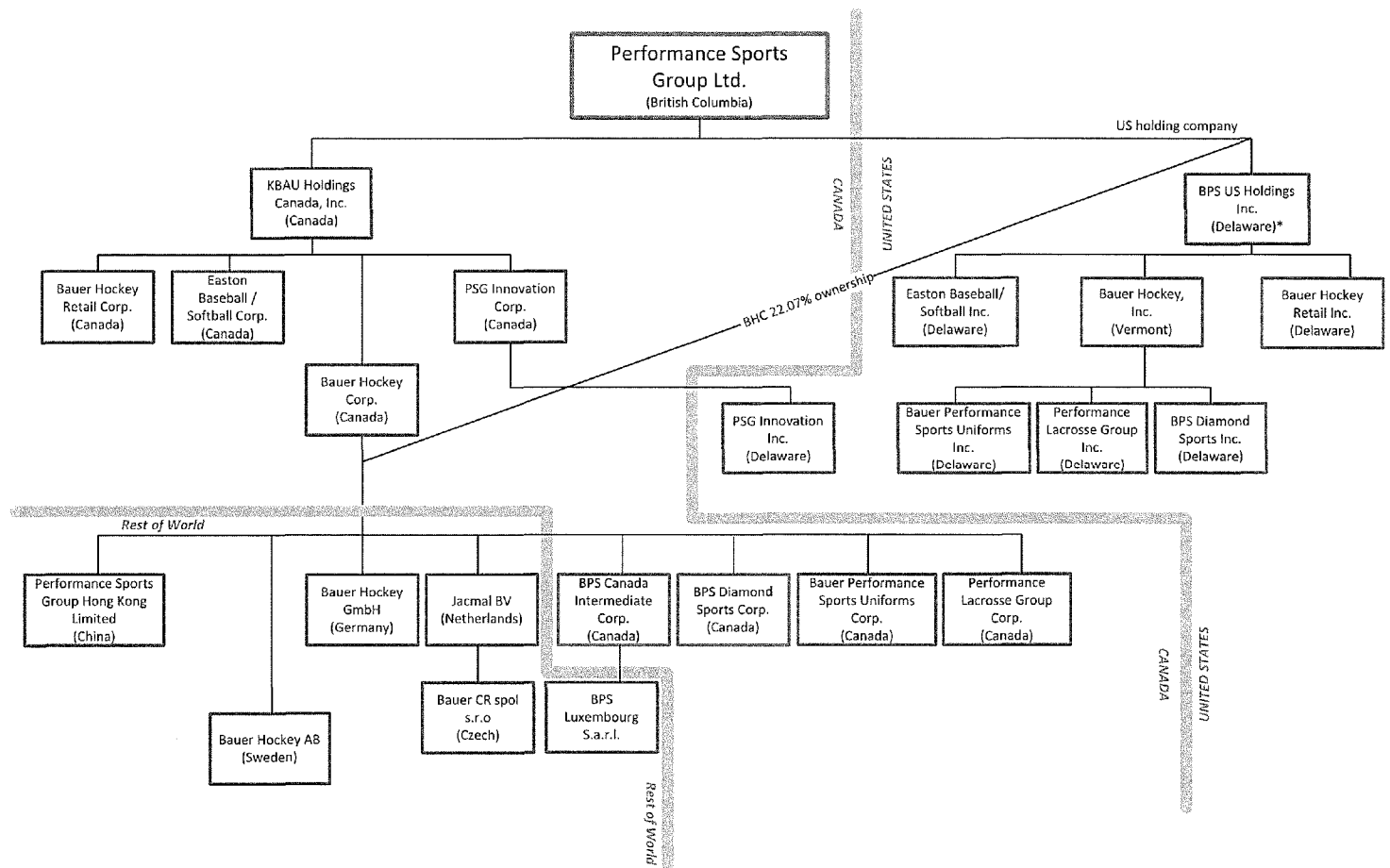
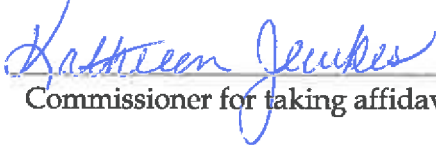


EXHIBIT “B”

Exhibit "B" to the Affidavit
Of Mark Vendetti, sworn
October 31, 2016


Commissioner for taking affidavits

KATHLEEN A. JEWKES, Notary Public
My Commission Expires April 6, 2021

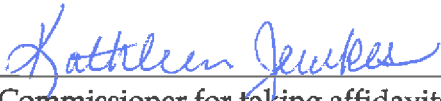
Entity	Business Line	Region of Operations	Jurisdiction of Incorporation	Registered Office
Performance Sports Group Ltd.	Public company, holding company for other PSG Entities	N/A	British Columbia	Vancouver, BC
KBAU Holdings Canada, Inc.	Holding company for Canadian-incorporated PSG Entities	N/A	Canada	Toronto, ON
BPS U.S. Holdings Inc.	Holding company for U.S.-incorporated PSG Entities	N/A	Delaware	Exeter, NH
Bauer Hockey Corp.	Hockey	Canada	Canada	Blainville, QC
Bauer Hockey, Inc.	Hockey	U.S.	Vermont	Exeter, NH
Easton Baseball/Softball Corp.	Baseball/softball - EASTON	Canada	Canada	Toronto, ON
Easton Baseball/Softball Inc.	Baseball/softball - EASTON	U.S.	Delaware	Exeter, NH
BPS Diamond Sports Corp.	Baseball/softball - COMBAT	Canada	Canada	Toronto, ON
BPS Diamond Sports Inc.	Baseball/softball - COMBAT	U.S.	Delaware	Exeter, NH
Bauer Hockey Retail Corp.	Hockey – retail stores	Canada	Canada	Toronto, ON
Bauer Hockey Retail Inc.	Hockey – retail stores	U.S.	Delaware	Exeter, NH
PSG Innovation Corp.	Development of technology to reduce the	n/a	Canada	Toronto, ON

	incidence of mild traumatic brain injury in sports			
PSG Innovation Inc.	Development of technology to reduce the incidence of mild traumatic brain injury in sports	n/a	Delaware	Exeter, NH
Bauer Performance Sports Uniforms Corp.	Soccer apparel, hockey and lacrosse uniform embellishment	Canada	Canada	Toronto, ON
Bauer Performance Sports Uniforms Inc.	Soccer apparel, hockey and lacrosse uniform embellishment	U.S.	Delaware	Exeter, NH
Performance Lacrosse Group Corp.	Lacrosse	Canada	Canada	Toronto, ON
Performance Lacrosse Group Inc.	Lacrosse	U.S.	Delaware	Exeter, NH
BPS Canada Intermediate Corp.	Holding company for intercompany loan tax structure	n/a	Canada	Toronto, ON
Bauer Hockey AB	Hockey	Sweden	Sweden	
Bauer Hockey GmbH	Hockey	Germany	Germany	
BPS Luxembourg S.a.r.l.	Holding company for intercompany loan tax structure	n/a	Luxembourg	
Performance Sports Group Hong Kong Limited	Supply chain management (non-operating)	Asia	China	
Jacmal BV	Legacy company	n/a	Netherlands	

Bauer CR spol (Czech Republic)	Legacy company	n/a	Czech Republic	
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EXHIBIT “C”

Exhibit "C" to the Affidavit
Of Mark Vendetti, sworn
October 31, 2016



Commissioner for taking affidavits

KATHLEEN A. JEWKES, Notary Public
My Commission Expires April 6, 2021

Item 8. Financial Statements and Supplementary Data

PERFORMANCE SPORTS GROUP LTD.

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm	<u>79</u>
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Consolidated Statements of Cash Flows	<u>83</u>
Consolidated Statements of Stockholders' Equity	<u>84</u>
Notes to the Consolidated Financial Statements	<u>85</u>

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Performance Sports Group Ltd.:

We have audited the accompanying consolidated balance sheets of Performance Sports Group Ltd. and subsidiaries as of May 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), cash flows and stockholders' equity for each of the years in the three-year period ended May 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Performance Sports Group Ltd. and subsidiaries as of May 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended May 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

August 26, 2015
Boston, Massachusetts

PERFORMANCE SPORTS GROUP LTD.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	May 31, 2015	May 31, 2014
ASSETS		
Cash	\$ 2,932	\$ 6,871
Trade and other receivables, net of allowance for doubtful accounts of \$2,038 in 2015 and \$1,500 in 2014	199,375	207,584
Inventories, net	174,546	159,292
Income taxes receivable	7,393	5,580
Deferred income taxes	15,465	9,968
Prepaid expenses and other current assets	4,985	9,255
Total current assets	404,696	398,550
Property, plant and equipment, net	47,051	25,322
Goodwill	102,755	102,842
Intangible assets, net	276,754	296,138
Deferred income taxes	8,150	5,322
Other non-current assets	5,511	475
TOTAL ASSETS	\$ 844,917	\$ 828,649
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt	\$ 90,550	\$ 91,435
Accounts payable	41,518	42,117
Accrued liabilities	45,507	44,908
Income taxes payable	249	3,298
Current portion of retirement benefit obligations	320	358
Current portion of financing and capital lease obligations	179	218
Total current liabilities	178,323	182,334
Long-term debt	320,271	431,399
Retirement benefit obligation	5,057	5,506
Financing and capital lease obligations	14,406	3,695
Deferred income taxes	14,741	12,983
Other non-current liabilities	358	798
TOTAL LIABILITIES	533,156	636,715
Commitments and Contingencies (Note 12)		
STOCKHOLDERS' EQUITY		
Common stock, no par value; unlimited shares authorized; 45,552,180, and 35,770,160 shares issued and outstanding at May 31, 2015 and 2014, respectively	273,332	146,799
Additional paid-in capital	5,385	7,094
Retained earnings	56,022	52,740
Accumulated other comprehensive loss	(22,978)	(14,699)
TOTAL STOCKHOLDERS' EQUITY	311,761	191,934
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 844,917	\$ 828,649

See accompanying notes to consolidated financial statements.

PERFORMANCE SPORTS GROUP LTD.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share data)

	Year ended May 31,		
	2015	2014	2013
Revenues	\$ 654,691	\$ 446,179	\$ 399,593
Cost of goods sold	448,304	291,843	252,419
Gross profit	206,387	154,336	147,174
Selling, general and administrative expenses	140,004	104,563	90,491
Research and development expenses	24,800	19,762	16,810
Operating income	41,583	30,011	39,873
Interest expense, net	19,838	9,689	8,695
Realized gain on derivatives	(6,858)	(6,069)	(300)
Unrealized (gain) loss on derivatives	2,213	2,023	(942)
Loss on extinguishment of debt	—	2,589	320
Foreign exchange (gain) loss	19,580	(4,829)	(542)
Gain on bargain purchase	—	—	(1,190)
Other expenses (income)	158	340	(33)
Income before income taxes	6,652	26,268	33,865
Income tax expense	3,370	6,281	8,641
Net income	\$ 3,282	\$ 19,987	\$ 25,224
Earnings per share:			
Basic	\$ 0.07	\$ 0.56	\$ 0.74
Diluted	\$ 0.07	\$ 0.53	\$ 0.69
Weighted-average shares outstanding:			
Basic	44,028,076	35,476,607	34,107,334
Diluted	46,354,657	37,475,278	36,428,019

See accompanying notes to consolidated financial statements.

PERFORMANCE SPORTS GROUP LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Year ended May 31,		
	2015	2014	2013
Net income	\$ 3,282	\$ 19,987	\$ 25,224
Other comprehensive loss:			
Foreign currency translation adjustments	(8,191)	(6,993)	(130)
Defined benefit pension plans, net of tax:			
Actuarial losses, net of tax benefits of \$65 in 2015, \$100 in 2014 and \$59 in 2013	(108)	(220)	(217)
Reclassification adjustments included in net income, net of tax expense of \$9 in 2015, \$5 in 2014 and \$3 in 2013	20	10	6
Other comprehensive loss	(8,279)	(7,203)	(341)
Comprehensive income (loss)	\$ (4,997)	\$ 12,784	\$ 24,883

See accompanying notes to consolidated financial statements.

PERFORMANCE SPORTS GROUP LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year ended May 31,		
	2015	2014	2013
OPERATING ACTIVITIES			
Net income	\$ 3,282	\$ 19,987	\$ 25,224
Adjustments to reconcile net income to net cash provided by operating activities:			
Share-based payment expense	6,110	4,625	4,152
Depreciation and amortization	23,773	12,647	9,743
Unrealized (gain) loss from derivatives	2,379	2,189	(767)
Deferred income taxes	(4,260)	(2,709)	4,098
Bad debt expense	1,442	1,470	117
Loss on extinguishment of debt	—	2,620	315
Gain on bargain purchase	—	—	(1,190)
Loss on disposal of assets	39	200	45
Changes in operating assets and liabilities excluding the effect of acquisitions:			
Trade and other receivables	(3,248)	(25,514)	(3,319)
Inventories	(25,232)	(13,371)	(17,674)
Prepaid expenses and other assets	(7,219)	(5,739)	1,159
Trade and other payables	2,220	7,126	(2,423)
Accrued and other liabilities	12,327	6,416	(2,437)
Net cash provided by operating activities	11,613	9,947	17,043
INVESTING ACTIVITIES			
Acquisition of businesses, net of cash acquired	732	(352,389)	(74,008)
Purchase of property, plant and equipment and intangible assets	(17,563)	(6,032)	(7,377)
Net cash used in investing activities	(16,831)	(358,421)	(81,385)
FINANCING ACTIVITIES			
Proceeds from debt	—	450,000	30,000
Repayment of debt	(119,626)	(106,641)	(9,569)
Net movement in revolving debt	4,922	22,335	14,595
Debt issuance costs	—	(16,803)	(1,265)
Payments on financing obligations	(130)	(544)	(533)
Proceeds from issuance of common shares	126,500	—	32,902
Common share issuance costs	(9,739)	—	(2,098)
Proceeds from stock options exercises	1,431	2,101	—
Excess tax benefits from share-based compensation	6,815	2,116	400
Payment of taxes upon net stock option exercise	(8,394)	(1,293)	(694)
Net cash provided by financing activities	1,779	351,271	63,738
Effect of exchange rate changes on cash	(500)	(393)	(76)
Net increase (decrease) in cash	(3,939)	2,404	(680)
Cash at beginning of period	6,871	4,467	5,147
Cash at end of period	\$ 2,932	\$ 6,871	\$ 4,467
Supplemental disclosure of cash flow information:			
Cash paid during year for:			
Interest	\$ 16,850	\$ 8,120	\$ 6,911
Income taxes	10,449	6,335	2,649
Non-cash investing and financing activities			
Capitalization of costs related to financing lease obligation	10,543	—	—

See accompanying notes to consolidated financial statements.

PERFORMANCE SPORTS GROUP LTD.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock				Accumulated Other Comprehensive Loss	Total
	Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings		
Balance as of June 1, 2012	30,082,925	\$107,859	\$ 1,562	\$ 7,529	\$ (7,155)	\$ 109,795
Net income	—	—	—	25,224	—	25,224
Other comprehensive income (loss):						
Pension actuarial losses, net	—	—	—	—	(211)	(211)
Cumulative translation adjustment	—	—	—	—	(130)	(130)
Issuance of common shares	4,333,500	32,902	—	—	—	32,902
Common share issuance costs	—	(2,098)	—	—	—	(2,098)
Share-based payment expense	—	—	3,732	—	—	3,732
Exercise of stock options	171,292	637	(1,331)	—	—	(694)
Recognition of taxes on items recorded to equity	—	2,924	400	—	—	3,324
Balance as of May 31, 2013	34,587,717	142,224	4,363	32,753	(7,496)	171,844
Net income	—	—	—	19,987	—	19,987
Other comprehensive income (loss):						
Pension actuarial losses, net	—	—	—	—	(210)	(210)
Cumulative translation adjustment	—	—	—	—	(6,993)	(6,993)
Share-based payment expense	—	—	4,406	—	—	4,406
Exercise of stock options	1,182,443	4,573	(3,765)	—	—	808
Recognition of taxes on items recorded to equity	—	2	2,090	—	—	2,092
Balance as of May 31, 2014	35,770,160	146,799	7,094	52,740	(14,699)	191,934
Net income	—	—	—	3,282	—	3,282
Other comprehensive income (loss):						
Pension actuarial losses, net	—	—	—	—	(88)	(88)
Cumulative translation adjustment	—	—	—	—	(8,191)	(8,191)
Issuance of common shares	8,161,291	126,500	—	—	—	126,500
Common share issuance costs	—	(9,739)	—	—	—	(9,739)
Share-based payment expense	—	—	5,998	—	—	5,998
Exercise of stock options	1,620,729	7,204	(14,169)	—	—	(6,965)
Recognition of taxes on items recorded to equity	—	2,568	6,462	—	—	9,030
Balance as of May 31, 2015	45,552,180	\$273,332	\$ 5,385	\$ 56,022	\$ (22,978)	\$ 311,761

See accompanying notes to consolidated financial statements.

PERFORMANCE SPORTS GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended May 31, 2015, 2014 and 2013
(In thousands, except share and per share data)

1. BASIS OF PRESENTATION AND ORGANIZATION

Nature of the business:

Performance Sports Group Ltd. and its subsidiaries (“PSG” or the “Company”) is a public company incorporated pursuant to the laws of the Province of British Columbia. The Company is listed on the New York Stock Exchange (NYSE: PSG) and the Toronto Stock Exchange (TSX: PSG).

The Company is engaged in the design, manufacture and distribution of performance sports equipment for ice hockey, roller hockey, baseball and softball, lacrosse, as well as related apparel and accessories, including soccer apparel. The ice hockey products include skates, helmets, protective gear, sticks, team apparel and accessories. The roller hockey products include skates, helmets, protective gear, sticks and accessories. The baseball and softball products include bats, gloves, helmets, protective gear, apparel and accessories. The lacrosse products include sticks (shafts and heads), helmets, protective gear and apparel. The Company distributes its products primarily in the United States, Canada and Europe to specialty retail stores, sporting goods and national retail chains as well as directly to sports teams.

Basis of presentation:

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, which have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). All intercompany transactions and balances have been eliminated in consolidation.

In prior years, the Company had prepared its financial statements under International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board, for reporting as required by securities regulators in Canada, as well as in the United States under the status of a foreign private issuer as defined by the U.S. Securities and Exchange Commission (the “SEC”). During the year ended May 31, 2015, the Company determined that it no longer qualified as a foreign private issuer under the SEC rules. As a result, beginning with the Company’s annual report on Form 10-K as of and for the year ended May 31, 2015, the Company is required to report with the SEC on domestic forms and comply with domestic public company rules in the United States. The Company is permitted in Canada, in accordance with securities regulators, to prepare its consolidated financial statements in accordance with U.S. GAAP. The transition to U.S. GAAP was made retrospectively for all periods presented.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Significant estimates and assumptions reflected in these consolidated financial statements include, but are not limited to, fair value determination of assets and liabilities in connection with business combinations, fair valuation of financial instruments, impairment of non-financial assets, valuation allowances for receivables and inventory, amortization periods, accruals, employee benefits, share-based payment transactions, and income taxes. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. Actual results could differ from the Company’s estimates.

Trade and other receivables, net:

Trade accounts receivable are recorded at net realizable value. This value includes appropriate allowances for estimated uncollectible accounts to reflect any loss anticipated on the trade accounts receivable balances and charged to the allowance for doubtful accounts. The Company assesses collectability of receivables on an ongoing basis to determine any adjustments to the allowance for doubtful accounts. The allowance is determined based on review of specific customer accounts where collection is doubtful, as well as assessment of the collectability of total receivables considering the aging of balances, historical collection experience, customer disputes, historical and anticipated trends and economic conditions. Receivables are written off against the allowance when it is probable the amounts will not be recovered.

Trade and other receivables, net on the consolidated balance sheet represents amounts due from customers less the allowance for doubtful accounts as well as allowances for discounts and returns.

The Company recognizes long-term receivables related to debt investments within other non-current assets on its consolidated balance sheets. Interest earned on the loan receivable is recognized within interest income in the consolidated statements of income.

Inventories, net:

Inventories are measured at the lower of cost or market. Cost is determined by the first-in, first-out method and includes all costs incurred in bringing each product to its present location and condition. Market value is based on estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal. The estimated allowance for obsolete or unmarketable inventory is based upon current inventory levels, sales trends and historical experience as well as management's understanding of market conditions and forecasts of future product demand, all of which are subject to change. Inventory, net is made up of the following balances:

	May 31, 2015	May 31, 2014
Raw Materials	\$ 6,062	\$ 4,545
Work-in-process	443	222
Finished goods	172,798	158,322
Inventories, gross	179,303	163,089
Less: allowance for obsolete inventory	(4,757)	(3,797)
Total inventories, net	\$ 174,546	\$ 159,292

Property, plant, and equipment:

Property, plant and equipment are recorded at cost, less accumulated depreciation and amortization. Such cost includes costs directly attributable to making the asset capable of operating as intended. Subsequent costs are included in the asset's carrying amount or recognized as a separate component as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Company and its cost can be reliably measured. The carrying amount of any replaced asset is derecognized. All repairs and maintenance costs are charged to profit or loss in the period in which they are incurred. Depreciation is provided on all property, plant and equipment. The Company periodically reviews assets' estimated useful lives based upon actual experience and expected future utilization, and any change in estimated useful life is treated as a change in accounting estimate and recognized prospectively.

Depreciation expense is recognized in earnings on a straight-line basis over the estimated useful life of the related asset. The estimated useful lives are as follows:

Buildings	30 years
Machinery and equipment	2-8 years
Computer software and equipment	3-10 years
Furniture and fixtures	2-8 years
Leasehold improvements	Shorter of lease term or remaining life of the assets
Assets under capital lease	Shorter of lease term or remaining life of the assets

The Company assesses potential impairments of its long-lived assets, including definite-lived intangible assets whenever events or changes in circumstances indicate that the asset's carrying value may not be recoverable. An impairment charge would be recognized when the carrying amount of a long-lived asset or asset group is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. If the carrying amount is not recoverable, an impairment charge would be recognized when the carrying amount of the long-lived asset or asset group exceeds its fair value, as based on its discounted cash flows.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value of the asset and is recognized in selling, general and administrative expenses.

Intangible assets and goodwill:

Goodwill and indefinite lived intangible assets are not amortized and are required to be tested for impairment at least annually or more frequently when events or changes in circumstances indicate that the carrying amount of the assets may be impaired. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include deterioration in general economic conditions, adverse changes in the markets in which an entity operates, increases in input costs that have negative effects on earnings and cash flows, or a trend of negative or declining cash flows over multiple periods, among others. The fair value that could be realized in an actual transaction may differ from that used to evaluate the impairment of goodwill and other intangible assets.

Goodwill is tested annually on March 1. The Company may first assess qualitative factors before utilizing a quantitative assessment to determine whether a goodwill impairment exists. Under the goodwill two-step quantitative impairment test, the evaluation of impairment involves comparing the current fair value of each reporting unit to its carrying value, including goodwill. The first step of the test compares the carrying value of a reporting unit, including goodwill, with its fair value. We estimate the fair value using level 3 inputs as defined by the fair value hierarchy. Refer to Note 2 for the definition of the levels in the fair value hierarchy. The inputs used to calculate the fair value include a number of subjective factors, such as estimates of future cash flows, estimates of our future cost structure, discount rates for our estimated cash flows, required level of working capital, assumed terminal value, and time horizon of cash flow forecasts. If the carrying value of a reporting unit exceeds its fair value, we complete the second step of the test to determine the amount of goodwill impairment loss, if any, to be recognized. In the second step, we estimate an implied fair value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The impairment loss is equal to the excess of the carrying value of the goodwill over the implied fair value of that goodwill.

Indefinite lived intangible assets are tested annually on May 31. The Company may first assess qualitative factors before performing a quantitative impairment test for its intangible assets. The estimates of fair value are determined using a relief-from-royalty method.

Intangible assets with definite lives are amortized over their estimated useful lives and tested for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may be impaired. Intangible assets with definite lives are evaluated for impairment using a process similar to that used in evaluating elements of property, plant and equipment. If impaired, the asset is written down to its fair value.

The Company did not record any impairment charges in the years ending May 31, 2015, 2014 or 2013, respectively.

A summary of the policies applied to the Company's intangible assets are:

	Useful Life	Weighted-average amortization period	Method of amortization
Trade names and trademarks	Indefinite		
Purchased technology	Finite	9 years	Straight-line
Customer relationships	Finite	18 years	Cash flow
Leases	Finite	6 years	Straight-line
Non-compete agreements	Finite	3 years	Straight-line

Segment reporting:

The Company's operating segments are organized on the basis of the management structure established to assess segment performance. The Hockey segment includes the Bauer and Mission brands; the Baseball/Softball segment includes the Easton and Combat brands; and Other Sports includes the Lacrosse and Soccer operating segments, which includes the Maverik and Cascade brands for Lacrosse and the Inaria brand for Soccer.

Income taxes:

The Company accounts for income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred taxes are measured using enacted tax rates expected to

apply to taxable income in years in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

A valuation allowance is provided against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company uses a two-step process for the measurement of uncertain tax positions that have been taken or are expected to be taken in a tax return. The first step is a determination of whether it is more likely than not that the tax position will be sustained on the basis of the technical merits of the position. The second step determines the measurement of the tax position based on the probability of it being sustained in the event of a tax examination. The Company records potential interest and penalties on uncertain tax positions as a component of income tax expense.

Fair value measurements:

Certain assets and liabilities are carried at fair value under U.S. GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

- Level 1 - Quoted prices in active market for identical assets or liabilities
- Level 2 - Observable inputs (other than Level 1 quoted market prices) such as quoted prices in active market for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The Company's foreign currency forward contracts and variable cash bonuses (see Note 18) are carried at fair value determined according to the fair value hierarchy described above. The carrying amounts shown for the Company's cash, trade and other receivables and trade and other payables approximate fair value because of the short term maturity of those instruments. The carrying amount of the loan receivable approximates fair value due to the recent nature of this transaction. The fair value of the Company's long-term debt (see Note 8) bearing interest at variable rates is considered to approximate the carrying amount. The finance lease obligations are recorded at carrying value, which approximates fair value.

Derivatives:

In the normal course of business, the Company's consolidated balance sheets and consolidated statements of income are impacted by currency rate movements in foreign currency denominated assets, liabilities and cash flows as the Company purchases and sells goods in local currencies, except for the purchases of finished goods inventory, which are predominantly in U.S. dollars. The Company is also impacted by interest rate movements on its variable interest rate debt. The Company has established policies and business practices that are intended to mitigate a portion of the effect of these exposures. The Company uses derivative financial instruments, specifically foreign currency forward contracts and interest rate contracts to manage exposures. Currently, all of the Company's derivative financial instruments are not designated as derivatives that qualify for hedge accounting, and are accordingly recorded at fair value in the consolidated balance sheets with changes in fair value included in unrealized (gain) loss on derivatives. Derivative instruments are included in current assets, non-current assets, current liabilities and non-current liabilities depending on their term to maturity. The Company does not enter into derivative financial instruments for speculative or trading purposes.

Foreign currency translation:

The results and financial position of all of the Company's foreign operations are translated into the Company's reporting currency, the U.S. dollar. The assets and liabilities of foreign operations are translated into U.S. dollars at exchange rates in effect at each accounting period end date. The income and expense items of foreign operations are translated to U.S. dollars at average exchange rates during the period. Gains or losses arising from translation of the financial statements of these foreign operations are recorded in foreign currency translation adjustments, a component of other comprehensive income (loss) in the consolidated statements of stockholders' equity.

Transaction gains and losses generated by the effect of foreign exchange on recorded assets and liabilities denominated in a currency different from the functional currency of the applicable entity are recorded in foreign exchange (gain) loss in the consolidated statements of income in the period in which they occur.

Revenue recognition:

Sales are recognized, in general, as products are shipped to customers, net of an allowance for sales returns and sales programs in accordance with Accounting Standards Codification (“ASC”) Topic 605, *Revenue Recognition*. In certain cases, the Company recognizes sales when products are received by customers, depending on the country of sale and the agreement with the customer. Amounts billed to customers for shipping and handling costs are included in revenues and costs incurred related to shipping and handling are included in cost of goods sold. The criteria for recognition of revenue are met when persuasive evidence that an arrangement exists and both title and risk of loss have passed to the customer, the price is fixed or determinable and collectability is reasonably assured. Sales returns are estimated based upon historical returns, current economic trends, changes in customer demands and sell-through of products. The Company also records estimated reductions to revenue for sales programs such as incentive offerings, including special pricing agreements, promotions, advertising allowances and other volume-based incentives. Sales program accruals are estimated based on agreements with applicable customers, historical experience with the customers and/or product, historical sales returns, and other relevant factors.

Share-based compensation:

The Company maintains share-based compensation plans providing executives, board members, certain other employees and consultants with stock options. The options vest in tranches over a vesting period of up to 6 years and expire after 10 years.

The Company uses the Black-Scholes option-pricing model to estimate the fair market value of all share-based compensation awards, excluding awards which may be partially settled in cash (see Note 18) and deferred share units (see Note 14), which requires various assumptions, including volatility and expected option life. The Company uses the “simplified method” to estimate the expected life of options for employee awards that qualify as “plain-vanilla” options as it lacks sufficient company-specific historical information as it relates to the exercise of options. The “simplified method” calculates the expected life of a stock option equal to the time from grant to the midpoint between the vesting date and contractual term, taking into account all vesting tranches. For all options granted to nonemployees, the estimated expected term is equal to the contractual life of the option, which is 10 years. The risk free interest rate is based on the yield for the U.S. Treasury bill or Canada Benchmark Bond Yield rates, as applicable, with a maturity equal to the expected life of the stock option. Expected volatility is estimated based on the historic average share price volatility of the Company’s peers.

The fair value of each tranche of the options granted to senior management, board members, and certain other employees is determined separately at the date granted using the Black-Scholes option pricing model. The grant date fair value, net of expected forfeitures, is expensed over the vesting period of each tranche, using an accelerated method. Expected forfeitures are estimated based on the Company’s historic average.

For stock options granted to nonemployees, compensation expense is recognized over the period during which services are rendered by such nonemployee consultants until completed. At the end of each financial reporting period prior to completion of service, the fair value of these awards is remeasured using the then-current fair value of the Company’s common stock and updated assumption inputs in the Black-Scholes option pricing model. The Company issues new shares of its common stock upon exercise of its stock options.

Share-based payments expense is classified as selling, general and administrative expense in the consolidated statements of income with a corresponding increase in equity.

Advertising costs:

Advertising costs are expensed as incurred and are included as a component of selling, general and administrative expenses.

A significant amount of the Company’s promotional expenses results from payments under endorsement contracts. Accounting for endorsement payments is based upon specific contract provisions. Generally, endorsement payments are expensed on a straight-line basis over the term of the contract after giving recognition to periodic performance compliance provisions of the contracts. Prepayments made under contracts are included in prepaid expenses and other assets.

Through cooperative advertising programs, the Company reimburses its retail customers for certain costs of advertising the Company’s products. The Company records these costs as a reduction of revenues at the point in time when it is obligated to its

customers for the costs, which is when the related revenues are recognized. This obligation may arise prior to the related advertisement being run.

For the years ended May 31, 2015, 2014 and 2013, advertising costs, expensed by the Company in selling, general and administrative expenses, were \$30,484, \$22,936 and \$19,570, respectively.

Research and development:

Research and development costs are charged to operations as incurred.

Earnings per share:

Basic earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are calculated by adjusting the weighted average outstanding shares, assuming conversion of all potentially dilutive stock options.

Warranty Policy:

The Company has a warranty policy for its products ranging from 30 days to one year. The Company's policy is to accrue the estimated cost of satisfying future warranty claims at the time the sale is recorded. In estimating its future warranty obligations, the Company considers various relevant factors, including the Company's stated warranty policies and practices, the historical frequency of claims, and the cost to replace or repair its products under warranty. Warranty expense is classified as a cost of goods sold in the consolidated statements of income.

The following table provides a reconciliation of the activity related to the Company's reserve for warranty expense:

	Year Ended May 31,		
	2015	2014	2013
Beginning balance	\$ 4,907	\$ 1,789	\$ 1,501
Accrual	8,072	6,705	4,769
Acquired warranty obligations	—	2,514	382
Claims paid/costs incurred	(8,498)	(6,040)	(4,945)
Other	(130)	(61)	82
Ending balance	\$ 4,351	\$ 4,907	\$ 1,789

Recent Accounting Pronouncements:

During fiscal year 2015, the Company transitioned its accounting from IFRS to U.S. GAAP. The transition was made retrospectively for all periods presented. The transition to U.S. GAAP included the adoption of any relevant accounting pronouncements effective for fiscal years ended prior to May 31, 2015.

In January 2015, the FASB issued ASU No. 2015-01, *Income Statement-Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. This ASU eliminates the concept of extraordinary items in Accounting Standards Codification Subtopic 225-20, *Income Statement-Extraordinary and Unusual Items*. The standard eliminates and no longer requires that an entity recognize an unusual and infrequent event separately in the income statement as an extraordinary item, net of tax. This ASU is effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. The Company has adopted this standard in the fourth quarter ending May 31, 2015. The adoption of this standard had no impact on the consolidated statements of income.

In April 2015, the FASB issued ASU 2015-03, *Interest - Imputation of Interest - Simplifying the Presentation of Debt Issuance Costs*, which, when effective, will require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The guidance is effective for annual periods beginning after December 15, 2015 and interim periods within that year. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet or each individual period presented should be adjusted to reflect the period-

specific effects of applying the new guidance. Early adoption is permitted. The Company has adopted this standard in the fourth quarter ending May 31, 2015 and applied it retrospectively for all periods presented.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers: Topic 606*. This ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. This accounting standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact this accounting standard will have on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The Company does not expect this update to have a material effect on its consolidated financial statements as the terms of outstanding share-based payments do not include awards related to performance targets. However, the Company will continue to evaluate this accounting standard for future issuances of share-based payments.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements-Going Concern*. The new guidance addresses management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the consolidated financial statements are issued. The standard will be effective for the first interim period within annual reporting periods ending after December 15, 2016. Early adoption is permitted. The Company is evaluating the effect that this guidance will have on its consolidated financial statements.

The Company has reviewed all other recently issued accounting standards in order to determine their effects, if any, on the consolidated financial statements. Based on that review, the Company believes that none of these standards will have a significant effect on current or future earnings or results of operations.

3. BUSINESS ACQUISITIONS

Easton Baseball/Softball

On April 15, 2014, the Company acquired substantially all of the assets and assumed certain liabilities formerly used in Easton-Bell Sports, Inc.'s baseball, softball and lacrosse businesses ("Easton Baseball/Softball") from Easton-Bell Sports, Inc. (now named BRG Sports, Inc. ("BRG Sports")). The acquisition allowed the Company to expand its presence in the baseball and softball market as Easton is North America's leading diamond sports brand.

Upon closing of the acquisition, the Company also owned the Easton brand. In connection with the acquisition, the Company granted a license to BRG Sports to permit BRG Sports and its assigns to use the Easton name in their hockey and cycling businesses only. The Company and BRG Sports also settled certain intellectual property litigation matters related to patents held by the Company concurrently with the closing of the acquisition. The Company received \$6,000 from BRG Sports which was recognized as an offset to selling, general and administrative expenses during the year ended May 31, 2014.

The purchase price paid by the Company at closing was \$330,000 in cash, plus a working capital adjustment of \$21,657. The Company financed the acquisition, and refinanced certain existing indebtedness, with a combination of a \$200,000 asset-based revolving loan and a \$450,000 term loan. Refer to Note 8 - Debt for details on the Company's outstanding debt.

The Company has completed its valuation of assets acquired and liabilities assumed. The allocation of the purchase price to the individual assets acquired and liabilities assumed under the purchase method of accounting resulted in \$55,301 of goodwill of which the entire amount is expected to be deductible for tax purposes. The goodwill associated with the transaction was due to management's conclusion that the acquisition coincided with the Company's strategy of expanding its baseball and softball product offerings to drive revenue growth and expected synergies from combining operations.

The following table presents the final allocation of purchase price related to the business as of the date of the acquisition:

Net assets acquired:	
Trade receivables	\$ 72,119
Inventories	39,473
Property, plant and equipment	3,904
Intangible assets	205,550
Other assets	786
Total Assets acquired	321,832
Current liabilities	(25,476)
Total liabilities assumed	(25,476)
Net assets acquired	\$ 296,356
Consideration paid to seller	\$ 351,657
Goodwill	\$ 55,301

The estimated fair values and useful lives of intangible assets acquired as of the acquisition date were as follows:

	Amount	Weighted-Average Remaining Useful Life
Trade names and trademarks	\$ 134,300	Indefinite
Customer relationships	61,450	20
Purchased technology	9,800	6
Total intangible assets acquired	\$ 205,550	

The trade names and trademarks and purchased technology were valued using the relief-from-royalty method. The relief-from-royalty method recognizes that the current value of an asset may be premised upon the expected receipt of future economic benefit in the use of the acquired technology. These benefits are generally considered to be higher income resulting from the avoidance of a loss in revenue that would likely occur without the specific technology.

Customer relationships were valued using the excess earnings method. The excess earnings method recognizes that the current value of an asset may be premised upon the present value of the earnings it generates, net of a reasonable return on other assets also contributing to that stream of earnings.

As a result of the acquisition, the Company stepped-up the acquired inventory to fair market value. The amount of the step-up was \$10,055. Of this amount, \$7,234 and \$2,857 was charged to costs of goods sold for the years ended May 31, 2015 and 2014, respectively.

The Company incurred acquisition-related costs in the years ended May 31, 2015 and 2014 of \$282 and \$4,331, respectively, relating to external legal fees, consulting fees and due diligence costs. The costs are included in selling, general and administrative expenses.

The amounts of Easton Baseball/Softball's revenue and net loss included in the Company's consolidated statements of income for the year ended May 31, 2014 was \$13,955 and \$2,979, respectively.

At May 31, 2014, trade and other receivables, net includes a receivable from BRG Sports in the amount of \$33,009 which consists of cash receipts from customers paid to BRG Sports that was owed to the Company. The Company received \$33,009 by July 2014.

Pro forma information (Unaudited)

The following unaudited pro forma financial information presents the consolidated results of operations if the Easton Baseball/Softball acquisition had occurred on June 1, 2012:

	Year ended May 31,	
	2014	2013
Revenues	\$ 602,228	\$ 562,388
Net income	35,251	33,926
Earnings per share:		
Basic	\$ 0.99	\$ 0.99
Diluted	\$ 0.94	\$ 0.93

In determining these amounts, management has assumed the fair value adjustments which arose on the date of acquisition would have been the same if the acquisitions had occurred on June 1, 2012. In addition, the intellectual property litigation would have settled on June 1, 2012. This pro forma information is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated at that time, nor is it intended to be a projection of future results. The pro forma results also do not include, among other items, the effects of the anticipated synergies from combining the two companies or differences in the combined Company's operating structure.

On May 3, 2013, the Company acquired substantially all of the assets and assumed certain liabilities of Combat Sports ("Combat"), a manufacturer and distributor of composite baseball and softball bats, hockey sticks and lacrosse shafts. The acquisition provided the Company with intellectual property that strengthened its research and development portfolio and expanded the Company's product offering into baseball and softball. The purchase price paid by the Company at closing was \$3,342 in cash, net of \$630 collected on trade receivables. The acquisition was funded through cash on hand. The allocation of the purchase price to the individual assets acquired and liabilities assumed under the purchase method of accounting resulted in a gain on bargain purchase as a result of the excess of the estimated fair value of the assets and liabilities acquired over the purchase price. The gain on bargain purchase of \$1,190 was due to the fact that Combat was in bankruptcy and was being sold through a bidding process. The Company acquired substantially all the assets and assumed liabilities of Combat out of bankruptcy. Due to the bankruptcy it is impractical to provide pro forma financial information for the impact on revenue and consolidated net income as the information cannot be reasonably determined.

On October 16, 2012, the Company acquired substantially all of the assets of Inaria International ("Inaria"), a manufacturer and distributor of team sports and active apparel. The acquisition provided the Company with full team apparel capabilities, including the design, development and manufacturing of uniforms for soccer, ice hockey, roller hockey, lacrosse, baseball, soccer and other team sports. The purchase price paid by the Company at closing was \$7,145 in cash. The acquisition was funded by additional borrowings on the revolving credit line.

On June 29, 2012, the Company purchased all of the issued and outstanding shares of the capital stock of Cascade Helmets Holdings, Inc. ("Cascade"), primarily a manufacturer and distributor of lacrosse equipment and a growing hockey helmet business. The acquisition allowed the Company to expand its presence in the growing lacrosse market, whose helmet and headgear products were complementary to the Company's existing offering of lacrosse equipment products under the Maverik brand. In addition, the Company leveraged Cascade's patented head-protection technologies in both lacrosse and hockey. The total consideration paid to the seller at closing was \$68,131 in cash, or \$64,788 net of cash acquired of \$3,343. The acquisition was funded by a public offering of 3,691,500 common shares at a price of \$7.80 Canadian dollars per share for aggregate proceeds, net of underwriting fees of \$1,401 (\$1,440 Canadian dollars), of \$26,613 (\$27,354 Canadian dollars) and the issuance of 642,000 common shares resulting in proceeds of \$4,888 (\$5,008 Canadian dollars). The acquisition was also funded by a \$30,000 senior secured term facility maturing on March 16, 2016 and the balance through additional borrowings on the revolving loan.

If the Inaria and Cascade acquisitions had occurred on June 1, 2012, consolidated revenue would have been approximately \$405,005 and consolidated net income would have been approximately \$24,829 for the year ended May 31, 2013. In determining these amounts, management has assumed the fair value adjustments which arose on the date of acquisition would have been the same if the acquisitions had occurred on June 1, 2012. This pro forma information is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated at that time, nor is it intended to be a projection of future results.

4. CONCENTRATIONS

Revenues & Trade Receivables

The Company had one customer that accounted for approximately 12% of trade and other receivables, net at May 31, 2015 and 2014.

The Company had one customer that accounted for approximately 10%, 14% and 11% of revenues for the years ended May 31, 2015, 2014 and 2013, respectively.

Country and supplier concentrations

The Company's products are generally produced by contract manufacturers located outside the United States, principally in Asia. The Company's four largest suppliers of inventory accounted for approximately 62% of total inventory purchases for the year ended May 31, 2015. The Company's three largest suppliers of inventory accounted for approximately 61% of total inventory purchases for the year ended May 31, 2014. These companies, however, have multiple factory locations, many of which are in different countries, thus reducing the risk that unfavorable conditions at a single factory or location will have a material adverse effect on the Company.

5. PROPERTY, PLANT, AND EQUIPMENT, NET

Property, plant, and equipment, net consisted of the following:

	May 31, 2015	May 31, 2014
Buildings	\$ 14,737	\$ 7,553
Machinery and equipment	10,946	9,691
Computer software and equipment	25,681	16,452
Furniture and fixtures	5,605	5,483
Leasehold improvements	3,874	3,801
Construction in progress	5,545	600
	66,388	43,580
Less: accumulated depreciation	(19,337)	(18,258)
Total property, plant and equipment, net	\$ 47,051	\$ 25,322

The Company has contractual commitments at May 31, 2015 to purchase property, plant and equipment for \$4,051.

6. OTHER NON-CURRENT ASSETS

In August 2014, the Company entered into a loan agreement with KNIC Properties L.P. ("KNIC") lending KNIC \$4,000 as a commercial loan, bearing interest at 12% per annum. The loan receivable matures on August 1, 2020, at which time all outstanding principal and accrued interest is due and payable in full.

As of May 31, 2015, the Company accrued approximately \$400 as interest income. The loan is accounted for at cost plus accrued interest and is evaluated periodically for impairment. As of May 31, 2015, no reserve for uncollectibility was established.

7. INTANGIBLE ASSETS, NET AND GOODWILL

Intangible assets

Intangible assets, net consisted of the following:

	May 31, 2015			May 31, 2014		
	Gross Amount	Accumulated Amortization	Carrying Value	Gross Amount	Accumulated Amortization	Carrying Value
Trade names and trademarks	\$ 199,481	\$ —	\$ 199,481	\$ 204,910	\$ —	\$ 204,910
Purchased technology	21,413	(7,135)	14,278	22,356	(4,822)	17,534
Customer relationships	86,513	(23,518)	62,995	88,566	(15,008)	73,558
Non-compete agreements	—	—	—	1,045	(922)	123
Leases	—	—	—	434	(421)	13
Total	<u>\$ 307,407</u>	<u>\$ (30,653)</u>	<u>\$ 276,754</u>	<u>\$ 317,311</u>	<u>\$ (21,173)</u>	<u>\$ 296,138</u>

Amortization expense for the years ended May 31, 2015, 2014, and 2013 was \$13,301, \$5,201 and \$3,966, respectively. Amortization expense related to intangible assets held by the Company as of May 31, 2015 for each of the next five fiscal years and beyond is expected to be incurred as follows:

2016	\$ 11,929
2017	10,716
2018	9,661
2019	8,477
2020	7,493
2021 and thereafter	28,997
Expected amortization expense of intangible assets	<u>\$ 77,273</u>

Goodwill

Goodwill consisted of the following:

	Hockey	Baseball/ Softball	Other Sports	PSG	Total
Balance as of May 31, 2013	\$ —	\$ —	\$ —	\$ 47,394	\$ 47,394
Acquisition of businesses	—	55,301	—	—	55,301
Allocation of goodwill	43,840	—	3,625	(47,465)	—
Exchange differences	—	73	3	71	147
Balance as of May 31, 2014	<u>\$ 43,840</u>	<u>\$ 55,374</u>	<u>\$ 3,628</u>	<u>\$ —</u>	<u>\$ 102,842</u>

Following the acquisition of Easton Baseball/Softball in the fourth quarter of the year ended May 31, 2014, the Company updated their reportable segments, as described in Note 17. In conjunction with this change, the Company allocated goodwill to its identified reporting units on a relative fair value basis. Fair value of reporting units is determined using a combination of two valuation methods: a market approach and an income approach. Each method is generally given equal weight in determining the fair value assigned to each reporting unit.

	Hockey	Baseball/ Softball	Other Sports	Total
Balance as of May 31, 2014	\$ 43,840	\$ 55,374	\$ 3,628	\$ 102,842
Acquisition of businesses	—	—	—	—
Exchange differences	—	—	(87)	(87)
Balance as of May 31, 2015	<u>\$ 43,840</u>	<u>\$ 55,374</u>	<u>\$ 3,541</u>	<u>\$ 102,755</u>

During the years ended May 31, 2015, 2014 and 2013, the Company determined that its goodwill and intangible assets were not impaired.

8. DEBT

The debt outstanding is comprised of:

	May 31, 2015	May 31, 2014
Asset-based revolving loan	\$ 92,878	\$ 89,544
Term loan due 2021	330,457	450,000
Financing costs	(12,514)	(16,710)
Total debt	<u>\$ 410,821</u>	<u>\$ 522,834</u>
Current	\$ 90,550	\$ 91,435
Non-current	320,271	431,399
Total debt	<u>\$ 410,821</u>	<u>\$ 522,834</u>

New Credit Facility

On April 15, 2014, the Company, concurrently with the Easton Baseball/Softball acquisition, entered into the New Term Loan Facility (as defined herein) and the Company and certain of its subsidiaries entered into the New ABL Facility (as defined herein) with Bank of America, B.A. The New Term Loan Facility and the New ABL Facility (referred to herein together as the "Credit Facilities") replaced the Company's existing credit facilities. The Credit Facilities are comprised of a (i) \$450,000 term loan facility (the "New Term Loan Facility") and a (ii) \$200,000 asset-based revolving loan (the "New ABL Facility"). The Company refinanced its former credit facilities, financed the cash purchase price of the Easton Baseball/Softball acquisition and paid fees and expenses incurred in connection with the transaction with the use of cash on hand and an aggregate amount of \$475,000 drawn from the Credit Facilities. In connection with the Credit Facilities, the Company incurred and capitalized \$16,803 in fees in the year ended May 31, 2014.

The New Term Loan Facility of \$450,000 matures on April 15, 2021 and is subject to quarterly amortization of principal equal to 0.25% of the original aggregate principal amount of the New Term Loan Facility drawn, with the balance of the New Term Loan Facility payable on maturity. The interest rates per annum applicable to the New Term Loan equal an applicable margin percentage, plus, at the Company's option, (i) the U.S. base rate or (ii) LIBOR (subject to a 1% floor). The applicable margin is 2.50% per annum in the case of U.S. base rate advances and 3.50% per annum in the case of LIBOR advances, subject to adjustment upon the occurrence of the Leverage Step-Down Trigger (as defined in the New Term Loan Facility) for so long as the Consolidated Total Net Leverage Ratio (as defined in the New Term Loan Facility) remains less than 4.25:1.00.

On June 25, 2014, the Company completed its underwritten public offering in the United States and Canada (the "Offering") of 8,161,291 common shares at a price to the public of \$15.50 U.S. dollars per share, for total gross proceeds of approximately \$126,500, including the exercise in full of the over-allotment option. Refer to Note 13 - Stockholders' Equity. The Company used the net proceeds of the Offering to repay \$119,500 of the New Term Loan Facility. The repayment was first applied against the outstanding amortization payments and as such no further amortization payments are due during the life of the facility. The repayment also reduced the applicable margin by 0.50% per annum which is a component of the interest rate on the New Term Loan Facility.

The New ABL Facility of \$200,000 matures on April 15, 2019 and is equal to the lesser of \$200,000 (or Canadian dollar equivalent) and the borrowing base. The borrowing base is based on the Company's accounts receivable and inventory balances. The New ABL Facility includes a \$25,000 letter of credit facility and a \$20,000 swing loan facility. The amounts outstanding under the New Term Loan Facility and the New ABL Facility are secured by certain assets, including the Company's trade and other receivables and inventory, with priority given first to the New ABL Facility. At the option of the Company, until August 31, 2014, the interest rates under the New ABL Facility were (i) LIBOR or CDOR, as applicable, plus 1.75% per annum or (ii) the U.S. base rate or Canadian prime rate, as applicable, plus 0.75% per annum. Following August 31, 2014, interest rate margins under the New ABL Facility are determined with reference to the following grid, based on the average availability, as a percentage of the aggregate commitments during the immediately preceding quarter:

Average Availability (% of Line Cap) ⁽¹⁾	Interest Rate Margin for LIBOR/CDOR Rate Loans	Interest Rate Margin for U.S. Base Rate/Canadian Prime Rate Loans
Equal to or greater than 66%	1.50%	0.50%
Less than 66% but equal to or greater than 33%	1.75%	0.75%
Less than 33%	2.00%	1.00%

(1) The term “% of Line Cap” represents the Company’s percentage of aggregate commitments

At May 31, 2015 there are five letters of credit in the amount of \$1,403 outstanding under the New ABL Facility. The maximum amount of additional indebtedness (as defined by the New ABL Facility) that could have been outstanding on May 31, 2015, after outstanding borrowings and letters of credit was approximately \$106,000.

Former Credit Facility

On June 29, 2012, the Company amended the previous credit facility (the “Amended Credit Facility”) to increase its borrowing capacity. The Company maintained the Amended Credit Facility up to April 15, 2014. The total loss on extinguishment of debt for the year ended May 31, 2014 was \$2,589. The Amended Credit Facility was comprised of a (i) \$130,000 term loan facility, denominated in both Canadian dollars and U.S. dollars and (ii) \$145,000 revolving loan, denominated in both Canadian dollars and U.S. dollars, the availability of which was subject to meeting certain borrowing base requirements, such as eligible accounts receivable and inventory.

The revolving loan included a \$20,000 letter of credit subfacility and a \$10,000 swing line loan facility. The term loan and the revolving loan were to mature on March 10, 2016. In connection with the Amended Credit Facility, the Company incurred \$1,569 in fees, of which \$304 was recognized in selling, general and administrative expenses in the year ended May 31, 2013 and \$1,265 was capitalized.

The interest rates per annum applicable to the loans under the Amended Credit Facility equal an applicable margin percentage, plus, at the Company’s option depending on the currency of borrowing, (i) the U.S. base rate/Canadian Base rate or (ii) LIBOR/Bankers Acceptance rate. The applicable margin percentages and the unused commitment fee was subject to adjustment based upon the ratio of the total debt to Adjusted EBITDA as follows:

Total Debt to Adjusted EBITDA	Base Rate/Canadian Base Rate	LIBOR/BA Rate	Unused Commitment Fee
Equal to or greater than 3.0x	1.25%	2.50%	0.50%
Equal to or greater than 2.5x but less than 3.0x	1.00%	2.25%	0.45%
Equal to or greater than 2.0x but less than 2.5x	0.75%	2.00%	0.40%
Less than 2.0x	0.50%	1.75%	0.35%

The Amended Credit Facility included covenants that required the Company to maintain a minimum fixed charge ratio, a minimum leverage ratio and maximum capital expenditures.

The range of interest rates on the credit facilities is as follows:

	Year ended May 31,	
	2015	2014
Asset-based revolving loan	1.90% - 4.00%	1.24% - 4.00%
Revolving loan	—	2.48% - 4.25%
Term loan due in 2021	4.00% - 4.50%	4.50% - 5.75%
Term loan due in 2016	—	2.48% - 4.25%

Maturities of debt in each of the fiscal years ending May 31 are as follows:

2016	\$ 92,878
2017	—
2018	—
2019	—
2020	—
Thereafter	330,457
Total Debt	\$ 423,335

9. ACCRUED LIABILITIES

Current accrued liabilities consisted of the following:

	May 31, 2015	May 31, 2014
Accrued payroll and related costs, excluding taxes	\$ 12,728	\$ 13,820
Accrued advertising and volume rebates	13,749	10,339
Accrued legal fees	438	1,319
Accrued endorsement and royalties	1,877	1,949
Customer credit balances	533	1,371
Warranty	4,351	4,907
Other	11,831	11,203
Total accrued liabilities	\$ 45,507	\$ 44,908

10. INCOME TAXES

The components of income before income taxes and income tax expense are summarized as follows:

	Year ended May 31,		
	2015	2014	2013
Income before income taxes:			
Canada	\$ (23,269)	\$ 22,456	\$ 24,030
U.S.	13,594	1,695	9,181
Other	16,327	2,117	654
Total income before income taxes	\$ 6,652	\$ 26,268	\$ 33,865
Income tax expense:			
Current:			
Canada	\$ 721	\$ 7,544	\$ 1,672
U.S. Federal	7,144	3,250	3,245
Other	311	346	90
Total current tax expense	8,176	11,140	5,007
Deferred:			
Canada	(2,238)	(1,483)	4,125
U.S. Federal	(2,568)	(3,376)	(491)
Total deferred tax expense (benefit)	(4,806)	(4,859)	3,634
Total income tax expense	\$ 3,370	\$ 6,281	\$ 8,641

The amount of income tax expense expected based on applying the Company's Canadian statutory income tax rate of approximately 26.6% to pretax income differs from income tax expense included in the consolidated statements of income due to the following:

	Year ended May 31,		
	2015	2014	2013
Income tax at Canadian statutory rate	\$ 1,770	\$ 6,994	\$ 9,019
Share-based compensation	233	137	(2)
Change in valuation allowance	1,683	—	(178)
Change in enacted rates	98	(69)	265
Capital (gains) losses taxed at capital rate	1,600	(563)	—
Notional interest	(4,290)	(307)	—
Non-deductible items	700	543	370
Investment tax credits	(887)	(1,326)	(754)
Return to provision and other prior year items	(24)	625	(918)
Non-Canada tax rate differential	2,272	199	1,191
Other	215	48	(352)
Income tax expense	<u>\$ 3,370</u>	<u>\$ 6,281</u>	<u>\$ 8,641</u>

The significant components of deferred tax assets and liabilities are presented below:

	May 31, 2015	May 31, 2014
Deferred tax assets:		
Net operating loss carryforwards	\$ 6,573	\$ 4,915
Allowance for doubtful accounts	3,992	2,024
Net capital loss carryforwards	1,558	—
Transaction costs	1,738	725
Inventory	4,405	2,834
Accrued expenses	7,809	5,697
Share-based compensation and defined benefit plans	4,441	3,949
Other liabilities	5,138	1,362
Other	172	184
Gross deferred tax assets	35,826	21,690
Valuation allowance	(1,683)	—
Deferred tax assets, net of valuation allowance	<u>34,143</u>	<u>21,690</u>
Deferred tax liabilities:		
Intangible assets	(16,962)	(13,248)
Property, plant and equipment	(7,507)	(3,809)
Unremitted earnings of certain foreign subsidiaries	(654)	(750)
Other	(146)	(1,576)
Deferred tax liabilities	<u>(25,269)</u>	<u>(19,383)</u>
Net deferred tax assets	<u>\$ 8,874</u>	<u>\$ 2,307</u>

The Company evaluates its ability to realize the tax benefits associated with deferred tax assets by analyzing both historical and projected future operating results, the reversal of existing temporary differences, taxable income in prior carry-back years and the availability of tax planning strategies. The valuation allowance of \$1,683 at May 31, 2015 relates to Canadian unrealized losses on capital items which are subject to tax deduction limitations.

A tabular roll forward of the Company's gross unrecognized tax benefits is presented below:

	Year ended May 31,		
	2015	2014	2013
Balance at beginning of year	\$ 1,600	\$ 1,611	\$ 1,611
Translation gain	(27)	(11)	—
Balance at end of year	<u>\$ 1,573</u>	<u>\$ 1,600</u>	<u>\$ 1,611</u>

Of the \$1,573 of gross unrecognized tax benefits from uncertain tax positions outstanding at May 31, 2015, \$183 would affect the Company's tax rate if recognized. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of selling, general and administrative expense. Accrued interest and penalties related to unrecognized tax positions as of May 31, 2015 and 2014, and recorded in each of the years ended May 31, 2015, 2014 and 2013 were not significant.

The Company conducts business globally and, as a result, its subsidiaries file income tax returns in Canada, U.S. federal and state jurisdictions and various foreign jurisdictions. In the normal course of business the Company may be subject to examination by taxing authorities throughout the world, including such major jurisdictions as Canada and the United States. The Company is currently under income tax examination in Germany for the fiscal years ended May 31, 2003 through 2011. The statute of limitations in the Company's other tax jurisdictions remain open for various periods between 2011 and the present. However, carryforward attributes from prior years may still be adjusted upon examination by tax authorities if they are used in an open period.

At May 31, 2015 and 2014 the Company has Canadian non-capital loss carryforwards of \$25,113 and \$18,868, respectively, which expire at various times through 2035. At May 31, 2015, the Company has capital loss carryforwards in Canada of \$1,854 for which a full valuation allowance exists. These capital losses are available indefinitely to offset taxable capital gains.

The Company has recognized a deferred income tax liability in the amount of \$654 for the undistributed earnings of two of its foreign subsidiaries in the current or prior years for the earnings it expects to repatriate. We have not provided for deferred income taxes or withholding taxes on the undistributed earnings of the remaining foreign subsidiaries because such earnings are considered permanently reinvested. It is not practicable to estimate the amount of tax that may be payable upon distribution because such liability, if any, is dependent on circumstances existing if and when such remittance occurs.

11. EMPLOYEE BENEFIT PLANS

Defined benefit plans

The Company has two defined benefit pension plans. These plans are not registered, are not funded, and do not accept new participants. Additionally, current participants do not earn any additional benefits outside of those earned by eligible employees during their service period with the Company. The Canadian defined benefit pension plan was available to designated senior management and executives. The U.S. defined benefit pension plan was available to designated employees. Payouts under these plans are dependent on the Company's ability to pay at the time the participants are entitled to receive their payments. The Company also pays all of the costs of a post-retirement life insurance plan which is available to most Canadian employees. This plan is not funded.

The following table provides the defined benefit plan liabilities:

	Defined Benefit Pension Plan		Post-retirement Life Insurance Plan		Total Retirement Benefit Obligation	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
Current	\$ 320	\$ 358	\$ —	\$ —	\$ 320	\$ 358
Non-current	4,473	4,956	584	550	5,057	5,506
Total	<u>\$ 4,793</u>	<u>\$ 5,314</u>	<u>\$ 584</u>	<u>\$ 550</u>	<u>\$ 5,377</u>	<u>\$ 5,864</u>

Changes in the present value of the projected defined benefit pension plan liabilities are as follows:

	Year ended May 31,		
	2015	2014	2013
Beginning balance	\$ 5,314	\$ 5,271	\$ 5,307
Interest cost	225	212	236
Benefits paid	(320)	(358)	(358)
Exchange rate gain	(612)	(237)	(15)
Actuarial losses	186	426	101
Total	\$ 4,793	\$ 5,314	\$ 5,271

The components of net periodic benefit costs are as follows:

	Year ended May 31,		
	2015	2014	2013
Interest cost	\$ 287	\$ 264	\$ 290
Amortization of net actuarial loss	29	15	9
Net periodic benefit costs	\$ 316	\$ 279	\$ 299

The Company's accumulated benefit obligation includes amounts that are not yet reflected in net periodic benefit cost and are recognized in accumulated other comprehensive income:

	Year ended May 31,		
	2015	2014	2013
Net actuarial loss	\$ 1,187	\$ 1,144	\$ 760
Accumulated other comprehensive loss at year end	1,187	1,144	760
Cumulative employer contributions in excess of net periodic benefit cost	3,606	4,170	4,511
Net liability recognized in consolidated balance sheets	\$ 4,793	\$ 5,314	\$ 5,271

Estimated amortization of net actuarial losses (gains) from accumulated other comprehensive income into net periodic benefit cost for the following fiscal year is \$35.

The following table provides the principal actuarial assumptions used in determining the defined benefit pension obligation:

	Year ended May 31,		
	2015	2014	2013
<u>Canadian Plan</u>			
Discount rate	3.60%	4.00%	4.10%
Inflation rate	2.00%	2.10%	2.10%
<u>U.S. Plan</u>			
Discount rate	3.80%	3.80%	3.50%
Inflation rate	N/A	N/A	N/A

The discount rate was selected based on a review of current market interest rates of high quality, fixed rate debt securities adjusted to reflect the duration of expected future cash outflows for the defined pension benefit payments. The rate is determined by management with the aid of third-party actuaries. The mortality table used for the defined benefit plan obligation and benefit plan costs was UP-94 Generational.

The effect of a 1% change in the discount rate and inflation rate of the defined benefit pension obligation is reflected in the following table:

	Discount Rate for the year ended May 31, 2015		Inflation Rate for the year ended May 31, 2015	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect on interest cost	\$ 5	\$ (7)	\$ (2)	\$ 1

	Discount Rate for the year ended May 31, 2015		Inflation Rate for the year ended May 31, 2015	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect on defined benefit obligation	\$ (438)	\$ 517	\$ (34)	\$ 28

Benefits expected to be paid over the next five fiscal years are:

2016	\$ 320
2017	320
2018	320
2019	320
2020	320
Thereafter	3,777
Total	<u>\$ 5,377</u>

Defined contribution plans

The Company has two defined contribution pension plans: a defined contribution Registered Retirement Savings Plan (“RRSP”) which is available to most Canadian employees and a defined contribution 401(k) plan that covers all employees in the United States. The terms of the RRSP provides for annual contributions by the Company as determined by executive management. Contributions to the RRSP for the years ended May 31, 2015, 2014 and 2013 were \$499, \$451 and \$447, respectively. The RRSP contributions are included in cost of goods sold, selling, general and administrative expenses and research and development expenses.

Employees are eligible to participate in the defined contribution 401(k) plan immediately upon hire; there is no service requirement. The 401(k) plan provides for matching contributions in an amount equal to 100% of the first 4% contributed by the employee to the plan. Matching contributions to the 401(k) plan were \$872, \$562 and \$478 for the years ended May 31, 2015, 2014 and 2013, respectively. The 401(k) plan contributions are included in cost of goods sold, selling, general and administrative expenses and research and development expenses.

12. COMMITMENTS AND CONTINGENCIES

Leases

Operating Leases

The Company has entered into various long-term operating lease agreements for buildings and equipment that expire at various dates through the fiscal year ended 2030. Amounts of minimum future annual rental commitments under non-cancelable operating leases are as follows:

2016	\$	5,421
2017		2,380
2018		1,490
2019		884
2020		754
Thereafter		3,828
	\$	<u>14,757</u>

Certain of the leases contain renewal clauses for the extension of the lease for one or more renewal periods. Rent expense for the years ended May 31, 2015, 2014 and 2013 was \$4,503, \$2,014 and \$1,504, respectively.

Financing Obligations: Build-to-suit Leases

In September 2010, the Company entered into a lease agreement as a second tenant of a property in Exeter, New Hampshire (the "Exeter property") for a lease term of 144 months. During the Company's assessment of the Exeter property, it was determined that the facility was not in a functional state of use. Per the terms of the lease agreement and due to the Company's involvement in the restoration of the facility, the Company was determined to be the owner of the facility. Subsequent to the completion of the restoration of the Exeter property, the Company maintained continuing involvement in the premise and consequently did not transfer the substantial risks and rewards of ownership, and thereby failing to meet the provisions for sale-leaseback accounting. Therefore, the Company recognizes the Exeter property and related improvements as a lease financing obligation in accordance with ASC 840 Topic, "Leases" ("ASC 840").

In April 2014, the Company entered into a lease agreement for a building under construction in Blainville (Quebec), Canada (the "Blainville property") for a lease term of 183 months. Per the terms of the lease agreement and due to the Company's involvement during the construction of the facility, the Company was determined to be the owner of the Blainville property. Subsequent to the completion of construction of the Blainville property, the Company maintained continuing involvement in the premise and consequently did not transfer the substantial risks and rewards of ownership, and thereby failing to meet the provisions for sale-leaseback accounting. Therefore, the Company recognizes the Blainville property and related improvements as a lease financing obligation in accordance with ASC 840.

Financing and capital lease assets and obligations consisted of the following:

	May 31, 2015	May 31, 2014
Assets:		
Building costs	\$ 14,737	\$ 7,553
Machinery and equipment	337	390
	<u>15,074</u>	<u>7,943</u>
Less: accumulated depreciation	(901)	(3,331)
Total	<u>\$ 14,173</u>	<u>\$ 4,612</u>
Liabilities:		
Current	\$ 179	\$ 218
Long-term	14,406	3,695
Total	<u>\$ 14,585</u>	<u>\$ 3,913</u>

As of May 31, 2015, the future minimum lease payments due under the lease financing obligations were as follows:

2016	\$	1,602
2017		1,698
2018		1,699
2019		1,699
2020		1,717
Thereafter		12,893
	\$	<u>21,308</u>

Depreciation expense related to the properties capitalized under ASC 840 is recognized in the Company's consolidated statements of income within costs of goods sold, selling, general and administrative expenses and research and development expenses as depreciation expense.

Commitments

Contractual Obligations:

The following represents the Company's material contractual obligations as of May 31, 2015:

	Endorsement Contracts ⁽¹⁾	Inventory Purchases ⁽²⁾	Non-inventory Purchases ⁽³⁾
2016	\$ 7,241	\$ 93,049	\$ 5,606
2017	3,727	—	767
2018	1,938	—	1,049
2019	743	—	1,232
2020	385	—	1,414
Thereafter	923	—	1,070
	<u>\$ 14,957</u>	<u>\$ 93,049</u>	<u>\$ 11,138</u>

- (1) The amounts listed for endorsement contracts represent approximate amounts of base compensation and minimum guaranteed royalty fees the Company is obligated to pay athletes, sport teams, and other endorers of the Company's products.
- (2) Inventory purchase obligations include various commitments in the ordinary course of business that would include the purchase of goods or services that are not recognized in our consolidated balance sheets.
- (3) Non-inventory purchase obligations include various commitments in the ordinary course of business that would include the purchase of goods or services that are not recognized in our consolidated balance sheets.

Other contractual obligations not included in the chart above, and discussed elsewhere in the notes to the consolidated financial statements, include lease obligations and scheduled principal payments on outstanding debt.

Contingencies

The Company acquired Kohlberg Sports Group Inc. ("KSIG") on March 10, 2011. In connection with the formation of KSIG in March 2008, a subsidiary of KSIG agreed to pay additional consideration to Nike, Inc. in future periods, based upon the attainment of a qualifying exit event. At May 31, 2015, the maximum potential future consideration pursuant to such arrangements, to be resolved on or before the eighth anniversary of April 16, 2008, is \$10,000. On April 16, 2008, all of the security holders of KSIG (collectively, the "Existing Holders") entered into a reimbursement agreement with the Company pursuant to which each such Existing Holder agreed to reimburse the Company, on a pro rata basis, in the event that the Company or any of its subsidiaries are obligated to make a payment to Nike, Inc. As of May 31, 2015, the Company determined that no such qualifying exit event has occurred. The Company will continue to assess the probability of a qualifying exit event through the eighth anniversary date.

In the ordinary course of its business, the Company is involved in various legal proceedings involving contractual and employment relationships, product liability claims, trademark rights, and a variety of other matters. The Company does not believe there are any pending legal proceedings that will have a material impact on the Company's consolidated balance sheets or consolidated statements of income.

13. STOCKHOLDERS' EQUITY

As of May 31, 2015, the Company's authorized share capital consisted of an unlimited number of Common Shares without par value.

Prior to April 8, 2015, the Company's authorized share capital consisted of an unlimited number of Common Shares without par value and an unlimited number of Proportionate Voting Shares. Common Shares, at the option of the holder, were eligible for conversion into Proportionate Voting Shares on the basis of 1,000 common shares for one Proportionate Voting Share. Each outstanding Proportionate Voting Share, at the option of the holder, was also eligible for conversion into 1,000 Common Shares. Except in limited circumstances, no fractional equity share was permitted to be issued on any conversion of another equity share. For all matters coming before shareholders, the Common Shares carry one vote per share and the Proportionate Voting Shares carry 1,000 votes per share. The holders of common shares and proportionate voting shares are entitled to receive notice of any meeting of shareholders of the Company and to attend and vote at those meetings, except those meetings at which holders of a specific class of shares are entitled to vote separately as a class under the British Columbia Business Corporations Act.

The Company's transfer agent and registrar, certified that, as of close of business on April 7, 2015, there were no issued and outstanding Proportionate Voting Shares. In light of this certification and in accordance with the articles of the Company (the "Articles"), the Board of Directors resolved, effective April 8, 2015, that (i) the right of holders of Common Shares to convert their shares into Proportionate Voting Shares shall be terminated and (ii) the Board of Directors shall not be entitled to issue any further Proportionate Voting Shares.

On June 25, 2014, the Company completed its underwritten public offering in the United States and Canada (the "Offering") of 8,161,291 common shares at a price to the public of \$15.50 per share, for total gross proceeds of approximately \$126,500, including the exercise in full of the over-allotment option. The Company used the net proceeds of the Offering to repay \$119,500 of the New Term Loan Facility. The Company incurred \$9,739 in common share issuance costs in the year ended May 31, 2015. These costs are recorded in common stock in the consolidated balance sheets.

14. SHARE-BASED COMPENSATION

As of May 31, 2015, the Company had stock options outstanding and exercisable under two shareholder approved plans: the "Rollover Plan" and the "2011 Plan." Additionally, the Company has a Deferred Share Unit Plan (the "DSU Plan") as an optional form of compensation for eligible directors.

Rollover Plan

The Rollover Plan was adopted by the Board of Directors on March 10, 2011. The terms of the Rollover Plan are substantially similar to the terms of the 2011 Plan detailed below, except that all rollover options are fully vested and no further options may be granted under the Rollover Plan. An aggregate of 5,119,815 rollover options were issued under the Rollover Plan.

Information concerning stock option activity under the Rollover Plan is summarized as follows:

	Year ended May 31,					
	2015		2014		2013	
	Number of Stock Options	Weighted- Average Exercise Price (Canadian dollars)	Number of Stock Options	Weighted- Average Exercise Price (Canadian dollars)	Number of Stock Options	Weighted- Average Exercise Price (Canadian dollars)
Outstanding, beginning of period	3,193,677	\$ 4.58	4,699,278	\$ 4.26	5,015,556	\$ 4.21
Exercised	(2,284,034)	5.01	(1,505,601)	3.59	(316,278)	3.49
Outstanding and exercisable, end of period	909,643	\$ 3.49	3,193,677	\$ 4.58	4,699,278	\$ 4.26

The intrinsic value of stock options exercised under the Rollover Plan in Canadian dollars during the years ended May 31, 2015, 2014 and 2013 was \$37,811, \$13,027 and \$2,433, respectively.

The following table summarizes information about stock options outstanding and exercisable under the Rollover Plan as of May 31, 2015:

Options Outstanding and Exercisable				
Exercise Price (Canadian dollars)	Number of Underlying Shares	Weighted Average Exercise Price per Share (Canadian dollars)	Weighted-Average Remaining Contractual Years	Total Intrinsic Value (Canadian dollars)
\$3.49	909,643	\$ 3.49	3.0	\$ 19,084

As of May 31, 2015, there is no unrecognized cost for the Rollover Plan.

2011 Plan

The 2011 Plan was adopted by the Board of Directors on March 10, 2011. The maximum aggregate number of common shares which may be subject to options under the 2011 Plan and any other proposed or established share compensation arrangement of the Company (other than the Rollover Plan) is 12% of the Company's common shares outstanding from time to time. On this basis, at May 31, 2015, the maximum number of common shares available for future issuance under the 2011 Plan was 1,169,541. The Company grants options under the 2011 Plan to employees and nonemployees. Employee service-based awards have a contractual life of 10 years and typically vest over a period of 4 years from grant-date. Nonemployee service-based awards have a contractual life of 10 years and typically vest over a period of up to 6 years.

The assumptions used for options granted to acquire TSX listed common shares and the fair value at the date of grant is noted in the following table:

	Year ended May 31,		
	2015	2014	2013
Weighted average expected term (in years)	6.11	6.25	6.25
Weighted average expected volatility	34.44%	37.12%	36.53%
Weighted average risk-free interest rate	1.54%	1.75%	1.44%
Expected dividend yield	—%	—%	—%
Weighted average fair value per option granted (Canadian dollars)	\$6.58	\$5.60	\$3.81

The assumptions used for options granted to acquire NYSE listed common shares and the fair value at the date of grant is noted in the following table:

	Year ended May 31,
	2015
Weighted average expected term (in years)	6.25
Weighted average expected volatility	33.24%
Weighted average risk-free interest rate	1.51%
Expected dividend yield	—%
Weighted average fair value per option granted	\$6.11

Information concerning stock option activity under the 2011 Plan for options to acquire TSX listed common shares is summarized as follows:

	Year ended May 31,					
	2015		2014		2013	
	Number of Stock Options	Weighted- Average Exercise Price (Canadian dollars)	Number of Stock Options	Weighted- Average Exercise Price (Canadian dollars)	Number of Stock Options	Weighted- Average Exercise Price (Canadian dollars)
Outstanding, beginning of period	4,234,872	\$ 11.37	3,065,997	\$ 9.92	998,497	\$ 7.36
Granted	138,574	18.20	1,374,500	14.20	2,340,000	10.88
Exercised	(426,350)	9.80	(141,625)	7.51	(50,000)	7.5
Canceled	—	—	—	—	(17,000)	10.54
Forfeited	(15,375)	11.20	(64,000)	11.08	(205,500)	8.89
Outstanding, end of period	3,931,721	\$ 11.78	4,234,872	\$ 11.37	3,065,997	\$ 9.92
Options vested and expected to vest, end of period	3,896,443	\$ 11.77	—	\$ —	—	\$ —
Options exercisable, end of period	1,688,754	\$ 10.48	1,021,250	\$ 9.25	418,750	\$ 7.43

The intrinsic value of stock options exercised under the 2011 Plan in Canadian dollars during the years ended May 31, 2015, 2014 and 2013 was \$6,094, \$615 and \$194, respectively.

Information concerning stock option activity under the 2011 Plan for options to acquire NYSE listed common shares is summarized as follows:

	Year ended May 31,	
	2015	
	Number of Stock Options	Weighted- Average Exercise Price
Outstanding, beginning of period	—	\$ —
Granted	267,000	18.22
Forfeited	(2,000)	15.99
Outstanding, end of period	265,000	\$ 18.24
Options vested and expected to vest, end of period	259,040	\$ 18.25
Options exercisable, end of period	—	\$ —

The following table summarizes information about stock options outstanding and exercisable under the 2011 Plan for stock options to acquire TSX listed common shares as of May 31, 2015:

Exercise Price (Canadian dollars)	Number of Underlying Shares	Options Outstanding			Number of Underlying Shares	Options Exercisable		
		Weighted Average Exercise Price per Share (Canadian dollars)	Weighted- Average Remaining Contractual Years	Total Intrinsic Value (Canadian dollars)		Weighted Average Exercise Price per Share (Canadian dollars)	Weighted- Average Remaining Contractual Years	Total Intrinsic Value (Canadian dollars)
\$5.36 - \$10.78	1,515,147	\$ 9.10	6.77	—	945,150	\$ 8.60	6.49	—
\$10.79 - \$13.56	1,168,000	11.86	7.82	—	472,875	11.81	7.77	—
\$13.57 - \$23.05	1,248,574	14.98	8.82	—	270,729	14.71	8.78	—
Total	3,931,721	\$ 11.78	7.73	\$ 49,875	1,688,754	\$ 10.48	7.21	\$ 23,623

The following table summarizes information about stock options outstanding and exercisable under the 2011 Plan for stock options to acquire NYSE listed common shares as of May 31, 2015:

Exercise Price	Options Outstanding				Options Exercisable			
	Number of Underlying Shares	Weighted Average Exercise Price per Share	Weighted- Average Remaining Contractual Years	Total Intrinsic Value	Number of Underlying Shares	Weighted Average Exercise Price per Share	Weighted- Average Remaining Contractual Years	Total Intrinsic Value
\$15.99 - \$20.45	265,000	\$18.24	9.64	\$ 482	—	—	—	—

The Company recognized share-based compensation expense for the 2011 Plan as follows:

	Year ended May 31,		
	2015	2014	2013
Share-based compensation for employee awards	\$ 5,273	\$ 4,092	\$ 3,514
Share-based compensation for non-employee awards	367	307	541
Total share-based compensation	\$ 5,640	\$ 4,399	\$ 4,055
Total related tax benefit	\$ 1,117	\$ 932	\$ 550

Share-based payments expense recognized in the consolidated statements of income is included in selling, general and administrative expense, and was credited to additional paid-in capital. Estimated forfeiture rates are incorporated into the measurement of share-based payment expense. The unrecognized compensation expense associated with stock options outstanding under the 2011 Plan at May 31, 2015 was \$5,164, which is expected to be recognized over a weighted average period of 2.0 years.

The weighted average exercise price of all outstanding options under the Rollover Plan and the 2011 Plan is \$8.73 U.S. dollars. The weighted average remaining term of all outstanding options under the Rollover Plan and the 2011 Plan is 7.0 years.

Deferred Share Unit Plan ("DSU Plan")

On September 18, 2012, the Board adopted a Deferred Share Unit Plan (the "Plan") for the directors of the Company. The purpose of the Plan is to promote a greater alignment of interests between certain eligible directors ("Eligible Directors") and the shareholders of the Company. Under the terms of the Plan, each Eligible Director may elect to receive director fees (i.e. retainers, meeting fees) and other cash compensation payable for services as an independent contractor paid entirely in cash or up to 100% in deferred share units ("DSUs"). If the Eligible Director elects to receive any portion of the director fees and other compensation in deferred share units, the amount of the compensation is fixed at the election. The number of shares awarded to satisfy that liability is variable based on the value of the shares at the time of settlement of the liability. The DSUs are therefore classified as liability awards. If an Eligible Director ceases, for any reason except as a result of death, to be a director of the Company, DSUs

held by such Eligible Director may be redeemed at the election of such Eligible Director on or prior to December 15 in the first calendar year commencing after the date that the Eligible Director retires from or otherwise ceases to hold such positions. In the event of death of an Eligible Director, the Company will redeem all DSUs held by the Eligible Director within 90 days of the death.

The Company reserved 100,000 Common Shares for issuance under the Plan. Of the 100,000 DSUs authorized for issuance under the plan, 40,883 were available for issuance as of May 31, 2015. During the year ended May 31, 2015, 30,706 DSUs were issued and a total amount of \$470 was credited to accrued liabilities. As of May 31, 2015, 59,117 DSUs are outstanding with related accrued liabilities amounting to \$706. For the years ended May 31, 2015, 2014 and 2013, the Company recognized \$470, \$226 and \$98 in share-based payment expense in its consolidated statements of income. Share based payment expense is included in selling, general and administrative expenses.

15. EARNINGS PER SHARE

The following is a reconciliation from basic earnings per common share to diluted earnings per common share:

	Year Ended May 31,		
	2015	2014	2013
Net income	\$ 3,282	\$ 19,987	\$ 25,224
Weighted average common shares outstanding, assuming conversion of proportionate voting shares - Basic	44,028,076	35,476,607	34,107,334
Assumed conversion of dilutive stock options and awards	2,326,581	1,998,671	2,320,685
Diluted weighted average common shares outstanding	46,354,657	37,475,278	36,428,019
Basic earnings per common share	\$ 0.07	\$ 0.56	\$ 0.74
Diluted earnings per common share	\$ 0.07	\$ 0.53	\$ 0.69
Anti-dilutive stock options and awards excluded from diluted earnings per share calculation	32,824	86,105	745,717

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of net income and specified components of other comprehensive income (loss) ("OCI"). OCI consists of changes in assets and liabilities that are not included in net income under U.S. GAAP but are instead deferred and accumulated within a separate component of stockholders' equity in the consolidated balance sheets. Comprehensive income (loss) is presented in the consolidated statements of comprehensive income (loss).

The changes in accumulated other comprehensive income (loss), net of taxes, are as follows:

	Foreign currency translation	Defined benefit pension plans	Total
Balance as of May 31, 2013	\$ (6,772)	\$ (724)	\$ (7,496)
Other comprehensive loss before reclassifications	(6,993)	(220)	(7,213)
Amounts reclassified from accumulated other comprehensive loss to net income	—	10	10
Balance as of May 31, 2014	(13,765)	(934)	(14,699)
Other comprehensive loss before reclassifications	(8,191)	(108)	(8,299)
Amounts reclassified from accumulated other comprehensive loss to net income	—	20	20
Balance as of May 31, 2015	\$ (21,956)	\$ (1,022)	\$ (22,978)

17. SEGMENT INFORMATION

The Company has two reportable operating segments, Hockey and Baseball/Softball. The remaining operating segments do not meet the criteria for a reportable segment and are included in Other Sports. The Hockey segment includes the Bauer and Mission

brands. The Baseball/Softball segment includes the Easton and Combat brands. Other Sports includes the Lacrosse and Soccer operating segments, which includes the Maverik and Cascade brands for Lacrosse, and the Inaria brand for Soccer.

These operating segments were determined based on the management structure established, as a result of the Easton Baseball/Softball acquisition, in the fourth quarter of the year ended May 31, 2014 and the financial information, among other factors, reviewed by the Chief Operating Decision Maker ("CODM") to assess segment performance. Operating segment profit is evaluated using EBITDA adjusted for items excluded by the CODM, which is not a measure defined by U.S. GAAP, and is reviewed by the CODM. Certain PSG functional platform costs are directly allocated to each operating segment based on usage or other relevant operational metrics. PSG's functional platform costs consist of expenses incurred by centrally-managed functions, including global information systems, finance and legal, distribution and logistics, sourcing and manufacturing, and other miscellaneous costs.

PSG corporate expenses, currency related gains (losses), acquisition related expenses and other costs are not controlled by the management at each operating segment and therefore are excluded from segment EBITDA. PSG corporate expenses consist of executive compensation and administration costs, public company costs, certain tax credits and other miscellaneous costs. Currency related gains (losses) consists of foreign exchange gains (losses) and the unrealized gain (loss) on derivative instruments. The realized gain (loss) on derivative instruments is included in the Hockey operating segment because it currently relates specifically to Hockey cost of goods sold. Acquisition related expenses consist of charges to cost of goods sold resulting from the fair market value adjustment to inventory, integration costs, costs related to reviewing corporate opportunities, and transaction costs. Other costs consist of share-based payment expenses and items that the CODM excludes from segment EBITDA, for example, items that are infrequent in nature such as costs related to share offerings.

Segment revenue information is summarized as follows:

	Year ended May 31,		
	2015	2014	2013
Hockey	\$ 418,397	\$ 386,220	\$ 370,906
Baseball/Softball	199,346	24,461	93
Other Sports	36,948	35,498	28,594
Total revenues	<u>\$ 654,691</u>	<u>\$ 446,179</u>	<u>\$ 399,593</u>

Segment EBITDA information is summarized as follows:

	Year ended May 31,		
	2015	2014	2013
Hockey	\$ 66,588	\$ 67,249	\$ 66,140
Baseball/Softball	35,882	526	(556)
Other Sports	3,484	3,444	2,501
Total segment EBITDA	<u>\$ 105,954</u>	<u>\$ 71,219</u>	<u>\$ 68,085</u>

The reconciliation of segment EBITDA to income before income taxes is summarized as follows:

	Year ended May 31,		
	2015	2014	2013
Segment EBITDA	\$ 105,954	\$ 71,219	\$ 68,085
Corporate expenses	(7,640)	(2,422)	(5,299)
Acquisition related expenses	(17,989)	(15,551)	(7,539)
Depreciation and amortization	(21,312)	(11,102)	(8,359)
Interest expense, net	(19,838)	(9,689)	(8,695)
Currency related gains (losses)	(21,793)	2,806	1,484
Other ⁽¹⁾	(10,730)	(8,993)	(5,812)
Income before income taxes	<u>\$ 6,652</u>	<u>\$ 26,268</u>	<u>\$ 33,865</u>

- (1) Other consists of share-based payments expense, costs related to share offerings, costs related to the lacrosse helmet decertification, the impact of Canadian tariff reduction and other miscellaneous expenses.

Segment interest expense information is summarized as follows:

	Year ended May 31,		
	2015	2014	2013
Hockey	\$ 9,807	\$ 7,483	\$ 7,438
Baseball/Softball	3,859	787	—
Other Sports	981	946	582
Unallocated interest expense	5,191	473	675
Total interest expense, net	<u>\$ 19,838</u>	<u>\$ 9,689</u>	<u>\$ 8,695</u>

Segment depreciation and amortization expense information is summarized as follows:

	Year ended May 31,		
	2015	2014	2013
Hockey	\$ 4,472	\$ 5,120	\$ 5,019
Baseball/Softball	11,973	1,734	—
Other Sports	4,228	3,849	2,720
Corporate depreciation and amortization expense	639	399	620
Total depreciation and amortization expense	<u>\$ 21,312</u>	<u>\$ 11,102</u>	<u>\$ 8,359</u>

Segment assets, which includes accounts receivable, inventory and property, plant and equipment, is summarized as follows:

	May 31, 2015	May 31, 2014
Hockey	\$ 283,897	\$ 235,761
Baseball/Softball	97,472	121,104
Other Sports	32,309	29,278
Corporate assets	7,294	6,055
Total assets	<u>\$ 420,972</u>	<u>\$ 392,198</u>

The Company markets its products in the United States, Canada and internationally, with its principal markets being the United States and Canada. The tables below contain information about the geographical areas in which the Company operates. In presenting information on the basis of geography, revenues are based on the geographical location of customers and non-current assets are based on the geographical location of the assets.

The following represents the Company's revenue information based on geographical areas:

	Year ended May 31,		
	2015	2014	2013
Canada	\$ 157,036	\$ 145,274	\$ 136,643
United States	383,310	190,956	158,821
Rest of World	114,345	109,949	104,129
Total Revenues	<u>\$ 654,691</u>	<u>\$ 446,179</u>	<u>\$ 399,593</u>

Non-current assets presented consists of property, plant and equipment, other non-current assets, goodwill and intangible assets:

	May 31, 2015	May 31, 2014
Canada	\$ 56,267	\$ 52,989
United States	375,510	371,195
Rest of World	294	593
Total non-current assets	<u>\$ 432,071</u>	<u>\$ 424,777</u>

18. DERIVATIVES & RISK MANAGEMENT

The Company is exposed to global market risks, including the effect of changes in foreign currency exchange rates, and uses derivatives to attempt to manage financial exposures that occur during the normal course of business. From time to time, the Company may elect to enter into foreign currency forward contracts to reduce the risk associated with foreign currency exchange rate fluctuations, and recognizes such instruments as economic hedges. Foreign currency exchange contracts are used only to meet the Company's objectives of minimizing variability in the Company's operating results arising from foreign exchange rate movements. The Company does not enter into foreign currency exchange contracts for speculative purposes. The use of derivatives exposes the Company to counterparty credit risk for nonperformance. The Company manages its exposure to counterparty credit risk by purchasing contracts with major financial institutions with investment grade credit ratings.

The Company accounts for its foreign currency forward contracts in accordance with ASC Topic 815, "Derivatives and Hedging" ("ASC 815"). ASC 815 requires the recognition of all derivatives as either assets or liabilities on the consolidated balance sheets at fair value. During the years ended May 31, 2015, 2014 and 2013, the Company did not designate any foreign currency exchange contracts as derivatives that qualify for hedge accounting under ASC 815 and therefore recognizes the changes in the fair value of these derivatives through profit or loss at each reporting period.

At May 31, 2015 and 2014, the notional amounts of the Company's foreign currency forward contracts used to mitigate the exposures discussed above were approximately \$78,000 and \$52,000, respectively. The Company estimates the fair values of foreign currency forward contracts using inputs that are based on readily available market data using pricing models based on current market rates, and records all derivatives on the consolidated balance sheets at fair value with changes in fair value recorded in the consolidated statements of income. The foreign currency forward contracts are classified under Level 2 of the fair value hierarchy (see Note 19).

At May 31, 2015 and 2014, the Company recorded a liability for a variable cash settlement in connection with a stock option award. The Company recognized the issuance of the options as an equity-classified award. The amount of the variable cash settlement obligation is dependent upon the total intrinsic value of the options granted, at the fourth anniversary of the original grant date. The fair value of the cash portion of the award is determined using inputs based on readily available market data. The award is recognized on the consolidated balance sheets and changes in the fair value of the award are recognized in the consolidated statements of income.

The following table summarizes the fair value of derivative instruments by contract type as well as the location of the asset and/or liability on the consolidated balance sheets at May 31, 2015 and 2014:

	Balance Sheet Location	May 31, 2015	May 31, 2014
Assets:			
Foreign currency forward contracts	Prepaid and other current assets	\$ 697	\$ 3,193
Foreign currency forward contracts	Other non-current assets	54	—
Liabilities:			
Foreign currency forward contracts	Accrued liabilities	141	—
Variable cash settlement	Other non-current liabilities	20	307

The following table summarizes the location of gains and losses on the consolidated statements of income that were recognized during the years ended May 31, 2015, 2014 and 2013, respectively, in addition to the derivative contract type:

Derivatives not designated as hedging instruments	Location of (gain) loss recognized in income on derivative instruments	Year Ended May 31,		
		2015	2014	2013
Foreign currency forward contracts	Realized gain on derivatives	\$ (6,858)	\$ (6,069)	\$ (300)
Foreign currency forward contracts	Unrealized (gain) loss on derivatives	2,213	2,023	(942)
Variable cash settlement	Share-based payments expense	(279)	1	324

19. FAIR VALUE MEASURES

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of May 31, 2015 and 2014 and indicate the level of the fair value hierarchy utilized by the Company to determine such fair value:

Fair Value Measurements as of May 31, 2015 Using:			
	Level 1	Level 2	Level 3
Assets:			
Foreign currency forward contracts	\$ —	\$ 751	\$ —
Liabilities:			
Foreign currency forward contracts	\$ —	\$ 141	\$ —
Variable cash settlement	\$ —	\$ 20	\$ —
Fair Value Measurements as of May 31, 2014 Using:			
	Level 1	Level 2	Level 3
Assets:			
Foreign currency forward contracts	\$ —	\$ 3,193	\$ —
Liabilities:			
Variable cash settlement	\$ —	\$ 307	\$ —

As of May 31, 2015 and 2014, the Company's foreign currency forward contracts were measured using a generally accepted valuation technique which is the discounted value of the difference between the contract's value at maturity based on the foreign exchange rate set out in the contract and the contract's value at maturity based on the foreign exchange rate that the counterparty would use if it were to renegotiate the same contract at today's date under the same conditions. The Company's variable cash settlement, discussed in Note 18, was valued using a Monte Carlo simulation based on the value of the Company's underlying common share price, a Level 2 input.

20. RELATED PARTY TRANSACTIONS

The Kohlberg Funds were a related party of the Company through the second quarter of the year ended May 31, 2015. As a result of selling Common Shares of the Company through secondary offerings and in the open market, the Kohlberg Funds are no longer a related party.

The Kohlberg Funds include Kohlberg TE Investors VI, LP, Kohlberg Investors VI, LP, Kohlberg Partners VI, LP, and KOCO Investors VI, LP, each of which is managed by Kohlberg & Co L.L.C. On June 29, 2012, in conjunction with the acquisition of Cascade and related share offering, the Company issued 642,000 Common Shares as part of a concurrent private placement to the Kohlberg Funds resulting in gross and net proceeds of \$4,888 (\$5,008 Canadian dollars).

On September 26, 2012, the Kohlberg Funds entered into an agreement for a secondary offering, on a bought deal basis, of 3,600,000 Common Shares of the Company at an offering price of \$9.90 Canadian dollars per Common Share. In addition, an over-allotment option was granted, exercisable for a period of 30 days from closing, to purchase up to an additional 540,000 Common Shares. On October 17, 2012, the Kohlberg Funds completed the sale of an aggregate of 4,140,000 Common Shares at a price of \$9.90

Canadian dollars per Common Share, including the exercise in full of the over-allotment option. The Company did not receive any proceeds from the secondary offering. The Common Shares sold under the terms of the offering had previously been held by the Kohlberg Funds in the form of Proportionate Voting Shares which were converted to Common Shares on the basis of one Proportionate Voting Share for 1,000 Common Shares to facilitate the secondary offering. In connection with the secondary offering, the Company incurred \$461 in fees in the year ended May 31, 2013, which was recognized in selling, general and administrative expenses.

On January 17, 2013, the Kohlberg Funds entered into an agreement for a secondary offering, on a bought deal basis, of 3,000,000 Common Shares of the Company at an offering price of \$11.60 Canadian dollars per Common Share. In addition, an over-allotment option was granted, exercisable for a period of 30 days from closing, to purchase up to an additional 450,000 Common Shares. On February 6, 2013, the Kohlberg Funds completed the sale of an aggregate of 3,450,000 Common Shares at a price of \$11.60 Canadian dollars per Common Share, including the exercise in full of the over-allotment option. The Company did not receive any proceeds from the secondary offering. The Common Shares sold under the terms of the offering had previously been held by the Kohlberg Funds in the form of Proportionate Voting Shares which were converted to Common Shares on the basis of one Proportionate Voting Share for 1,000 Common Shares to facilitate the secondary offering. In connection with the secondary offering, the Company incurred \$365 in fees which was recognized in selling, general and administrative expenses in the year ended May 31, 2013.

On October 17, 2013, the Kohlberg Funds entered into an agreement for a secondary offering, on a bought deal basis, of 5,500,000 Common Shares of the Company at an offering price of \$12.15 Canadian dollars per Common Share. In addition, an over-allotment option was granted, exercisable for a period of 30 days from closing, to purchase up to an additional 825,000 Common Shares. On November 1, 2013, the Kohlberg Funds completed the sale of an aggregate of 6,325,000 Common Shares at a price of \$12.15 Canadian dollars per Common Share, including the exercise in full of the over-allotment option. The Company did not receive any proceeds from the secondary offering but was responsible for all distribution expenses (excluding any underwriters' fees) pursuant to its obligations under a registration rights agreement with the Kohlberg Funds. The Common Shares sold under the terms of the offering had previously been held by the Kohlberg Funds in the form of Proportionate Voting Shares which were converted to Common Shares on the basis of one Proportionate Voting Share for 1,000 Common Shares to facilitate the secondary offering. In connection with the secondary offering, the Company incurred \$524 in fees which was recognized in selling, general and administrative expenses in the year ended May 31, 2014.

21. QUARTERLY FINANCIAL DATA (UNAUDITED)

Year ended May 31, 2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 197,135	\$ 172,254	\$ 137,746	\$ 147,556
Gross profit	63,936	55,933	42,257	44,261
Net income (loss)	10,747	1,031	(12,464)	3,968
Earnings per share - basic	\$ 0.26	\$ 0.02	\$ (0.28)	\$ 0.09
Earnings per share - diluted	\$ 0.24	\$ 0.02	\$ (0.28)	\$ 0.08
Year ended May 31, 2014	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 153,986	\$ 117,094	\$ 62,197	\$ 112,902
Gross profit	59,739	37,958	18,848	37,791
Net income (loss)	21,749	3,966	(5,205)	(523)
Earnings per share - basic	\$ 0.62	\$ 0.11	\$ (0.15)	\$ (0.01)
Earnings per share - diluted	\$ 0.59	\$ 0.11	\$ (0.15)	\$ (0.01)

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

Item 9A. CONTROLS AND PROCEDURES

In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released COSO 2013, an update of its Internal Control - Integrated Framework (1992). The COSO 2013 Internal Control-Integrated Framework formalizes the principles embedded in the original COSO 1992, incorporates business and operating environment changes over the past two decades, and improves the original 1992 framework's ease of use and application. We completed our transition to COSO 2013 in the fourth quarter of Fiscal 2015. The transition to COSO 2013 did not have a significant impact on our underlying compliance with the applicable provisions of the Sarbanes-Oxley Act of 2002, including internal control over financial reporting and disclosure controls and procedures.

Disclosure Controls and Procedures

Management, under the supervision of and with the participation of the Company's CEO and CFO, our principal executive officer and principal financial officer, respectively, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-(e) under the Securities Exchange Act of 1934 (the "Exchange Act") as of May 31, 2015. Based on the evaluation, the CEO and CFO concluded that such disclosure controls and procedures as of May 31, 2015 are effective.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during its last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Management, under the supervision of and with the participation of the Company's CEO and CFO, evaluated and concluded, as of May 31, 2015, that the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) were effective. This evaluation included review of the documentation of controls, evaluation of the design and testing the operating effectiveness of controls, and a conclusion about this evaluation. Based on their evaluation, the CEO and the CFO have concluded that, as at May 31, 2015, the Company's internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Such internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets; (ii) provide reasonable assurance (A) that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors; and (B) regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

In making this evaluation, management used the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). This evaluation also took into consideration the Company's Corporate Disclosure Policy and the functioning of its Disclosure Committee.

Because we are an emerging growth company under the JOBS Act, this annual report on Form 10-K does not include an attestation report of our independent registered public accounting firm.

Item 9B. OTHER INFORMATION

Not applicable.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information with respect to this item is included in the Company's Proxy Statement for the 2015 annual and special meeting of shareholders under the captions "Board of Directors and Corporate Governance - Director Independence and Qualifications" and "Executive Officers" and is incorporated herein by reference.

Information on the beneficial ownership reporting for the Company's directors and executive officers is included in the Company's Proxy Statement for the 2015 annual and special meeting of shareholders under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

Information on the Company's Audit Committee and "audit committee financial expert" is contained in the Company's Proxy Statement for the 2015 annual and special meeting of shareholders under the caption "Board of Directors and Corporate Governance - Audit Committee" and is incorporated herein by reference.

The Board has adopted a written code of ethics entitled, "Code of Business Conduct and Ethics" (the "Code of Conduct"), that applies to all of the officers, directors, employees, consultants and contractors of the Company, including the Company's principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. The Code of Conduct is posted on the Company's website at www.performancesportsgroup.com. If there is an amendment to the Code of Conduct, or if a waiver of the Code of Conduct is granted to any of Company's principal executive officer, principal financial officer, principal accounting officer or controller, the Company intends to disclose any such amendment or waiver by posting such information on the Company's website. Unless and to the extent specifically referred to herein, the information on the Company's website shall not be deemed to be incorporated by reference in this annual report on Form 10-K.

Item 11. EXECUTIVE COMPENSATION

Information with respect to this item is included in the Company's Proxy Statement for the 2015 annual and special meeting of shareholders and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Information with respect to this item is included in the Company's Proxy Statement for the 2015 annual and special meeting of shareholders and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information with respect to this item is included in the Company's Proxy Statement for the 2015 annual and special meeting of shareholders and is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information with respect to this item is included in the Company's Proxy Statement for the 2015 annual and special meeting of shareholders and is incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a. The following documents are filed as part of this annual report on Form 10-K:

1. Financial Statements. The financial statements as set forth under Item 8 of this annual report on Form 10-K are incorporated herein.
2. Financial Statement Schedule:

Schedule II - Valuation and Qualifying Accounts

<i>(In thousands)</i>	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Other	Balance at End of Period
Allowance for doubtful accounts					
For the year ended May 31, 2013	\$ 1,056	\$ 143	\$ (476)	\$ 3	\$ 726
For the year ended May 31, 2014	726	947	(164)	(9)	1,500
For the year ended May 31, 2015	1,500	1,141	(541)	(62)	2,038
Allowance for obsolete inventory:					
For the year ended May 31, 2013	\$ 1,192	\$ 1,657	\$ (92)	\$ (3)	\$ 2,754
For the year ended May 31, 2014	2,754	2,076	(980)	(53)	3,797
For the year ended May 31, 2015	3,797	1,714	(641)	(113)	4,757

3. Exhibits:

Exhibit Number	Description
3.1	Amended and Restated Articles of Performance Sports Group Ltd. (the “Registrant”).
4.1	Specimen Common Stock Certificate.
10.1*	Term Loan Credit Agreement, dated as of April 15, 2014, among the Registrant, as borrower, Bank of America, N.A., as administrative agent and collateral agent, Bank of America, N.A., J.P. Morgan Securities LLC, RBC Capital Markets and Morgan Stanley Senior Funding, Inc., as joint lead arrangers, Bank of America, N.A., J.P. Morgan Securities LLC, and RBC Capital Markets, as bookrunners, JP Morgan Chase Bank, N.A. and RBC Capital Markets, as syndication agents, and the lenders party thereto from time to time.
10.2*	ABL Credit Agreement, dated as of April 15, 2014, among Bauer Hockey Corp. and its Canadian subsidiaries from time to time party thereto, as Canadian borrowers, Bauer Hockey, Inc. and its U.S. subsidiaries from time to time party thereto, as U.S. borrowers, the Registrant as parent, Bank of America, N.A., as administrative agent and collateral agent, JP Morgan Chase Bank, N.A. and an affiliate of RBC Dominion Securities Inc., as syndication agents, Bank of America, N.A., J.P. Morgan Securities LLC, RBC Capital Markets and Morgan Stanley Senior Funding, Inc., as joint lead arrangers, Bank of America, N.A., J.P. Morgan Securities LLC, and RBC Capital Markets, as bookrunners, and the various lenders party thereto.
10.3	Amendment No. 1, dated as of July 14, 2015, to ABL Credit Agreement, dated as of April 15, 2014, among Bauer Hockey Corp. and its Canadian subsidiaries from time to time party thereto, as Canadian borrowers, Bauer Hockey, Inc. and its U.S. subsidiaries from time to time party thereto, as U.S. borrowers, the Registrant as parent, Bank of America, N.A., as administrative agent and collateral agent, JP Morgan Chase Bank, N.A. and an affiliate of RBC Dominion Securities Inc., as syndication agents, Bank of America, N.A., J.P. Morgan Securities LLC, RBC Capital Markets and Morgan Stanley Senior Funding, Inc., as joint lead arrangers, Bank of America, N.A., J.P. Morgan Securities LLC, and RBC Capital Markets, as bookrunners, and the various lenders party thereto.
10.4	Trademark License Agreement (VAPOR®), dated April 16, 2008, among NIKE, Inc., NIKE International Limited, and NIKE Bauer Hockey Corp.
10.5	Second Amended and Restated 2011 Stock Option Plan, dated April 9, 2013, including the form of Notice of Grant attached as Schedule A thereto. Incorporated herein by reference to Exhibit 4.2 to the Registrant’s Registration Statement on Form S-8, dated August 28, 2014.
10.6	Amended and Restated Directors’ Deferred Share Unit Plan, dated October 14, 2014.
10.7	Form of irrevocable election for participation in the Directors’ Deferred Share Unit Plan.
10.8	Second Amended and Restated Rollover Stock Option Plan, dated April 9, 2013, including the form of Notice of Substitution attached as Schedule A thereto.
10.9	Employment Agreement between Bauer Hockey, Inc. and Angela Bass, effective as of January 9, 2012.

- 10.10 Amended and Restated Employment Agreement between Bauer Hockey, Inc. and Kevin Davis, effective as of March 10, 2011.
- 10.11 Employment Agreement between Bauer Hockey, Inc. and Paul Dachsteiner, effective as of March 9, 2011.
- 10.12 Amended and Restated Employment Agreement between Bauer Hockey, Inc. and Paul Gibson, effective as of March 10, 2011.
- 10.13 Employment Agreement between Easton Baseball/Softball Inc. and Todd Harman, effective as of April 6, 2015.
- 10.14 Amended and Restated Employment Agreement between Bauer Hockey, Inc. and Troy Mohns, effective as of March 10, 2011.
- 10.15 Amended and Restated Employment Agreement between Bauer Hockey, Inc. and Amir Rosenthal, effective as of March 10, 2011.
- 10.16 Employment Agreement between Bauer Hockey, Inc. and Richard Wuerthele, effective as of March 1, 2014.
- 10.17 Employment Agreement between Bauer Hockey, Inc. and Michael Wall, effective as of March 10, 2011.
- 14.1 Code of Business Conduct and Ethics.
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of KPMG LLP.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015.
- 99.1 Charter of the Audit Committee.

* Confidential treatment has been requested with respect to portions of this exhibit, and such confidential portions have been deleted and filed separately with the SEC pursuant to Rule 24b-2 of the Exchange Act.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PERFORMANCE SPORTS GROUP LTD.

(Registrant)

Dated: August 26, 2015

By: /s/ Kevin Davis

Kevin Davis

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Dated: August 26, 2015

/s/ Kevin Davis

Kevin Davis

Chief Executive Officer and Director

Dated: August 26, 2015

/s/ Amir Rosenthal

Amir Rosenthal

President, PSG Brands, and Chief Financial Officer

Dated: August 26, 2015

/s/ Bernard McDonell

Bernard McDonell

Director and Chairman

Dated: August 26, 2015

/s/ Karyn O. Barsa

Karyn O. Barsa

Director

Dated: August 26, 2015

/s/ Joan Dea

Joan Dea

Director

Dated: August 26, 2015

/s/ C. Michael Jacobi

C. Michael Jacobi

Director

Dated: August 26, 2015

/s/ Paul A. Lavoie

Paul A. Lavoie

Director

Dated: August 26, 2015

/s/ Larry Lucchino

Larry Lucchino

Director

Dated: August 26, 2015

/s/ Matthew M. Mannelly

Matthew M. Mannelly

Director

Dated: August 26, 2015

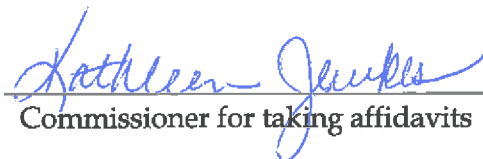
/s/ Bob Nicholson

Bob Nicholson

Director

EXHIBIT “D”

Exhibit "D" to the Affidavit
Of Mark Vendetti, sworn
October 31, 2016


Commissioner for taking affidavits

KATHLEEN A. JEWKES, Notary Public
My Commission Expires April 6, 2021

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PERFORMANCE SPORTS GROUP LTD. CONSOLIDATED BALANCE SHEETS (UNAUDITED) (In thousands, except share data)

	November 30, 2015	May 31, 2015
ASSETS		
Cash	\$ 6,595	\$ 2,932
Restricted cash	4,000	—
Trade and other receivables, net of allowance for doubtful accounts of \$6,715 and \$2,038, respectively	228,223	199,375
Inventories, net	156,979	174,546
Income taxes receivable	9,817	7,393
Deferred income taxes	15,283	15,465
Prepaid expenses and other current assets	6,648	4,985
Total current assets	427,545	404,696
Property, plant and equipment, net of accumulated depreciation of \$23,550 and \$19,337, respectively	65,615	47,051
Goodwill	102,726	102,755
Intangible assets, net	277,347	276,754
Deferred income taxes	3,188	8,150
Other non-current assets	11,461	5,511
TOTAL ASSETS	\$ 887,882	\$ 844,917
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt	\$ 129,926	\$ 90,550
Accounts payable	44,131	41,518
Accrued liabilities	48,368	45,756
Current portion of retirement benefit obligations	302	320
Current portion of financing and capital lease obligations	186	179
Total current liabilities	222,913	178,323
Long-term debt	322,017	320,271
Retirement benefit obligation	4,721	5,057
Financing and capital lease obligations	25,752	14,406
Deferred income taxes	14,321	14,741
Other non-current liabilities	649	358
TOTAL LIABILITIES	590,373	533,156
STOCKHOLDERS' EQUITY		
Common stock, no par value; unlimited shares authorized; 45,566,680, and 45,552,180 shares issued and outstanding at November 30, 2015 and May 31, 2015, respectively	273,382	273,332
Additional paid-in capital	2,800	5,385
Retained earnings	47,167	56,022
Accumulated other comprehensive loss	(25,840)	(22,978)
TOTAL STOCKHOLDERS' EQUITY	297,509	311,761
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 887,882	\$ 844,917

See accompanying notes to consolidated financial statements.

PERFORMANCE SPORTS GROUP LTD.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)
(In thousands, except share and per share data)

	Three months ended November 30,		Six months ended November 30,	
	2015	2014	2015	2014
Revenues	\$ 153,030	\$ 172,254	\$ 328,076	\$ 369,389
Cost of goods sold	107,347	116,321	229,692	249,520
Gross profit	45,683	55,933	98,384	119,869
Selling, general and administrative expenses	39,509	39,138	79,640	74,951
Research and development expenses	5,912	6,412	12,145	12,534
Operating income	262	10,383	6,599	32,384
Interest expense, net	5,452	4,785	10,282	10,192
Realized gain on derivatives	(1,378)	(1,271)	(1,237)	(3,447)
Unrealized (gain) loss on derivatives	682	(563)	(1,365)	939
Foreign exchange loss	1,214	5,086	8,313	7,098
Other expenses (income)	(83)	77	(34)	89
Income (loss) before income taxes	(5,625)	2,269	(9,360)	17,513
Income tax expense (benefit)	(1,122)	1,238	(505)	5,735
Net income (loss)	\$ (4,503)	\$ 1,031	\$ (8,855)	\$ 11,778
Earnings (loss) per share:				
Basic	\$ (0.10)	\$ 0.02	\$ (0.19)	\$ 0.27
Diluted	\$ (0.10)	\$ 0.02	\$ (0.19)	\$ 0.26
Weighted-average shares outstanding:				
Basic	45,556,790	44,204,438	45,554,483	42,999,000
Diluted	45,556,790	46,659,728	45,554,483	45,460,620

See accompanying notes to consolidated financial statements.

PERFORMANCE SPORTS GROUP LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(In thousands)

	Three months ended November 30,		Six months ended November 30,	
	2015	2014	2015	2014
Net income (loss)	\$ (4,503)	\$ 1,031	\$ (8,855)	\$ 11,778
Other comprehensive income (loss):				
Foreign currency translation adjustments	(444)	(3,602)	(2,955)	(2,957)
Defined benefit pension plans, net of tax:				
Actuarial gains, net of tax	9	30	93	31
Reclassification adjustments included in net income (loss), net of tax	—	5	—	10
Other comprehensive loss	(435)	(3,567)	(2,862)	(2,916)
Comprehensive income (loss)	<u>\$ (4,938)</u>	<u>\$ (2,536)</u>	<u>\$ (11,717)</u>	<u>\$ 8,862</u>

See accompanying notes to consolidated financial statements.

PERFORMANCE SPORTS GROUP LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Six months ended November 30,	
	2015	2014
OPERATING ACTIVITIES		
Net income (loss)	\$ (8,855)	\$ 11,778
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Share-based payment expense	2,434	3,277
Depreciation and amortization	12,019	11,856
Unrealized (gain) loss from derivatives	(1,365)	939
Deferred income taxes	448	3,582
Bad debt expense	5,251	809
Loss on disposal of assets	229	26
Changes in operating assets and liabilities excluding the effect of acquisitions:		
Trade and other receivables	(41,189)	(50,871)
Inventories	13,060	(8)
Prepaid expenses and other assets	(3,587)	(3,982)
Trade and other payables	(301)	6,115
Accrued and other liabilities	10,732	12,255
Net cash used in operating activities	(11,124)	(4,224)
INVESTING ACTIVITIES		
Acquisition of businesses, net of cash acquired	—	732
Increase in restricted cash	(4,000)	—
Purchase of equity securities	(6,000)	—
Purchase of property, plant and equipment and intangible assets	(15,397)	(4,894)
Net cash used in investing activities	(25,397)	(4,162)
FINANCING ACTIVITIES		
Repayment of debt	—	(119,587)
Net movement in revolving debt	40,495	17,644
Payments on financing obligations	(71)	(146)
Proceeds from issuance of common stock	—	126,500
Common stock issuance costs	—	(9,526)
Proceeds from stock options exercises	38	—
Excess tax benefits from share-based compensation	—	1,581
Payment of taxes upon net stock option exercise	—	(409)
Net cash provided by financing activities	40,462	16,057
Effect of exchange rate changes on cash	(278)	(314)
Net increase in cash	3,663	7,357
Cash at beginning of period	2,932	6,871
Cash at end of period	\$ 6,595	\$ 14,228
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 8,615	\$ 8,446
Income taxes	2,243	7,389
Non-cash investing and financing activities		
Capitalization of costs related to financing lease obligation	12,008	6,668
Capitalization of intangible assets	6,150	—

See accompanying notes to consolidated financial statements.

PERFORMANCE SPORTS GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the three and six months ended November 30, 2015 and 2014
(In thousands, except share and per share data)

1. BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures required to be included in complete financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted from this report, as is permitted by such SEC rules and regulations. In the opinion of management, the accompanying unaudited consolidated financial statements contain all normal and recurring adjustments necessary to fairly present the consolidated financial position of Performance Sports Group Ltd. and its wholly owned subsidiaries (“PSG”, the “Company”, “We” or “Our”), results of operations and cash flows of the Company for the interim periods presented in accordance with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Results for interim periods are not necessarily indicative of results to be expected for a full fiscal year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended May 31, 2015. The consolidated balance sheet as at May 31, 2015 included herein is derived from the Company’s annual audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended May 31, 2015.

2. SIGNIFICANT ACCOUNTING POLICIES

There have been no changes to the Company’s significant accounting policies except as otherwise described in the Company’s Annual Report on Form 10-K for the year ended May 31, 2015.

Recent Accounting Pronouncements:

In November 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which eliminates the current requirement for companies to present deferred tax liabilities and assets as current and non-current in a classified balance sheet. Instead, companies will be required to classify all deferred tax assets and liabilities as non-current. This ASU is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the impact this accounting standard will have on the Company’s consolidated financial statements.

In August 2015, the FASB issued ASU No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line of Credit Arrangements*. This ASU indicates that the guidance in ASU 2015-03 did not address presentation or subsequent measurement of debt issuance costs related to line of credit arrangements. Given the absence of authoritative guidance within ASU 2015-03, the SEC staff has indicated that they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the costs ratably over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement. The Company does not expect the adoption of ASU 2015-15 to have any effect on the Company’s financial position or results of operations.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. This ASU changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation when cost is determined on a first-in, first-out or average cost basis. The provisions of ASU 2015-11 are effective for public entities with fiscal years beginning after December 15, 2016. The Company is currently evaluating the impact this accounting standard will have on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers: Topic 606*. This ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. In July 2015, the FASB announced a one-year deferral of the effective date of the new revenue recognition standard. This accounting standard is now effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted on the originally scheduled effective date. The Company is currently evaluating the impact this accounting standard will have on the Company’s consolidated financial statements.

3. SEASONALITY

Each of our sports demonstrates substantial seasonality. The spring/summer season of baseball and softball is complementary to the fall/winter season of hockey, and our quarterly sources of revenue and profitability are more balanced throughout our fiscal year as a result. The more evenly distributed seasonality of the combined business provides more consistent working capital levels and allows us to improve our efficiency in our manufacturing, distribution and other efforts.

Generally, our highest sales volumes for hockey occur during the first fiscal quarter of our fiscal year, followed by the next highest sales volumes in the second fiscal quarter of our fiscal year. Our lowest sales volumes for hockey occur during the third fiscal quarter of our fiscal year. Launch timing of our products add some variations between fiscal quarters each fiscal year.

In baseball/softball, our highest sales volumes occur in the third fiscal quarter of our fiscal year and the lowest sales volumes occur in the first fiscal quarter of our fiscal year. In lacrosse, our highest sales volumes occur in the second and third fiscal quarters of our fiscal year.

The shipment of soccer products occurs substantially in the first and fourth fiscal quarters of our fiscal year. We expect our team apparel revenues, including uniforms for ice hockey, roller hockey, lacrosse and other team sports, to align with the underlying sports' selling seasons as we expand our team apparel offering.

4. TRADE AND OTHER RECEIVABLES, NET

The Company recorded bad debt expense of \$3,343 and \$3,428 in the three and six months ended November 30, 2015, respectively, related to outstanding receivables for an internet baseball retailer that filed for bankruptcy reorganization.

5. INTANGIBLE ASSETS, NET

Intangible assets, net consisted of the following:

	November 30, 2015			May 31, 2015		
	Gross Amount	Accumulated Amortization	Carrying Value	Gross Amount	Accumulated Amortization	Carrying Value
Trade names and trademarks	\$ 196,900	\$ —	\$ 196,900	\$ 199,481	\$ —	\$ 199,481
Purchased technology	28,343	(8,263)	20,080	21,413	(7,135)	14,278
Customer relationships	86,334	(28,007)	58,327	86,513	(23,518)	62,995
Leases	2,150	(110)	2,040	—	—	—
Total	<u>\$ 313,727</u>	<u>\$ (36,380)</u>	<u>\$ 277,347</u>	<u>\$ 307,407</u>	<u>\$ (30,653)</u>	<u>\$ 276,754</u>

In October 2015, the Company acquired certain licensing rights in technology assets on an exclusive and perpetual basis for the amount of \$7,000 from Q30 Sports, LLC, a privately held entity. Q30 Sports, LLC and its parent company, Q30 Sports Science, LLC, have acquired and developed, and are currently testing, proprietary technology that has the potential to reduce indicators of mild traumatic brain injury. The Company paid \$3,000 in cash on October 15, 2015, and the balance of \$4,000 was paid on January 4, 2016. The Company maintained restricted cash balances of \$4,000 through January 4, 2016 at which time, the amount decreased to \$2,000. Future licensing payments of up to \$18,000 are conditional upon the achievement of certain product development and sales milestones. In addition, the Company purchased a \$1,000 non-controlling interest in Q30 Sports Science, LLC, also a privately held entity. Refer to Note 6 - Other Non-Current Assets for details on the Company's investment in Q30 Sports Science, LLC.

6. OTHER NON-CURRENT ASSETS

In September 2015, the Company purchased a non-controlling interest in Cocona, Inc., a privately held entity that created and owns 37.5TM technology, a patented moisture management technology that utilizes body heat to evaporate moisture from apparel and equipment. Bauer Hockey launched at retail its base layer, team apparel and elite protective equipment incorporating 37.5TM technology in spring 2014. The use of 37.5TM technology is exclusive to PSG in hockey, baseball/softball (excluding MLB-licensed apparel), lacrosse, and non-exclusive to the Company in soccer through 2020. The amount of the investment totaled \$5,000. Contemporaneous with the investment, Cocona, Inc. and the Company entered into a new license agreement that, among other things, removed the obligation for the Company and its affiliates to pay exclusivity fees (under the former license these fees could potentially have exceeded over \$5,000 through 2020).

In October 2015, the Company purchased a \$1,000 non-controlling interest in Q30 Sports Science, LLC, a privately held entity. Refer to Note 5 - Intangible Assets, Net for a description of Q30 Sports Science, LLC.

These investments are accounted for at cost. The Company regularly monitors these investments to determine if facts and circumstances have changed in a manner that would require a change in accounting methodology. Additionally, the Company regularly evaluates whether or not these investments have been impaired by considering such factors as economic environment, market conditions, operational performance and other specific factors relating to the businesses underlying the investments. If any such impairment is identified, a reduction in the carrying value of the investments would be recorded at that time.

7. DEBT

The total debt outstanding is comprised of:

	November 30, 2015	May 31, 2015
Asset-based revolving loan	\$ 132,112	\$ 92,878
Term loan due 2021	330,457	330,457
Financing costs	(10,626)	(12,514)
Total debt	<u>\$ 451,943</u>	<u>\$ 410,821</u>
Current	\$ 129,926	\$ 90,550
Non-current	322,017	320,271
Total debt	<u>\$ 451,943</u>	<u>\$ 410,821</u>

8. RESTRUCTURING COSTS

In November 2015, the Company announced to the employees of its distribution facility (the “Distribution Facility”) in Mississauga, Ontario, its intention to discontinue distribution operations at the Distribution Facility in February 2016. As a result, 59 employees are expected to be terminated between January and February 2016. The Distribution Facility is being closed in an effort to better align the Company’s distribution activities with its overall business needs while enabling the Company to better serve its customers and is part of a cost reduction initiative.

The Company currently expects to incur estimated pre-tax expenses of \$3,800 in connection with the discontinuation of distribution activities at the Distribution Facility. These expenses include the following major components: (i) estimated employee-related costs (including severance) of \$3,000 and (ii) estimated other related costs of \$800.

The restructuring liability, which is recorded in accrued liabilities on the consolidated balance sheet, is summarized as follows:

	Severance and other employee- related costs	Other Costs	Total
Balance as of May 31, 2015	\$ —	\$ —	\$ —
Charges	1,700	24	1,724
Payments	—	(24)	(24)
Foreign currency and other	(29)	—	(29)
Balance at November 30, 2015	<u>\$ 1,671</u>	<u>\$ —</u>	<u>\$ 1,671</u>

The Company recognized restructuring costs of \$1,724 in the three and six months ended November 30, 2015, which are included in cost of goods sold.

9. INCOME TAXES

Income tax expense (benefit) is recognized based on management’s best estimate of the annual effective income tax rate expected for the full fiscal year applied to income (loss) before income taxes of the interim period. The Company’s effective tax rate (“ETR”) for the three and six months ended November 30, 2015 was 19.5% (2014 - 54.6%) and 5.4% (2014 - 32.7%), respectively. The

decrease in the three and six-month periods' ETR was due in part to the relative mix of pre-tax income (loss) between Canada and the U.S. (the Company's primary tax jurisdictions). Unrealized capital losses for which no tax benefit could be recognized reduced the ETR for the current year three and six month periods, and increased the ETR for the comparable prior year periods.

10. STOCKHOLDERS' EQUITY

On June 25, 2014, the Company completed its underwritten public offering in the United States and Canada (the "Offering") of 8,161,291 Common Shares at a price to the public of \$15.50 per share, for total gross proceeds of approximately \$126,500, including the exercise in full of the over-allotment option. The Company used the net proceeds of the Offering to repay \$119,500 of the New Term Loan Facility. The Company incurred \$244 and \$9,526 in common stock issuance costs in the three and six months ended November 30, 2014, respectively. These costs are recorded in common stock in the consolidated balance sheets.

11. SHARE-BASED COMPENSATION

The Company recognized share-based compensation expense as follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2015	2014	2015	2014
Share-based compensation for employee awards	\$ 1,078	\$ 1,425	\$ 2,049	\$ 2,949
Share-based compensation for non-employee awards	293	176	385	328
Total share-based compensation	<u>\$ 1,371</u>	<u>\$ 1,601</u>	<u>\$ 2,434</u>	<u>\$ 3,277</u>

Omnibus Equity Incentive Plan

The Omnibus Equity Incentive Plan was adopted by the Board of Directors on August 11, 2015 and approved by the shareholders of the Company on October 14, 2015 at the Company's annual and special meeting of shareholders. The Omnibus Equity Incentive Plan provides for the grant of nonqualified stock options, incentive stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units ("RSUs"), deferred stock units, other stock-based awards, and performance compensation awards. The total number of Common Shares reserved for issuance under the Omnibus Equity Incentive Plan is 3,000,000 Common Shares. At November 30, 2015, the maximum number of Common Shares available for future issuance under the Omnibus Equity Incentive Plan was 1,399,389.

The Company grants awards under the Omnibus Equity Incentive Plan to employees, nonemployees, and directors of the Company or its affiliates. Employee service-based awards have a contractual life of 10 years and typically vest over a period of 4 years from grant-date. Nonemployee service-based awards have a contractual life of 10 years and typically vest over a period of up to 6 years. Director service-based awards fully vest on the applicable date of grant and the Company settles the awards following the director's separation from service with the Company in accordance with the Omnibus Equity Incentive Plan and pursuant to the terms and conditions of the applicable grant agreement.

Under the terms of the Omnibus Equity Incentive Plan, each eligible director ("Eligible Directors") may elect to receive up to 100% of the cash portion of such director's compensation in the form of deferred share units ("DSUs"). If the Eligible Director elects to receive all or a portion of such director's cash compensation in DSUs, such election is fixed for the ensuing fiscal year. In addition, Eligible Directors receive the equity portion of their compensation in the form of DSU's. The number of Common Shares awarded to satisfy that liability is variable based on the value of the Common Shares at the time of settlement of the liability. The DSUs are therefore classified as liability awards.

The assumptions used for options granted to acquire Common Shares and the fair value at the date of grant is noted in the following table:

	Three Months Ended November 30, 2015	Six Months Ended November 30, 2015
Weighted average expected term (in years)	6.7	6.7
Weighted average expected volatility	30.22%	30.22%
Weighted average risk-free interest rate	1.75%	1.75%
Expected dividend yield	—%	—%
Weighted average fair value per option granted	\$4.20	\$4.20

Information concerning options activity under the Omnibus Equity Incentive Plan for options to acquire Common Shares is summarized as follows:

	Six Months Ended November 30, 2015	
	Number of Options	Weighted- Average Exercise Price
Outstanding, beginning of period	—	\$ —
Granted	1,293,178	12.45
Outstanding, end of period	1,293,178	\$ 12.45
Options exercisable, end of period	—	\$ —

Information concerning RSUs activity under the Omnibus Equity Incentive Plan is summarized as follows:

	Six Months Ended November 30, 2015	
	Number of RSUs	Weighted- Average Grant Date Fair Value
Outstanding, beginning of period	—	\$ —
Granted	307,433	12.33
Outstanding, end of period	307,433	\$ 12.33
Vested, end of period	—	\$ —

Second Amended and Restated 2011 Plan ("2011 Plan")

In connection with the adoption of the Omnibus Equity Incentive Plan, no further options will be granted under the 2011 Plan. The 2011 Plan will continue to govern options previously granted under the plan.

Deferred Share Unit Plan ("DSU Plan")

In connection with the adoption of the Omnibus Equity Incentive Plan, no further DSUs will be granted under the DSU Plan. The DSU Plan will continue to govern DSUs previously granted under the DSU Plan.

12. EARNINGS PER SHARE

The following is a reconciliation from basic earnings per common share to diluted earnings per common share:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2015	2014	2015	2014
Net income (loss)	\$ (4,503)	\$ 1,031	\$ (8,855)	\$ 11,778
Weighted average common shares outstanding, assuming conversion of proportionate voting shares - Basic	45,556,790	44,204,438	45,554,483	42,999,000
Assumed conversion of dilutive stock options and awards	—	2,455,290	—	2,461,620
Diluted weighted average common shares outstanding	45,556,790	46,659,728	45,554,483	45,460,620
Basic earnings (loss) per common share	\$ (0.10)	\$ 0.02	\$ (0.19)	\$ 0.27
Diluted earnings (loss) per common share	\$ (0.10)	\$ 0.02	\$ (0.19)	\$ 0.26
Anti-dilutive stock options and awards excluded from diluted earnings (loss) per share calculation	1,353,939	64,306	1,556,341	83,645

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive income (loss), net of taxes, are as follows:

	Foreign currency translation	Defined benefit pension plans	Total
Balance as of May 31, 2014	\$ (13,765)	\$ (934)	\$ (14,699)
Other comprehensive income (loss) before reclassifications	(2,957)	31	(2,926)
Amounts reclassified from accumulated other comprehensive loss to net income	—	10	10
Balance at November 30, 2014	<u>\$ (16,722)</u>	<u>\$ (893)</u>	<u>\$ (17,615)</u>
Balance as of May 31, 2015	\$ (21,956)	\$ (1,022)	\$ (22,978)
Other comprehensive income (loss) before reclassifications	(2,955)	93	(2,862)
Balance at November 30, 2015	<u>\$ (24,911)</u>	<u>\$ (929)</u>	<u>\$ (25,840)</u>

14. SEGMENT INFORMATION

The Company has two reportable operating segments, Hockey and Baseball/Softball. The remaining operating segments do not meet the criteria for a reportable segment and are included in Other Sports. The Hockey segment includes the Bauer and Mission brands. The Baseball/Softball segment includes the Easton and Combat brands. Other Sports includes the Lacrosse and Soccer operating segments, which includes the Maverik and Cascade brands for Lacrosse, and the Inaria brand for Soccer.

These operating segments were determined based on the management structure and the financial information, among other factors, reviewed by the Chief Operating Decision Maker (“CODM”) to assess segment performance. Operating segment profit is evaluated using EBITDA adjusted for items excluded by the CODM, which is not a measure defined by U.S. GAAP, and is reviewed by the CODM. Certain PSG functional platform costs are directly allocated to each operating segment based on usage or other relevant operational metrics. PSG’s functional platform costs consist of expenses incurred by centrally-managed functions, including global information systems, finance and legal, distribution and logistics, sourcing and manufacturing, and other miscellaneous costs.

PSG corporate expenses, currency related gains (losses), acquisition related expenses and other costs are not controlled by the management at each operating segment and therefore are excluded from segment EBITDA. PSG corporate expenses consist of executive compensation and administration costs, public company costs, certain tax credits and other miscellaneous costs. Currency related gains (losses) consists of foreign exchange gains (losses) and the unrealized gain (loss) on derivative instruments. The realized gain (loss) on derivative instruments is included in the EBITDA of the Hockey operating segment because it currently relates specifically to Hockey cost of goods sold. Acquisition related expenses consist of charges to cost of goods sold resulting from the fair market value adjustment to inventory, integration costs, costs related to reviewing corporate opportunities, and transaction costs. Other costs consist of share-based payment expenses and items that the CODM excludes from segment EBITDA, including, for example, items that are infrequent in nature such as costs related to share offerings.

Segment revenue information is summarized as follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2015	2014	2015	2014
Hockey	\$ 91,881	\$ 113,384	\$ 229,427	\$ 273,798
Baseball/Softball	50,941	49,233	83,060	81,585
Other Sports	10,208	9,637	15,589	14,006
Total revenues	<u>\$ 153,030</u>	<u>\$ 172,254</u>	<u>\$ 328,076</u>	<u>\$ 369,389</u>

Segment EBITDA information is summarized as follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2015	2014	2015	2014
Hockey	\$ 7,327	\$ 12,917	\$ 26,528	\$ 51,894
Baseball/Softball	7,886	11,474	9,077	15,198
Other Sports	977	1,514	30	117
Total segment EBITDA ⁽¹⁾	\$ 16,190	\$ 25,905	\$ 35,635	\$ 67,209

(1) Represents a non-GAAP financial measure.

The reconciliation of total segment EBITDA to income before income taxes is summarized as follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2015	2014	2015	2014
Total segment EBITDA	\$ 16,190	\$ 25,905	\$ 35,635	\$ 67,209
Corporate expenses	(896)	(1,877)	(3,642)	(3,338)
Acquisition related expenses	(4,559)	(2,863)	(9,140)	(11,632)
Depreciation and amortization	(5,664)	(5,367)	(10,850)	(10,567)
Interest expense, net	(5,452)	(4,785)	(10,282)	(10,192)
Currency related losses	(1,896)	(4,523)	(6,948)	(8,037)
Other ⁽¹⁾	(3,348)	(4,221)	(4,133)	(5,930)
Income (loss) before income taxes	\$ (5,625)	\$ 2,269	\$ (9,360)	\$ 17,513

(1) Other consists of share-based payments expense and items that the CODM excludes from segment EBITDA.

15. DERIVATIVES & RISK MANAGEMENT

The following table summarizes the fair value of derivative instruments by contract type as well as the location of the asset and/or liability on the consolidated balance sheets at November 30, 2015 and May 31, 2015:

Balance Sheet Location		November 30, 2015	May 31, 2015
Assets:			
Foreign currency forward contracts	Prepaid and other current assets	\$ 1,640	\$ 697
Foreign currency forward contracts	Other non-current assets	150	54
Liabilities:			
Foreign currency forward contracts	Accrued liabilities	18	141
Variable cash settlement	Accrued liabilities	187	—
Foreign currency forward contracts	Other non-current liabilities	16	—
Variable cash settlement	Other non-current liabilities	—	20

The following table summarizes the location of gains and losses on the consolidated statements of income that were recognized during the three and six months ended November 30, 2015 in addition to the derivative contract type:

Derivatives not designated as hedging instruments	Location of (gain) loss recognized in income on derivative instruments	Three Months Ended November 30,		Six Months Ended November 30,	
		2015	2014	2015	2014
Foreign currency forward contracts	Realized (gain) loss on derivatives	\$ (1,378)	\$ (1,271)	\$ (1,237)	\$ (3,447)
Foreign currency forward contracts	Unrealized (gain) loss on derivatives	682	(563)	(1,365)	939
Variable cash settlement	Selling, general and administrative expenses	63	(68)	175	(237)

16. FAIR VALUE MEASURES

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of November 30, 2015 and May 31, 2015 and indicate the level of the fair value hierarchy utilized by the Company to determine such fair value:

	Fair Value Measurements as of November 30, 2015 Using:		
	Level 1	Level 2	Level 3
Assets:			
Foreign currency forward contracts	\$ —	\$ 1,790	\$ —
Liabilities:			
Foreign currency forward contracts		\$ 34	
Variable cash settlement	\$ —	\$ 187	\$ —

	Fair Value Measurements as of May 31, 2015 Using:		
	Level 1	Level 2	Level 3
Assets:			
Foreign currency forward contracts	\$ —	\$ 751	\$ —
Liabilities:			
Foreign currency forward contracts		\$ 141	
Variable cash settlement	\$ —	\$ 20	\$ —

17. COMMITMENTS AND CONTINGENCIES

In July 2015, the Company entered into a lease agreement as a second tenant of a property in Thousand Oaks, California (the "Thousand Oaks property") for a lease term of 125 months. Per the terms of the lease agreement and due to the Company's involvement in the restoration of the facility, the Company was determined to be the owner of the facility during the construction period and recognized an asset and liability in the amount of \$12,008. Upon completion of the restoration of the Thousand Oaks property, the Company will assess whether the lease qualifies for sales recognition under the sale-leaseback accounting guidance. The Company currently expects that the lease for the Thousand Oaks property will qualify for sales recognition under the sale-leaseback accounting guidance and, if that is the case, will remove the asset and liability from its consolidated balance sheet.

The Company acquired Kohlberg Sports Group Inc. (“KSGI”) on March 10, 2011. In connection with the acquisition of Bauer Hockey by KSGI in April 2008, a subsidiary of KSGI agreed to pay additional consideration to Nike, Inc. in future periods, based upon the attainment of a qualifying exit event. At August 31, 2015, the maximum potential future consideration pursuant to such arrangements, to be resolved on or before April 16, 2016, such date being the eighth anniversary of April 16, 2008, is \$10,000. On April 16, 2008, all of the security holders of KSGI (collectively, the “Existing Holders”) entered into a reimbursement agreement with the Company pursuant to which each of the Existing Holders agreed to reimburse the Company, on a *pro rata* basis, in the event that the Company or any of its subsidiaries are obligated to make a payment to Nike, Inc. As of November 30, 2015, the Company determined that no such qualifying exit event has occurred. The Company will continue to assess the probability of a qualifying exit event through the eighth anniversary date.

The Company previously entered into employment agreements with the former owners of Inaria in connection with the closing of the acquisition of Inaria. Included in the employment agreements are yearly performance bonuses payable in the event Inaria achieves gross profit targets in the period one to four years following the closing date, such date being October 16, 2012. These amounts, if any, will be accrued over the required service period. As of November 30, 2015, the potential undiscounted amount of the future payments that the Company could be required to make is between \$0 and \$900 Canadian dollars.

In the ordinary course of its business, the Company is involved in various legal proceedings involving contractual and employment relationships, product liability claims, trademark rights, and a variety of other matters. The Company does not believe there are any pending legal proceedings that will have a material impact on the Company’s consolidated balance sheets or consolidated statements of income.

18. SUBSEQUENT EVENTS

On January 13, 2016, the Company, through its wholly-owned subsidiaries, Bauer Hockey, Inc. and Bauer Hockey Corp., acquired substantially all of the assets and assumed certain liabilities of Easton Hockey Holdings, Inc. (the “Easton Hockey Acquisition”), a manufacturer and distributor of hockey equipment, pursuant to an asset purchase agreement among Bauer Hockey, Inc., Bauer Hockey Corp., Easton Hockey Holdings, Inc., Easton Hockey, Inc. and Easton Sports Canada, Inc. The acquisition provides the Company with intellectual property that will strengthen its research and development portfolio and ensures that the Company will have full ownership and control of the Easton brand in all sports other than cycling and archery. The Company will pay approximately \$12,000 in cash over a period of 10 months and will finance the acquisition through additional borrowings on its asset-based revolving loan.

Due to the limited time since the closing of the Easton Hockey Acquisition, the valuation activities and related acquisition accounting are incomplete at this time. The Company currently expects to record a gain on bargain purchase due to the excess fair value of assets and liabilities acquired over the purchase price in the third fiscal quarter of the fiscal year.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This discussion summarizes our consolidated operating results, financial condition and liquidity during the three-month periods ended November 30, 2015 and November 30, 2014. The following Management’s Discussion and Analysis of our Financial Condition and Results of Operations should be read in conjunction with the accompanying consolidated financial statements and notes thereto and the Company’s Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

This discussion contains forward-looking statements that are based upon current expectations and are subject to risks, uncertainties and assumptions that could cause our results to differ materially from expectations. Factors that might cause such differences include, but are not limited to, those described under “Part I. Item 1A. Risk Factors” of the Company’s Annual Report on Form 10-K, “Note Regarding Forward-Looking Statements” in this quarterly report on Form 10-Q, and elsewhere in this quarterly report on Form 10-Q.

Executive Overview

The Company is a leading developer and manufacturer of ice hockey, roller hockey, lacrosse, baseball and softball sports equipment, as well as related apparel and soccer apparel. The Company is the global leader in hockey with the strongest and most recognized brand, and it holds the No. 1 North American position in baseball and softball. Its products are marketed under the BAUER, MISSION, MAVERIK, CASCADE, INARIA, COMBAT and EASTON brand names and are distributed by sales representatives and independent distributors throughout the world. In addition, the Company distributes its hockey products through

its Burlington, Massachusetts and Bloomington, Minnesota Own The Moment Hockey Experience retail stores. The Company is focused on building its leadership position by growing market share in all product categories and pursuing strategic acquisitions.

Our mission is to elevate player performance and protection through athlete insight and superior innovation. Financially, our objectives are to grow our revenues each year faster than the total market for each of our sports and grow our profitability faster than revenues, in each case, on a constant currency basis. We have a diversified and balanced business model and are focused on growth through the following opportunities:

- Significantly grow market share in Baseball/Softball - as we did with Hockey, we are aiming to expand our market share in Baseball/Softball by investing in product development, developing a disciplined category management process and connecting with our core consumers.
- Continue to grow in Hockey - although we hold the overall No.1 market share position, we look to continue to expand market share in every category, with a particular focus on ice hockey sticks, the largest dollar category in the industry.
- Grow apparel across all sports - the apparel market is highly fragmented and we are aiming to grow apparel across all of our sports by leveraging the strength of our brands as well as continued R&D investments in apparel.
- Continue rapid growth in lacrosse - lacrosse continues to be one of the fastest growing sports in the United States and we are aiming to grow market share, and are targeting market leadership by 2016. We focus our efforts on the fast-growing youth and high school markets, including the women's game.
- Continue to pursue strategic acquisitions - we are an acquirer of choice and our global operating platform is applicable for many sports. We have established an effective internal process for identifying, acquiring and integrating target companies and technologies.

Highlights of Q2 Fiscal 2016 vs. Q2 Fiscal 2015

- Revenues totaled \$153.0 million, declining 11.2% (down 5.5% in constant currency)
- Adjusted Gross Profit was \$50.6 million, declining 18.6% (down 2.1% in constant currency)
- Adjusted Gross Profit margin was 33.1%, down 300 basis points (up 130 basis points in constant currency)
- Gross profit was \$45.7 million, declining 18.3% (down 0.5% in constant currency), and gross profit margin was 29.9%, down 260 basis points (up 160 basis points in constant currency)
- Adjusted EBITDA was \$15.3 million, down 36.3% (down 2.1% in constant currency)
- Adjusted Net Income totaled \$5.9 million or \$0.13 per share, compared to \$11.3 million or \$0.24 per share (Adjusted Net Income of \$11.8 million or \$0.25 per share in constant currency)
- Net loss totaled \$4.5 million or (\$0.10) per share, compared to net income of \$1.0 million or \$0.02 per share (net loss of \$0.5 million or (\$0.01) per share in constant currency)

Recent Highlights

On January 13, 2016, the Company acquired the EASTON hockey business ("Easton Hockey"). The acquisition adds Easton Hockey's heritage of innovation to our existing BAUER brand, while also adding intellectual property assets that will enhance our product lines under both the EASTON and BAUER brands. In addition, the acquisition will provide the Company with exclusive control of the EASTON brand in all sports other than cycling and archery. The Company will pay approximately \$12.0 million in cash over a period of 10 months and will finance the acquisition through additional borrowings on its asset-based revolving loan.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this quarterly report on Form 10-Q about our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995 and within the meaning of applicable Canadian securities laws (collectively, "forward-looking statements"). Such statements often include words such as "may," "will," "would," "should," "could," "expects," "plans," "intends," "trends," "indicates," "anticipates," "believes," "estimates," "predicts," "likely," or "potential" or the negative or other variations of these words or other comparable words or phrases.

Discussions containing forward-looking statements may be found, among other places, under this Item 2 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements are based on estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable under the circumstances, but there can be no assurance that such estimates and assumptions will prove to be correct. Certain assumptions with respect to the determination of acquisition accounting, valuation of derivatives, share-based payments, claim liabilities, employee future benefits, income taxes, the impairment of assets, and goodwill and intangibles are material factors made in preparing forward-looking information and management’s expectations.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in Part I, Item 1A “Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended May 31, 2015 and in Part II, Item 1A “Risk Factors” section of this quarterly report on Form 10-Q: inability to maintain and enhance brands, inability to introduce new and innovative products, intense competition in the sporting equipment and apparel industries, inability to own, enforce, defend and protect intellectual property rights worldwide, costs associated with potential lawsuits to enforce, defend or protect intellectual property rights, inability to protect our known brands and rights to use such brands, infringement of intellectual property rights of others, inability to translate booking orders into realized sales, including risks associated with changes in the mix or timing of orders placed by customers, seasonal fluctuations in our operating results and the trading price of our Common Shares, decrease in popularity of ice hockey, baseball and softball, roller hockey or lacrosse, reduced popularity of the National Hockey League, Major League Baseball or other professional or amateur leagues in sports in which our products are used, adverse publicity of athletes who use our products or the sports in which our products are used, inability to ensure third-party suppliers will meet quality and regulatory standards, reliance on third-party suppliers and manufacturers, disruption of distribution systems, loss of significant customers or suppliers, loss of key customers’ business due to customer consolidation, change in the sales mix towards larger customers, cost of raw materials, shipping costs and other cost pressures, risks associated with doing business abroad, inability to expand into international market segments, inability to accurately forecast demand for products, inventory shrinkage, excess inventory due to inaccurate demand forecasts, product liability, warranty and recall claims, inability to successfully design products that satisfy testing protocols and standards established by testing and athletic governing bodies, inability to obtain and maintain necessary approvals in respect of products that may be considered medical devices, inability to successfully open and operate Own The Moment Hockey Experience retail stores, inability to successfully implement our strategic initiatives on anticipated timelines, including our profitability improvement initiative, risks associated with our third-party suppliers and manufacturers failing to manufacture products that comply with all applicable laws and regulations, inability to source merchandise profitably in the event new trade restrictions are imposed or existing trade restrictions become more burdensome, departure of senior executives or other key personnel with specialized market knowledge and technical skills, litigation, including certain class action lawsuits, employment or union-related disputes, disruption of information technology systems, including damages from computer viruses, unauthorized access, cyberattack and other security vulnerabilities, potential environmental liabilities, restrictive covenants in our credit facilities, increasing levels of indebtedness, inability to generate sufficient cash to fund operations or service the Company’s indebtedness failure to make, integrate, and maintain new acquisitions, inability to realize growth opportunities or cost synergies that are anticipated to result from new acquisitions such as Easton Baseball/Softball, undisclosed liabilities acquired pursuant to recent acquisitions, volatility in the market price for Common Shares, possibility that we will need additional capital in the future, incurrence of additional expenses as a result of the loss of our foreign private issuer status, assertion that the acquisition of the Bauer Hockey Business at the time of the Canadian IPO was an inversion transaction, our current intention not to pay cash dividends, dependence on the performance of subsidiaries given our status as a holding company, potential inability of investors to enforce judgments against the Company and its directors, fluctuations in the value of certain foreign currencies, including the Canadian dollar, in relation to the U.S. dollar, and other world currencies, general adverse economic and market conditions, changes government regulations, including tax laws and unanticipated tax liabilities and natural disasters and geo-political events. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

The purpose of the forward-looking statements in this quarterly report on Form 10-Q is to provide the reader with a description of management’s current expectations regarding the Company’s financial performance and may not be appropriate for other purposes. Accordingly, readers should not place undue reliance on forward-looking statements made herein. Unless otherwise stated, the forward-looking statements contained in this quarterly report on Form 10-Q are made as of the date of this quarterly report on Form 10-Q, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained in this quarterly report on Form 10-Q are expressly qualified by this cautionary statement.

Factors Affecting our Performance

Seasonality

Each of our sports demonstrates substantial seasonality. The spring/summer season of Baseball/Softball is highly complementary to the fall/winter season of Hockey, and our quarterly sources of revenue and profitability are more balanced throughout our fiscal year as a result. The more evenly distributed seasonality of the combined business provides more consistent working capital levels and allows us to improve our efficiency in our manufacturing, distribution and other efforts.

Generally, our highest sales volumes for Hockey occur during the first fiscal quarter of our fiscal year, followed by the next highest sales volumes in the second fiscal quarter of our fiscal year. Our lowest sales volumes for Hockey occur during the third fiscal quarter of our fiscal year. In ice hockey, we have three sub-brands of products - VAPOR, SUPREME and NEXUS. In certain fiscal years, we launch new products under more than one sub-brand. Launch timing of our products add some variations between fiscal quarters each fiscal year.

In Baseball/Softball, our highest sales volumes for EASTON and COMBAT products occur in the third fiscal quarter of our fiscal year and the lowest sales volumes occur in the first fiscal quarter of our fiscal year.

In Lacrosse, our highest sales volumes for MAVERIK and CASCADE products occur in the second and third fiscal quarters of our fiscal year.

The shipment of INARIA soccer products occurs substantially in the first and fourth fiscal quarters of our fiscal year. We expect our team apparel revenues, including uniforms for ice hockey, roller hockey, lacrosse and other team sports, to align with the underlying sports' selling seasons as we expand our team apparel offering.

Revenues

We generate revenues from the sale of performance sports equipment and related apparel and accessories. We offer various cooperative marketing incentive programs to assist our sales channels with the marketing and selling of our products. These costs are recorded as a reduction of revenues. Each sport business within PSG manages its own commercial organization and go-to-market strategy.

The current sales channels for our sports businesses include (i) retailers in North America and the Nordic countries, (ii) distributors throughout the rest of the world (principally, Western Europe, Eastern Europe, and Russia), (iii) direct sales to teams, and (iv) Own The Moment Hockey Experience retail stores direct to consumer. Based on the regional mix, our revenues are generated in multiple currencies. For revenues, we are exposed to foreign currency exchange rate fluctuations of the U.S. dollar against the Canadian dollar, the euro, the Swedish krona, Norwegian krona and Danish krona.

The following table highlights revenues for the periods indicated:

(millions of U.S. dollars, except for percentages)	Three Months Ended		Period Over Period Growth Rate ⁽¹⁾	Six Months Ended		Period Over Period Growth Rate ⁽²⁾
	November 30, 2015	November 30, 2014		November 30, 2015	November 30, 2014	
Revenues:						
Canada	\$ 30.7	\$ 40.0	(23.3)%	\$ 82.2	\$ 101.2	(18.8)%
United States	102.5	106.6	(3.8)%	189.5	192.6	(1.6)%
Rest of world	19.8	25.7	(23.0)%	56.4	75.6	(25.4)%
Total Revenues	\$ 153.0	\$ 172.3	(11.2)%	\$ 328.1	\$ 369.4	(11.2)%

(1) Three-month period ended November 30, 2015 vs. the three-month period ended November 30, 2014.

(2) Six-month period ended November 30, 2015 vs. the six-month period ended November 30, 2014.

Cost of Goods Sold

Our cost of goods sold is comprised primarily of (i) the cost of finished goods, materials and components purchased from

our suppliers, manufacturing labour and overhead costs in our manufacturing facilities, (ii) supply chain-related costs, such as freight, duties, warehousing and other distribution costs, (iii) warranty costs and (iv) inventory provisions and write-offs. Our warranty costs result from a general warranty policy providing coverage against manufacturing defects. Warranties range from 30 days to one year from the date sold to the consumer, depending on the type of product. Our warranty costs are primarily driven by sales of composite ice hockey sticks and baseball/softball bats. Amortization associated with certain acquired intangible assets, such as purchased technology and customer relationships, is also included in cost of goods sold. We also include charges to cost of goods sold resulting from the fair market value adjustment to inventory associated with certain acquired inventories.

PSG's cost of goods sold are exposed to transactional foreign currency risk in the following ways:

- PSG's subsidiaries purchase finished goods inventory directly from third party factories in U.S. dollars. These purchases generate a foreign currency exposure for those PSG subsidiaries with a functional currency other than the U.S. dollar, primarily PSG's Hockey business outside of the U.S. which has a functional currency of primarily Canadian dollars, Swedish krona and euro. As a result, a stronger U.S. dollar increases the inventory cost incurred by the relevant PSG subsidiary whereas a weaker U.S. dollar decreases its cost. The Company uses foreign currency forward contracts to hedge a portion of its exposure to fluctuations in the value of the U.S. dollar against the Canadian dollar. The resulting realized gain/loss on derivatives is an economic offset to the cost of goods sold.
- We source the majority of our products from suppliers in China and Thailand and agree to buy such products in U.S. dollars. We enter into supplier agreements ranging from six to twelve months with respect to the U.S. dollar cost of our Asian-sourced finished goods. In these agreements, we adjust for changes in the relevant foreign exchange rates in which the factory labor, materials and overhead are denominated. As a result, our cost of goods sold is impacted by the fluctuations of the Chinese renminbi, Thai baht and certain other Asian currencies against the U.S. dollar. Therefore, a strengthening U.S. dollar relative to these Asian currencies decreases PSG's U.S. dollar sourced product cost, whereas a weakening U.S. dollar increases our sourced product cost. We do not currently hedge our exposure to fluctuations in the value of these factory input cost currencies.

Selling, General and Administrative Expenses

Our SG&A expenses consist primarily of costs relating to our sales and marketing activities, including salaries, commissions and related personnel costs, customer order management and support activities, advertising, trade shows, and other promotional activities. Our marketing expenses include promotional costs for launching new products, advertising, and athlete endorsement costs. Our administrative expenses consist of, among other things, costs relating to information systems, legal and finance functions, professional fees, insurance, and other corporate expenses. We also include share-based payment expense, costs related to share offerings, and acquisition costs, including rebranding and integration costs, in SG&A expenses. We expect our SG&A expenses to increase as we make investments in the Easton Baseball/Softball business, continue to expand our Bauer Hockey retail business, make investments in R&D such as the Q30 Sports, LLC technology, and continue to invest in certain PSG platform functions.

Research and Development Expenses

R&D expenses consist primarily of salaries and related consulting expenses for technical personnel, contracts with leading research facilities, as well as materials and consumables used in product development. To date, no development costs have been capitalized. We incur most of our R&D expenses in Canada and are eligible to receive Scientific Research and Experimental Development investment tax credits for certain eligible expenditures which are recorded as a reduction to income tax expense. We currently expect our R&D expenses to grow as a result of investments in our Easton Baseball/Softball business, and as we focus on enhancing and expanding our product lines.

Interest Expense

Interest expense is derived from the financing activities of the Company and consists of interest expense on our term loan and revolving loan, and the amortization of deferred financing fees. As of November 30, 2015, the Credit Facilities (as defined herein) consist of a \$450 million secured term loan credit agreement (the "New Term Loan"), denominated in U.S. dollars of which \$330.5 million was drawn, and a \$200 million secured asset-based revolving credit facility (the "New ABL Facility" and together with the New Term Loan, the "Credit Facilities"), denominated, and able to be drawn in, both Canadian dollars and U.S. dollars, of which \$132.1 million was drawn, the availability of which is subject to meeting certain borrowing base requirements. Please see "Liquidity and Capital Resources - Indebtedness" for a more detailed discussion of the Credit Facilities.

Impact of Foreign Exchange and Hedging Practices

As a global company with significant operations outside the United States, in the normal course of business we are exposed to risk arising from the changes in currency exchange rates. Our primary foreign currency exposures arise from the recording of transactions denominated in non-functional currencies and the translation of foreign currency denominated results of operations, financial position, and cash flows into U.S. dollars.

Our foreign exchange risk management efforts are intended to lessen the effects of currency fluctuations on our consolidated results of operations, financial position, and cash flows. We manage global foreign exchange risk centrally on a portfolio basis to address those risks that are material to PSG. We manage these exposures primarily through the use of foreign exchange forward contracts, which are recorded on the consolidated balance sheet at fair value (see Note 15 - Derivatives and Risk Management and Note 16 - Fair Value Measures in the accompanying Notes to Consolidated Financial Statements). Our hedging practices are designed to provide stability around the receipt of cash, and at least partially offset the impact of exchange rate changes on the underlying exposures being hedged. Where exposures are hedged, our program has the effect of reducing volatility in our financial results and at least delaying the impact of exchange rate movements on our consolidated financial statements when a currency's direction is sustained over a longer period; the length of delay is dependent upon hedge horizons. We do not hold or issue derivative instruments for trading or speculative purposes.

The Company primarily uses foreign currency forward contracts to hedge the effect of changes in currency exchange rates on its product costs (see the "Cost of Goods Sold" section above). The resulting realized gain/loss on derivatives is an economic offset to the cost of goods sold that are recorded in the Company's gross profit. The Company has not elected hedge accounting; therefore, the changes in the fair value of these derivatives are recognized as unrealized gains and losses through profit or loss each reporting period. In the six-month periods ended November 30, 2015 and November 30, 2014, the Company settled Canadian dollar forward contracts for \$58.0 million and \$70.0 million, respectively, at a weighted average exchange rate of 1.24 and 1.04, respectively. As of November 30, 2015, the amount of Canadian dollar forward contracts outstanding was \$70.0 million at a weighted average exchange rate of 1.30. As of November 30, 2014, the amount of Canadian dollar forward contracts outstanding was \$32.0 million at a weighted average exchange rate of 1.07.

The Company's reporting currency is the U.S. dollar. Many of our foreign subsidiaries operate in functional currencies other than the U.S. dollar, the most significant of which are in Canadian dollars, Swedish krona, and euro. Fluctuations in currency exchange rates create volatility in our reported results as we are required to translate the balance sheets, operational results, and cash flows of these subsidiaries into U.S. dollars for consolidated reporting. Balances on the consolidated balance sheets are converted at the month-end foreign exchange rates or at historical exchange rates, and all profit and loss transactions are recognized at monthly average rates. In the translation of our consolidated statements of income, a weaker U.S. dollar in relation to the Canadian dollar, Swedish krona, and euro benefits our consolidated revenues and earnings, whereas a stronger U.S. dollar reduces our consolidated revenues and earnings. Adjustments resulting from translating foreign functional currency balance sheets into U.S. dollars are included in the foreign currency translation adjustment, a component of accumulated other comprehensive income (loss) in equity. Re-measurement gains and losses generated by the effect of foreign exchange on recorded assets and liabilities denominated in a currency different from the functional currency of the applicable entity are recorded in foreign exchange gain/loss in the period in which they occur. The Company does not currently hedge these translation or re-measurement exposures.

In this quarterly report on Form 10-Q, we provide the impact of foreign exchange on our various financial measures. These amounts reflect the impact of translating the current period results at the monthly foreign exchange rates of the prior year period, the effect of changes in the value of the Canadian dollar against the U.S. dollar on our cost of goods purchased for sale outside of the United States including the related realized gains/losses on derivatives described above, and the realized gains/losses generated from revaluing non-functional currency assets and liabilities. The reported foreign exchange impact does not include the impact of fluctuations in Asian currencies against the U.S. dollar and their related effect on our Asian-sourced finished goods. See the "Cost of Goods Sold" section above for a more detailed description of these foreign exchange impacts. Also see "Non-GAAP Financial Measures".

The following table summarizes the change in the reported U.S. dollars versus constant currency U.S. dollars for the three-and six-month periods ended November 30, 2015:

(millions of U.S. dollars, except for per share amounts)	Three Months Ended November 30, 2015				Six Months Ended November 30, 2015			
	Reported	Constant Currency	Impact of Foreign Exchange	% Change	Reported	Constant Currency	Impact of Foreign Exchange	% Change
Revenues	\$ 153.0	\$ 162.9	\$ (9.9)	(6.1)%	\$ 328.1	\$ 352.4	\$ (24.3)	(6.9)%
Gross Profit	\$ 45.7	\$ 55.6	\$ (9.9)	(17.8)%	\$ 98.4	\$ 122.1	\$ (23.7)	(19.4)%
Selling, general & administrative	\$ 39.5	\$ 41.3	\$ (1.8)	(4.4)%	\$ 79.6	\$ 82.8	\$ (3.2)	(3.9)%
Research & development	\$ 5.9	\$ 6.3	\$ (0.4)	(6.3)%	\$ 12.1	\$ 12.9	\$ (0.8)	(6.2)%
Adjusted Gross Profit ⁽¹⁾	\$ 50.6	\$ 60.9	\$ (10.3)	(16.9)%	\$ 106.2	\$ 130.4	\$ (24.2)	(18.6)%
Adjusted EBITDA ⁽¹⁾	\$ 15.3	\$ 23.5	\$ (8.2)	(34.9)%	\$ 31.9	\$ 54.9	\$ (23.0)	(41.9)%
Adjusted Net Income ⁽¹⁾	\$ 5.9	\$ 11.8	\$ (5.9)	(50.0)%	\$ 11.8	\$ 28.4	\$ (16.6)	(58.5)%
Adjusted EPS ⁽¹⁾	\$ 0.13	\$ 0.25	\$ (0.12)	(48.0)%	\$ 0.25	\$ 0.60	\$ (0.35)	(58.3)%
Adjusted Gross Profit % ⁽¹⁾	33.1%	37.4%	(4.3)%	—	32.4%	37.0%	(4.6)%	—

(1) Represents a non-GAAP measure. For the relevant definitions and reconciliations to reported results, see “Non-GAAP Financial Measures.”

(2) Represents a non-GAAP measure. For the relevant definition, see “Non-GAAP Financial Measures”.

The following table summarizes the average of the monthly exchange rates used to translate profit or loss transactions for the periods indicated, as reported by the Wall Street Journal:

	Three Months Ended			Six Months Ended		
	November 30, 2015	November 30, 2014	% Change	November 30, 2015	November 30, 2014	% Change
CAD / USD	1.317	1.101	(19.6)%	1.279	1.092	(17.1)%
EUR / USD	0.894	0.768	(16.4)%	0.897	0.750	(19.6)%
SEK / USD	8.431	7.056	(19.5)%	8.410	6.865	(22.5)%

Income Taxes

The Company is subject to cash taxes in the United States, Canada and Europe for federal, state, and provincial income taxes, as applicable. The Company utilizes its tax loss carry forwards, tax credits and other tax assets, as available, to offset its taxable income.

Results of Operations

The following table summarizes our results of operations for the three-and six-month periods ended November 30, 2015 and November 30, 2014, and has been derived from our unaudited consolidated financial statements and related notes.

(millions of U.S. dollars, except for percentages and per share amounts)	Three Months Ended		Six Months Ended	
	November 30, 2015	November 30, 2014	November 30, 2015	November 30, 2014
Revenues	\$ 153.0	\$ 172.3	\$ 328.1	\$ 369.4
Cost of goods sold	107.3	116.4	229.7	249.5
Gross profit	\$ 45.7	\$ 55.9	\$ 98.4	\$ 119.9
Operating expenses:				
Selling, general & administrative	39.5	39.1	79.6	75.0
Research & development	5.9	6.4	12.1	12.5
Operating income (loss)	\$ 0.3	\$ 10.4	\$ 6.7	\$ 32.4
Interest expense, net	5.5	4.8	10.3	10.2
Derivative and foreign exchange (gain) loss	0.5	3.3	5.7	4.6
Other expense (income)	(0.1)	0.1	0.1	0.1
Income tax expense (benefit)	(1.1)	1.2	(0.5)	5.7
Net income (loss)	\$ (4.5)	\$ 1.0	\$ (8.9)	\$ 11.8
Basic earnings (loss) per share	\$ (0.10)	\$ 0.02	\$ (0.19)	\$ 0.27
Diluted earnings (loss) per share	\$ (0.10)	\$ 0.02	\$ (0.19)	\$ 0.26
Adjusted Gross Profit ⁽¹⁾	\$ 50.6	\$ 62.2	\$ 106.2	\$ 135.6
Adjusted EBITDA ⁽¹⁾	\$ 15.3	\$ 24.0	\$ 31.9	\$ 63.9
Adjusted Net Income (Loss) ⁽¹⁾	\$ 5.9	\$ 11.3	\$ 11.8	\$ 33.2
Adjusted EPS ⁽¹⁾	\$ 0.13	\$ 0.24	\$ 0.25	\$ 0.73
As a percentage of revenues:				
Gross profit	29.9%	32.5%	30.0%	32.5%
Selling, general & administrative	25.8%	22.7%	24.3%	20.3%
Research & development	3.9%	3.7%	3.7%	3.4%
Adjusted Gross Profit ⁽¹⁾	33.1%	36.1%	32.4%	36.7%
Adjusted EBITDA ⁽¹⁾	10.0%	13.9%	9.7%	17.3%

(1) Represents a non-GAAP measure. For the relevant definitions and reconciliations to reported results, see “Non-GAAP Financial Measures.”

Three months ended November 30, 2015 compared to three months ended November 30, 2014

Revenues

Currency neutral revenues in the three-month period ended November 30, 2015 decreased by \$9.4 million, or 5.5%, to \$162.9 million, driven by a Hockey revenue decline of \$12.0 million, or 10.5%, which was related to variations in product launch cycles in the Company’s hockey segment, as well as retailer consolidation in the U.S and challenging market conditions in Russia and Eastern Europe. Baseball/Softball revenues increased by \$1.9 million, or 3.8% compared to the prior year driven by 28.5% growth in EASTON non-bat categories, and revenue from the Other Sports grew by \$0.7 million, or 7.1% driven by continued strong growth in the MAVERIK line of heads and protective gear as well as growth in the helmet category due to the prior year NOCSAE decertification of the lacrosse CASCADE R model helmet. Currency neutral revenues in North America declined by 5.1% and declined by 7.6% in the rest of the world.

Including the impact of foreign exchange, revenues decreased by \$19.2 million, or 11.2%, to \$153.0 million. Overall revenues in North America decreased by 9.2%, and decreased by 23.0% in the rest of the world. The translation impact of foreign

exchange in the three-month period ended November 30, 2015 reduced our reported revenues by \$9.9 million compared to the prior year.

For further detail on our revenues, please refer to the “Segment Results” section.

Cost of goods sold

Cost of goods sold in the three-month period ended November 30, 2015 decreased by \$9.0 million, or 7.7%, to \$107.3 million, as a result of lower Hockey revenues, lower costs for new Hockey product launches in all regions, costs related to the lacrosse helmet decertification in the three-month period ended November 20, 2014, and lower non-cash charges resulting from the fair value adjustment of inventories related to the acquisition of Easton Baseball/Softball (the “Easton Baseball/Softball Acquisition”) of \$0.9 million in the three-month period ended November 30, 2014 which were partially offset by investments to consolidate distribution centers. Cost of goods sold in the three-month period ended November 30, 2015 decreased by \$9.1 million, excluding the impact of foreign exchange.

Gross Profit

Currency neutral gross profit in the three-month period ended November 30, 2015 decreased by \$0.3 million, or 0.5%, to \$55.6 million, driven by lower Hockey revenues and investments to consolidate distribution centers which were partially offset by Hockey price increases in Canada, lower costs for new product launches within Hockey, costs related to the lacrosse helmet decertification in the three-month period ended November 30, 2014, and lower non-cash charges resulting from the fair value adjustment of inventories related to the Easton Baseball/Softball Acquisition of \$0.9 million in the three-month period ended November 30, 2014. As a percentage of revenues, currency neutral gross profit increased to 34.1% for the three-month period ended November 30, 2015 from 32.5% in the three-month period ended November 30, 2014 due to Hockey price increases in Canada, costs related to the lacrosse helmet decertification in the three-month period ended November 30, 2014, and lower non-cash charges resulting from the fair value adjustment of inventories related to the Easton Baseball/Softball Acquisition of \$0.9 million in the three-month period ended November 30, 2014 which were partially offset by investments to consolidate distribution centers.

Including the impact of foreign exchange, gross profit in the three-month period ended November 30, 2015 decreased by \$10.3 million, or 18.3%, to \$45.7 million driven by the impact of foreign exchange. As a percentage of revenues, gross profit decreased to 29.9% for the three-month period ended November 30, 2015 from 32.5% in the three-month period ended November 30, 2014. The impact of foreign exchange in the three-month period ended November 30, 2015 decreased gross profit by \$9.9 million compared to the prior year. See “Factors Affecting our Performance - Cost of Goods Sold” and “Liquidity and Capital Resources” for more detail on our product costs.

Adjusted Gross Profit

Currency neutral Adjusted Gross Profit (removing purchase accounting related amortization, non-cash charges to cost of goods sold resulting from the fair value adjustment of inventories related to the Easton Baseball/Softball Acquisition, and investments to consolidate distribution centers) in the three-month period ended November 30, 2015 decreased by \$1.3 million, or 2.1%, to \$60.9 million. Currency neutral Adjusted Gross Profit as a percentage of revenues increased to 37.4% for the three-month period ended November 30, 2015 from 36.1% for the three-month period ended November 30, 2014, driven by Hockey price increases in Canada and lower costs for new Hockey product launches in all regions.

Including the impact of foreign exchange, Adjusted Gross Profit in the three-month period ended November 30, 2015 decreased by \$11.6 million, or 18.6%, to \$50.6 million. Adjusted Gross Profit as a percentage of revenues decreased to 33.1% for the three-month period ended November 30, 2015 from 36.1% for the three-month period ended November 30, 2014, driven primarily by an unfavorable impact from foreign exchange and partially offset by the factors mentioned above. Please see the Adjusted Gross Profit table for the reconciliation of gross profit to Adjusted Gross Profit in the “Non-GAAP Financial Measures” section.

Selling, General and Administrative Expenses

SG&A expenses in the three-month period ended November 30, 2015 increased by \$0.4 million, or 0.9%, to \$39.5 million which was driven primarily by an approximately \$3.0 million bad debt write-off related to outstanding receivables for an internet baseball retailer that filed for bankruptcy reorganization, costs related to the proxy contest in October 2015, start-up costs related to the Own The Moment Hockey Experience retail store initiative, higher PSG corporate costs, due in part to regulatory compliance costs associated with the Company’s transition to being a U.S. domestic issuer, investments in PSG and Easton Baseball/Softball

IT infrastructure, which were partially offset by a reduction in performance based incentives, as well as a favorable impact from foreign exchange. Excluding the impact of acquisition-related costs, share-based payment expense, start-up costs related to the Own The Moment Hockey Experience retail store initiative, regulatory compliance costs associated with the Company's transition to being a U.S. domestic issuer and costs related to the proxy contest in October 2015, our SG&A expenses decreased by \$1.4 million, or 4.0%, to \$33.4 million due to the factors mentioned above.

As a percentage of revenues, our SG&A expenses increased to 25.8% for the three-month period ended November 30, 2015 from 22.7% of revenues for the three-month period ended November 30, 2014. Excluding the impact of acquisition-related costs, share-based payment expense, start-up costs related to the Own The Moment Hockey Experience retail store initiative, regulatory compliance costs associated with the Company's transition to being a U.S. domestic issuer and costs related to the proxy contest in October 2015, SG&A expenses as a percentage of revenue increased to 21.8% for the three-month period ended November 30, 2015 from 20.2% of revenues for the three-month period ended November 30, 2014. The translation impact of foreign exchange for the three-month period ended November 30, 2015 decreased our reported SG&A expenses by \$1.8 million compared to prior year.

Research and Development Expenses

R&D expenses in the three-month period ended November 30, 2015 decreased by \$0.5 million, or 7.8%, to \$5.9 million due to our continued focus on product development efforts. As a percentage of revenues, our R&D expenses increased to 3.9% for the three-month period ended November 30, 2015 from 3.7% for the three-month period ended November 30, 2014 as a result of lower Hockey revenues. The translation impact of foreign exchange for the three-month period ended November 30, 2015 reduced our reported R&D expenses by \$0.4 million compared to prior year.

Adjusted EBITDA

Currency neutral Adjusted EBITDA in the three-month period ended November 30, 2015 decreased by \$0.5 million, or 2.1%, to \$23.5 million from \$24.0 million in the three-month period ended November 30, 2014 due to lower Hockey revenues and bad debt expense driven primarily by an approximately \$3.0 million bad debt write-off related to outstanding receivables for an internet baseball retailer that filed for bankruptcy reorganization, which were partially offset by Hockey price increases in Canada and lower costs for new Hockey product launches in all regions as well as a reduction in performance based incentives. As a percentage of revenues, currency neutral Adjusted EBITDA increased to 14.4% for the three-month period ended November 30, 2015 from 13.9% for the three-month period ended November 30, 2014. Including the impact of foreign exchange, Adjusted EBITDA in the three-month period ended November 30, 2015 decreased by \$8.7 million, or 36.3%, to \$15.3 million from \$24.0 million, driven by the above factors and an unfavorable impact from foreign exchange of \$8.2 million. As a percentage of revenues, Adjusted EBITDA decreased to 10.0% for the three-month period ended November 30, 2015 from 13.9% for the three-month period ended November 30, 2014. Please see the Adjusted EBITDA table for the reconciliation of net income to Adjusted EBITDA in the "Non-GAAP Financial Measures" section.

Interest Expense, net

Interest expense in the three-month period ended November 30, 2015 increased by \$0.7 million, or 13.9%, to \$5.5 million from \$4.8 million, driven by an increase in interest incurred under our revolving line of credit.

Derivative and Foreign Exchange Gains/Losses

Realized gain on derivatives increased by \$0.1 million, or 8.4%, to a gain of \$1.4 million from a gain of \$1.3 million, driven by the continued devaluation of the Canadian dollar relative to the hedge rates in effect on the Company's forward contracts.

Unrealized loss on derivatives increased by \$1.2 million, or greater than 100%, to a loss of \$0.7 million from a gain of \$0.6 million. The Company has not elected hedge accounting and therefore the changes in the fair value of derivative contracts are recognized through profit or loss each reporting period.

Foreign exchange loss decreased by \$3.9 million, or 76.1%, to a loss of \$1.2 million from a loss of \$5.1 million. The foreign exchange gain/loss represents the realized and unrealized gains/losses generated from revaluing non-functional currency assets and liabilities to their respective functional currency. The realized foreign exchange gain decreased \$1.0 million to \$0.9 million, from \$1.9 million.

See "Factors Affecting Our Performance - Impact of Foreign Exchange and Hedging Practices".

Income Taxes

Income tax benefit for the three-month period ended November 30, 2015 was \$1.1 million, compared to income tax expense of \$1.2 million in the three-month period ended November 30, 2014. The Company's effective tax rate was 19.5%, compared to 54.6% for the same period in the prior year. The relative mix of pre-tax income (loss) between Canada and the U.S. (the Company's primary tax jurisdictions) caused the effective tax rate for the current year period to be lower than an expected normalized rate, and the effective tax rate for the prior year period to be higher than an expected normalized rate. Unrealized capital losses for which no tax benefit could be recognized also contributed to these deviations in the effective tax rate from a normalized rate for both the current year and prior year periods.

Net Income (Loss)

Net loss in the three-month period ended November 30, 2015 decreased by \$5.5 million, or greater than 100%, to a net loss of \$4.5 million from net income of \$1.0 million in the three-month period ended November 30, 2014, driven by the results described above. The impact of foreign exchange for the three-month period ended November 30, 2015 decreased our net income by \$4.0 million compared to the prior year.

Adjusted Net Income

Currency neutral Adjusted Net Income in the three-month period ended November 30, 2015 increased by \$0.5 million, or 4.4%, to \$11.8 million from \$11.3 million in the three-month period ended November 30, 2014, driven by the operating results reflected in the Adjusted EBITDA section, which were partially offset by lower taxes.

Including the impact of foreign exchange, Adjusted Net Income in the three-month period ended November 30, 2015 decreased by \$5.4 million, or 47.8%, to \$5.9 million from \$11.3 million in the three-month period ended November 30, 2014, driven by the factors described above and an unfavorable impact from foreign exchange of \$5.9 million. Adjusted Net Income/Loss removes unrealized foreign exchange gains/losses, acquisition-related charges, share-based payment expense, and other one-time or non-cash expenses. Please see the Adjusted Net Income/Loss table in the "Non-GAAP Financial Measures" section for the reconciliation of net income (loss) to Adjusted Net Income/Loss and Adjusted EPS.

Six months ended November 30, 2015 compared to six months ended November 30, 2014

Revenues

Currency neutral revenues in the six-month period ended November 30, 2015 decreased by \$17.0 million, or 4.6%, to \$352.4 million, driven by a Hockey revenue decline of \$20.5 million, or 7.5%, which was related to the timing and variation of product launches in ice hockey equipment and performance apparel, economic contraction in Russia/Eastern Europe, and lower bookings/repeats due to retail consolidation of U.S. key accounts. Baseball/Softball revenues increased by \$1.7 million, or 2.1% compared to the prior year, and revenue from the Other Sports grew by \$1.8 million, or 12.7%. Currency neutral revenues in North America declined by 2.9% and declined by 11.1% in the rest of the world.

Including the impact of foreign exchange, revenues decreased by \$41.3 million, or 11.2%, to \$328.1 million. Overall revenues in North America decreased by 7.5%, and decreased by 25.4% in the rest of the world. The translation impact of foreign exchange in the six-month period ended November 30, 2015 reduced our reported revenues by \$24.3 million compared to the prior year.

For further detail on our revenues, please refer to the "Segment Results" section.

Cost of goods sold

Cost of goods sold in the six-month period ended November 30, 2015 decreased by \$19.8 million, or 7.9%, to \$229.7 million, as a result of lower Hockey revenues, lower costs for new Hockey product launches in all regions, and lower non-cash charges to cost of goods sold resulting from the fair value adjustment of inventories related to the acquisition of Easton Baseball/Softball of \$7.1 million in the six-month period ended November 30, 2014, lower costs related to the lacrosse helmet decertification in the three-month period ended November 30, 2014, which were partially offset by investments to consolidate distribution centers. Cost of goods sold in the six-month period ended November 30, 2015 decreased by \$19.2 million, excluding the impact of foreign exchange.

Gross Profit

Currency neutral gross profit in the six-month period ended November 30, 2015 increased by \$2.2 million, or 1.8%, driven by lower non-cash charges to cost of goods sold resulting from the fair value adjustment of inventories related to the Easton Baseball/Softball Acquisition of \$7.1 million in the six-month period ended November 30, 2014, lower costs related to the lacrosse helmet decertification in the three-month period ended November 30, 2014, Hockey price increases in Canada and lower costs for new product launches within Hockey, which were partially offset by lower Hockey revenues. As a percentage of revenues, currency neutral gross profit increased to 34.7% for the six-month period ended November 30, 2015 from 32.5% in the six-month period ended November 30, 2014.

Including the impact of foreign exchange, gross profit in the six-month period ended November 30, 2015 decreased by \$21.5 million, or 17.9%, to \$98.4 million, driven by an unfavorable impact from foreign exchange, which was partially offset by the factors mentioned above. As a percentage of revenues, gross profit decreased to 30.0% for the six-month period ended November 30, 2015 from 32.5% in the six-month period ended November 30, 2014. The impact of foreign exchange in the six-month period ended November 30, 2015 decreased gross profit by \$23.7 million compared to the prior year. See “Factors Affecting our Performance - Cost of Goods Sold” and “Liquidity and Capital Resources” for more detail on our product costs.

Adjusted Gross Profit

Currency neutral Adjusted Gross Profit (removing purchase accounting related amortization, non-cash charges to cost of goods sold resulting from the fair value adjustment of inventories related to the Easton Baseball/Softball Acquisition, and investments to consolidate distribution centers) in the six-month period ended November 30, 2015 decreased by \$5.2 million, or 3.8%, to \$130.4 million. Currency neutral Adjusted Gross Profit as a percentage of revenues increased to 37.0% for the six-month period ended November 30, 2015 from 36.7% for the six-month period ended November 30, 2014, driven by Hockey price increases in Canada, lower costs for new Hockey product launches in all regions and negotiated cost savings.

Including the impact of foreign exchange, Adjusted Gross Profit in the six-month period ended November 30, 2015 decreased by \$29.4 million, or 21.7%, to \$106.2 million. Adjusted Gross Profit as a percentage of revenues decreased to 32.4% for the six-month period ended November 30, 2015 from 36.7% for the six-month period ended November 30, 2014, driven primarily by an unfavorable impact from foreign exchange. Please see the Adjusted Gross Profit table for the reconciliation of gross profit to Adjusted Gross Profit in the “Non-GAAP Financial Measures” section.

Selling, General and Administrative Expenses

SG&A expenses in the six-month period ended November 30, 2015 increased by \$4.7 million, or 6.3%, to \$79.6 million which was driven primarily by an approximately \$3.0 million bad debt write-off related to outstanding receivables for an internet baseball retailer that filed for bankruptcy reorganization, costs related to the proxy contest in October 2015, start-up costs related to the Own The Moment Hockey Experience retail store initiative, higher PSG corporate costs, due in part to regulatory compliance costs associated with the Company’s transition to a U.S. domestic issuer, investments in PSG and Easton Baseball/Softball IT infrastructure, which were partially offset by a reduction in performance based incentives, as well as a favorable impact from foreign exchange. Excluding the impact of acquisition-related costs, share-based payment expense, start-up costs related to the Own The Moment Hockey Experience retail store initiative, regulatory compliance costs associated with the Company’s transition to being a U.S. domestic issuer and costs related to the proxy contest in October 2015, our SG&A expenses increased by \$1.9 million, or 2.9%, to \$68.2 million.

As a percentage of revenues, our SG&A expenses increased to 24.3% for the six-month period ended November 30, 2015 from 20.3% of revenues for the six-month period ended November 30, 2014. Excluding the impact of acquisition-related costs, share-based payment expense, start-up costs related to the Own The Moment Hockey Experience retail store initiative, regulatory compliance costs associated with the Company’s transition to being a U.S. domestic issuer and costs related to the proxy contest in October 2015, SG&A expenses as a percentage of revenue increased to 20.8% for the six-month period ended November 30, 2015 from 17.9% of revenues for the six-month period ended November 30, 2014. The translation impact of foreign exchange for the six-month period ended November 30, 2015 decreased our reported SG&A expenses by \$3.2 million compared to prior year.

Research and Development Expenses

R&D expenses in the six-month period ended November 30, 2015 decreased by \$0.4 million, or 3.1%, to \$12.1 million. As a percentage of revenues, our R&D expenses increased to 3.7% for the six-month period ended November 30, 2015 from 3.4% for the six-month period ended November 30, 2014 as a result of lower Hockey revenues. The translation impact of foreign exchange for the six-month period ended November 30, 2015 reduced our reported R&D expenses by \$0.8 million compared to

prior year.

Adjusted EBITDA

Currency neutral Adjusted EBITDA in the six-month period ended November 30, 2015 decreased by \$9.0 million, or 14.1%, to \$54.9 million from \$63.9 million primarily due to a decline in Hockey revenues as well as an approximately \$3.0 million bad debt write-off related to outstanding receivables for an internet baseball retailer that filed for bankruptcy reorganization. As a percentage of revenues, currency neutral Adjusted EBITDA decreased to 15.6% for the six-month period ended November 30, 2015 from 17.3% for the six-month period ended November 30, 2014. Including the impact of foreign exchange, Adjusted EBITDA in the six-month period ended November 30, 2015 decreased by \$32.0 million, or 50.1%, to \$31.9 million from \$63.9 million, driven by the above factors and an unfavorable impact from foreign exchange of \$23.0 million. As a percentage of revenues, Adjusted EBITDA decreased to 9.7% for the six-month period ended November 30, 2015 from 17.3% for the six-month period ended November 30, 2014. Please see the Adjusted EBITDA table for the reconciliation of net income to Adjusted EBITDA in the “Non-GAAP Financial Measures” section.

Interest Expense, net

Interest expense in the six-month period ended November 30, 2015 increased by \$0.1 million, or 0.9%, to \$10.3 million from \$10.2 million.

Derivative and Foreign Exchange Gains/Losses

Realized gain on derivatives decreased by \$2.2 million, or 64.1%, to \$1.2 million from \$3.4 million, driven by the continued devaluation of the Canadian dollar relative to the hedge rates in effect on the Company’s forward contracts.

Unrealized gain on derivatives increased by \$2.3 million, or greater than 100%, to a gain of \$1.4 million from a loss of \$0.9 million. The Company has not elected hedge accounting and therefore the changes in the fair value of derivative contracts are recognized through profit or loss each reporting period.

Foreign exchange loss increased by \$1.2 million, to a loss of \$8.3 million from a loss of \$7.1 million. The foreign exchange gain/loss represents the realized and unrealized gains/losses generated from revaluing non-functional currency assets and liabilities to their respective functional currency. The realized foreign exchange gain decreased \$0.7 million to \$0.7 million, from \$1.4 million.

See “Factors Affecting Our Performance - Impact of Foreign Exchange and Hedging Practices”.

Income Taxes

Income tax benefit for the six-month period ended November 30, 2015 was \$0.5 million, compared to income tax expense of \$5.7 million in the six-month period ended November 30, 2014. The Company’s effective tax rate was 5.4%, compared to 32.7% for the same period in the prior year. The decrease in the effective tax rate was due to the change in relative mix of pretax income (loss) between Canada and the U.S. (the Company’s primary tax jurisdictions), and higher unrealized capital losses for which no tax benefit could be recognized.

Net Income (Loss)

Net income (loss) in the six-month period ended November 30, 2015 decreased by \$20.6 million to a net loss of \$8.9 million from net income of \$11.8 million in the six-month period ended November 30, 2014 driven by the results described above. The impact of foreign exchange for the six-month period ended November 30, 2015 decreased our net income by \$17.0 million compared to the prior year.

Adjusted Net Income

Currency neutral Adjusted Net Income in the six-month period ended November 30, 2015 decreased by \$4.8 million, or 14.5%, to \$28.4 million from \$33.2 million in the six-month period ended November 30, 2014, driven by the operating results reflected in the Adjusted EBITDA section which were partially offset by lower taxes.

Including the impact of foreign exchange, Adjusted Net Income in the six-month period ended November 30, 2015 decreased by \$21.4 million, or 64.5%, to \$11.8 million from \$33.2 in the six-month period ended November 30, 2014, driven by

the factors described above and an unfavorable impact from foreign exchange of \$16.6 million. Adjusted Net Income/Loss removes unrealized foreign exchange gains/losses, acquisition-related charges, share-based payment expense, and other one-time or non-cash expenses. Please see the Adjusted Net Income/Loss table in the “Non-GAAP Financial Measures” section for the reconciliation of net income (loss) to Adjusted Net Income/Loss and Adjusted EPS.

Segment Results

The Company has two reportable operating segments: (i) Hockey and (ii) Baseball/Softball. The remaining operating segments do not meet the criteria for a reportable segment and are included in Other Sports. The Hockey segment includes the BAUER and MISSION brands. The Baseball/Softball segment includes the EASTON and COMBAT brands. Other Sports includes the lacrosse and soccer operating segments, which includes the MAVERIK, CASCADE, and INARIA brands. The Hockey segment sales channels include: (i) direct sales to retailers in North America and the Nordic countries, (ii) distributors throughout the rest of the world (principally, Western Europe, Eastern Europe, and Russia), (iii) direct sales to teams, and (iv) sales from our Own The Moment Experience retail stores. The Baseball/Softball segment sales channels primarily consist of retailers and distributors in North America. The Other Sports segment sales channels primarily include retailers and distributors in North America and direct sales to teams and sports associations.

These operating segments were determined based on the management structure and the financial information, among other factors, reviewed by the Chief Operating Decision Maker (“CODM”) to assess segment performance. The decisions concerning assessing the performance of segments and allocation of resources to the segments are based on segment revenues and segment EBITDA.

Segmented operating results and other financial information for the three-and six-month periods ended November 30, 2015 and November 30, 2014 are presented in the following table:

(millions of U.S. dollars, except for percentages)	Three Months Ended			% Change (Constant \$)	Six Months Ended			% Change (Constant \$)
	November 30, 2015	November 30, 2014	% Change		November 30, 2015	November 30, 2014	% Change	
			(1)	(2)			(3)	(4)
Revenues:								
Hockey	\$ 91.9	\$ 113.4	(19.0)%	(10.5)%	\$ 229.4	\$ 273.8	(16.2)%	(7.5)%
Baseball/Softball	50.9	49.2	3.5 %	3.8 %	83.1	81.6	1.8 %	2.1 %
Other Sports	10.2	9.7	5.2 %	7.1 %	15.6	14.0	11.3 %	12.7 %
Total Revenues	<u>\$ 153.0</u>	<u>\$ 172.3</u>	<u>(11.2)%</u>	<u>(5.5)%</u>	<u>\$ 328.1</u>	<u>\$ 369.4</u>	<u>(11.2)%</u>	<u>(4.6)%</u>
Segment EBITDA ⁽⁵⁾⁽⁶⁾								
Hockey	\$ 7.3	\$ 12.9	(43.3)%	26.1 %	\$ 26.5	\$ 51.9	(48.9)%	(2.2)%
Baseball/Softball	7.9	11.5	(31.3)%	(30.9)%	9.1	15.2	(40.3)%	(40.4)%
Other Sports	1.0	1.5	(35.5)%	(42.9)%	—	0.1	(74.4)%	> (100)%
Total Segment EBITDA ⁽⁵⁾⁽⁶⁾	<u>\$ 16.2</u>	<u>\$ 25.9</u>	<u>(37.5)%</u>	<u>(3.2)%</u>	<u>\$ 35.6</u>	<u>\$ 67.2</u>	<u>(47.0)%</u>	<u>(11.3)%</u>

(1) Three-month period ended November 30, 2015 vs. the three-month period ended November 30, 2014.

(2) Represents the change in the constant currency U.S. dollars for the three-month period ended November 30, 2015 vs. the reported three-month period ended November 30, 2014. Results have been restated using actual exchange rates in use during the comparative period to enhance the visibility of the underlying business trends by excluding the impact of foreign currency exchange fluctuations.

(3) Six-month period ended November 30, 2015 vs. the six-month period ended November 30, 2014.

(4) Represents the change in the constant currency U.S. dollars for the six-month period ended November 30, 2015 vs. the reported six-month period ended November 30, 2014. Results have been restated using actual exchange rates in use during the comparative period to enhance the visibility of the underlying business trends by excluding the impact of foreign currency exchange fluctuations.

(5) Represents a non-GAAP financial measure. For the relevant definitions and reconciliations to reported results, see “Non-GAAP Financial Measures” and Note 14 - Segment Information in the accompanying Notes to Consolidated Financial Statements.

(6) Certain PSG functional platform costs are directly allocated to each operating segment based on usage or other relevant operational metrics. PSG’s functional platform costs consist of expenses incurred by centrally managed functions, including global information systems, finance and legal, distribution and logistics, sourcing and manufacturing, and other miscellaneous costs.

Three months ended November 30, 2015 compared to three months ended November 30, 2014

Hockey

Currency neutral Hockey revenues decreased by \$12.0 million, or 10.5%, related to variations in ice hockey equipment product launch cycles, a 36.5% decline in performance apparel related to the prior year launch of 37.5™ apparel, and lower sales to our Russian and European distributors. Currency neutral Hockey revenues declined by 11.4% in North America, and 7.6% in the rest of the world. Including the impact of foreign exchange, reported Hockey revenues in the three-month period ended November 30, 2015 decreased by \$21.5 million, or 19.0%.

Currency neutral Hockey segment EBITDA increased by \$3.4 million, or 26.1% as a result of lower revenues which were partially offset by Hockey price increases in Canada, lower costs for new Hockey product launches in all regions, negotiated vendor cost savings, and lower SG&A costs largely due to a reduction in performance based incentives. Including the impact of foreign exchange, reported Hockey segment EBITDA in the three-month period ended November 30, 2015 decreased by \$5.6 million, or 43.3%, to \$7.3 million, driven by the significant impact of foreign exchange as well as the impacts described above.

Baseball/Softball

Baseball/Softball revenue in the three-month period ended November 30, 2015 increased by \$1.7 million, or 3.5%, to \$50.9 million due to a 4.4% increase in Easton Baseball/Softball sales driven by 28.5% growth in non-bat categories, partially offset by the launch of only one bat family compared to a two-family launch last year. Combat revenue decreased 9.9% or \$0.2 million compared to prior year due to the early launch of Maxum bats this year compared to the traditional launch of bats in the second fiscal quarter of our fiscal year.

Baseball/Softball segment EBITDA in the three-month period ended November 30, 2015 decreased by \$3.6 million, or 31.3%, to \$7.9 million largely as a result of an approximately \$3.0 million bad debt write-off related to outstanding receivables for an internet baseball retailer that filed for bankruptcy reorganization, lower gross margins due to unfavorable product mix in Easton Baseball/Softball (related to a decline in high margin Mako bat revenues), as well as SG&A investments in Easton Baseball/Softball sales and marketing and IT infrastructure which were partially offset by a reduction in performance based incentives.

Other Sports

Revenues in our Other Sports segment in the three-month period ended November 30, 2015 increased by \$0.6 million, or 5.2%, to \$10.2 million due to 8.5% growth in lacrosse sales, which was driven by growth in the helmet category related to the prior year NOCSAE decertification of the lacrosse CASCADE R model helmet. Inaria soccer uniform sales decreased by 14.1% over the prior year, 4.8% excluding the impact of foreign exchange, and was driven by revenue declines in the U.S.

Other Sports segment EBITDA in the three-month period ended November 30, 2015 decreased by \$0.5 million, or 35.5%, due primarily to a \$0.9 million bad debt write-off related to outstanding receivables for a customer who continues to pay slowly and had caused concern over such customer's ability to continue to make timely payments and an increase in SG&A investments.

Six months ended November 30, 2015 compared to six months ended November 30, 2014

Hockey

Currency neutral Hockey revenues decreased by \$20.5 million, or 7.5%, which was related to the timing and variation of product launches in ice hockey equipment, a 38.7% decline in performance apparel related to the prior year launch of 37.5™ apparel, economic contraction in Russia/Eastern Europe, and lower bookings/repeats due to retail consolidation of U.S. key accounts. Currency neutral Hockey revenues declined by 6.1% in North America, and 11.1% in the rest of the world. Including the impact of foreign exchange, reported Hockey revenues in the six-month period ended November 30, 2015 decreased by \$44.4 million, or 16.2%.

Currency neutral Hockey segment EBITDA decreased by \$1.1 million, or 2.2%, as a result of lower revenue and partially offset by cost reduction efforts in cost of goods sold and SG&A. Including the impact of foreign exchange, reported Hockey segment EBITDA in the six-month period ended November 30, 2015 decreased by \$25.4 million, or 48.9%, to \$26.5 million, driven by the significant impact of foreign exchange as well as the impacts described above.

Baseball/Softball

Baseball/Softball revenue in the six-month period ended November 30, 2015 increased by \$1.5 million, or 1.8%, to \$83.1 million due to a 1.5% increase in Easton Baseball/Softball revenues driven by double digit growth in Baseball/Softball accessories which offset the 8.0% decline in bats resulting from the prior year launch of two families of bats, compared to only one new family in the current year. Combat revenue increase of \$0.6 million or 19.9% is driven by the launch of the new Maxum line of bats.

Baseball/Softball segment EBITDA in the six-month period ended November 30, 2015 decreased by \$6.1 million, or 40.3%, to \$9.1 million largely as a result of an approximately \$3.0 million bad debt write-off related to outstanding receivables for an internet baseball retailer that filed for bankruptcy reorganization, lower gross margins due to unfavorable product mix in Easton Baseball/Softball (related to a decline in high margin Mako bat revenues), as well as SG&A investments in Easton Baseball/Softball sales and marketing and IT infrastructure which were partially offset by a reduction in performance based incentives.

Other Sports

Revenues in our Other Sports segment in the six-month period ended November 30, 2015 increased by \$1.6 million, or 11.3%, to \$15.6 million due to 12.9% growth in lacrosse sales, which was driven by continued strong growth in the Maverik line of heads and shafts, including the launch of the new Maverik CENTRIK head as well as strong helmet sales related to the prior year NOCSAE decertification of the lacrosse CASCADE R model helmet. Inaria soccer uniform sales also increased by 4.5% over the prior year, 11.7% excluding the impact of foreign exchange.

Other Sports segment EBITDA in the six-month period ended November 30, 2015 decreased by \$0.1 million due primarily to a \$0.9 million bad debt write-off related to outstanding receivables for a customer who continues to pay slowly and had caused concern over such customer's ability to continue to make timely payments, which was partially offset by higher revenues and gross margins.

For operating segments data, please refer to Note 14 of the Notes to Consolidated Financial Statements.

Non-GAAP Financial Measures

This quarterly report on Form 10-Q makes reference to certain non-GAAP measures. These non-GAAP measures are not recognized measures under U.S. GAAP and do not have a standardized meaning prescribed by U.S. GAAP. When used, these measures are defined in such terms as to allow the reconciliation to the closest U.S. GAAP measure. These measures are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those U.S. GAAP measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analyses of the Company's financial information reported under U.S. GAAP. We use non-GAAP measures, such as Adjusted Net Income/Loss, Adjusted EPS, Adjusted EBITDA, Segment EBITDA and Adjusted Gross Profit, to provide investors with a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on U.S. GAAP financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. We also use non-GAAP measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets, and to assess our ability to meet our future debt service, capital expenditure, and working capital requirements.

Constant Currency

The Company also presents certain information related to our current period results of operations in “constant currency”, which is a non-GAAP financial measure and should be viewed as a supplement to our results of operations and presentation of reportable segments under U.S. GAAP. These amounts reflect the impact of translating the current period results at the monthly foreign exchange rates of the prior year period, the effect of changes in the value of the Canadian dollar against the U.S. dollar on our cost of goods purchased for sale outside of the United States including the related realized gains/losses on derivatives, and the realized gains/losses generated from revaluing non-functional currency assets and liabilities. The reported foreign exchange impact does not include the impact of fluctuations in Asian currencies against the U.S. dollar and their related effect on our Asian-sourced finished goods. Constant currency is used to enhance the visibility of the underlying business trends excluding the impact of foreign currency exchange rate fluctuations. We also use the terms “currency neutral” or “excluding the impact of foreign currency” to describe the constant currency impact. See “Factors Affecting Our Performance - Impact of Foreign Exchange and Hedging Practices” and “Results of Operations - Segment Results”.

Segment EBITDA

The profitability of the Company’s operating segments is evaluated using EBITDA adjusted for items excluded by the CODM. Certain PSG functional platform costs are directly allocated to each operating segment based on usage or other relevant operational metrics. PSG’s functional platform costs consist of expenses incurred by centrally-managed functions, including global information systems, finance and legal, distribution and logistics, sourcing and manufacturing, and other miscellaneous costs. PSG corporate expenses, currency related gains (losses), acquisition related expenses and other costs are not controlled by the management at each operating segment and therefore are excluded from segment EBITDA. PSG corporate expenses consist of executive compensation and administration costs, public company costs, certain tax credits and other miscellaneous costs. See Note 11 - Segment Information in the accompanying Notes to Consolidated Financial Statements.

The relevant definition and reconciliation of each of Adjusted Gross Profit, Adjusted EBITDA, Adjusted Net Income/Loss, and Adjusted EPS used and presented by the Company to the most directly comparable U.S. GAAP measures follows below.

Adjusted Gross Profit

Adjusted Gross Profit is defined as gross profit plus the following expenses which are part of cost of goods sold: (i) amortization and depreciation of intangible assets, (ii) charges to cost of goods sold resulting from fair market value adjustments to inventory as a result of business acquisitions, (iii) reserves established to dispose of obsolete inventory acquired from acquisitions, and (iv) other one-time or non-cash items. We use Adjusted Gross Profit as a key performance measure to assess our core gross profit and as a supplemental measure to evaluate the overall operating performance of our cost of goods sold.

The table below provides the reconciliation of gross profit to Adjusted Gross Profit:

(millions of U.S. dollars)	Three Months Ended		Six Months Ended	
	November 30, 2015	November 30, 2014	November 30, 2015	November 30, 2014
Gross profit	\$ 45.7	\$ 55.9	\$ 98.4	\$ 119.9
Amortization & depreciation of intangible assets ⁽¹⁾	3.1	3.6	6.0	6.8
Inventory step-up/step-down & reserves ⁽²⁾	—	0.9	—	7.1
Other ⁽³⁾	1.8	1.8	1.8	1.8
Adjusted Gross Profit	\$ 50.6	\$ 62.2	\$ 106.2	\$ 135.6

- (1) Upon completion of the purchase of the Bauer Hockey business from Nike, Inc. in 2008, the Maverik acquisition in 2010, the Cascade acquisition in June 2012, the Inaria acquisition in October 2012, the Combat acquisition in May 2013, and the Easton Baseball/Softball Acquisition in April 2014, the Company capitalized acquired intangible assets at fair market value. These intangible assets, in addition to other intangible assets subsequently acquired, are amortized over their useful life and we recognize the amortization as a non-cash cost of goods sold.
- (2) Upon completion of the Easton Baseball/Softball Acquisition, the Company adjusted Easton Baseball/Softball’s inventories to fair market value. Included in the three-and six-month periods ended November 30, 2014 are charges to cost of goods sold resulting from the fair market value adjustment to inventory.
- (3) Other represents the impact of the closure of the Mississauga, Ontario distribution center in the three-and six-month periods ended November 30, 2015. In the three-and six-month periods ended November 30, 2014, other represents the impact of costs related to the lacrosse helmet decertification.

See “Factors Affecting our Performance - Impact of Foreign Exchange and Hedging Practices” for Adjusted Gross Profit in constant currency.

Adjusted EBITDA

Adjusted EBITDA is defined as net income adjusted for income tax expense, depreciation and amortization, losses related to amendments to the credit facilities, gain or loss on disposal of fixed assets, net interest expense, deferred financing fees, unrealized gains/losses on derivative instruments, and realized and unrealized gains/losses related to foreign exchange revaluation, and before restructuring and other one-time or non-cash charges associated with acquisitions, other one time or non-cash items, costs related to share offerings, as well as share-based payment expenses. We use Adjusted EBITDA as the key metric in assessing our business performance when we compare results to budgets, forecasts and prior years. Management believes Adjusted EBITDA is an important measure of operating performance and cash flow, and provides useful information to investors because it highlights trends in the business that may not otherwise be apparent when relying solely on U.S. GAAP measures, and eliminates items that have less bearing on operating performance and cash flow. It is an alternative to measure business performance to net income and operating income, and management believes Adjusted EBITDA is a better measure of cash flow generation than, for example, cash flow from operations, particularly because it removes cash flow fluctuations caused by extraordinary changes in working capital. Adjusted EBITDA is used by management in the assessment of business performance and used by our Board of Directors as well as our lenders in assessing management's performance. It is also the key metric in determining payments under incentive compensation plans.

The table below provides the reconciliation of net income (loss) to Adjusted EBITDA:

(millions of U.S. dollars)	Three Months Ended		Six Months Ended	
	November 30, 2015	November 30, 2014	November 30, 2015	November 30, 2014
Net income (loss)	\$ (4.5)	\$ 1.0	\$ (8.9)	\$ 11.8
Income tax expense (benefit)	(1.1)	1.2	(0.5)	5.7
Depreciation & amortization	5.7	5.6	10.9	10.7
Interest expense, net	4.8	4.1	9.1	8.9
Deferred financing fees	0.6	0.6	1.2	1.3
Unrealized (gain)/loss on derivative instruments, net ⁽¹⁾	0.7	(0.6)	(1.4)	0.9
Foreign exchange (gain)/loss ⁽¹⁾	1.2	5.1	8.3	7.1
EBITDA	\$ 7.4	\$ 17.0	\$ 18.7	\$ 46.4
Acquisition Related Charges:				
Inventory step-up/step-down & reserves ⁽²⁾	—	0.9	—	7.1
Rebranding/integration costs ⁽³⁾	4.3	1.1	7.2	3.5
Acquisition costs ⁽⁴⁾	0.3	0.9	1.9	1.0
Subtotal	\$ 4.6	\$ 2.9	\$ 9.1	\$ 11.6
Costs related to share offerings ⁽⁵⁾	—	—	—	0.1
Share-based payment expense	1.4	1.6	2.1	3.3
Other ⁽⁶⁾	1.9	2.5	2.0	2.5
Adjusted EBITDA	\$ 15.3	\$ 24.0	\$ 31.9	\$ 63.9

- (1) The unrealized gain/loss on derivatives is the change in fair market value of the foreign currency forward contracts and interest rate contracts. The Company has not elected hedge accounting and therefore the changes in the fair value of these derivatives are recognized through profit or loss each reporting period. The foreign exchange gain/loss is the realized and unrealized gains and losses generated by the effect of foreign exchange on recorded assets and liabilities denominated in a currency different from the functional currency of the applicable entity are recorded in foreign exchange (gain) loss, as applicable, in the period in which they occur.
- (2) Upon completion of the Easton Baseball/Softball Acquisition, the Company adjusted Easton Baseball/Softball's inventories to fair market value. Included in the three-and six-month periods ended November 30, 2014 are charges to cost of goods sold resulting from the fair market value adjustment to inventory.
- (3) The rebranding/integration costs for the three-and six-month periods ended November 30, 2015 are associated with the integration of the Easton Baseball/Softball Acquisition, costs related to the Company's transition to a U.S. domestic issuer, integration costs related to the Own The Moment Hockey Experience retail stores, costs related to the proxy contest in October 2015, and costs related to the Company's profitability improvement initiative. The rebranding/integration costs for the three-and six-month periods ended November 30, 2014 are associated with the integration of the Inaria acquisition, Combat acquisition and the Easton Baseball/Softball Acquisition.
- (4) Acquisition-related transaction costs include legal, audit, and other consulting costs. The three-and six-month periods ended November 30, 2015 include start-up costs related to the Own The Moment Hockey Experience retail stores. The three-and six-month periods ended November 30, 2014 include costs related to the Easton Baseball/Softball Acquisition. All periods presented include costs related to reviewing corporate opportunities.

- (5) The costs related to share offerings in the six-month period ended November 30, 2014 include legal, audit, and other consulting costs incurred as part of the secondary offerings of Common Shares completed by funds managed by Kohlberg Management VI, LLC on October 17, 2012, February 6, 2013 and November 1, 2013, respectively (collectively the “Kohlberg Offerings”).
- (6) Other represents the impact of the closure of the Mississauga, Ontario distribution center in the three-and six-month periods ended November 30, 2015. In the three-and six-month periods ended November 30, 2014, other represents the impact of costs related to the lacrosse helmet decertification.

See “Factors Affecting our Performance - Impact of Foreign Exchange and Hedging Practices” for Adjusted EBITDA in constant currency.

Adjusted Net Income/Loss and Adjusted EPS

Adjusted Net Income/Loss is defined as net income adjusted for all unrealized gains/losses related to derivative instruments and unrealized gains/losses related to foreign exchange revaluation, non-cash or incremental charges associated with acquisitions, amortization of acquisition-related intangible assets for acquisitions since the IPO in Canada in March 2011, costs related to share offerings, share-based payment expense and other non-cash or one-time items. Adjusted EPS is defined as Adjusted Net Income/Loss divided by the weighted average diluted shares outstanding. We use Adjusted Net Income/Loss and Adjusted EPS as key metrics for assessing our operational business performance and to assist with the planning and forecasting for the future operating results of the underlying business of the Company. We believe Adjusted Net Income/Loss and Adjusted EPS are useful information to investors because they highlight trends in the business that may not otherwise be apparent when relying solely on U.S. GAAP measures.

The table below provides the reconciliation of net income (loss) to Adjusted Net Income/Loss and to Adjusted EPS:

(millions of U.S. dollars, except share and per share amounts)	Three Months Ended		Six Months Ended	
	November 30, 2015	November 30, 2014	November 30, 2015	November 30, 2014
Net income (loss)	\$ (4.5)	\$ 1.0	\$ (8.9)	\$ 11.8
Foreign exchange loss / (gain) ⁽¹⁾	2.8	3.7	7.9	6.7
Costs related to share offerings ⁽²⁾	—	—	—	0.1
Acquisition-related charges ⁽³⁾	7.3	6.2	14.6	18.0
Share-based payment expense	1.4	1.6	2.1	3.4
Other ⁽⁴⁾	1.9	2.5	1.9	2.5
Tax impact on above items	(3.0)	(3.7)	(5.8)	(9.3)
Adjusted Net Income (Loss)	\$ 5.9	\$ 11.3	\$ 11.8	\$ 33.2
Average diluted shares outstanding	46,910,729	46,659,728	47,110,824	45,459,179
Adjusted EPS	\$ 0.13	\$ 0.24	\$ 0.25	\$ 0.73

- (1) The foreign exchange loss/gain represents the unrealized gain/loss on derivatives and the unrealized portion of the foreign exchange gain/loss from the Adjusted EBITDA table. The unrealized portion of the foreign exchange gain/loss in the three-and six-month periods ended November 30, 2015 was a loss of \$2.1 million and a loss of \$9.1 million, respectively. The unrealized portion of the foreign exchange gain/loss in the three-and six-month periods ended November 30, 2014 was a loss of \$4.4 million and a loss of \$5.9 million, respectively.
- (2) The costs related to share offerings in the six-month period ended November 30, 2014 include legal, audit, and other consulting costs incurred as part of the Kohlberg Offerings.
- (3) Acquisition-related charges include rebranding/integration costs, and legal, audit, and other consulting costs associated with acquisition transactions. The three-and six-month periods ended November 30, 2015 include integration of the Easton Baseball/Softball Acquisition, costs related to the Company’s transition to a U.S. domestic issuer, start-up and integration costs related to the Own The Moment Hockey Experience retail stores, costs related to the proxy contest in October 2015, and costs related to the Company’s profitability improvement initiative. The three-and six-month periods ended November 30, 2014 include costs related to the Inaria acquisition, Combat acquisition and the Easton Baseball/Softball Acquisition. All periods presented include costs related to reviewing corporate opportunities. The charges also include amortization of intangible assets in the three-and six-month periods ended November 30, 2015 of \$2.7 million and \$5.5 million, respectively, and the three-and six-month periods ended November 30, 2014 of \$3.3 million and \$6.4 million, respectively. Also included are charges to cost of goods sold resulting from the fair market value adjustment to inventory in the three-and six-month periods ended November 30, 2014 of \$0.9 million and \$7.1 million, respectively.
- (4) Other represents the impact of the closure of the Mississauga, Ontario distribution center in the three-and six-month periods ended November 30, 2015. In the three-and six-month periods ended November 30, 2014, other represents the impact of costs related to the lacrosse helmet decertification.

See “Factors Affecting our Performance - Impact of Foreign Exchange and Hedging Practices” for Adjusted Net Income (Loss) and Adjusted EPS in constant currency.

Liquidity and Capital Resources

Cash Flows

The primary sources of the Company's cash are net cash flows from operating activities and funds available under its New ABL Facility (as defined in the Company's Annual Report on Form 10-K). We believe that ongoing operations and associated cash flows, in addition to our cash resources and New ABL Facility, provide sufficient liquidity to support our business operations for at least the next 12 months. Furthermore, as of November 30, 2015, the Company held cash of \$6.6 million, our working capital was \$341.1 million, and we had availability of \$66.5 million under the New ABL Facility, which provides further flexibility to meet any unanticipated cash requirements due to changes in working capital commitments or liquidity risks associated with financial instruments. Such changes may arise from, among other things, the seasonality of our business (see "Factors Affecting our Performance - Seasonality" and "Liquidity and Capital Resources"), the failure of one or more customers to pay their obligations (see Item 3, "Quantitative and Qualitative Disclosures About Market Risk") or from losses incurred on derivative instruments, such as foreign currency forwards and interest rate contracts (see "Factors Affecting our Performance - Interest Expense").

The following table summarizes our net cash flows provided by and used in operating, investing and financing activities:

(millions of U.S. dollars)	Six Months Ended	
	November 30, 2015	November 30, 2014
Net cash flows from (used in) operating activities	\$ (11.1)	\$ (4.2)
Net cash flows from (used in) investing activities	(25.4)	(4.2)
Net cash flows from (used in) financing activities	40.5	16.1
Effect of exchange rate changes on cash	(0.3)	(0.3)
(Decrease) / increase in cash	3.7	7.4
Beginning cash	2.9	6.9
Ending cash	\$ 6.6	\$ 14.3

Net Cash From (Used In) Operating Activities

Our largest source of operating cash flows is cash collections from the sale of inventory. Our primary cash outflows from operating activities are inventory purchases, personnel-related expenses, occupancy costs, payment of interest and payment of taxes. Net cash used in operating activities for the six-month period ended November 30, 2015 was \$11.1 million, an increase of \$6.9 million, compared to net cash used in operating activities of \$4.2 million for the six-month period ended November 30, 2014, primarily driven by the following:

- \$33.0 million lower source of cash due to a receivable collected from BRG Sports, Inc. (formerly Easton-Bell Sports, Inc.) in the six-month period ended November 30, 2014 which consisted of cash receipts from customers collected by BRG Sports, Inc. during the period April 15, 2014 through May 31, 2014 that were owed to the Company as of May 31, 2014;
- \$6.4 million lower source of cash from accounts payable related to the timing of payments for inventory purchases;
- \$22.1 million higher use of cash as a result of lower cash earnings; *partially offset by*
- \$42.7 million higher source of cash from accounts receivable due to an increase in payments received for receivables; and
- \$13.1 million higher source of cash from inventory driven by the Company's cash flow improvement initiative that is targeting an improvement in net cash flow from working capital of \$30 million in Fiscal 2016 (excluding certain non-recurring costs or one-time costs that may be required to implement some of the related initiatives).

Net Cash From (Used In) Investing Activities

Our cash outflows used in investing activities are primarily for acquisitions and the purchase of property, plant and equipment and intangible assets. Net cash used in investing activities for the six-month period ended November 30, 2015 was

\$25.4 million, an increase of \$21.2 million, compared to net cash used of \$4.2 million for the six-month period ended November 30, 2014, primarily due to the following:

- \$7.2 million of higher cash outflow related to the purchase of property, plant and equipment;
- \$4.3 million of higher cash outflow related to the acquisition in certain exclusive and perpetual licensing rights in technology assets from Q30 Sports, LLC, a privately held entity and a purchase of a non-controlling interest in Q30 Sports Science, LLC, a privately held entity and parent of Q30 Sports, LLC;
- \$4.0 million of higher cash outflow related to an increase in restricted cash in connection with the Company's acquisition of technology assets from Q30 Sports, LLC; and
- \$5.0 million of higher cash outflow related to the purchase of a non-controlling interest in Cocona, Inc., a privately held entity that created and owns 37.5™ technology, a patented moisture management technology that utilizes body heat to evaporate moisture from apparel and equipment.

Net Cash From (Used In) Financing Activities

Our cash flows from financing activities consist primarily of proceeds from and repayment of debt, proceeds from the issuance of Common Shares and share issuances under stock option plans. Net cash from financing activities for the six-month period ended November 30, 2015 was \$40.5 million, an increase of \$24.4 million, compared to net cash from financing activities of \$16.1 million for the six-month period ended November 30, 2014, primarily due to the following:

- \$22.9 million increase in net cash inflow related to the net movement in revolving debt;
- \$119.6 million increase in net cash inflow related to repayment of debt in the six-month period ended November 30, 2014; *partially offset by*
- \$117.0 million decrease in net cash inflow related to the net proceeds of the U.S. Initial Public Offering ("U.S. IPO") in the six-month period ended November 30, 2014.

Indebtedness

Credit Facilities

At April 15, 2014, the Company entered into the New Term Loan Facility and the Company and certain of its subsidiaries entered into the New ABL Facility. The New Term Loan Facility and the New ABL Facility (referred to herein together as the "Credit Facilities") replaced the Company's existing credit facilities. The New Term Loan Facility is an amortizing term credit facility in the principal amount of \$450 million U.S. dollars and matures on April 15, 2021. The New ABL Facility is a revolving, non-amortizing asset-based credit facility in an amount equal to the lesser of \$200 million U.S. dollars (or the Canadian dollar equivalent thereof) and the Borrowing Base (as defined herein). The New ABL Facility matures on April 15, 2019.

The borrowing base (the "Borrowing Base") equals the sum of the Canadian Borrowing Base (as defined herein) and the U.S. Borrowing Base (as defined herein). The "Canadian Borrowing Base" means, subject to customary reserves and eligibility criteria, the sum of: (a) 85% of the Canadian ABL Borrowers' eligible accounts receivable; plus (b) the lesser of 70% of the cost (valued on a first in, first out basis) of the Canadian ABL Borrowers' eligible inventory, or 85% of the appraised net orderly liquidation value of the Canadian ABL Borrowers' eligible inventory. The "U.S. Borrowing Base" means, subject to customary reserves and eligibility criteria, the sum of: (a) 85% of the U.S. ABL Borrowers' eligible accounts receivable; plus (b) the lesser of 70% of the cost (valued on a first in, first out basis) of the U.S. ABL Borrowers' eligible inventory, or 85% of the appraised net orderly liquidation value of the U.S. ABL Borrowers' eligible inventory.

As of November 30, 2015, \$330.5 million was drawn under the New Term Loan Facility and \$132.1 million was drawn under the New ABL Facility. Following completion of the U.S. IPO on June 25, 2014, the Company used the net proceeds of the U.S. IPO and repaid approximately \$119.5 million under the New Term Loan Facility. The repayment was first applied against the outstanding amortization payments and as such no further amortization payments are due for the life of the facility.

The interest rate on the Credit Facilities for the six-month period ended November 30, 2015 ranged from 1.93% to 4.50%. As of November 30, 2015, there are four letters of credit totaling \$1.4 million outstanding under the New ABL Facility.

Leverage Ratio

The Credit Facilities define Leverage Ratio as Net Indebtedness divided by EBITDA, as described in this paragraph, for the most recent four fiscal quarter period for which financials have been delivered. Net Indebtedness includes such items as the Company's term loan, capital lease obligations, subordinated indebtedness, and average revolving loans for the last 12 months as of the reporting date, less the average amount of cash for the last 12 months as of the reporting date. EBITDA is defined in the Credit Facilities as consolidated net income/(loss) for the applicable period; plus, among other things, interest expense, provision for taxes, depreciation and amortization expense, share-based payment expense, certain fees, costs, and expenses incurred in connection with corporate transactions, certain restructuring charges or reserves and business optimization expenses and the pro forma amount of certain projected savings, improvements and synergies projected to be realized by the Borrower from certain transactions and operational changes, in each case incurred within the applicable period. The amount of restructuring charges or reserves and business optimization expenses together with the pro forma amount of certain projected savings, improvements and synergies costs added back to EBITDA shall not exceed an amount equal to 15% of EBITDA for the applicable four fiscal quarter period.

The following table depicts the Company's Leverage Ratio:

	As of November 30, 2015 ^{(1) (2)}	As of August 31, 2015	As of May 31, 2015	As of February 28, 2015	As of November 30, 2014	As of August 31, 2014
Leverage Ratio	6.61	5.73	4.29	3.87	3.62	3.61

(1) Using the definition of EBITDA per the Credit Facilities, as described above, the Leverage Ratio was 7.79.

(2) Excluding the impact of foreign exchange on the Company's trailing twelve month EBITDA, the Leverage Ratio was 4.35.

Off-Balance Sheet Arrangements

We enter into agreements with our manufacturing partners on tooling requirements for our manufactured products. These agreements form an important part of the Company's supply chain strategy and cash flow management. The following table summarizes our vendor tooling commitments as of November 30, 2015 and Fiscal 2016:

(millions of U.S. dollars)

Vendor	Tooling acquisition value	Cost paid	Owed amounts as of November 30, 2015	Open purchase orders amortization value	Outstanding liability Fiscal 2016
Supplier A	\$ 7.3	\$ 5.8	\$ 1.5	\$ 0.2	\$ 1.3
Supplier B	7.3	6.0	1.3	0.1	1.2
Supplier C	1.6	0.8	0.8	0.1	0.7
Supplier D	0.6	0.7	(0.1)	—	—
Supplier E	0.9	0.5	0.4	0.1	0.3
Supplier F	0.2	0.2	—	—	—
Supplier G	0.1	0.1	—	—	—
Supplier H	0.1	—	0.1	—	0.1
Total	\$ 18.1	\$ 14.1	\$ 4.0	\$ 0.5	\$ 3.6

Capital Expenditures

In the three-month period ended November 30, 2015 and the three-month period ended November 30, 2014, we incurred capital expenditures of \$7.3 million and \$2.9 million, respectively. In the six-month period ended November 30, 2015 and the six-month period ended November 30, 2014, we incurred capital expenditures of \$12.1 million and \$4.9 million, respectively. As a percentage of revenues, our capital expenditures for the trailing twelve-months ended November 30, 2015 were 4.0% of revenues, compared to 1.5% of revenues for the trailing twelve-months ended November 30, 2014. The capital investments were incurred for information systems to assist in streamlining our growing organization, investments related to the Own The Moment Hockey Experience retail stores, leasehold improvements related to the Thousand Oaks, California Easton Baseball/Softball facility, tooling,

R&D and investments in retail marketing assets. The year-over-year increase is driven by investments related to the Own The Moment Hockey Experience retail stores, higher investments in information systems, leasehold improvements related to the Blainville, Quebec research, design and development facility and the Thousand Oaks, California Easton Baseball/Softball facility, and the addition of Easton Baseball/Softball, as compared to the prior year. Our ordinary course of operations requires minimal capital expenditures for equipment, given that we manufacture most of our products through our manufacturing partners. Going forward, to support our growth and key business initiatives, we currently anticipate the levels of capital expenditures to remain higher, and quarterly levels may be uneven, as we continue to invest in information systems, Own The Moment Hockey Experience retail stores, and the Thousand Oaks, California Easton Baseball/Softball facility.

Contractual Obligations

The following table summarizes our contractual obligations as of November 30, 2015 and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

(millions of U.S. dollars)	Payments due by period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Operating lease obligations ⁽¹⁾	\$ 25.3	\$ 4.6	\$ 6.1	\$ 4.1	\$ 10.5
Financing and capital lease obligations ⁽¹⁾	19.8	1.7	3.4	3.4	11.3
Endorsement contracts ⁽²⁾	21.5	9.2	8.9	2.0	1.4
Long-term borrowings: ⁽³⁾					
New ABL Facility	132.1	132.1	—	—	—
New Term Loan Facility due 2021	330.5	—	—	—	330.5
Interest payment obligations	81.7	15.2	30.4	30.4	5.7
Inventory purchases ⁽⁴⁾	70.4	70.4	—	—	—
Non-inventory purchases ⁽⁵⁾	6.9	6.6	0.2	0.1	—
Total	\$ 688.2	\$ 239.8	\$ 49.0	\$ 40.0	\$ 359.4

- (1) Future operating lease obligations are not recognized in our unaudited consolidated balance sheets. The operating lease obligations for buildings and equipment expire at various dates through the fiscal year ended May 31, 2026. The financing and capital lease obligations for buildings expire at various dates through the fiscal year ended May 31, 2030. Certain of the operating and capital leases contain renewal clauses for the extension of the lease for one or more renewal periods.
- (2) The amounts listed for endorsement contracts represent approximate amounts of base compensation and minimum guaranteed royalty fees the Company is obligated to pay athletes, sports teams, and other endorsers of the Company's products. Actual payments under some contracts may be higher than the amounts listed as these contracts provide for bonuses to be paid to the endorsers based upon certain achievements and/or royalties on product sales in future periods. Actual payments under some contracts may also be lower as these contracts include provisions for reduced payments if certain performance criteria are not met. In addition to the cash payments, the Company is obligated to furnish the endorsers with products for their use. It is not possible to determine how much the Company will spend on this product on an annual basis as the contracts do not stipulate a specific amount of cash to be spent on the product. The amount of product provided to the endorsers will depend on many factors including general playing conditions, the number of sporting events in which they participate, and the Company's decisions regarding product and marketing initiatives. In addition, the costs to design, develop, source, and purchase the products furnished to the endorsers are incurred over a period of time and are not necessarily tracked separately from similar costs incurred for products sold to customers.
- (3) The New ABL Facility and the New Term Loan Facility due 2021 amounts represent principal payments on outstanding debt. The interest payment obligations represent interest payments on the term loan due 2021. Estimates of interest payments are based on outstanding principal amounts, currently effective interest rates as of November 30, 2015, and the term of the debt obligation. The interest payment obligations exclude expected interest payments on our revolving loan, which can fluctuate based on the amount of outstanding borrowings in any given period. For more information, please refer to the "Indebtedness" section.
- (4) Inventory purchase obligations include various commitments in the ordinary course of business that would include the purchase of goods that are not recognized in our unaudited consolidated balance sheets.
- (5) Non-inventory purchase obligations include other binding commitments for the expenditure of funds that are not recognized in our unaudited consolidated balance sheets, including (i) capital expenditures for approved projects, and (ii) amounts related to contracts not involving the purchase of inventories, such as the non-cancelable portion of service or maintenance agreements for management information systems.

Contingencies

In connection with the purchase of Bauer Hockey from Nike, Inc. on April 16, 2008 (the "Business Purchase"), a subsidiary of Kohlberg Sports Group Inc., a Cayman Island corporation ("KSGI"), agreed to pay additional consideration to Nike, Inc. ("Nike") in future periods based upon the attainment of a qualifying exit event. As of November 30, 2015, the maximum potential future consideration pursuant to such arrangements, to be resolved on or before April 16, 2016, such date being the eighth anniversary of April 16, 2008, is \$10.0 million. As a condition to the acquisition in connection with our initial public offering in Canada in March 2011, the former securityholders of KSGI, who sold KSGI and its subsidiaries to the Company on March 10, 2011 pursuant to the acquisition agreement dated March 3, 2011 (the "Existing Holders"), entered into a reimbursement agreement

with the Company pursuant to which each of the Existing Holders agreed to reimburse the Company, on a *pro rata* basis, in the event that the Company or any of its subsidiaries are obligated to make such a payment to Nike.

The Company previously entered into employment agreements with the former owners of Inaria in connection with the closing of the acquisition of Inaria. Included in the employment agreements are yearly performance bonuses payable in the event Inaria achieves gross profit targets in the period one to four years following the closing date, such date being October 16, 2012. These amounts, if any, will be accrued over the required service period. As of November 30, 2015, the potential undiscounted amount of the future payments that the Company could be required to make is between \$0 and \$0.9 million Canadian dollars.

In addition to the matters above, during the ordinary course of its business, the Company is involved in various legal proceedings involving contractual and employment relationships, product liability claims, trademark rights and a variety of other matters. The Company does not believe there are any pending legal proceedings that will have a material adverse impact on the Company's financial position or results of operations.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

We believe that the estimates, assumptions and judgments involved in the accounting policies described in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our Annual Report on Form 10-K have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Actual results could differ from the estimates we use in applying our critical accounting policies. We are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

New Accounting Pronouncements

See Item 1 of Part I, "Financial Information - Notes to Consolidated Financial Statements - Significant Accounting Policies - Recent Accounting Pronouncements".

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of November 30, 2015, there have been no material changes from the information previously reported under Part II, Item 7A. in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015. See "Factors Affecting Our Performance - Impact of Foreign Exchange and Hedging Practices" for more information.

Item 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of the end of the period covered by this quarterly report on Form 10-Q.

As required by Rule 13a-15(d) under the Exchange Act, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to determine whether any changes occurred during the quarter covered by this quarterly report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there have been no such changes during the quarter covered by this quarterly report on Form 10-Q.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

As of November 30, 2015, there have been no material developments with respect to the information previously reported under Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

Item 1A. RISK FACTORS

As of November 30, 2015, there have been no material changes in our risk factors from those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2015, and in Part II, Item 1A of our Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2015.

Item 6. EXHIBITS

The following exhibits are filed as part of this quarterly report on Form 10-Q:

Exhibit Number	Description
10.1	Offer Letter to Amir Rosenthal, dated May 26, 2015 and effective June 1, 2015.
10.2	Amended and Restated Employment Agreement between Bauer Hockey, Inc. and Matt Smith, effective as of March 9, 2011.
10.3	Offer Letter to Matt Smith, dated November 30, 2015 and effective as of December 3, 2015.
10.4	Amended and Restated Employment Agreement between Bauer Hockey, Inc. and Mark Vendetti, effective as of December 14, 2015.
10.5	Form of Deferred Stock Unit Award Agreement (for U.S. directors) for grants under the Omnibus Equity Incentive Plan.
10.6	Form of Deferred Stock Unit Award Agreement (for Canadian directors) for grants under the Omnibus Equity Incentive Plan.
10.7	Form of Restricted Stock Unit Award Agreement for grants under the Omnibus Equity Incentive Plan.
10.8	Form of Nonqualified Stock Option Award Agreement for grants under the Omnibus Equity Incentive Plan.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's quarterly report on Form 10-Q for the three-month period ended November 30, 2015.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's quarterly report on Form 10-Q for the three-month period ended November 30, 2015.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company's quarterly report on Form 10-Q for the three-month period ended November 30, 2015.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company's quarterly report on Form 10-Q for the three-month period ended November 30, 2015.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PERFORMANCE SPORTS GROUP LTD.

Dated: January 13, 2016

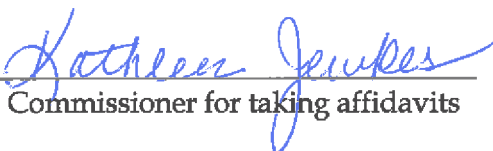
By: /s/ Mark Vendetti

Mark Vendetti

Executive Vice President/Chief Financial Officer

EXHIBIT "E"

Exhibit "E" to the Affidavit
Of Mark Vendetti, sworn
October 31, 2016


Commissioner for taking affidavits

KATHLEEN A. JEWKES, Notary Public
My Commission Expires April 6, 2021

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PERFORMANCE SPORTS GROUP LTD. CONSOLIDATED BALANCE SHEETS (UNAUDITED) (In thousands, except share data)

	February 29, 2016	May 31, 2015
ASSETS		
Cash	\$ 2,584	\$ 2,932
Restricted cash	2,000	—
Trade and other receivables, net of allowance for doubtful accounts of \$25,256 and \$2,038, respectively	191,659	199,375
Inventories, net	171,573	174,546
Income taxes receivable	10,419	7,393
Deferred income taxes	—	15,465
Prepaid expenses and other current assets	7,528	4,985
Total current assets	385,763	404,696
Property, plant and equipment, net of accumulated depreciation of \$25,769 and \$19,337, respectively	67,855	47,051
Goodwill	46,950	102,755
Intangible assets, net	185,700	276,754
Deferred income taxes	—	8,150
Other non-current assets	11,662	5,511
TOTAL ASSETS	\$ 697,930	\$ 844,917
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt	\$ 117,073	\$ 90,550
Accounts payable	57,729	41,518
Accrued liabilities	47,688	45,756
Current portion of retirement benefit obligations	300	320
Current portion of financing and capital lease obligations	184	179
Total current liabilities	222,974	178,323
Long-term debt	322,638	320,271
Retirement benefit obligations	4,434	5,057
Financing and capital lease obligations	25,628	14,406
Deferred income taxes	10,071	14,741
Other non-current liabilities	1,593	358
TOTAL LIABILITIES	587,338	533,156
STOCKHOLDERS' EQUITY		
Common stock, no par value; unlimited shares authorized; 45,566,680, and 45,552,180 shares issued and outstanding at February 29, 2016 and May 31, 2015, respectively	273,382	273,332
Additional paid-in capital	4,075	5,385
Retained earnings (deficit)	(140,889)	56,022
Accumulated other comprehensive loss	(25,976)	(22,978)
TOTAL STOCKHOLDERS' EQUITY	110,592	311,761
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 697,930	\$ 844,917

See accompanying notes to consolidated financial statements.

PERFORMANCE SPORTS GROUP LTD.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)
(In thousands, except share and per share data)

	Three months ended February 29 and 28,		Nine months ended February 29 and 28,	
	2016	2015	2016	2015
Revenues	\$ 126,081	\$ 137,746	\$ 454,157	\$ 507,135
Cost of goods sold	90,689	95,489	320,381	345,009
Gross profit	35,392	42,257	133,776	162,126
Selling, general and administrative expenses	54,443	34,118	134,083	109,069
Research and development expenses	6,434	5,974	18,579	18,509
Impairment of goodwill and intangible assets	145,112	—	145,112	—
Operating income (loss)	(170,597)	2,165	(163,998)	34,548
Interest expense, net	5,406	4,768	15,688	14,960
Realized gain on derivatives	(746)	(1,431)	(1,983)	(4,878)
Unrealized loss on derivatives	2,589	56	1,224	994
Foreign exchange loss	483	13,243	8,796	20,341
Gain on bargain purchase	(987)	—	(987)	—
Other expenses (income)	(7)	64	(42)	152
Income (loss) before income taxes	(177,335)	(14,535)	(186,694)	2,979
Income tax expense (benefit)	10,722	(2,071)	10,217	3,665
Net loss	<u>\$ (188,057)</u>	<u>\$ (12,464)</u>	<u>\$ (196,911)</u>	<u>\$ (686)</u>
Earnings (loss) per share:				
Basic	<u>\$ (4.13)</u>	<u>\$ (0.28)</u>	<u>\$ (4.32)</u>	<u>\$ (0.02)</u>
Diluted	<u>\$ (4.13)</u>	<u>\$ (0.28)</u>	<u>\$ (4.32)</u>	<u>\$ (0.02)</u>
Weighted-average shares outstanding:				
Basic	<u>45,566,680</u>	<u>44,699,821</u>	<u>45,558,534</u>	<u>43,559,710</u>
Diluted	<u>45,566,680</u>	<u>44,699,821</u>	<u>45,558,534</u>	<u>43,559,710</u>

See accompanying notes to consolidated financial statements.

PERFORMANCE SPORTS GROUP LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(In thousands)

	Three months ended February 29 and 28,		Nine months ended February 29 and 28,	
	2016	2015	2016	2015
Net loss	\$ (188,057)	\$ (12,464)	\$ (196,911)	\$ (686)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(144)	(5,364)	(3,099)	(8,321)
Defined benefit pension plans, net of tax:				
Actuarial gains, net of tax	8	66	101	97
Reclassification adjustments included in net income (loss), net of tax	—	5	—	15
Other comprehensive loss	(136)	(5,293)	(2,998)	(8,209)
Comprehensive loss	<u>\$ (188,193)</u>	<u>\$ (17,757)</u>	<u>\$ (199,909)</u>	<u>\$ (8,895)</u>

See accompanying notes to consolidated financial statements.

PERFORMANCE SPORTS GROUP LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Nine months ended February 29 and 28,	
	2016	2015
OPERATING ACTIVITIES		
Net loss	\$ (196,911)	\$ (686)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Share-based payment expense	4,156	4,935
Depreciation and amortization	18,225	17,747
Impairment of goodwill and intangible assets	145,112	—
Unrealized loss from derivatives	1,224	994
Deferred income taxes	14,410	3,228
Bad debt expense	24,203	1,118
Gain on bargain purchase	(987)	—
Loss on disposal of assets	227	29
Changes in operating assets and liabilities excluding the effect of acquisitions:		
Trade and other receivables	(17,578)	(23,044)
Inventories	4,578	(20,670)
Prepaid expenses and other assets	(5,091)	(14,011)
Trade and other payables	15,912	12,691
Accrued and other liabilities	2,632	21,153
Net cash provided by operating activities	10,112	3,484
INVESTING ACTIVITIES		
Acquisition of businesses, net of cash acquired	(5,585)	732
Increase in restricted cash	(2,000)	—
Purchase of equity securities	(6,000)	—
Purchase of property, plant and equipment and intangible assets	(24,057)	(9,821)
Net cash used in investing activities	(37,642)	(9,089)
FINANCING ACTIVITIES		
Repayment of debt	—	(119,605)
Net movement in revolving debt	27,181	24,619
Payments on financing obligations	(112)	(114)
Proceeds from issuance of common stock	—	126,500
Common stock issuance costs	—	(9,739)
Proceeds from stock options exercises	38	867
Excess tax benefits from share-based compensation	—	5,736
Payment of taxes upon net stock option exercise	—	(7,017)
Net cash provided by financing activities	27,107	21,247
Effect of exchange rate changes on cash	75	(1,792)
Net increase (decrease) in cash	(348)	13,850
Cash at beginning of period	2,932	6,871
Cash at end of period	\$ 2,584	\$ 20,721
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 12,204	\$ 12,496
Income taxes	2,355	9,487
Non-cash investing and financing activities:		
Capitalization of costs related to financing lease obligation	12,008	7,829
Capitalization of intangible assets	2,150	—
Acquisition of subsidiaries	5,357	—

See accompanying notes to consolidated financial statements.

PERFORMANCE SPORTS GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the three and nine months ended February 29, 2016 and February 28, 2015
(In thousands, except share and per share data)

1. BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures required to be included in complete financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted from this report, as is permitted by such SEC rules and regulations. In the opinion of management, the accompanying unaudited consolidated financial statements contain all normal and recurring adjustments necessary to fairly present the consolidated financial position of Performance Sports Group Ltd. and its wholly owned subsidiaries (“PSG”, the “Company”, “We” or “Our”), results of operations and cash flows of the Company for the interim periods presented in accordance with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Results for interim periods are not necessarily indicative of results to be expected for a full fiscal year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended May 31, 2015. The consolidated balance sheet as at May 31, 2015 included herein is derived from the Company’s annual audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended May 31, 2015.

2. SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes to the Company’s significant accounting policies as described in the Company’s Annual Report on Form 10-K for the year ended May 31, 2015.

Recent Accounting Pronouncements:

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases*, which revises the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases with terms greater than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The provisions of ASU 2016-02 are effective for fiscal years beginning after December 15, 2018 and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. The Company is currently evaluating the impact this accounting standard will have on the Company’s consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU revises how entities measure and recognize equity investments and present changes in the fair value of financial liabilities. The provisions of ASU 2016-01 are effective for fiscal years beginning after December 15, 2017. Early adoption is permitted under certain circumstances. The Company is currently evaluating the impact this accounting standard will have on the Company’s consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which eliminates the current requirement for companies to present deferred tax liabilities and assets as current and non-current in a classified balance sheet. Instead, companies will be required to classify all deferred tax assets and liabilities as non-current. This ASU is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the impact this accounting standard will have on the Company’s consolidated financial statements.

In August 2015, the FASB issued ASU No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line of Credit Arrangements*. This ASU indicates that the guidance in ASU 2015-03 did not address presentation or subsequent measurement of debt issuance costs related to line of credit arrangements. Given the absence of authoritative guidance within ASU 2015-03, the SEC staff have indicated that they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the costs ratably over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement. The Company does not expect the adoption of ASU 2015-15 to have any effect on the Company’s financial position or results of operations.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. This ASU changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation when cost is determined on a first-in, first-out or average cost basis. The provisions of ASU 2015-11 are effective for public entities with fiscal years beginning after December 15, 2016. The Company is currently evaluating the impact this accounting standard will have on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers: Topic 606*. This ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. In July 2015, the FASB announced a one-year deferral of the effective date of the new revenue recognition standard. This accounting standard is now effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted on the originally scheduled effective date. The Company is currently evaluating the impact this accounting standard will have on the Company's consolidated financial statements.

3. BUSINESS ACQUISITIONS

Easton Hockey

On January 13, 2016 (the "Closing Date"), the Company, through its wholly-owned subsidiaries, Bauer Hockey, Inc. and Bauer Hockey Corp., acquired substantially all of the assets and assumed certain liabilities of Easton Hockey Holdings, Inc. (the "Easton Hockey Acquisition"), a manufacturer and distributor of hockey equipment, pursuant to an asset purchase agreement among Bauer Hockey, Inc., Bauer Hockey Corp., Easton Hockey Holdings, Inc., Easton Hockey, Inc. and Easton Hockey Canada, Inc. The Easton Hockey Acquisition provides the Company with intellectual property that strengthens its research and development portfolio and provides the Company with full ownership and control of the Easton brand in all sports other than cycling and archery.

The purchase price paid by the Company at closing was \$5,585 in cash, with future cash payments of an aggregate of \$5,358 payable over 10 months following the Closing Date. The Company financed the Easton Hockey Acquisition through additional borrowings on its asset-based revolving loan.

The Company has completed a preliminary valuation of assets acquired and liabilities assumed. The estimates and assumptions used in determining the preliminary fair values of certain assets and liabilities are subject to change within the measurement period, which is up to one year from the Closing Date. The primary areas of the allocation of the purchase price that are not yet finalized include trade receivables, inventories, property, plant and equipment and deferred income taxes since the Easton Hockey Acquisition occurred in the current fiscal quarter. The preliminary allocation of the purchase price to the individual assets acquired and liabilities assumed under the purchase method of accounting resulted in a gain on bargain purchase of \$987. The gain on bargain purchase associated with the Easton Hockey Acquisition was due to a distressed sale by the previous owners whose financial position had been deteriorating over time.

The following table presents the preliminary allocation of purchase price related to the Easton Hockey business as of the Closing Date of the Easton Hockey Acquisition:

Net assets acquired:		
Trade receivables	\$	5,685
Inventories		6,000
Property, plant and equipment		350
Intangible assets		1,175
Other assets		327
Total assets acquired		13,537
Current liabilities		(1,607)
Total liabilities assumed		(1,607)
Net assets acquired	\$	11,930
Consideration paid or payable to seller	\$	10,943
Gain on bargain purchase	\$	987

The estimated fair values and useful lives of intangible assets acquired as of the acquisition date were as follows:

	Amount	Weighted-Average Remaining Useful Life
Trade names and trademarks	\$ 370	7
Customer relationships	155	8
Purchased technology	650	7
Total intangible assets acquired	<u>\$ 1,175</u>	

The trade names and trademarks and purchased technology were valued using the relief-from-royalty method. The relief-from-royalty method recognizes that the current value of an asset may be premised upon the expected receipt of future economic benefit in the use of the acquired technology. These benefits are generally considered to be higher income resulting from the avoidance of a loss in revenue that would likely occur without the specific technology.

Customer relationships were valued using the excess earnings method. The excess earnings method recognizes that the current value of an asset may be premised upon the present value of the earnings it generates, net of a reasonable return on other assets also contributing to that stream of earnings.

The Company incurred acquisition-related costs of \$414 in the three and nine months ended February 29, 2016 relating to external legal fees, consulting fees and due diligence costs. These costs are included in selling, general and administrative expenses.

The amounts of Easton Hockey's revenue and net loss excluding the gain on bargain purchase included in the Company's consolidated statements of income for the three and nine months ended February 29, 2016 were \$848 and \$2,729, respectively.

Pro forma information (Unaudited)

The Company has not provided unaudited pro forma revenue and earnings of the Company as if the Easton Hockey Acquisition had occurred on June 1, 2014 due to the effects of the Easton Hockey Acquisition not being considered material.

4. SEASONALITY

Each of our sports demonstrates substantial seasonality. The spring/summer season of baseball/softball is complementary to the fall/winter season of hockey, and as a result, our quarterly sources of revenue and profitability are more balanced throughout our fiscal year. The more evenly distributed seasonality of the combined business provides more consistent working capital levels and allows us to improve our efficiency in our manufacturing, distribution and other efforts.

Generally, our highest sales volumes for hockey occur during the first fiscal quarter of our fiscal year, followed by the next highest sales volumes in the second fiscal quarter of our fiscal year. Our lowest sales volumes for hockey occur during the third fiscal quarter of our fiscal year. Launch timing of our products add some variations between fiscal quarters each fiscal year.

In baseball/softball, our highest sales volumes generally occur in the third fiscal quarter of our fiscal year and the lowest sales volumes occur in the first fiscal quarter of our fiscal year.

In lacrosse, our highest sales volumes occur in the second and third fiscal quarters of our fiscal year.

The shipment of soccer products occurs substantially in the first and fourth fiscal quarters of our fiscal year. We expect our team apparel revenues, including uniforms for ice hockey, roller hockey, lacrosse and other team sports, to align with the underlying sports' selling seasons as we expand our team apparel offering.

5. TRADE AND OTHER RECEIVABLES, NET

The Company recorded bad debt expense of \$18,952 and \$24,203 in the three and nine months ended February 29, 2016, respectively. The recorded bad debt in the three months ended February 29, 2016 included a write down of a receivable balance from a U.S. national sporting goods retailer that has filed under chapter 11 and additional bad debt reserves primarily for certain U.S. hockey customers. The recorded bad debt in the nine months ended February 29, 2016 also included a write down of a

receivable balance from an internet baseball retailer that has filed under chapter 11. The Company recorded bad debt expense of \$309 and \$1,118 in the three and nine months ended February 28, 2015, respectively.

6. INTANGIBLE ASSETS, NET AND GOODWILL

Intangible assets

Intangible assets, net consisted of the following:

	February 29, 2016			May 31, 2015		
	Gross Amount	Accumulated Amortization	Carrying Value	Gross Amount	Accumulated Amortization	Carrying Value
Trade names and trademarks	\$ 149,976	\$ —	\$ 149,976	\$ 199,481	\$ —	\$ 199,481
Purchased technology	23,924	(5,839)	18,085	21,413	(7,135)	14,278
Customer relationships	31,614	(15,953)	15,661	86,513	(23,518)	62,995
Leases	2,150	(172)	1,978	—	—	—
Total	<u>\$ 207,664</u>	<u>\$ (21,964)</u>	<u>\$ 185,700</u>	<u>\$ 307,407</u>	<u>\$ (30,653)</u>	<u>\$ 276,754</u>

In October 2015, the Company acquired certain licensing rights in technology assets (“Q30 Technology”) on an exclusive and perpetual basis for the amount of \$7,000 from Q30 Sports, LLC, a privately held entity. Q30 Sports, LLC and its parent company, Q30 Sports Science, LLC, have acquired and developed, and are currently testing, proprietary technology that has the potential to reduce indicators of mild traumatic brain injury. The Company paid \$3,000 in cash on October 15, 2015, and the balance of \$4,000 was paid on January 4, 2016. The Company maintained restricted cash balances of \$4,000 through January 4, 2016 at which time, the amount decreased to \$2,000. Future licensing payments of up to \$18,000 are conditional upon the achievement of certain product development and sales milestones. These milestones have not yet been achieved. In addition, the Company purchased a \$1,000 non-controlling interest in Q30 Sports Science, LLC, also a privately held entity. Refer to Note 7 - Other Non-Current Assets for details on the Company’s investment in Q30 Sports Science, LLC.

Goodwill

Goodwill consisted of the following:

	Hockey	Baseball/ Softball	Other Sports	Total
Balance as of May 31, 2015	\$ 43,840	\$ 55,374	\$ 3,541	\$ 102,755
Impairment	—	(55,374)	(382)	(55,756)
Exchange differences	—	—	(49)	(49)
Balance as of February 29, 2016	<u>\$ 43,840</u>	<u>\$ —</u>	<u>\$ 3,110</u>	<u>\$ 46,950</u>

Impairment

The Company recorded impairment on goodwill and intangible assets as follows:

	Three Months Ended February 29 and 28,		Nine Months Ended February 29 and 28,	
	2016	2015	2016	2015
Trade names and trademarks	\$ 46,940	\$ —	\$ 46,940	\$ —
Purchased technology	1,894	—	1,894	—
Customer relationships	40,522	—	40,522	—
Goodwill	55,756	—	55,756	—
Total impairment of goodwill and intangible assets	<u>\$ 145,112</u>	<u>\$ —</u>	<u>\$ 145,112</u>	<u>\$ —</u>

The Company assesses potential impairments of its long-lived assets, including definite-lived intangible assets whenever events or changes in circumstances indicate that the asset’s carrying value may not be recoverable. The Company performs, on an annual

basis, an impairment test of goodwill as of March 1 and indefinite-lived intangible assets as of May 31 unless an event occurs that triggers additional interim testing. The Company's third quarter financial performance, combined with revised outlook for the Company for fiscal 2016 and a decline in its market capitalization during the quarter, triggered the requirement for an interim impairment test for its indefinite-lived and definite-lived assets in all reporting units during the three months ended February 29, 2016. The Company tested the intangible assets and goodwill at the same time, however, the tests were performed in the appropriate order.

The Company tested the indefinite-lived intangibles (i.e. trade names and trademarks) for impairment as of February 29, 2016. The test involved the assessment of the fair value of the trade names and trademarks based on Level 3 unobservable inputs, using a relief-from-royalty method. The result of the impairment test indicated that the carrying value of the Easton Baseball/Softball trade names and trademarks exceeded their fair value and the Company recorded a preliminary and best estimate non-cash impairment of \$46,940, and a related tax benefit of \$4,348.

In conjunction with the second step of the analysis of goodwill for the Baseball/Softball reporting unit (discussed below), the Company tested the Baseball/Softball long-lived assets, including definite-lived intangible assets for impairment. The test involved assessing whether the carrying value of the long-lived assets may not be recoverable. The carrying amount of the long-lived assets is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the assets. If the carrying amount is not recoverable, an impairment charge would be recognized when the carrying amount of the long-lived assets exceeds its fair value. The Baseball/Softball purchased technology was valued using a relief-from-royalty method, based on Level 3 unobservable inputs. The Baseball/Softball customer relationships were valued using the excess earnings method, based on Level 3 unobservable inputs. The result of the impairment test indicated that the carrying value of the Baseball/Softball purchased technology and customer relationships exceeded their fair value and the Company recorded a preliminary and best estimate non-cash impairment of \$1,894 and \$40,522, respectively.

The first step of the goodwill impairment test indicated that there may be goodwill impairment in each of the Baseball/Softball and Soccer reporting units. The goodwill associated with each of the Hockey and Lacrosse reporting units was deemed not to be impaired. The Company estimated the fair value of the reporting units utilizing a combination of the market and income approach. The inputs used to calculate the fair value included a number of subjective factors, such as estimates of future cash flows, estimates of our future cost structure, discount rates for our estimated cash flows, required level of working capital, assumed terminal value, and time horizon of cash flow forecasts, all Level 3 unobservable inputs.

The second step of the goodwill test for each of the Baseball/Softball and Soccer reporting units was performed preliminarily during the preparation of the third fiscal quarter consolidated financial statements. Assessing the fair value of goodwill includes making assumptions about future cash flows, discount rates and asset lives using then best available information, all Level 3 unobservable inputs. These assumptions are subject to a high degree of complexity and judgment. Due to the complexity and effort required to estimate the fair value of each of the Baseball/Softball and Soccer reporting units in the second step of the analysis, the fair value estimates were based on preliminary analyses and assumptions that are subject to change. The Company's preliminary step two analysis and best estimate resulted in a non-cash goodwill impairment of the entire amount of the Baseball/Softball reporting unit goodwill of \$55,374 due to a decline in the sales and gross profit of the Easton brand and the bankruptcy of certain key customers. A tax benefit of \$1,747 was recognized for this impairment charge. The Company's preliminary step two analysis and best estimate also resulted in a non-cash goodwill impairment of \$382 in the Soccer reporting unit was due to, among other things, higher operating costs. The second step of the goodwill test will be completed in the fourth fiscal quarter and any adjustment to the amount recorded, which could differ materially, will be recorded in the fourth fiscal quarter of fiscal 2016.

7. OTHER NON-CURRENT ASSETS

In September 2015, the Company purchased a non-controlling interest in Cocona, Inc., a privately held entity that created and owns 37.5TM technology, a patented moisture management technology that utilizes body heat to evaporate moisture from apparel and equipment. Bauer Hockey launched its base layer, team apparel and elite protective equipment incorporating 37.5TM technology at retail in spring 2014. The use of 37.5TM technology is exclusive to the Company in hockey, baseball/softball (excluding MLB-licensed apparel), and lacrosse and non-exclusive to the Company in soccer through 2020. The amount of the investment totaled \$5,000. Contemporaneous with the investment, Cocona, Inc. and the Company entered into a new license agreement that, among other things, removed the obligation for the Company and its affiliates to pay exclusivity fees (under the former license these fees could potentially have exceeded over \$5,000 through 2020).

In October 2015, the Company purchased a \$1,000 non-controlling interest in Q30 Sports Science, LLC, a privately held entity. Refer to Note 6 - Intangible Assets, Net for a description of Q30 Sports Science, LLC.

These investments are accounted for at cost. The Company regularly monitors these investments to determine if facts and circumstances have changed in a manner that would require a change in accounting methodology. Additionally, the Company regularly evaluates whether or not these investments have been impaired by considering such factors as economic environment, market conditions, operational performance and other specific factors relating to the businesses underlying the investments. If any such impairment is identified, a reduction in the carrying value of the investments would be recorded at that time.

8. DEBT

The total debt outstanding is comprised of:

	February 29, 2016	May 31, 2015
Asset-based revolving loan	\$ 119,240	\$ 92,878
Term loan due 2021	330,457	330,457
Financing costs	(9,986)	(12,514)
Total debt	<u>\$ 439,711</u>	<u>\$ 410,821</u>
Current	\$ 117,073	\$ 90,550
Non-current	322,638	320,271
Total debt	<u>\$ 439,711</u>	<u>\$ 410,821</u>

9. RESTRUCTURING COSTS

In February 2016, the Company discontinued distribution operations at its distribution facility (the “Distribution Facility”) in Mississauga, Ontario. As a result, 56 employees were terminated between January and February 2016. The Distribution Facility was closed in an effort to better align the Company’s distribution activities with its overall business needs while enabling the Company to better serve its customers.

The restructuring liability, which is recorded in accrued liabilities on the consolidated balance sheet, is summarized as follows:

	Severance and other employee- related costs	Other Costs	Total
Balance as of May 31, 2015	\$ —	\$ —	\$ —
Charges	2,729	709	3,438
Payments	(2,248)	(709)	(2,957)
Foreign currency and other	(127)	—	(127)
Balance at February 29, 2016	<u>\$ 354</u>	<u>\$ —</u>	<u>\$ 354</u>

The Company recognized restructuring costs of \$1,715 and \$3,438 in the three and nine months ended February 29, 2016, respectively, which are included in cost of goods sold.

10. INCOME TAXES

Income tax expense (benefit) is recognized based on management’s best estimate of the annual effective income tax rate expected for the full fiscal year applied to income (loss) before income taxes of the interim period. Deferred tax assets are recorded to the extent the Company believes these assets are more likely than not to be realized. In evaluating its ability to realize the tax benefits associated with deferred tax assets, the Company considers all available positive and negative evidence, including historical and projected future operating results, the reversal of existing temporary differences, taxable income in prior carry-back years and the availability of tax planning strategies. A valuation allowance is provided against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

During the three months ended February 29, 2016, the Company’s operating losses were greater than anticipated. As a result of the operating loss, the Company entered into a three-year cumulative loss position for certain taxable jurisdictions during the third quarter of fiscal 2016. After consideration of these factors and an evaluation of all positive and negative evidence, the Company has determined that it is more likely than not that it will not be able to realize the benefits of its deferred tax assets. Accordingly,

at February 29, 2016, the Company recorded an incremental charge of \$19,227 to establish a full valuation allowance against the impacted deferred tax assets, including net operating loss carryforwards that expire at various dates in the next 17 years. Realization of the Company's deferred tax assets is dependent on generating sufficient taxable income in future years. These events and circumstances contributed to the Company recording income tax expense for the three and nine months ended February 29, 2016, despite incurring pre-tax losses in those periods of \$177,335 and \$186,694, respectively.

Income tax expense for the three and nine months ended February 29, 2016 was \$10,722 and \$10,217, respectively. Income tax expense for both periods was comprised primarily of discrete items, including a \$19,227 expense to record a valuation allowance on deferred tax assets, partially offset by a benefit of \$6,131 on impairment expense and a benefit of \$3,051 for the amount of tax recoverable by carryback of the current year's loss to prior years.

Income tax benefit for the three months ended February 28, 2015 was \$2,071 on a pre-tax loss of \$14,535, for an effective tax rate ("ETR") of 14.2%. The relatively low ETR was primarily due to unrealized capital losses for which no tax benefit could be recognized. Income tax expense for the nine months ended February 28, 2015 was \$3,665 on pre-tax income of \$2,979, for an ETR of 123.0%. The high ETR was primarily due to unrealized capital losses for which no tax benefit could be recognized.

11. STOCKHOLDERS' EQUITY

On June 25, 2014, the Company completed its underwritten public offering in the United States and Canada (the "Offering") of 8,161,291 Common Shares at a price to the public of \$15.50 per share, for total gross proceeds of approximately \$126,500, including the exercise in full of the over-allotment option. The Company used the net proceeds of the Offering to repay \$119,500 of the New Term Loan Facility. The Company incurred \$213 and \$9,739 in common stock issuance costs in the three and nine months ended February 28, 2015, respectively. These costs are recorded in common stock in the consolidated balance sheets.

12. SHARE-BASED COMPENSATION

The Company recognized share-based compensation expense as follows:

	Three Months Ended February 29 and 28,		Nine Months Ended February 29 and 28,	
	2016	2015	2016	2015
Share-based compensation for employee awards	\$ 1,354	\$ 1,384	\$ 3,403	\$ 4,333
Share-based compensation for non-employee awards	368	274	753	602
Total share-based compensation	<u>\$ 1,722</u>	<u>\$ 1,658</u>	<u>\$ 4,156</u>	<u>\$ 4,935</u>

Omnibus Equity Incentive Plan

The Omnibus Equity Incentive Plan was adopted by the Board of Directors on August 11, 2015 and approved by the shareholders of the Company on October 14, 2015 at the Company's annual and special meeting of shareholders. The Omnibus Equity Incentive Plan provides for the grant of nonqualified stock options, incentive stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units ("RSUs"), deferred stock units ("DSUs"), other stock-based awards, and performance compensation awards. The total number of Common Shares reserved for issuance under the Omnibus Equity Incentive Plan is 3,000,000 Common Shares. At February 29, 2016, the maximum number of Common Shares available for future issuance under the Omnibus Equity Incentive Plan was 1,424,209.

The Company grants awards under the Omnibus Equity Incentive Plan to employees, non-employees, and directors of the Company or its affiliates. Employee service-based awards have a contractual life of 10 years and typically vest over a period of 4 years from grant-date. Non-employee service-based awards have a contractual life of 10 years and typically vest over a period of up to 6 years. Director service-based awards fully vest on the applicable date of grant and the Company settles the awards following the director's separation from service with the Company in accordance with the Omnibus Equity Incentive Plan and pursuant to the terms and conditions of the applicable grant agreement.

Under the terms of the Omnibus Equity Incentive Plan, each eligible director ("Eligible Directors") may elect to receive up to 100% of the cash portion of such director's compensation in the form of DSUs. If the Eligible Director elects to receive all or a portion of such director's cash compensation in DSUs, such election is fixed for the ensuing fiscal year. In addition, Eligible Directors receive the equity portion of their compensation in the form of DSU's. The number of Common Shares awarded to satisfy that liability is variable based on the value of the Common Shares at the time of settlement of the liability. The DSUs are therefore classified as liability awards.

The assumptions used for options granted to acquire Common Shares and the fair value at the date of grant under the Omnibus Equity Incentive Plan is noted in the following table:

	Nine Months Ended February 29, 2016
Weighted average expected term (in years)	6.7
Weighted average expected volatility	30.54%
Weighted average risk-free interest rate	1.68%
Weighted average forfeiture rate	1.78%
Expected dividend yield	—%
Weighted average fair value per option granted	\$3.64

Information concerning options activity under the Omnibus Equity Incentive Plan for options to acquire Common Shares is summarized as follows:

	Nine Months Ended February 29, 2016	
	Number of Options	Weighted- Average Exercise Price
Outstanding, beginning of period	—	\$ —
Granted	1,293,178	12.45
Forfeited	(29,650)	10.54
Outstanding, end of period	1,263,528	\$ 12.50
Options vested and expected to vest, end of period	1,241,350	\$ 12.50
Options exercisable, end of period	—	\$ —

Information concerning RSUs activity under the Omnibus Equity Incentive Plan is summarized as follows:

	Nine Months Ended February 29, 2016	
	Number of RSUs	Weighted- Average Fair Value
Outstanding, beginning of period	—	\$ —
Granted	307,433	12.33
Forfeited	(9,155)	10.37
Outstanding, end of period	298,278	\$ 12.21
Vested, end of period	—	\$ —

Employee Inducement Award

On January 20, 2016, the Company granted non-qualified stock options to acquire 90,000 Common Shares and granted RSUs representing the right to receive 30,000 Common Shares, pursuant to New York Stock Exchange Rule 303A.08 and Section 613 (c) of the Toronto Stock Exchange Company Manual, as an employee inducement award and outside the terms of the Omnibus Equity Incentive Plan. The awards have a contractual life of 10 years and vest in 25% cumulative installments on each of the first four anniversaries of the date of grant, subject to continued employment through the applicable vesting dates.

The assumptions used for options granted to acquire Common Shares and the fair value at the date of grant for the Employee Inducement Award is noted in the following table:

	Nine Months Ended February 29, 2016
Weighted average expected term (in years)	6.3
Weighted average expected volatility	32.14%
Weighted average risk-free interest rate	1.64%
Weighted average forfeiture rate	3.07%
Expected dividend yield	—%
Weighted average fair value per option granted	\$2.21

The RSUs weighted average fair value at date of grant and at February 29, 2016 is \$6.30.

Second Amended and Restated 2011 Plan ("2011 Plan")

In connection with the adoption of the Omnibus Equity Incentive Plan, no further options will be granted under the 2011 Plan. The 2011 Plan will continue to govern options previously granted under the 2011 Plan and remain outstanding.

Deferred Share Unit Plan ("DSU Plan")

In connection with the adoption of the Omnibus Equity Incentive Plan, no further DSUs will be granted under the DSU Plan. The DSU Plan will continue to govern DSUs previously granted under the DSU Plan and remain outstanding.

13. EARNINGS PER SHARE

The following is a reconciliation from basic earnings per Common Share to diluted earnings per Common Share:

	Three Months Ended February 29 and 28,		Nine Months Ended February 29 and 28,	
	2016	2015	2016	2015
Net income (loss)	\$ (188,057)	\$ (12,464)	\$ (196,911)	\$ (686)
Weighted average common shares outstanding, assuming conversion of proportionate voting shares - Basic	45,566,680	44,699,821	45,558,534	43,559,710
Assumed conversion of dilutive stock options and awards	—	—	—	—
Diluted weighted average common shares outstanding	45,566,680	44,699,821	45,558,534	43,559,710
Basic earnings (loss) per common share	\$ (4.13)	\$ (0.28)	\$ (4.32)	\$ (0.02)
Diluted earnings (loss) per common share	\$ (4.13)	\$ (0.28)	\$ (4.32)	\$ (0.02)
Anti-dilutive stock options and awards excluded from diluted earnings (loss) per share calculation	808,879	2,398,589	1,307,187	2,440,610

14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive income (loss), net of taxes, are as follows:

	Foreign currency translation	Defined benefit pension plans	Total
Balance as of May 31, 2014	\$ (13,765)	\$ (934)	\$ (14,699)
Other comprehensive income (loss) before reclassifications	(8,321)	97	(8,224)
Amounts reclassified from accumulated other comprehensive loss to net income	—	15	15
Balance at February 28, 2015	<u>\$ (22,086)</u>	<u>\$ (822)</u>	<u>\$ (22,908)</u>
Balance as of May 31, 2015	\$ (21,956)	\$ (1,022)	\$ (22,978)
Other comprehensive income (loss) before reclassifications	(3,099)	101	(2,998)
Balance at February 29, 2016	<u>\$ (25,055)</u>	<u>\$ (921)</u>	<u>\$ (25,976)</u>

15. SEGMENT INFORMATION

The Company has two reportable operating segments, Hockey and Baseball/Softball. The remaining operating segments do not meet the criteria for a reportable segment and are included in Other Sports. The Hockey segment includes the Bauer, Mission and Easton Hockey brands. The Baseball/Softball segment includes the Easton Baseball/Softball and Combat brands. Other Sports includes the Lacrosse and Soccer operating segments, which includes the Maverik and Cascade brands for Lacrosse, and the Inaria brand for Soccer.

These operating segments were determined based on the management structure and the financial information, among other factors, reviewed by the Chief Operating Decision Maker (“CODM”) to assess segment performance. Operating segment profit is evaluated using EBITDA adjusted for items excluded by the CODM, which is not a measure defined by U.S. GAAP, and is reviewed by the CODM. Certain PSG functional platform costs are directly allocated to each operating segment based on usage or other relevant operational metrics. PSG’s functional platform costs consist of expenses incurred by centrally-managed functions, including global information systems, finance and legal, distribution and logistics, sourcing and manufacturing, and other miscellaneous costs.

PSG corporate expenses, currency related gains (losses), acquisition related expenses and other costs are not controlled by the management at each operating segment and therefore are excluded from segment EBITDA. PSG corporate expenses consist of executive compensation and administration costs, public company compliance and other related costs, certain tax credits and other miscellaneous costs. Currency related gains (losses) consists of foreign exchange gains (losses) and the unrealized gain (loss) on derivative instruments. The realized gain (loss) on derivative instruments is included in the EBITDA of the Hockey operating segment because it currently relates specifically to Hockey cost of goods sold. Acquisition related expenses consist of (i) charges to cost of goods sold resulting from the fair market value adjustment to inventory, (ii) integration costs, (iii) costs related to reviewing corporate opportunities, and (iv) transaction costs. Other costs consist of share-based payment expenses and items that the CODM excludes from segment EBITDA, including, for example, items that are infrequent in nature such as costs related to share offerings.

Segment revenue information is summarized as follows:

	Three Months Ended February 29 and 28,		Nine Months Ended February 29 and 28,	
	2016	2015	2016	2015
Hockey	\$ 56,297	\$ 53,936	\$ 285,724	\$ 327,734
Baseball/Softball	57,259	71,946	140,318	153,531
Other Sports	12,525	11,864	28,115	25,870
Total revenues	<u>\$ 126,081</u>	<u>\$ 137,746</u>	<u>\$ 454,157</u>	<u>\$ 507,135</u>

Segment EBITDA information is summarized as follows:

	Three Months Ended February 29 and 28,		Nine Months Ended February 29 and 28,	
	2016	2015	2016	2015
Hockey	\$ (15,900)	\$ (3,935)	\$ 10,628	\$ 47,959
Baseball/Softball	3,582	18,889	12,660	34,087
Other Sports	2,671	2,097	2,585	2,214
Total segment EBITDA ⁽¹⁾	\$ (9,647)	\$ 17,051	\$ 25,873	\$ 84,260

(1) Represents a non-GAAP financial measure.

The reconciliation of total segment EBITDA to income before income taxes is summarized as follows:

	Three Months Ended February 29 and 28,		Nine Months Ended February 29 and 28,	
	2016	2015	2016	2015
Total segment EBITDA	\$ (9,647)	\$ 17,051	\$ 25,873	\$ 84,260
Corporate expenses	(1,370)	(2,443)	(5,012)	(5,781)
Acquisition related expenses	(4,595)	(2,517)	(13,775)	(14,149)
Depreciation and amortization	(5,661)	(5,278)	(16,490)	(15,845)
Impairment of goodwill and intangible assets	(145,112)	—	(145,112)	—
Interest expense, net	(5,406)	(4,768)	(15,688)	(14,960)
Currency related losses	(3,072)	(13,299)	(10,020)	(21,335)
Other ⁽¹⁾	(2,472)	(3,281)	(6,470)	(9,211)
Income (loss) before income taxes	\$ (177,335)	\$ (14,535)	\$ (186,694)	\$ 2,979

(1) Other consists of share-based payments expense and items that the CODM excludes from segment EBITDA.

16. DERIVATIVES & RISK MANAGEMENT

The following table summarizes the fair value of derivative instruments by contract type as well as the location of the asset and/or liability on the consolidated balance sheets at February 29, 2016 and May 31, 2015, respectively:

Balance Sheet Location		February 29, 2016	May 31, 2015
Assets:			
Foreign currency forward contracts	Prepaid and other current assets	\$ 1,637	\$ 697
Foreign currency forward contracts	Other non-current assets	321	54
Liabilities:			
Foreign currency forward contracts	Accrued liabilities	2,485	141
Variable cash settlement	Accrued liabilities	476	—
Foreign currency forward contracts	Other non-current liabilities	543	—
Variable cash settlement	Other non-current liabilities	—	20

The following table summarizes the location of gains and losses on the consolidated statements of income that were recognized during the three and nine months ended February 29, 2016, respectively, in addition to the derivative contract type:

Derivatives not designated as hedging instruments	Location of (gain) loss recognized in income on derivative instruments	Three Months Ended February 29 and 28,		Nine Months Ended February 29 and 28,	
		2016	2015	2016	2015
Foreign currency forward contracts	Realized gain on derivatives	\$ (746)	\$ (1,431)	\$ (1,983)	\$ (4,878)
Foreign currency forward contracts	Unrealized loss on derivatives	2,589	56	1,224	994
Variable cash settlement	Selling, general and administrative expenses	279	(43)	453	(279)

17. FAIR VALUE MEASURES

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of February 29, 2016 and May 31, 2015, respectively, and indicate the level of the fair value hierarchy utilized by the Company to determine such fair value:

	Fair Value Measurements as of February 29, 2016 Using:		
	Level 1	Level 2	Level 3
Assets:			
Foreign currency forward contracts	\$ —	\$ 1,958	\$ —
Liabilities:			
Foreign currency forward contracts		\$ 3,028	
Variable cash settlement	\$ —	\$ 476	\$ —

	Fair Value Measurements as of May 31, 2015 Using:		
	Level 1	Level 2	Level 3
Assets:			
Foreign currency forward contracts	\$ —	\$ 751	\$ —
Liabilities:			
Foreign currency forward contracts		\$ 141	
Variable cash settlement	\$ —	\$ 20	\$ —

Refer to Note 6 - Intangible Assets, Net and Goodwill for details on the fair value measures used in the impairment on goodwill and intangible assets.

18. COMMITMENTS AND CONTINGENCIES

In July 2015, the Company entered into a lease agreement as a second tenant of a property in Thousand Oaks, California (the "Thousand Oaks property") for a lease term of 125 months. Per the terms of the lease agreement and due to the Company's involvement in the restoration of the facility, the Company was determined to be the owner of the facility during the construction period and recognized an asset and liability in the amount of \$12,008. Upon completion of the restoration of the Thousand Oaks property, the Company will assess whether the lease qualifies for sales recognition under the sale-leaseback accounting guidance. The Company currently expects that the lease for the Thousand Oaks property will qualify for sales recognition under the sale-leaseback accounting guidance and, if that is the case, will remove the asset and liability from its consolidated balance sheet.

The Company acquired Kohlberg Sports Group Inc. ("KSGI") on March 10, 2011. In connection with the acquisition of Bauer Hockey by KSGI in April 2008, a subsidiary of KSGI agreed to pay additional consideration to Nike, Inc. in future periods, based upon the attainment of a qualifying exit event. At February 29, 2016, the maximum potential future consideration pursuant to such arrangements, to be resolved on or before April 16, 2016, such date being the eighth anniversary of April 16, 2008, is \$10,000. On April 16, 2008, all of the security holders of KSGI (collectively, the "Existing Holders") entered into a reimbursement agreement with the Company pursuant to which each of the Existing Holders agreed to reimburse the Company, on a *pro rata* basis, in the

event that the Company or any of its subsidiaries are obligated to make a payment to Nike, Inc. As of February 29, 2016, the Company determined that no such qualifying exit event has occurred. The Company will continue to assess whether a qualifying exit event has occurred through the eighth anniversary date, such date being April 16, 2016.

In connection with the acquisition of Q30 Technology from Q30 Sports, LLC, a privately held entity, future licensing payments of up to \$18,000 are conditional upon the achievement of certain product development and sales milestones. These milestones have not yet been achieved.

In the ordinary course of business, the Company is involved in various legal proceedings involving contractual and employment relationships, product liability claims, trademark rights, and a variety of other matters. On March 18, 2016, a class action securities fraud complaint was filed by Brian Apel, individually and on behalf of all others similarly situated, against the Company seeking unspecified damages, as well as costs, attorneys' fees, and other unspecified relief.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion summarizes our consolidated operating results, financial condition and liquidity during the three- and nine-month periods ended February 29, 2016 and February 28, 2015. The following Management's Discussion and Analysis of our Financial Condition and Results of Operations should be read in conjunction with the accompanying consolidated financial statements and notes thereto and the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

This discussion contains forward-looking statements that are based upon current expectations and are subject to risks, uncertainties and assumptions that could cause our results to differ materially from expectations. Factors that might cause such differences include, but are not limited to, those described under "Part I. Item 1A. Risk Factors" of the Company's Annual Report on Form 10-K, "Note Regarding Forward-Looking Statements" in this quarterly report on Form 10-Q, and elsewhere in this quarterly report on Form 10-Q.

Executive Overview

The Company is a leading developer and manufacturer of ice hockey, roller hockey, lacrosse, baseball and softball sports equipment, as well as related apparel and soccer apparel. The Company is the global leader in hockey with the strongest and most recognized brand, and it is a leader in North America in baseball and softball. Its products are marketed under the BAUER, MISSION, MAVERIK, CASCADE, INARIA, COMBAT and EASTON brand names and are distributed by sales representatives and independent distributors throughout the world. In addition, the Company distributes its hockey products through its Burlington, Massachusetts and Bloomington, Minnesota Own The Moment Hockey Experience retail stores.

Our mission is to elevate player performance and protection through athlete insight and superior innovation. We have a diversified and balanced business model and are focused on the following opportunities for growth:

- Grow market share in Baseball/Softball - As we did with Hockey, we are aiming to expand our market share in Baseball/Softball by investing in product development, developing a disciplined category management process and connecting with our core consumers.
- Continue to grow in Hockey - Although we hold the overall No.1 market share position, we look to continue to expand market share in every category, with a particular focus on ice hockey sticks, the largest dollar category in the industry.
- Grow apparel across all sports - The apparel market is highly fragmented and we are aiming to grow apparel across all of our sports by leveraging the strength of our brands as well as continued R&D investments in apparel.
- Continue rapid growth in lacrosse - Lacrosse continues to expand rapidly across the United States and we are aiming to grow market share and to achieve market leadership by the end of calendar 2016. We are focusing our efforts on the fast-growing youth and high school markets, including the women's game.
- Commercialize Q30 Technology - In October 2015, we acquired an exclusive, perpetual, worldwide license from Q30 Sports, LLC to use its sports-related patents and technology assets in the development of products that are intended to address the issue of mild traumatic brain injury in sports and athletic activities. We have initiated the go-to-market process with the U.S. Food & Drug Administration (the "FDA") and Health Canada and anticipate offering the products to athletes, subject to obtaining and maintaining the necessary approvals.

Summary of Results - Q3 Fiscal 2016 vs. Q3 Fiscal 2015

- Revenues totaled \$126.1 million, declining 8.5% (down 4.2% in constant currency).
- Adjusted Gross Profit margin was 31.9%, down 170 basis points (up 200 basis points in constant currency).
- Gross profit margin was 28.1%, down 260 basis points (up 110 basis points in constant currency).
- Adjusted EBITDA was a loss of \$11.0 million, compared to Adjusted EBITDA of \$14.6 million (Q3 Fiscal 2016 Adjusted EBITDA loss of \$5.1 million in constant currency). The decline in year-over-year Adjusted EBITDA was primarily driven by \$18.7 million in incremental bad debt expense compared to the prior year and lower revenues from Baseball/Softball.
- Adjusted Net Loss totaled \$14.8 million or \$(0.32) per diluted share, compared to Adjusted Net Income of \$5.6 million or \$0.12 per diluted share (Q3 Fiscal 2016 Adjusted Net Loss of \$10.6 million or \$(0.23) per diluted share in constant currency). Q3 Fiscal 2016 Adjusted Net Loss included \$0.25 per diluted share in bad debt expense and an approximate \$0.03 per diluted share impact due to a lower than expected effective tax rate. This impact is not expected to change the Company's Fiscal 2016 Adjusted EPS outlook.
- The Company recorded a non-cash impairment charge of \$145.1 million in its Baseball/Softball segment and a \$19.2 million deferred tax asset valuation allowance in Q3 Fiscal 2016.
- Net loss totaled \$188.1 million or \$(4.13) per diluted share, compared to a net loss of \$12.5 million or \$(0.28) per diluted share (Q3 Fiscal 2016 net loss of \$185.7 million or \$(4.08) per diluted share in constant currency).
- Net loss excluding intangible asset and goodwill impairment, deferred tax asset valuation allowance and bad debt expense was \$18.3 million or \$(0.40) per diluted share (Q3 Fiscal 2016 net loss of \$15.8 million or \$(0.35) per diluted share in constant currency with the same exclusions).

Recent Events

On March 28, 2016, the Company announced that Daniel M. Friedberg, President and Chief Executive Officer of Sagard Capital Partners Management Corp., was appointed to the Board of Directors (the "Board") of the Company, effective as of such date. Sagard Capital Partners, L.P. (together with Sagard Capital Partners Management Corp. and Sagard Capital Partners GP, Inc., collectively, "Sagard Capital") is currently the Company's largest shareholder, with beneficial ownership of approximately 15% of the Company's issued and outstanding Common Shares based on public filings as of the date hereof. In connection with the appointment of Mr. Friedberg to the Board, the Company entered into a shareholder nomination agreement with Sagard Capital, which provides for, among other things, customary standstill, nomination, support and confidentiality provisions. A copy of such shareholder nomination agreement was attached as Exhibit 99.1 to the Company's Form 8-K filed with the Securities and Exchange Commission (the "SEC") on March 28, 2016 and is included as Exhibit 10.2 of this quarterly report on Form 10-Q.

On March 22, 2016, the Board announced that it had reached an arrangement with Kevin Davis, the former Chief Executive Officer of the Company, for his departure from the Company, effective March 22, 2016, and concurrently appointed Amir Rosenthal, President, PSG Brands, as the Company's Chief Executive Officer on an interim basis pursuant to an offer letter, dated as of March 25, 2016, and effective as of March 22, 2016, a copy of which is attached as Exhibit 10.1 of this quarterly report on Form 10-Q. The Board is in the process of conducting a search for the permanent Chief Executive Officer of the Company. Mr. Rosenthal is among the candidates under consideration by the Board.

On March 8, 2016, the Company revised its outlook for its fiscal year ended May 31, 2016 ("Fiscal 2016") and reported preliminary results for its fiscal third quarter ended February 29, 2016. In connection therewith, the Company identified the following three primary factors as having contributed to its revised outlook for Fiscal 2016: (i) a write down of the receivable balance from a U.S. national sporting goods retailer that has filed under chapter 11 and the related anticipated loss of sales from this retailer; (ii) an anticipated reduction in sales, particularly due to weakness in the baseball/softball market; and (iii) additional bad debt reserves primarily for certain U.S. hockey customers and the related anticipated loss of sales from such customers. Contributing to the decline in the Company's financial performance was a significant downturn in baseball/softball retail sales, including in the Company's important bat category. The weakening of consumer demand, coupled with the chapter 11 filing by one of the largest U.S. national sporting goods retailers and the bankruptcy of an internet baseball retailer, resulted in a reduction of sales for the Company's baseball/softball products and an increase in the Company's bad debt reserves for certain U.S. hockey and baseball/softball customers. Additionally, the consolidation of hockey retailers in the U.S. reduced customer demand for products as customers continued to reduce their inventory levels. The Company also announced on March 8, 2016 that it expects debt reduction of between \$35.0 million and \$40.0 million during the second half of Fiscal 2016.

On February 4, 2016, Easton Baseball/Softball announced an expanded exclusive partnership with Little League through the 2022 season. Under this new, long-term partnership, Easton Baseball/Softball will continue to be the Official Team Equipment Supplier to Little League Baseball and Softball.

On February 2, 2016, the Company officially unveiled EASTON's first product offering for Japan. For the first time in its history, Easton Baseball/Softball will offer specifically designed EASTON products for the Japanese market. Management estimates that the size of the global baseball equipment market is approximately \$1.2 billion, with approximately one third of the market coming from Japan.

On January 27, 2016, the Company provided guidance on debt and leverage levels over the balance of Fiscal 2016 and for Fiscal 2017. The Company announced that in Fiscal 2016, the Company's five-year supply chain initiative is expected to drive \$3.0 million in cost savings. Introduced in October 2014, the Company's five-year supply chain initiative is aimed at improving pre-tax profitability by approximately \$35.0 million on an annualized basis by the end of Fiscal 2020. This initiative is designed to enhance the overall effectiveness of the Company's supply chain, with a particular focus on product cost reductions, inventory quality improvements and increased customer service levels and efficiency.

On January 13, 2016, the Company completed the Easton Hockey Acquisition. The purchase price paid by the Company at closing was \$5.6 million in cash, with future cash payments of an aggregate of \$5.4 million payable over a period of 10 months from the Easton Hockey Acquisition closing date. The Company financed the Easton Hockey acquisition through additional borrowings on its asset-based revolving loan.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this quarterly report on Form 10-Q about our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995 and within the meaning of applicable Canadian securities laws (collectively, "forward-looking statements"), including with respect to, among other things, growing market share in baseball/softball and hockey, its continued growth in hockey, the growth of apparel across all sports, the Company achieving market leadership in lacrosse by the end of calendar 2016, obtaining and maintaining the necessary approvals from the FDA and Health Canada, among others, necessary to market products containing Q30's patents and technology assets, the Company continuing to pursue strategic acquisitions, the Company's revised outlook for Fiscal 2016, including, with respect to, the Company's expectation of improving pre-tax profitability by \$35.0 million on an annualized basis by the end of Fiscal 2020 due to the Company's five-year supply chain initiative, the Company's expectation that the New ABL Facility balance will be under \$100.0 million by the end of Fiscal 2016, the following three factors, which the Company has identified as being primarily responsible for its revised outlook for Fiscal 2016: (i) a write down of the receivable balance from a U.S. national sporting goods retailer that has filed under chapter 11 and the related anticipated loss of sales from this retailer; (ii) an anticipated reduction in sales, particularly due to weakness in the baseball/softball market; and (iii) additional bad debt reserves primarily for certain U.S. hockey customers and the related anticipated loss of sales from such customers. Such statements often include words such as "may," "will," "would," "should," "could," "expects," "plans," "intends," "trends," "indicates," "anticipates," "believes," "estimates," "predicts," "likely," or "potential" or the negative or other variations of these words or other comparable words or phrases.

Discussions containing forward-looking statements may be found, among other places, under this Item 2 and "Management's Discussion and Analysis of Financial Condition and Results of Operations". Forward-looking statements are based on estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable under the circumstances, but there can be no assurance that such estimates and assumptions will prove to be correct. Certain assumptions with respect to, among other things, the reduced sales for our baseball/softball products continuing for the remainder of Fiscal 2016 due to the weakening of consumer demand for our products and the recent chapter 11 filing of one of the largest U.S. national sporting goods retailers, the appropriateness of our bad debt reserves, our customers' ability to make payments when due consistent with historical practice, capital expenditures remaining in line with our forecast, currency rates remaining near current levels for the remainder of Fiscal 2016, interest rates not materially increasing in relation to our outstanding indebtedness for the remainder of Fiscal 2016, the Company achieving its expected levels of hockey booking orders and translating such booking orders into realized sales, the Company realizing the expected savings from its cost savings and other initiatives, maintaining a tax rate at or near recent historical levels, determination of acquisition accounting, valuation of derivatives, share-based payments, claim liabilities, employee future benefits, income taxes, the impairment of assets, and goodwill and intangibles are material factors made in preparing forward-looking information and management's expectations. Readers are cautioned that actual future operating results and economic performance of the Company, including with respect to forward-looking statements referred to above, are subject to a number of risks and uncertainties, including, among other things, those described below, the risk that excess retail inventory in the U.S. baseball/softball market results in more than anticipated cancelled or delayed orders by the Company's customers, the risk that customers are unable to make payments to the Company when due, changes in foreign currency rates, interest rate changes, inability to translate booking orders into realized sales, as further described below, inability to introduce new and innovative products, inability to generate demand for our products, inability to achieve the benefits anticipated from the Company's cost savings and

other initiatives, and general economic, market and business conditions, and could differ materially from what is currently expected as set out above.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in Part I, Item 1A “Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended May 31, 2015 and in Part II, Item 1A “Risk Factors” section of this quarterly report on Form 10-Q: inability to maintain and enhance brands, inability to introduce new and innovative products, intense competition in the sporting equipment and apparel industries, inability to own, enforce, defend and protect intellectual property rights worldwide, costs associated with potential lawsuits to enforce, defend or protect intellectual property rights, inability to protect our brands and rights to use such brands, infringement of intellectual property rights of others, inability to translate booking orders into realized sales, including risks associated with changes in the mix or timing of orders placed by customers, seasonal fluctuations in our operating results and the trading price of our Common Shares, decrease in popularity of ice hockey, baseball and softball, roller hockey or lacrosse, reduced popularity of the National Hockey League, Major League Baseball or other professional or amateur leagues in sports in which our products are used, adverse publicity of athletes who use our products or the sports in which our products are used, inability to ensure third-party suppliers will meet quality and regulatory standards, reliance on third-party suppliers and manufacturers, disruption of distribution systems, loss of significant customers or suppliers, loss of key customers’ business due to customer consolidation, our customers’ ability to make payments when due consistent with historical practice, change in the sales mix towards larger customers, cost of raw materials, shipping costs and other cost pressures, risks associated with doing business abroad, inability to expand into international market segments, inability to accurately forecast demand for products, inventory shrinkage, excess inventory due to inaccurate demand forecasts, product liability, warranty and recall claims, inability to successfully design products that satisfy testing protocols and standards established by testing and athletic governing bodies, inability to obtain and maintain necessary approvals in respect of products that may be considered medical devices, inability to successfully open and operate Own The Moment Hockey Experience retail stores, inability to successfully implement our strategic initiatives on anticipated timelines, including our profitability improvement initiative, risks associated with our third-party suppliers and manufacturers failing to manufacture products that comply with all applicable laws and regulations, inability to source merchandise profitably in the event new trade restrictions are imposed or existing trade restrictions become more burdensome, departure of senior executives or other key personnel with specialized market knowledge and technical skills, litigation, including certain class action lawsuits, employment or union-related disputes, disruption of information technology systems, including damages from computer viruses, unauthorized access, cyberattack and other security vulnerabilities, potential environmental liabilities, restrictive covenants in our credit facilities, increasing levels of indebtedness, inability to generate sufficient cash to fund operations or service the Company’s indebtedness, failure to make, integrate, and maintain new acquisitions, inability to realize growth opportunities or cost synergies that are anticipated to result from new acquisitions such as (i) the acquisition in certain exclusive and perpetual licensing rights in technology assets from Q30 Sports, LLC, (ii) the purchase of a non-controlling interest in Q30 Sports Science, LLC, a privately held entity and parent of Q30 Sports, LLC, and (iii) Easton Hockey, undisclosed liabilities acquired pursuant to recent acquisitions, volatility in the market price for Common Shares, possibility that we will need additional capital in the future, incurrence of additional expenses as a result of the loss of our foreign private issuer status, assertion that the acquisition of the Bauer Hockey business at the time of the Company’s initial public offering of Common Shares on the Toronto Stock Exchange completed on March 10, 2011 was an inversion transaction, our current intention not to pay cash dividends, dependence on the performance of subsidiaries given our status as a holding company, potential inability of investors to enforce judgments against the Company and its directors, fluctuations in the value of certain foreign currencies, including the Canadian dollar, in relation to the U.S. dollar, and other world currencies, general adverse economic and market conditions, changes government regulations, including tax laws and unanticipated tax liabilities and natural disasters and geo-political events. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

The purpose of the forward-looking statements in this quarterly report on Form 10-Q is to provide the reader with a description of management’s current expectations regarding the Company’s financial performance and may not be appropriate for other purposes. Accordingly, readers should not place undue reliance on forward-looking statements made herein. Unless otherwise stated, the forward-looking statements contained in this quarterly report on Form 10-Q are made as of the date of this quarterly report on Form 10-Q, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained in this quarterly report on Form 10-Q are expressly qualified by this cautionary statement.

Factors Affecting our Performance

Seasonality

Each of our sports demonstrates substantial seasonality. The spring/summer season of baseball/softball is highly

complementary to the fall/winter season of hockey, which helps to balance our quarterly sources of revenue and profitability throughout our fiscal year. The more evenly distributed seasonality of the combined business provides us with more consistent working capital levels and allow us to improve our efficiency in our manufacturing, distribution and other efforts.

Generally, our highest sales volumes for Hockey occur during the first fiscal quarter of our fiscal year, followed by the next highest sales volumes in the second fiscal quarter of our fiscal year. Our lowest sales volumes for Hockey occur during the third fiscal quarter of our fiscal year. In ice hockey, we have three sub-brands of products - VAPOR, SUPREME and NEXUS. In certain fiscal years, we launch new products under more than one sub-brand. Launch timing of our products add some variations between fiscal quarters each fiscal year.

In Baseball/Softball, our highest sales volumes for EASTON and COMBAT products generally occur in the third fiscal quarter of our fiscal year and the lowest sales volumes occur in the first fiscal quarter of our fiscal year.

In Lacrosse, our highest sales volumes for MAVERIK and CASCADE products occur in the second and third fiscal quarters of our fiscal year.

The shipment of INARIA soccer products occurs substantially in the first and fourth fiscal quarters of our fiscal year. We expect our team apparel revenues, including uniforms for ice hockey, roller hockey, lacrosse and other team sports, to align with the underlying sports' selling seasons as we expand our team apparel offering.

Revenues

We generate revenues from the sale of performance sports equipment and related apparel and accessories. We offer various cooperative marketing incentive programs to assist our sales channels with the marketing and selling of our products. These costs are recorded as a reduction of revenues. Each sport business within the Company manages its own commercial organization and go-to-market strategy.

The current sales channels for our sports businesses include (i) retailers in North America and the Nordic countries, (ii) distributors throughout the rest of the world (principally, Western Europe, Eastern Europe, and Russia), (iii) direct sales to teams, and (iv) direct sales through our Own The Moment Hockey Experience retail stores. Based on the regional mix, our revenues are generated in multiple currencies. For revenues, we are exposed to foreign currency exchange rate fluctuations of the U.S. dollar against, among others, the Canadian dollar, the euro, the Swedish krona, Norwegian krone and Danish krone.

The following table highlights revenues for the periods indicated:

(millions of U.S. dollars, except for percentages)	Three Months Ended		Period Over Period Growth Rate ⁽¹⁾	Nine Months Ended		Period Over Period Growth Rate ⁽²⁾
	February 29, 2016	February 28, 2015		February 29, 2016	February 28, 2015	
Revenues:						
Canada	\$ 19.7	\$ 21.7	(9.2)%	\$ 101.9	\$ 122.9	(17.1)%
United States	92.0	101.8	(9.6)%	281.5	294.4	(4.4)%
Rest of world	14.4	14.2	1.4 %	70.8	89.8	(21.2)%
Total Revenues	<u>\$ 126.1</u>	<u>\$ 137.7</u>	<u>(8.4)%</u>	<u>\$ 454.2</u>	<u>\$ 507.1</u>	<u>(10.4)%</u>

(1) Three-month period ended February 29, 2016 vs. the three-month period ended February 28, 2015.

(2) Nine-month period ended February 29, 2016 vs. the nine-month period ended February 28, 2015.

Cost of Goods Sold

Our cost of goods sold is comprised primarily of (i) the cost of finished goods, materials and components purchased from our suppliers, manufacturing labor and overhead costs in our manufacturing facilities, (ii) supply chain-related costs, such as freight, duties, warehousing and other distribution costs, (iii) warranty costs and (iv) inventory provisions and write-offs. Our warranty costs result from a general warranty policy providing coverage against manufacturing defects. Warranties range from 30 days to one year from the date sold to the consumer, depending on the type of product. Our warranty costs are primarily driven by sales of composite ice hockey sticks and baseball/softball bats. Amortization associated with certain acquired intangible assets,

such as purchased technology and customer relationships, is also included in cost of goods sold. We also include charges to cost of goods sold resulting from the fair market value adjustment to inventory associated with certain acquired inventories.

The Company's cost of goods sold is exposed to transactional foreign currency risk in the following ways:

- The Company's subsidiaries purchase finished goods inventory directly from third party factories in U.S. dollars. These purchases generate a foreign currency exposure for the Company's subsidiaries with a functional currency other than the U.S. dollar, primarily the Company's Hockey business outside of the U.S. which has a functional currency of primarily Canadian dollars, Swedish krona and euro. As a result, a stronger U.S. dollar increases the inventory cost incurred by the relevant subsidiary whereas a weaker U.S. dollar decreases its cost. The Company uses foreign currency forward contracts to hedge a portion of its exposure to fluctuations in the value of the U.S. dollar against the Canadian dollar. The resulting realized gain/loss on derivatives is an economic offset to the cost of goods sold.
- We source the majority of our products from suppliers in China and Thailand and agree to buy such products in U.S. dollars. We enter into supplier agreements ranging from six to twelve months with respect to the U.S. dollar cost of our Asian-sourced finished goods. In these agreements, we adjust for changes in the relevant foreign exchange rates in which the factory labor, materials and overhead are denominated. As a result, our cost of goods sold is impacted by the fluctuations of the Chinese renminbi, Thai baht and certain other Asian currencies against the U.S. dollar. Therefore, a strengthening U.S. dollar relative to these Asian currencies decreases the Company's U.S. dollar sourced product cost, whereas a weakening U.S. dollar increases our sourced product cost. We do not currently hedge our exposure to fluctuations in the value of these factory input cost currencies.

Selling, General and Administrative Expenses

Our SG&A expenses consist primarily of costs relating to our sales and marketing activities, including salaries, commissions and related personnel costs, customer order management and support activities, advertising, trade shows and other promotional activities, and bad debt expense. Our marketing expenses include promotional costs for launching new products, advertising and athlete endorsement costs. Our administrative expenses consist of, among other things, costs relating to information systems, legal and finance functions, professional fees, insurance and other corporate expenses. We also include share-based payment expense, costs related to share offerings, and acquisition costs, including rebranding and integration costs, in SG&A expenses. We expect our SG&A expenses to increase as we continue to expand our Bauer Hockey retail business, make investments in such areas as Q30 Technology, and continue to invest in certain Company platform functions. We are reviewing opportunities to offset these anticipated increases in spending with reductions in other areas of SG&A.

Research and Development Expenses

R&D expenses consist primarily of salaries and related consulting expenses for technical personnel, contracts with leading research facilities, as well as materials and consumables used in product development. To date, no development costs have been capitalized. We incur most of our R&D expenses in Canada and are eligible to receive Scientific Research and Experimental Development investment tax credits for certain eligible expenditures which are recorded as a reduction to income tax expense. We currently expect our R&D expenses to grow as we focus on enhancing and expanding our product lines. We are reviewing opportunities to offset these anticipated higher expenses through greater efficiencies in our R&D spending.

Interest Expense

Interest expense is derived from the financing activities of the Company and consists of interest expense on our term loan and revolving loan, and the amortization of deferred financing fees. As of February 29, 2016, the Credit Facilities (as defined herein) consist of (i) a \$450 million secured term loan credit agreement (the "New Term Loan"), denominated in U.S. dollars of which \$330.5 million was drawn, and (ii) a \$200 million secured asset-based revolving credit facility (the "New ABL Facility" and together with the New Term Loan, the "Credit Facilities"), denominated, and able to be drawn in, both Canadian dollars and U.S. dollars, of which \$119.2 million was drawn, the availability of which is subject to meeting certain borrowing base requirements. We currently expect the New ABL Facility balance to be under \$100.0 million by the end of Fiscal 2016. The Company is currently working through several additional initiatives that it currently expects to drive further expense reductions and generate free cash flow for debt repayment in Fiscal 2017. Please see "Liquidity and Capital Resources - Indebtedness" for a more detailed discussion of the Credit Facilities.

Impact of Foreign Exchange and Hedging Practices

As a global company with significant operations outside the United States, in the normal course of business we are exposed to risk arising from the changes in foreign currency exchange rates. Our primary foreign currency exposures arise from the recording of transactions denominated in non-functional currencies and the translation of foreign currency denominated results of operations, financial position and cash flows into U.S. dollars.

Our foreign exchange risk management efforts are intended to lessen the effects of currency fluctuations on our consolidated results of operations, financial position, and cash flows. We manage global foreign exchange risk centrally on a portfolio basis to address those risks that are material to the Company. We manage these exposures primarily through the use of foreign exchange forward contracts, which are recorded on the consolidated balance sheet at fair value (see Note 16 - Derivatives and Risk Management and Note 17 - Fair Value Measures in the accompanying Notes to Consolidated Financial Statements). Our hedging practices are designed to provide stability around the receipt of cash, and at least partially offset the impact of exchange rate changes on the underlying exposures being hedged. Where exposures are hedged, our program has the effect of reducing volatility in our financial results and at least delaying the impact of exchange rate movements on our consolidated financial statements when a currency's direction is sustained over a longer period; the length of delay is dependent upon hedge horizons. We do not hold or issue derivative instruments for trading or speculative purposes.

The Company primarily uses foreign currency forward contracts to hedge the effect of changes in currency exchange rates on its product costs (see the "Cost of Goods Sold" section above). The resulting realized gain/loss on derivatives is an economic offset to the cost of goods sold that are recorded in the Company's gross profit. The Company has not elected hedge accounting; therefore, the changes in the fair value of these derivatives are recognized as unrealized gains and losses through profit or loss each reporting period. In the nine-month periods ended February 29, 2016 and February 28, 2015, the Company settled Canadian dollar forward contracts for \$78.7 million and \$89.0 million, respectively, at a weighted average exchange rate of 1.26 and 1.04, respectively. As of February 29, 2016, the amount of Canadian dollar forward contracts outstanding was \$127.7 million at a weighted average exchange rate of 1.36. As of February 28, 2015, the amount of Canadian dollar forward contracts outstanding was \$13.0 million at a weighted average exchange rate of 1.07.

The Company's reporting currency is the U.S. dollar. Many of our foreign subsidiaries operate in functional currencies other than the U.S. dollar, the most significant of which are in Canadian dollars, Swedish krona, and euro. Fluctuations in currency exchange rates create volatility in our reported results as we are required to translate the balance sheets, operational results, and cash flows of these subsidiaries into U.S. dollars for consolidated reporting. Balances on the consolidated balance sheets are converted at the month-end foreign exchange rates or at historical exchange rates, and all profit and loss transactions are recognized at monthly average rates. In the translation of our consolidated statements of income, a weaker U.S. dollar in relation to the Canadian dollar, Swedish krona, and euro benefits our consolidated revenues and earnings, whereas a stronger U.S. dollar reduces our consolidated revenues and earnings. Adjustments resulting from translating foreign functional currency balance sheets into U.S. dollars are included in the foreign currency translation adjustment, a component of accumulated other comprehensive income (loss) in equity. Re-measurement gains and losses generated by the effect of foreign exchange on recorded assets and liabilities denominated in a currency different from the functional currency of the applicable entity are recorded in foreign exchange gain/loss in the period in which they occur. The Company does not currently hedge these translation or re-measurement exposures.

In this quarterly report on Form 10-Q, we provide the impact of foreign exchange on our various financial measures. These amounts reflect the impact of translating the current period results at the monthly foreign exchange rates of the prior year period, the effect of changes in the value of the Canadian dollar against the U.S. dollar on our cost of goods purchased for sale outside of the United States including the related realized gains/losses on derivatives described above, and the realized gains/losses generated from revaluing non-functional currency assets and liabilities. The reported foreign exchange impact does not include the impact of fluctuations in Asian currencies against the U.S. dollar and their related effect on our Asian-sourced finished goods. See the "Cost of Goods Sold" section above for a more detailed description of these foreign exchange impacts. Also see "Non-GAAP Financial Measures".

The following table summarizes the change in the reported U.S. dollars versus constant currency U.S. dollars for the three-and nine-month periods ended February 29, 2016:

(millions of U.S. dollars, except for per share amounts)	Three Months Ended February 29, 2016				Nine Months Ended February 29, 2016			
	Reported	Constant Currency	Impact of Foreign Exchange	% Change	Reported	Constant Currency	Impact of Foreign Exchange	% Change
Revenues	\$ 126.1	\$ 131.9	\$ (5.8)	(4.4)%	\$ 454.2	\$ 484.3	\$ (30.1)	(6.2)%
Gross Profit	\$ 35.4	\$ 41.9	\$ (6.5)	(15.5)%	\$ 133.8	\$ 164.0	\$ (30.2)	(18.4)%
Selling, general & administrative	\$ 54.5	\$ 56.1	\$ (1.6)	(2.9)%	\$ 134.1	\$ 138.9	\$ (4.8)	(3.5)%
Research & development	\$ 6.4	\$ 6.9	\$ (0.5)	(7.2)%	\$ 18.6	\$ 19.8	\$ (1.2)	(6.1)%
Adjusted Gross Profit ⁽¹⁾	\$ 40.2	\$ 47.0	\$ (6.8)	(14.5)%	\$ 146.5	\$ 177.5	\$ (31.0)	(17.5)%
Adjusted EBITDA ⁽¹⁾	\$ (11.0)	\$ (5.1)	\$ (5.9)	115.7 %	\$ 20.9	\$ 49.8	\$ (28.9)	(58.0)%
Adjusted Net Income ⁽¹⁾	\$ (14.8)	\$ (10.6)	\$ (4.2)	39.6 %	\$ (2.9)	\$ 17.9	\$ (20.8)	(116.2)%
Adjusted EPS ⁽¹⁾	\$ (0.32)	\$ (0.23)	\$ (0.09)	39.1 %	\$ (0.06)	\$ 0.37	\$ (0.43)	(116.2)%
Adjusted Gross Profit % ⁽¹⁾	31.9%	35.6%	(3.7)%	—	32.3%	36.7%	(4.4)%	—

(1) Represents a non-GAAP measure. For the relevant definitions and reconciliations to reported results, see “Non-GAAP Financial Measures”.

(2) Represents a non-GAAP measure. For the relevant definition, see “Non-GAAP Financial Measures”.

The following table summarizes the average of the monthly exchange rates used to translate profit or loss transactions for the periods indicated, as reported by the Wall Street Journal:

	Three Months Ended			Nine Months Ended		
	February 29, 2016	February 28, 2015	% Change	February 29, 2016	February 28, 2015	% Change
CAD / USD	1.365	1.157	(18.0)%	1.307	1.114	(17.3)%
EUR / USD	0.921	0.818	(12.6)%	0.905	0.773	(17.1)%
SEK / USD	8.553	7.655	(11.7)%	8.458	7.128	(18.7)%

Income Taxes

The Company accounts for income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company conducts business globally and, as a result, its subsidiaries file income tax returns in Canada, U.S. federal and state jurisdictions and various foreign jurisdictions. The Company utilizes its tax loss carry forwards, tax credits and other tax assets, as available, to offset its taxable income.

Results of Operations

The following table summarizes our results of operations for the three-month periods ended February 29, 2016 and February 28, 2015, and the nine-month periods ended February 29, 2016 and February 28, 2015, and has been derived from our unaudited consolidated financial statements and related notes.

(millions of U.S. dollars, except for percentages and per share amounts)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Revenues	\$ 126.1	\$ 137.7	\$ 454.2	\$ 507.1
Cost of goods sold	90.7	95.4	320.4	345.0
Gross profit	\$ 35.4	\$ 42.3	\$ 133.8	\$ 162.1
Operating expenses:				
Selling, general & administrative	54.5	34.1	134.1	109.1
Research & development	6.4	6.0	18.6	18.5
Impairment of intangibles and goodwill	\$ 145.1	\$ —	\$ 145.1	\$ —
Operating income (loss)	\$ (170.6)	\$ 2.2	\$ (164.0)	\$ 34.5
Interest expense, net	5.4	4.8	15.7	14.9
Derivative and foreign exchange (gain) loss	2.4	11.9	8.0	16.5
Gain on bargain purchase	(1.0)	—	(1.0)	—
Other expense (income)	—	—	—	0.1
Income tax expense (benefit)	10.7	(2.0)	10.2	3.7
Net income (loss)	\$ (188.1)	\$ (12.5)	\$ (196.9)	\$ (0.7)
Basic earnings (loss) per share	\$ (4.13)	\$ (0.28)	\$ (4.32)	\$ (0.02)
Diluted earnings (loss) per share	\$ (4.13)	\$ (0.28)	\$ (4.32)	\$ (0.02)
Adjusted Gross Profit ⁽¹⁾	\$ 40.2	\$ 46.3	\$ 146.5	\$ 181.9
Adjusted EBITDA ⁽¹⁾	\$ (11.0)	\$ 14.6	\$ 20.9	\$ 78.5
Adjusted Net Income (Loss) ⁽¹⁾	\$ (14.8)	\$ 5.6	\$ (2.9)	\$ 38.8
Adjusted EPS ⁽¹⁾	\$ (0.32)	\$ 0.12	\$ (0.06)	\$ 0.84
As a percentage of revenues:				
Gross profit	28.1 %	30.7%	29.5%	32.0%
Selling, general & administrative	43.3 %	24.8%	29.5%	21.5%
Research & development	5.1 %	4.4%	4.1%	3.6%
Adjusted Gross Profit ⁽¹⁾	31.9 %	33.6%	32.3%	35.9%
Adjusted EBITDA ⁽¹⁾	(8.7)%	10.6%	4.6%	15.5%

(1) Represents a non-GAAP measure. For the relevant definitions and reconciliations to reported results, see “Non-GAAP Financial Measures”.

Three months ended February 29, 2016 compared to three months ended February 28, 2015

Revenues

Currency neutral revenues in the three-month period ended February 29, 2016 decreased by \$5.8 million, or 4.2%, to \$131.9 million, primarily due to lower Baseball/Softball revenues, particularly in our important bat category. The chapter 11 filing by one of the largest U.S. national sporting goods retailers and the bankruptcy of an internet baseball retailer reduced our sales for baseball and softball products. Revenues in the Baseball/Softball segment decreased by \$14.1 million, or 19.6% compared to the prior year. Revenues in Hockey increased by \$7.6 million, or 14.0% primarily due to growth in protective, team apparel, goalie and street hockey, higher closeouts, sales from the Own the Moment Hockey Experience retail stores, sales from the Easton Hockey business, as well as Hockey equipment price increases in Canada. This growth occurred despite a challenging business environment due primarily to the continued consolidation of the U.S. hockey retail market. Revenues in the Other Sports segment increased

by \$0.7 million, or 6.2%, driven by strong growth in the MAVERIK line of heads, shafts, and protective gear. Currency neutral revenues across all segments decreased by 6.5% in North America and increased by 14.1% in the rest of the world.

Including the impact of foreign exchange, revenues decreased by \$11.7 million, or 8.5%, to \$126.1 million. Overall revenues in North America decreased by 9.4%, and decreased by 1.4% in the rest of the world. The translation impact of foreign exchange in the three-month period ended February 29, 2016 reduced our reported revenues by \$5.8 million compared to the prior year.

For further detail on our revenues, please refer to the “Segment Results” section.

Cost of goods sold

Cost of goods sold in the three-month period ended February 29, 2016 decreased by \$4.8 million, or 5.0%, to \$90.7 million, primarily as a result of lower (i) Baseball/Softball revenues, (ii) lower Hockey product costs driven by productivity and sourcing initiatives in connection with the previously announced five-year supply chain initiative, (iii) a reduction in commodity-related factory input costs from Asian vendors and (iv) lower costs related to the lacrosse helmet decertification than incurred in the three-month period ended February 28, 2015. These cost decreases were partially offset by higher Hockey volume due to growth in protective, team apparel, goalie and street hockey, higher closeouts, sales from the Own the Moment Hockey Experience retail stores, the acquisition of the Easton Hockey business, and investments to consolidate distribution centers. Cost of goods sold in the three-month period ended February 29, 2016 decreased by \$5.4 million, excluding the impact of foreign exchange.

Gross Profit

Currency neutral gross profit in the three-month period ended February 29, 2016 decreased by \$0.4 million, or 0.9%, to \$41.9 million, primarily as a result of lower Baseball/Softball revenues as well as investments to consolidate distribution centers, which were partially offset by, (i) Hockey volume increases, (ii) lower Hockey product costs driven by productivity and sourcing initiatives in connection with the previously announced five-year supply chain initiative, (iii) a reduction in commodity-related factory input costs from Asian vendors, (iv) Hockey equipment price increases in Canada and (v) lower costs related to the lacrosse helmet decertification than incurred in the three-month period ended February 28, 2015. As a percentage of revenues, currency neutral gross profit increased to 31.8% for the three-month period ended February 29, 2016 from 30.7% in the three-month period ended February 28, 2015 due to Hockey equipment price increases in Canada, product cost reductions as well as lower costs related to the lacrosse helmet decertification than incurred in the three-month period ended February 28, 2015, which were partially offset by investments to consolidate distribution centers.

Including the impact of foreign exchange, gross profit in the three-month period ended February 29, 2016 decreased by \$6.9 million, or 16.2%, to \$35.4 million due to the factors referred to above as well as the impact of foreign exchange. As a percentage of revenues, gross profit decreased to 28.1% for the three-month period ended February 29, 2016 from 30.7% in the three-month period ended February 28, 2015. The impact of foreign exchange in the three-month period ended February 29, 2016 decreased gross profit by \$6.5 million compared to the prior year. See “Factors Affecting our Performance - Cost of Goods Sold” and “Liquidity and Capital Resources” for more detail on our product costs.

Adjusted Gross Profit

Currency neutral Adjusted Gross Profit (removing purchase accounting related amortization, non-cash charges to cost of goods sold resulting from the fair value adjustment of inventories related to the Easton Baseball/Softball Acquisition, and investments to consolidate distribution centers) in the three-month period ended February 29, 2016 increased by \$0.7 million, or 1.5%, to \$47.0 million. Currency neutral Adjusted Gross Profit as a percentage of revenues increased to 35.6% for the three-month period ended February 29, 2016 from 33.6% for the three-month period ended February 28, 2015 as a result of (i) lower Hockey product costs driven by productivity and sourcing initiatives in connection with the previously announced five-year supply chain initiative, (ii) a reduction in commodity-related factory input costs from Asian vendors and (iii) Hockey equipment price increases in Canada.

Including the impact of foreign exchange, Adjusted Gross Profit in the three-month period ended February 29, 2016 decreased by \$6.1 million, or 13.2%, to \$40.2 million. Adjusted Gross Profit as a percentage of revenues decreased to 31.9% for the three-month period ended February 29, 2016 from 33.6% for the three-month period ended February 28, 2015, primarily due to an unfavorable impact from foreign exchange and partially offset by (i) lower Hockey product costs driven by productivity and sourcing initiatives in connection with the previously announced five-year supply chain initiative, (ii) a reduction in commodity-related factory input costs from Asian vendors, and (iii) Hockey equipment price increases in Canada. Please see the Adjusted Gross Profit table for the reconciliation of gross profit to Adjusted Gross Profit in the “Non-GAAP Financial Measures” section.

Selling, General and Administrative Expenses

SG&A expenses in the three-month period ended February 29, 2016 increased by \$20.3 million, or 59.6%, to \$54.5 million which was primarily due to a write down of the receivable balance from a U.S. national sporting goods retailer that has filed under chapter 11 and additional bad debt reserves primarily for certain U.S. Hockey and Baseball/Softball customers. SG&A expenses also include (i) start-up and operating costs related to the Own The Moment Hockey Experience retail store initiative, (ii) operating costs related to the Easton Hockey business, (iii) costs related to Q30 Technology and (iv) investments in the Company and Easton Baseball/Softball IT infrastructure, which were partially offset by a reduction in performance-based incentives as well as a favorable impact from foreign exchange. Excluding the impact of one-time acquisition and rebranding related costs, share-based payment expense and start-up costs related to the Own The Moment Hockey Experience retail store initiative, our SG&A expenses increased by \$18.7 million, or 63.6%, to \$48.1 million due to the factors referred to above.

As a percentage of revenues, our SG&A expenses increased to 43.3% for the three-month period ended February 29, 2016 from 24.8% of revenues for the three-month period ended February 28, 2015. Excluding the impact of one-time acquisition and rebranding related costs, share-based payment expense and start-up costs related to the Own The Moment Hockey Experience retail store initiative, our SG&A expenses as a percentage of revenue increased to 38.2% for the three-month period ended February 29, 2016 from 21.4% of revenues for the three-month period ended February 28, 2015. The increase is primarily driven by incremental bad debt expense compared to the same year-ago quarter of 1,470 basis points.

The translation impact of foreign exchange for the three-month period ended February 29, 2016 decreased our reported SG&A expenses by \$1.6 million compared to prior year.

Research and Development Expenses

R&D expenses in the three-month period ended February 29, 2016 increased by \$0.5 million, or 7.7%, to \$6.4 million due to our continued focus on innovative product development. As a percentage of revenues, our R&D expenses increased to 5.1% for the three-month period ended February 29, 2016 from 4.4% for the three-month period ended February 28, 2015. The translation impact of foreign exchange for the three-month period ended February 29, 2016 reduced our reported R&D expenses by \$0.5 million compared to prior year.

Impairment of Intangibles and Goodwill

The Company's third quarter financial performance, combined with a reduction in the fourth quarter Adjusted EPS guidance and a decline in its market capitalization during the quarter, triggered the requirement for an interim impairment assessment for the Company's indefinite-lived and definite-lived assets. The result of the interim impairment assessment of the Company's indefinite-lived trade names indicated that the carrying value of the EASTON brand name in Baseball/Softball was impaired. As a result, the Company recorded an estimated non-cash impairment charge of \$46.9 million related to the EASTON brand name in Baseball/Softball in the three-month period ended February 29, 2016. The definite-lived asset impairment test resulted in an estimated non-cash intangible asset charge of \$40.5 million related to the Easton Baseball/Softball customer relationship intangible asset and an estimated non-cash intangible asset charge of \$1.9 million related to the Easton Baseball/Softball purchased technology. The impairment for Baseball/Softball was due to, among other things, a decline in the sales and gross profit of the EASTON brand and the bankruptcy of certain key customers. No other indefinite-lived and definite-lived assets were determined to be impaired.

The Company then performed an interim impairment test of goodwill allocated to the Company's reporting units. The interim impairment test resulted in estimated non-cash goodwill impairment charges of \$55.4 million related to the goodwill allocated to the Baseball/Softball reporting unit and \$0.4 million related to the goodwill allocated to the Soccer reporting unit. The impairment charge related to the Baseball/Softball reporting unit was due to, among other things, a decline in the sales and gross margin of the EASTON brand in Baseball/Softball. The impairment charge related to the Soccer reporting unit was due to, among other things, higher operating costs. The goodwill allocated to the Hockey and Lacrosse reporting units was deemed not to be impaired.

The finalization of the impairment between indefinite-lived intangible assets, definite-lived intangible assets, and goodwill is expected to be completed in the fourth quarter of Fiscal 2016 and any adjustment to the amount recorded, which could differ materially from those described above, will be recorded in the fourth quarter of Fiscal 2016. The Company did not record any intangible asset or goodwill impairment charges in the three-month period ended February 28, 2015.

The impairment of goodwill and intangible assets is a non-cash charge and is not currently expected to adversely affect the Company's debt position, compliance with financial covenants, cash flow or liquidity.

For further detail, refer to Note 6 - Intangible Assets, net in the accompanying Notes to Consolidated Financial Statements and to Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates - Impairment of Non-Financial Assets” section of our Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

Adjusted EBITDA

Currency neutral Adjusted EBITDA in the three-month period ended February 29, 2016 decreased by \$19.7 million, or greater than 100%, to negative \$5.1 million from \$14.6 million in the three-month period ended February 28, 2015 primarily due to (i) a write down of the receivable balance from a U.S. national sporting goods retailer that has filed under chapter 11, (ii) additional bad debt reserves primarily for certain U.S. Hockey and Baseball/Softball customers, and (iii) lower Baseball/Softball revenues, particularly in our important bat category. This downturn in revenues was in addition to the chapter 11 filing by one of the largest U.S. national sporting goods retailers and the bankruptcy of an internet baseball retailer, which also impacted sales for our baseball and softball products. The Baseball/Softball revenue decline was partially offset by (i) growth in protective, team apparel, goalie and street hockey, (ii) higher closeouts, (iii) sales from the Own the Moment Hockey Experience retail stores, (iv) sales from the Easton Hockey business, (v) higher closeouts, (vi) lower Hockey product costs driven by productivity and sourcing initiatives as part of the previously announced five-year supply chain initiative, and (vii) a reduction in commodity-related factory input costs from Asian vendors. As a percentage of revenues, currency neutral Adjusted EBITDA decreased to negative 3.9% for the three-month period ended February 29, 2016 from 10.6% for the three-month period ended February 28, 2015.

Excluding the impact of bad debt reserves, currency neutral Adjusted EBITDA in the three-month period ended February 29, 2016 decreased by \$1.0 million, to \$13.9 million from \$14.9 million in the three month period ended February 28, 2015.

Including the impact of foreign exchange and bad debt reserves, Adjusted EBITDA in the three-month period ended February 29, 2016 decreased by \$25.6 million, or greater than 100%, to a negative \$11.0 million from \$14.6 million, due to the factors referred to above and an unfavorable impact from foreign exchange of \$5.9 million. As a percentage of revenues, Adjusted EBITDA decreased to negative 8.7% for the three-month period ended February 29, 2016 from 10.6% for the three-month period ended February 28, 2015. Please see the Adjusted EBITDA table for the reconciliation of net income to Adjusted EBITDA in the “Non-GAAP Financial Measures” section.

Interest Expense, net

Interest expense in the three-month period ended February 29, 2016 increased by \$0.6 million, or 13.4%, to \$5.4 million from \$4.8 million, due to an increase in interest incurred under our revolving line of credit.

Derivative and Foreign Exchange Gains/Losses

Realized gain on derivatives in the three-month period ended February 29, 2016 decreased by \$0.7 million, or 47.9%, to a gain of \$0.7 million from a gain of \$1.4 million, due to the continued devaluation of the Canadian dollar relative to the hedge rates in effect on the Company’s forward contracts.

Unrealized loss on derivatives in the three-month period ended February 29, 2016 increased by \$2.5 million, or greater than 100%, to a loss of \$2.6 million from a loss of \$0.1 million. The Company has not elected hedge accounting and therefore the changes in the fair value of derivative contracts are recognized through profit or loss each reporting period.

Foreign exchange loss in the three-month period ended February 29, 2016 decreased by \$12.8 million, or 96.4%, to a loss of \$0.6 million from a loss of \$13.2 million. The foreign exchange gain/loss represents the realized and unrealized gains/losses generated from revaluing non-functional currency assets and liabilities to their respective functional currency. The realized foreign exchange gain in the three-month period ended February 29, 2016 increased \$0.3 million, to \$0.5 million from \$0.2 million in the three-month period ended February 28, 2015.

See “Factors Affecting Our Performance - Impact of Foreign Exchange and Hedging Practices”.

Income Taxes

During the three-month period ended February 29, 2016, the Company’s operating losses were greater than anticipated. As a result of the operating loss, the Company entered into a three-year cumulative loss position for certain taxable jurisdictions during the third quarter of fiscal 2016. After consideration of these factors and an evaluation of all positive and negative evidence,

the Company has determined that it is more likely than not that it will not be able to realize the benefits of its deferred tax assets. Accordingly, at February 29, 2016, the Company recorded an incremental charge of \$19.2 million to establish a full valuation allowance against the impacted deferred tax assets including net operating loss carryforwards that expire at various dates in the next 17 years. Realization of the Company's deferred tax assets is dependent on generating sufficient taxable income in future years. These events and circumstances contributed to the Company recording income tax expense for the three-and nine-month periods ended February 29, 2016, despite incurring pre-tax losses in those periods of \$177.3 million and \$186.7 million, respectively.

Income tax expense for the three-month period ended February 29, 2016 was \$10.7 million, comprised primarily of discrete items, including a valuation allowance on deferred tax assets of \$19.2 million, partially offset by an income tax benefit of \$6.1 million related to the impairment of intangible assets and goodwill and an income tax benefit of \$3.1 million for the amount of tax recoverable by carryback of the current year loss to prior years. Income tax benefit in the three-month period ended February 28, 2015 was \$2.0 million on a pre-tax loss of \$14.5 million for an effective tax rate of 14.2%. The relatively low effective tax rate was primarily due to unrealized capital losses for which no tax benefit could be recognized.

Net Loss

Net loss in the three-month period ended February 29, 2016 increased by \$175.6 million, or greater than 100%, to a net loss of \$188.1 million from a net loss of \$12.5 million in the three-month period ended February 28, 2015, due to the results described above. The impact of foreign exchange for the three-month period ended February 29, 2016 decreased our net loss by \$2.4 million compared to the prior year.

Currency neutral net loss in the three-month period ended February 29, 2016 excluding goodwill impairment, non-cash valuation allowance and the impact of bad debt reserves decreased by \$3.5 million, or 28.5%, to a net loss of \$15.8 million from a net loss of \$12.3 million in the three-month period ended February 28, 2015.

Adjusted Net Income/Loss

Currency neutral Adjusted Net Income in the three-month period ended February 29, 2016 decreased by \$16.2 million, or greater than 100%, to negative \$10.6 million from \$5.6 million in the three-month period ended February 28, 2015, due to the operating results reflected in the Adjusted EBITDA section, which were partially offset by lower taxes.

Currency neutral Adjusted Net Income in the three-month period ended February 29, 2016 excluding the impact of bad debt reserves decreased by \$4.7 million, or 82.5%, to \$1.0 million from \$5.7 million in the three-month period ended February 28, 2015.

Including the impact of foreign exchange, Adjusted Net Income/Loss in the three-month period ended February 29, 2016 decreased by \$20.4 million, or greater than 100%, to an Adjusted Net Loss of \$14.8 million from an Adjusted Net Income of \$5.6 million in the three-month period ended February 28, 2015, due to the factors referred to above and an unfavorable impact from foreign exchange of \$4.2 million. Adjusted Net Income/Loss removes unrealized foreign exchange gains/losses, acquisition-related charges, share-based payment expense and other one-time or non-cash expenses. Please see the Adjusted Net Income/Loss table in the "Non-GAAP Financial Measures" section for the reconciliation of net income (loss) to Adjusted Net Income/Loss and Adjusted EPS.

Nine months ended February 29, 2016 compared to nine months ended February 28, 2015

Revenues

Currency neutral revenues in the nine-month period ended February 29, 2016 decreased by \$22.9 million, or 4.5%, to \$484.3 million, primarily due to (i) lower Baseball/Softball revenues, (ii) the timing and variation of product launches in ice hockey equipment, (iii) double-digit declines in Hockey performance apparel related to the prior-year launch of 37.5™ apparel, (iv) economic contraction in Russia/Eastern Europe and (v) lower Hockey bookings/repeats due to retail consolidation of U.S. key accounts. Baseball/Softball revenues decreased by \$12.4 million, or 8.1%, which included declines in our important bat category, and also included the impact from the chapter 11 filing by one of the largest U.S. national sporting goods retailers and the bankruptcy of an internet baseball retailer. Hockey revenues decreased by \$13.0 million, or 4.0%, due primarily to (i) the timing and variation of product launches in ice hockey equipment, (ii) double-digit declines in Hockey performance apparel related to the prior-year launch of 37.5™ apparel, (iii) economic contraction in Russia/Eastern Europe and (iv) lower Hockey bookings/repeats in the U.S. due to retail consolidation of key accounts as well as lower sales due to the financial difficulties of certain U.S. Hockey customers. Revenues in the Other Sports segment increased by \$2.5 million, or 9.7%, driven by strong growth in the MAVERIK line of heads, shafts, and protective gear as well as growth in the CASCADE helmets and facial product category. Currency neutral revenues

across all segments decreased by 4.0% in North America and decreased by 6.9% in the rest of the world.

Including the impact of foreign exchange, revenues decreased by \$53.0 million, or 10.4%, to \$454.2 million. Overall revenues in North America decreased by 8.1%, and decreased by 21.2% in the rest of the world. The translation impact of foreign exchange in the nine-month period ended February 29, 2016 reduced our reported revenues by \$30.1 million compared to the prior year.

For further detail on our revenues, please refer to the “Segment Results” section.

Cost of goods sold

Cost of goods sold in the nine-month period ended February 29, 2016 decreased by \$24.6 million, or 7.1%, to \$320.4 million, as a result of (i) lower Baseball/Softball and Hockey revenues, (ii) lower Hockey product costs driven by productivity and sourcing initiatives in connection with the previously announced five-year supply chain initiative, (iii) a reduction in commodity-related factory input costs from Asian vendors, (iv) lower non-cash charges to cost of goods sold resulting from the fair value adjustment of inventories related to the acquisition of Easton Baseball/Softball (the “Easton Baseball/Softball Acquisition”) of \$7.1 million in the nine-month period ended February 28, 2015, (v) lower costs related to the lacrosse helmet decertification than incurred in the nine-month period ended February 28, 2015, which were partially offset by investments to consolidate distribution centers. Cost of goods sold in the nine-month period ended February 29, 2016 decreased by \$24.7 million, excluding the impact of foreign exchange.

Gross Profit

Currency neutral gross profit in the nine-month period ended February 29, 2016 increased by \$1.9 million, or 1.2%, due to (i) lower non-cash charges to cost of goods sold resulting from the fair value adjustment of inventories related to the Easton Baseball/Softball Acquisition of \$7.1 million than incurred in the nine-month period ended February 28, 2015, (ii) lower costs related to the lacrosse helmet decertification than incurred in the nine-month period ended February 28, 2015, (iii) Hockey equipment price increases in Canada, (iv) lower Hockey product costs driven by productivity and sourcing initiatives in connection with the previously announced five-year supply chain initiative and (v) a reduction in commodity related factory input costs from Asian vendors, which were partially offset by lower Baseball/Softball and Hockey revenues as well as investments to consolidate distribution centers. As a percentage of revenues, currency neutral gross profit increased to 33.9% for the nine-month period ended February 29, 2016 from 32.0% in the nine-month period ended February 28, 2015.

Including the impact of foreign exchange, gross profit in the nine-month period ended February 29, 2016 decreased by \$28.4 million, or 17.5%, to \$133.8 million, due to an unfavorable impact from foreign exchange, which was partially offset by the factors mentioned above. As a percentage of revenues, gross profit decreased to 29.5% for the nine-month period ended February 29, 2016 from 32.0% in the nine-month period ended February 28, 2015. The impact of foreign exchange in the nine-month period ended February 29, 2016 decreased gross profit by \$30.2 million compared to the prior year. See “Factors Affecting our Performance - Cost of Goods Sold” and “Liquidity and Capital Resources” for more detail on our product costs.

Adjusted Gross Profit

Currency neutral Adjusted Gross Profit (removing purchase accounting related amortization, non-cash charges to cost of goods sold resulting from the fair value adjustment of inventories related to the Easton Baseball/Softball Acquisition and investments to consolidate distribution centers) in the nine-month period ended February 29, 2016 decreased by \$4.4 million, or 2.4%, to \$177.5 million. Currency neutral Adjusted Gross Profit as a percentage of revenues increased to 36.7% for the nine-month period ended February 29, 2016 from 35.9% for the nine-month period ended February 28, 2015, due to (i) lower Hockey product costs driven by productivity and sourcing initiatives in connection with the previously announced five-year supply chain initiative, (ii) a reduction in commodity related factory input costs from Asian vendors, and (iii) Hockey equipment price increases in Canada.

Including the impact of foreign exchange, Adjusted Gross Profit in the nine-month period ended February 29, 2016 decreased by \$35.4 million, or 19.5%, to \$146.5 million. Adjusted Gross Profit as a percentage of revenues decreased to 32.3% for the nine-month period ended February 29, 2016 from 35.9% for the nine-month period ended February 28, 2015, primarily a result of an unfavorable impact from foreign exchange. Please see the Adjusted Gross Profit table for the reconciliation of gross profit to Adjusted Gross Profit in the “Non-GAAP Financial Measures” section.

Selling, General and Administrative Expenses

SG&A expenses in the nine-month period ended February 29, 2016 increased by \$25.0 million, or 22.9%, to \$134.1 million primarily due to (i) a write down of the receivable balance from a U.S. national sporting goods retailer that has filed under chapter 11, (ii) a write down of the receivable balance for an internet baseball retailer that filed for bankruptcy reorganization (iii) and additional bad debt reserves primarily for certain U.S. Hockey and Baseball/Softball customers. SG&A expenses also include (i) start-up and operating costs related to the Own The Moment Hockey Experience retail store initiative, (ii) operating costs related to the Easton Hockey Acquisition, (iii) costs related to Q30 Technology, (iv) higher Company corporate costs, due in part to regulatory compliance costs associated with the Company's transition to a U.S. domestic issuer, (v) investments in the Company and Easton Baseball/Softball IT infrastructure and (vi) costs related to the proxy contest in October 2015, which were partially offset by a reduction in performance-based incentives as well as a favorable impact from foreign exchange. Excluding the impact of one-time acquisition and rebranding related costs, share-based payment expense, start-up costs related to the Own The Moment Hockey Experience retail store initiative, regulatory compliance costs associated with the Company's transition to being a U.S. domestic issuer and costs related to the proxy contest in October 2015, our SG&A expenses increased by \$20.8 million, or 21.8%, to \$116.3 million.

As a percentage of revenues, our SG&A expenses increased to 29.5% for the nine-month period ended February 29, 2016 from 21.5% of revenues for the nine-month period ended February 28, 2015. Excluding the impact of acquisition-related costs, share-based payment expense, start-up costs related to the Own The Moment Hockey Experience retail store initiative, regulatory compliance costs associated with the Company's transition to being a U.S. domestic issuer, costs related to the proxy contest in October 2015 and other one-time or non-cash expenses, SG&A expenses as a percentage of revenue increased to 25.6% for the nine-month period ended February 29, 2016 from 18.8% of revenues for the nine-month period ended February 28, 2015. The increase is primarily driven by incremental bad debt expense compared to the same year-ago quarter of 510 basis points.

The translation impact of foreign exchange for the nine-month period ended February 29, 2016 decreased our reported SG&A expenses by \$4.8 million compared to prior year.

Research and Development Expenses

R&D expenses in the nine-month period ended February 29, 2016 increased by \$0.1 million, or 0.4%, to \$18.6 million. As a percentage of revenues, our R&D expenses increased to 4.1% for the nine-month period ended February 29, 2016 from 3.6% for the nine-month period ended February 28, 2015 as a result of our continued focus on innovative product development. The translation impact of foreign exchange for the nine-month period ended February 29, 2016 reduced our reported R&D expenses by \$1.2 million compared to prior year.

Impairment of Intangibles and Goodwill

In the nine-month period ended February 29, 2016, the Company recorded an intangibles impairment charge of \$89.3 million and a goodwill impairment charge of \$55.8 million, due to the factors described above in the three-month period ended February 29, 2016. The Company did not record any intangible asset or goodwill impairment charges in the nine-month period ended February 28, 2015.

Adjusted EBITDA

Currency neutral Adjusted EBITDA in the nine-month period ended February 29, 2016 decreased by \$28.7 million, or 36.6%, to \$49.8 million from \$78.5 million primarily due to (i) a write down of the receivable balance from a U.S. national sporting goods retailer that has filed under chapter 11, (ii) a write down of the receivable balance for an internet baseball retailer that filed for bankruptcy reorganization (iii) additional bad debt reserves primarily for certain U.S. Hockey and Baseball/Softball customers, and (iv) lower Baseball/Softball revenues, (v) economic contraction in Russia/Eastern Europe and (vi) lower Hockey bookings/repeats due to retail consolidation of U.S. key accounts. The revenue declines and bad debt reserves are partially offset by (i) lower Hockey product costs driven by productivity and sourcing initiatives as part of the previously announced five-year supply chain initiative and (ii) a reduction in commodity-related factory input costs from Asian vendors. As a percentage of revenues, currency neutral Adjusted EBITDA decreased to 10.3% for the nine-month period ended February 29, 2016 from 15.5% for the nine-month period ended February 28, 2015.

Excluding the impact of bad debt reserves, currency neutral Adjusted EBITDA in the nine-month period ended February 29, 2016 decreased by \$5.5 million, to \$74.1 million from \$79.6 million in the nine-month period ended February 28, 2015.

Including the impact of foreign exchange and bad debt reserves, Adjusted EBITDA in the nine-month period ended

February 29, 2016 decreased by \$57.6 million, or 73.4%, to \$20.9 million from \$78.5 million, due to the above factors and an unfavorable impact from foreign exchange of \$28.9 million. As a percentage of revenues, Adjusted EBITDA decreased to 4.6% for the nine-month period ended February 29, 2016 from 15.5% for the nine-month period ended February 28, 2015. Please see the Adjusted EBITDA table for the reconciliation of net income to Adjusted EBITDA in the “Non-GAAP Financial Measures” section.

Interest Expense, net

Interest expense in the nine-month period ended February 29, 2016 increased by \$0.7 million, or 4.9%, to \$15.7 million from \$14.9 million due to by an increase in interest incurred under our revolving line of credit.

Derivative and Foreign Exchange Gains/Losses

Realized gain on derivatives in the nine-month period ended February 29, 2016 decreased by \$2.9 million, or 59.3%, to \$2.0 million from \$4.9 million, due to the continued devaluation of the Canadian dollar relative to the hedge rates in effect on the Company’s forward contracts.

Unrealized loss on derivatives in the nine-month period ended February 29, 2016 increased by \$0.2 million, or 23.1%, to a loss of \$1.2 million from a loss of \$1.0 million. The Company has not elected hedge accounting and therefore the changes in the fair value of derivative contracts are recognized through profit or loss each reporting period.

Foreign exchange loss in the nine-month period ended February 29, 2016 decreased by \$11.5 million, or 56.8%, to a loss of \$8.8 million from a loss of \$20.3 million. The foreign exchange gain/loss represents the realized and unrealized gains/losses generated from revaluing non-functional currency assets and liabilities to their respective functional currency. The realized foreign exchange gain in the three-month period ended February 29, 2016 decreased \$0.3 million, to \$1.3 million from \$1.6 million in the three-month period ended February 28, 2015.

See “Factors Affecting Our Performance - Impact of Foreign Exchange and Hedging Practices”.

Income Taxes

During the nine months ended February 29, 2016, the Company’s operating losses were greater than anticipated. As a result of the operating loss, the Company entered into a three-year cumulative loss position for certain taxable jurisdictions during the third quarter of Fiscal 2016. After consideration of these factors and an evaluation of all positive and negative evidence, the Company has determined that it is more likely than not that it will not be able to realize the benefits of its deferred tax assets. Accordingly, at February 29, 2016, the Company recorded an incremental charge of \$19.2 million to establish a full valuation allowance against the impacted deferred tax assets including net operating loss carryforwards that expire at various dates in the next 17 years. Realization of the Company’s deferred tax assets is dependent on generating sufficient taxable income in future years. These events and circumstances contributed to the Company recording income tax expense for the three-and nine-month periods ended February 29, 2016, despite incurring pre-tax losses in those periods of \$177.3 million and \$186.7 million, respectively.

Income tax expense for the nine-month period ended February 29, 2016 was \$10.2 million, comprised primarily of discrete items, including a valuation allowance on deferred tax assets of \$19.2 million, partially offset by an income tax benefit of \$6.1 million related to the impairment of intangible assets and goodwill and an income tax benefit of \$3.1 million for the amount of tax recoverable by carryback of the current year loss to prior years. Income tax expense in the nine-month period ended February 28, 2015 was \$3.7 million on pre-tax income of \$3.0 million, for an effective tax rate of 123%. The high effective tax rate was primarily due to unrealized capital losses for which no tax benefit could be recognized.

Net Loss

Net loss in the nine-month period ended February 29, 2016 increased by \$196.2 million, or greater than 100%, to a net loss of \$196.9 million from a net loss of \$0.7 million in the nine-month period ended February 28, 2015 due to the results described above. The impact of foreign exchange for the nine-month period ended February 29, 2016 increased our net loss by \$19.3 million compared to the prior year.

Currency neutral net loss in the nine-month period ended February 29, 2016, excluding goodwill impairment, non-cash valuation allowance and the impact of bad debt reserves, is \$4.6 million, compared with a net loss of \$0.0 million in the nine-month period ended February 28, 2015.

Adjusted Net Income/Loss

Currency neutral Adjusted Net Income in the nine-month period ended February 29, 2016 decreased by \$20.9 million, or 53.9%, to \$17.9 million from \$38.8 million in the nine-month period ended February 28, 2015, due to the operating results reflected in the Adjusted EBITDA section which were partially offset by lower taxes.

Currency neutral Adjusted Net Income in the nine-month period ended February 29, 2016 excluding the impact of bad debt reserves decreased by \$6.7 million, or 17.0%, to \$32.7 million from \$39.4 million in the nine-month period ended February 28, 2015.

Including the impact of foreign exchange, Adjusted Net Income/Loss in the nine-month period ended February 29, 2016 decreased by \$41.7 million, or greater than 100%, to an Adjusted Net Loss of \$2.9 million from an Adjusted Net Income of \$38.8 in the nine-month period ended February 28, 2015, due to the factors referred to above and an unfavorable impact from foreign exchange of \$20.8 million. Adjusted Net Income/Loss removes unrealized foreign exchange gains/losses, acquisition-related charges, share-based payment expense and other one-time or non-cash expenses. Please see the Adjusted Net Income/Loss table in the “Non-GAAP Financial Measures” section for the reconciliation of net income (loss) to Adjusted Net Income/Loss and Adjusted EPS.

Segment Results

The Company has two reportable operating segments: (i) Hockey and (ii) Baseball/Softball. The remaining operating segments do not meet the criteria for a reportable segment and are included in Other Sports. The Hockey segment includes the BAUER, EASTON and MISSION brands. The Baseball/Softball segment includes the EASTON and COMBAT brands. Other Sports includes the lacrosse and soccer operating segments, which includes the MAVERIK, CASCADE, and INARIA brands. The Hockey segment sales channels include: (i) direct sales to retailers in North America and the Nordic countries, (ii) distributors throughout the rest of the world (principally, Western Europe, Eastern Europe, and Russia), (iii) direct sales to teams, and (iv) direct sales from our Own The Moment Experience retail stores. The Baseball/Softball segment sales channels primarily consist of retailers and distributors in North America. The Other Sports segment sales channels primarily include retailers and distributors in North America and direct sales to teams and sports associations.

These operating segments were determined based on the management structure and the financial information, among other factors, reviewed by the Chief Operating Decision Maker (“CODM”) to assess segment performance. The decisions concerning assessing the performance of segments and allocation of resources to the segments are based on segment revenues and segment EBITDA.

Segmented operating results and other financial information for the three-month periods ended February 29, 2016 and February 28, 2015 and the nine-month periods ended February 29, 2016 and February 28, 2015 are presented in the following table:

(millions of U.S. dollars, except for percentages)	Three Months Ended			% Change (Constant \$)	Nine Months Ended			% Change (Constant \$)
	February 29, 2016	February 28, 2015	% Change		February 29, 2016	February 28, 2015	% Change	
			(1)	(2)			(3)	(4)
Revenues:								
Hockey	\$ 56.3	\$ 53.9	4.4 %	14.0 %	\$ 285.7	\$ 327.7	(12.8)%	(4.0)%
Baseball/Softball	57.3	71.9	(20.4)%	(19.6)%	140.3	153.5	(8.6)%	(8.1)%
Other Sports	12.5	11.9	5.6 %	6.2 %	28.2	25.9	9.0 %	9.7 %
Total Revenues	<u>\$ 126.1</u>	<u>\$ 137.7</u>	<u>(8.5)%</u>	<u>(4.2)%</u>	<u>\$ 454.2</u>	<u>\$ 507.1</u>	<u>(10.4)%</u>	<u>(4.5)%</u>
Segment EBITDA ⁽⁵⁾⁽⁶⁾								
Hockey	\$ (15.9)	\$ (3.9)	(304.1)%	(154.8)%	\$ 10.6	\$ 48.0	(77.8)%	(15.1)%
Baseball/Softball	3.6	18.9	(81.0)%	(79.1)%	12.7	34.1	(62.9)%	(61.8)%
Other Sports	2.7	2.1	27.4 %	22.6 %	2.6	2.2	16.8 %	2.1 %
Total Segment EBITDA ⁽⁵⁾⁽⁶⁾	<u>\$ (9.6)</u>	<u>\$ 17.1</u>	<u>(156.6)%</u>	<u>(120.5)%</u>	<u>\$ 25.9</u>	<u>\$ 84.3</u>	<u>(69.3)%</u>	<u>(33.5)%</u>

(1) Three-month period ended February 29, 2016 vs. the three-month period ended February 28, 2015.

(2) Represents the change in the constant currency U.S. dollars for the three-month period ended February 29, 2016 vs. the reported three-month period ended February 28, 2015. Results have been restated using actual exchange rates in use during the comparative period to enhance the visibility of the underlying business trends by excluding the impact of foreign currency exchange fluctuations.

(3) Nine-month period ended February 29, 2016 vs. the nine-month period ended February 28, 2015.

(4) Represents the change in the constant currency U.S. dollars for the nine-month period ended February 29, 2016 vs. the reported nine-month period ended February 28, 2015. Results have been restated using actual exchange rates in use during the comparative period to enhance the visibility of the underlying business trends by excluding the impact of foreign currency exchange fluctuations.

(5) Represents a non-GAAP financial measure. For the relevant definitions and reconciliations to reported results, see "Non-GAAP Financial Measures" and Note 15 - Segment Information in the accompanying Notes to Consolidated Financial Statements.

(6) Certain Company functional platform costs are directly allocated to each operating segment based on usage or other relevant operational metrics. The Company's functional platform costs consist of expenses incurred by centrally managed functions, including global information systems, finance and legal, distribution and logistics, sourcing and manufacturing, and other miscellaneous costs.

Three months ended February 29, 2016 compared to three months ended February 28, 2015

Hockey

Currency neutral Hockey revenues in the three-month period ended February 29, 2016 increased by \$7.6 million, or 14.0%. Within Hockey, we were able to grow revenues in an environment where certain customers had financial difficulty and the consolidation of hockey retailers in the U.S. has led to inventory reductions by the retailers impacted by the consolidation and a corresponding reduction to our customers' demand for hockey products. Revenue growth was primarily due to growth in protective, team apparel, goalie and street hockey, higher closeout sales, sales from the Own the Moment Hockey Experience retail stores, the acquisition of the Easton Hockey business, and Hockey equipment price increases in Canada. Currency neutral Hockey revenues increased by 14.0% in North America, and 14.1% in the rest of the world. Including the impact of foreign exchange, reported Hockey revenues in the three-month period ended February 29, 2016 increased by \$2.4 million, or 4.4%.

Currency neutral Hockey segment EBITDA in the three-month period ended February 29, 2016 decreased by \$6.1 million, or greater than 100%, primarily due to additional bad debt reserves for certain U.S. customers, operating costs related to the Own the Moment Hockey Experience retail store initiative and operating costs related to the Easton Hockey Acquisition which were partially offset by lower Hockey product costs driven by productivity and sourcing initiatives as part of the previously announced five-year supply chain initiative, a reduction in commodity-related factory input costs from Asian vendors, Hockey equipment price increases in Canada, higher revenues and a reduction in performance-based incentives. Additionally, the consolidation of hockey retailers in the U.S. has reduced our customers' demand for products as they continue to reduce their inventory levels. Including the impact of foreign exchange, reported Hockey segment EBITDA in the three-month period ended February 29, 2016 decreased by \$12.0 million, or greater than 100%, to \$15.9 million, due to the significant impact of foreign exchange as well as the impacts described above.

Baseball/Softball

Baseball/Softball revenue in the three-month period ended February 29, 2016 decreased by \$14.7 million, or 20.4%, to \$57.3 million primarily due to declining revenue from our important bat category as well as the loss of sales as a result of the chapter 11 filing by one of the largest U.S. national sporting goods retailers and the bankruptcy of an internet baseball retailer in the second quarter. COMBAT revenue increased 8.9% or \$0.2 million compared to prior year related to variations in the launch timing and continued strong sales of Maxum bats.

Baseball/Softball segment EBITDA in the three-month period ended February 29, 2016 decreased by \$15.3 million, or 81.0%, to \$3.6 million primarily due to lower revenues as well as a write down of the receivable balance from a U.S. national sporting goods retailer that has filed under chapter 11, and the increase in bad debt reserves for certain U.S. baseball/softball customers, which was partially offset by a reduction in performance-based incentives.

Other Sports

Revenues in our Other Sports segment in the three-month period ended February 29, 2016 increased by \$0.7 million, or 5.6%, to \$12.5 million primarily due to strength in the MAVERIK line of heads, shafts and protective gear.

Other Sports segment EBITDA in the three-month period ended February 29, 2016 increased by \$0.6 million, or 27.4%, due to revenue growth as well as lower margins in the prior year related to changes required for the recertification of the CASCADE R helmet.

Nine months ended February 29, 2016 compared to nine months ended February 28, 2015

Hockey

Currency neutral Hockey revenues in the nine-month period ended February 29, 2016 decreased by \$13.0 million, or 4.0%, due to (i) the timing and variation of product launches in ice hockey equipment, (ii) double-digit declines in performance apparel related to the prior year launch of 37.5TM apparel, (iii) economic contraction in Russia/Eastern Europe, (iv) lower Hockey bookings/repeats due to retail consolidation of U.S. key accounts, and (v) lower sales due to the financial difficulties of certain U.S. customers, which were partially offset by growth in protective, team apparel, goalie and street hockey, higher closeout sales, sales from the launch of the Own the Moment Hockey Experience retail stores, the acquisition of the Easton Hockey business, and Hockey equipment price increases in Canada. Currency neutral Hockey revenues declined by 2.8% in North America, and 6.9% in the rest of the world. Including the impact of foreign exchange, reported Hockey revenues in the nine-month period ended February 29, 2016 decreased by \$42.0 million, or 12.8%.

Currency neutral Hockey segment EBITDA in the nine-month period ended February 29, 2016 decreased by \$7.2 million, or 15.1%, primarily due to additional bad debt reserves for certain U.S. customers, and lower revenues which were partially offset by price increases in Canada and lower costs for new product launches. Including the impact of foreign exchange, reported Hockey segment EBITDA in the nine-month period ended February 29, 2016 decreased by \$37.3 million, or 77.8%, to \$10.6 million, due to the significant impact of foreign exchange as well as the impacts described above.

Baseball/Softball

Baseball/Softball revenue in the nine-month period ended February 29, 2016 decreased by \$13.2 million, or 8.6%, to \$140.3 million due to a significant downturn in retail sales across most product categories, including bats.

Baseball/Softball segment EBITDA in the nine-month period ended February 29, 2016 decreased by \$21.4 million, or 62.9%, to \$12.7 million primarily due to lower revenues, a write down of the receivable balance from a U.S. national sporting goods retailer that has filed under chapter 11 and a write down of the receivable balance for an internet baseball retailer that filed for bankruptcy reorganization, partially offset by a reduction in performance-based incentives as well as other cost savings initiatives.

Other Sports

Revenues in our Other Sports segment in the nine-month period ended February 29, 2016 increased by \$2.3 million, or 9.0%, to \$28.2 million primarily due to strength in the MAVERIK line of heads, shafts and protective gear and growth in the CASCADE helmets and facial product category.

Other Sports segment EBITDA in the nine-month period ended February 29, 2016 increased by \$0.4 million, or 16.8% due to higher revenues and margins which were partially offset by bad debt write-offs related to outstanding receivables for customers who have caused prior concern over such customers' ability to make timely payments and who continue to make delayed payments.

For operating segments data, please refer to Note 15 of the Notes to Consolidated Financial Statements.

Non-GAAP Financial Measures

This quarterly report on Form 10-Q makes reference to certain non-GAAP measures. These non-GAAP measures are not recognized measures under U.S. GAAP and do not have a standardized meaning prescribed by U.S. GAAP. When used, these measures are defined in such terms as to allow the reconciliation to the closest U.S. GAAP measure. These measures are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those U.S. GAAP measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under U.S. GAAP. We use non-GAAP measures, such as Adjusted Net Income/Loss, Adjusted EPS, Adjusted EBITDA, Segment EBITDA and Adjusted Gross Profit, to provide investors with a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on U.S. GAAP financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. We also use non-GAAP measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets, and to assess our ability to meet our future debt service, capital expenditure, and working capital requirements.

Constant Currency

The Company also presents certain information related to our current period results of operations in "constant currency", which is a non-GAAP financial measure and should be viewed as a supplement to our results of operations and presentation of reportable segments under U.S. GAAP. These amounts reflect the impact of translating the current period results at the monthly foreign exchange rates of the prior year period, the effect of changes in the value of the Canadian dollar against the U.S. dollar on our cost of goods purchased for sale outside of the United States including the related realized gains/losses on derivatives, and the realized gains/losses generated from revaluing non-functional currency assets and liabilities. The reported foreign exchange impact does not include the impact of fluctuations in Asian currencies against the U.S. dollar and their related effect on our Asian-sourced finished goods. Constant currency is used to enhance the visibility of the underlying business trends excluding the impact of foreign currency exchange rate fluctuations. We also use the terms "currency neutral" or "excluding the impact of foreign currency" to describe the constant currency impact. See "Factors Affecting Our Performance - Impact of Foreign Exchange and Hedging Practices" and "Results of Operations - Segment Results".

Segment EBITDA

The profitability of the Company's operating segments is evaluated using EBITDA adjusted for items excluded by the CODM. Certain Company functional platform costs are directly allocated to each operating segment based on usage or other relevant operational metrics. The Company's functional platform costs consist of expenses incurred by centrally-managed functions, including global information systems, finance and legal, distribution and logistics, sourcing and manufacturing, and other miscellaneous costs. Company corporate expenses, currency related gains (losses), acquisition related expenses and other costs are not controlled by the management at each operating segment and therefore are excluded from segment EBITDA. Company corporate expenses consist of executive compensation and administration costs, public company costs, certain tax credits and other miscellaneous costs. See Note 11 - Segment Information in the accompanying Notes to Consolidated Financial Statements.

The relevant definition and reconciliation of each of Adjusted Gross Profit, Adjusted EBITDA, Adjusted Net Income/Loss, and Adjusted EPS used and presented by the Company to the most directly comparable U.S. GAAP measures follows below.

Adjusted Gross Profit

Adjusted Gross Profit is defined as gross profit plus the following expenses which are part of cost of goods sold: (i) amortization and depreciation of intangible assets, (ii) charges to cost of goods sold resulting from fair market value adjustments to inventory as a result of business acquisitions, (iii) reserves established to dispose of obsolete inventory acquired from acquisitions, and (iv) other one-time or non-cash items. We use Adjusted Gross Profit as a key performance measure to assess our core gross profit and as a supplemental measure to evaluate the overall operating performance of our cost of goods sold.

The table below provides the reconciliation of gross profit to Adjusted Gross Profit:

(millions of U.S. dollars)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Gross profit	\$ 35.4	\$ 42.3	\$ 133.8	\$ 162.1
Amortization & depreciation of intangible assets ⁽¹⁾	3.1	3.4	9.2	10.3
Inventory step-up/step-down & reserves ⁽²⁾	—	—	—	7.1
Other ⁽³⁾	1.7	0.6	3.5	2.4
Adjusted Gross Profit	\$ 40.2	\$ 46.3	\$ 146.5	\$ 181.9

- (1) Upon completion of the purchase of the Bauer Hockey business from Nike, Inc. in 2008, the Maverik acquisition in 2010, the Cascade acquisition in June 2012, the Inaria acquisition in October 2012, the Combat acquisition in May 2013, and the Easton Baseball/Softball Acquisition in April 2014, the Company capitalized acquired intangible assets at fair market value. These intangible assets, in addition to other intangible assets subsequently acquired, are amortized over their useful life and we recognize the amortization as a non-cash cost of goods sold.
- (2) Upon completion of the Easton Baseball/Softball Acquisition, the Company adjusted Easton Baseball/Softball's inventories to fair market value. Included in the nine-month period ended February 28, 2015 are charges to cost of goods sold resulting from the fair market value adjustment to inventory.
- (3) Other represents the impact of the closure of the Mississauga, Ontario distribution center in the three-and nine-month periods ended February 29, 2016. In the three-and nine-month periods ended February 28, 2015, Other represents the impact of costs related to the lacrosse helmet decertification.

See "Factors Affecting our Performance - Impact of Foreign Exchange and Hedging Practices" for Adjusted Gross Profit in constant currency.

Adjusted EBITDA

Adjusted EBITDA is defined as net income adjusted for income tax expense, depreciation and amortization, losses related to amendments to the credit facilities, gain or loss on disposal of fixed assets, net interest expense, deferred financing fees, unrealized gains/losses on derivative instruments, and realized and unrealized gains/losses related to foreign exchange revaluation, and before restructuring and other one-time or non-cash charges associated with acquisitions, other one time or non-cash items, costs related to share offerings, as well as share-based payment expenses. We use Adjusted EBITDA as the key metric in assessing our business performance when we compare results to budgets, forecasts and prior years. Management believes Adjusted EBITDA is an important measure of operating performance and cash flow, and provides useful information to investors because it highlights trends in the business that may not otherwise be apparent when relying solely on U.S. GAAP measures, and eliminates items that have less bearing on operating performance and cash flow. It is an alternative to measure business performance to net income and operating income, and management believes Adjusted EBITDA is a better measure of cash flow generation than, for example, cash flow from operations, particularly because it removes cash flow fluctuations caused by extraordinary changes in working capital. Adjusted EBITDA is used by management in the assessment of business performance and used by our Board of Directors as well as our lenders in assessing management's performance. It is also the key metric in determining payments under incentive compensation plans.

The table below provides the reconciliation of net income (loss) to Adjusted EBITDA:

(millions of U.S. dollars)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Net income (loss)	\$ (188.1)	\$ (12.5)	\$ (196.9)	\$ (0.7)
Income tax expense (benefit)	10.7	(2.1)	10.2	3.7
Depreciation & amortization	5.7	5.4	16.5	15.8
Interest expense, net	4.9	4.1	14.0	13.1
Deferred financing fees	0.5	0.6	1.7	1.9
Gain on bargain purchase	(1.0)	—	(1.0)	—
Unrealized (gain)/loss on derivative instruments, net ⁽¹⁾	2.6	0.1	1.2	1.0
Foreign exchange (gain)/loss ⁽¹⁾	0.5	13.2	8.8	20.3
EBITDA	\$ (164.2)	\$ 8.8	\$ (145.5)	\$ 55.1
Acquisition Related Charges:				
Inventory step-up/step-down & reserves ⁽²⁾	—	—	—	7.1
Rebranding/integration costs ⁽³⁾	3.2	1.2	10.4	4.6
Acquisition costs ⁽⁴⁾	1.4	1.4	3.4	2.5
Subtotal	\$ 4.6	\$ 2.6	\$ 13.8	\$ 14.2
Costs related to share offerings ⁽⁵⁾	—	—	—	0.1
Share-based payment expense	1.7	2.4	3.8	5.8
Impairment of intangibles and goodwill	145.1	—	145.1	—
Other ⁽⁶⁾	1.8	0.8	3.7	3.3
Adjusted EBITDA	\$ (11.0)	\$ 14.6	\$ 20.9	\$ 78.5

- (1) The unrealized gain/loss on derivatives is the change in fair market value of the foreign currency forward contracts and interest rate contracts. The Company has not elected hedge accounting and therefore the changes in the fair value of these derivatives are recognized through profit or loss each reporting period. The foreign exchange gain/loss is the realized and unrealized gains and losses generated by the effect of foreign exchange on recorded assets and liabilities denominated in a currency different from the functional currency of the applicable entity are recorded in foreign exchange (gain) loss, as applicable, in the period in which they occur.
- (2) Upon completion of the Easton Baseball/Softball Acquisition, the Company adjusted Easton Baseball/Softball's inventories to fair market value. Included in the three-and nine-month periods ended February 28, 2015 are charges to cost of goods sold resulting from the fair market value adjustment to inventory.
- (3) The rebranding/integration costs for the three-and nine-month periods ended February 29, 2016 are associated with the integration of the Easton Hockey acquisition, Easton Baseball/Softball Acquisition, integration costs related to the Own The Moment Hockey Experience retail stores, costs related to the acquisition in certain exclusive and perpetual licensing rights in technology assets from Q30 Sports, LLC, and costs related to the Company's profitability improvement initiative. Also included in the nine-month periods ended February 29, 2016 are costs related to the Company's transition to a U.S. domestic issuer and costs related to the proxy contest in October 2015. The rebranding/integration costs for the three-and nine-month periods ended February 28, 2015 are associated with the integration of the Inaria acquisition, Combat acquisition and the Easton Baseball/Softball Acquisition.
- (4) Acquisition-related transaction costs include legal, audit, and other consulting costs. The three-and nine-month periods ended February 29, 2016 include costs related to the Easton Hockey acquisition, start-up costs related to the Own The Moment Hockey Experience retail stores, and costs related to the acquisition in certain exclusive and perpetual licensing rights in technology assets from Q30 Sports, LLC. The three-and nine-month periods ended February 28, 2015 include costs related to the Easton Baseball/Softball Acquisition. All periods presented include costs related to reviewing corporate opportunities.
- (5) The costs related to share offerings in the nine-month period ended February 28, 2015 include legal, audit, and other consulting costs incurred as part of the secondary offerings of Common Shares completed by funds managed by Kohlberg Management VI, LLC on October 17, 2012, February 6, 2013 and November 1, 2013, respectively (collectively the "Kohlberg Offerings").
- (6) Other represents the impact of the closure of the Mississauga, Ontario distribution center in the three-and nine-month periods ended February 29, 2016. In the three-and nine-month periods ended February 28, 2015, Other represents the impact of costs related to the lacrosse helmet decertification.

See "Factors Affecting our Performance - Impact of Foreign Exchange and Hedging Practices" for Adjusted EBITDA in constant currency.

Adjusted Net Income/Loss and Adjusted EPS

Adjusted Net Income/Loss is defined as net income adjusted for all unrealized gains/losses related to derivative instruments and unrealized gains/losses related to foreign exchange revaluation, non-cash or incremental charges associated with acquisitions, amortization of acquisition-related intangible assets for acquisitions since the IPO in Canada in March 2011, costs related to share

offerings, share-based payment expense and other non-cash or one-time items. Adjusted EPS is defined as Adjusted Net Income/Loss divided by the weighted average diluted shares outstanding. We use Adjusted Net Income/Loss and Adjusted EPS as key metrics for assessing our operational business performance and to assist with the planning and forecasting for the future operating results of the underlying business of the Company. We believe Adjusted Net Income/Loss and Adjusted EPS are useful information to investors because they highlight trends in the business that may not otherwise be apparent when relying solely on U.S. GAAP measures.

The table below provides the reconciliation of net income (loss) to Adjusted Net Income/Loss and to Adjusted EPS:

(millions of U.S. dollars, except share and per share amounts)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Net income (loss)	\$ (188.1)	\$ (12.5)	\$ (196.9)	\$ (0.7)
Foreign exchange loss / (gain) ⁽¹⁾	3.6	13.4	11.5	20.2
Costs related to share offerings ⁽²⁾	—	—	—	0.1
Acquisition-related charges ⁽³⁾	7.4	5.6	22.3	23.6
Impairment of intangibles and goodwill	145.1	—	145.1	—
Share-based payment expense	1.7	2.4	3.8	5.8
Other ⁽⁴⁾	0.6	0.8	2.7	3.3
Tax impact on above items	14.9	(4.1)	8.6	(13.5)
Adjusted Net Income (Loss)	\$ (14.8)	\$ 5.6	\$ (2.9)	\$ 38.8
Average diluted shares outstanding	46,375,559	47,098,364	46,963,821	46,000,320
Adjusted EPS	\$ (0.32)	\$ 0.12	\$ (0.06)	\$ 0.84

- (1) The foreign exchange loss/gain represents the unrealized gain/loss on derivatives and the unrealized portion of the foreign exchange gain/loss from the Adjusted EBITDA table. The unrealized portion of the foreign exchange gain/loss in the three-and nine-month periods ended February 29, 2016 was a loss of \$1.0 million and a loss of \$10.3 million, respectively. The unrealized portion of the foreign exchange gain/loss in the three-and nine-month periods ended February 28, 2015 was a loss of \$13.3 million and a loss of \$19.2 million, respectively.
- (2) The costs related to share offerings in the nine-month period ended February 28, 2015 include legal, audit, and other consulting costs incurred as part of the Kohlberg Offerings.
- (3) Acquisition-related charges include rebranding/integration costs, and legal, audit, and other consulting costs associated with acquisition transactions. The three-and nine-month periods ended February 29, 2016 include integration of the Easton Baseball/Softball Acquisition, start-up and integration costs related to the Own The Moment Hockey Experience retail stores, costs related to the acquisition in certain exclusive and perpetual licensing rights in technology assets from Q30 Sports, LLC, and costs related to the Company's profitability improvement initiative. Also included in the nine-month period ended February 29, 2016 are costs related to the Company's transition to a U.S. domestic issuer and costs related to the proxy contest in October 2015. The three-and nine-month periods ended February 28, 2015 include costs related to the Inaria acquisition, Combat acquisition and the Easton Baseball/Softball Acquisition. All periods presented include costs related to reviewing corporate opportunities. The charges also include amortization of intangible assets in the three-and nine-month periods ended February 29, 2016 of \$2.8 million and \$8.5 million, respectively, and the three-and nine-month periods ended February 28, 2015 of \$3.1 million and \$9.4 million, respectively. Also included are charges to cost of goods sold resulting from the fair market value adjustment to inventory in the nine-month period ended February 28, 2015 of \$7.1 million.
- (4) Other represents the impact of the closure of the Mississauga, Ontario distribution center offset by the \$1.0 gain on bargain purchase related to the Easton Hockey acquisition in the three-and nine-month periods ended February 29, 2016. In the three-and nine-month periods ended February 28, 2015, Other represents the impact of costs related to the lacrosse helmet decertification.

See "Factors Affecting our Performance - Impact of Foreign Exchange and Hedging Practices" for Adjusted Net Income (Loss) and Adjusted EPS in constant currency.

Liquidity and Capital Resources

Cash Flows

The primary sources of the Company's cash are net cash flows from operating activities and funds available under its New ABL Facility (as defined in the Company's Annual Report on Form 10-K). We believe that ongoing operations and associated cash flows, in addition to our cash resources and New ABL Facility, provide sufficient liquidity to support our business operations for at least the next 12 months. Furthermore, as of February 29, 2016, the Company held cash of \$4.6 million, our working capital was \$305.5 million, and we had availability of \$79.5 million under the New ABL Facility, which provides flexibility to meet any unanticipated cash requirements due to changes in working capital commitments or liquidity risks associated with financial instruments. Such changes may arise from, among other things, the seasonality of our business (see "Factors Affecting our Performance - Seasonality" and "Liquidity and Capital Resources"), the failure of one or more customers to pay their obligations

(see Item 3, “Quantitative and Qualitative Disclosures About Market Risk”) or from losses incurred on derivative instruments, such as foreign currency forwards and interest rate contracts (see “Factors Affecting our Performance - Interest Expense”).

The following table summarizes our net cash flows provided by and used in operating, investing and financing activities:

(millions of U.S. dollars)	Nine Months Ended	
	February 29, 2016	February 28, 2015
Net cash flows from (used in) operating activities	\$ 10.1	\$ 3.5
Net cash flows from (used in) investing activities	(37.6)	(9.1)
Net cash flows from (used in) financing activities	27.1	21.2
Effect of exchange rate changes on cash	—	(1.8)
(Decrease) / increase in cash	(0.4)	13.8
Beginning cash	2.9	6.9
Ending cash	\$ 2.5	\$ 20.7

Net Cash From (Used In) Operating Activities

Our largest source of operating cash flows is cash collections from the sale of inventory. Our primary cash outflows from operating activities are inventory purchases, personnel-related expenses, occupancy costs, payment of interest and payment of taxes. Net cash from operating activities for the nine-month period ended February 29, 2016 was \$10.1 million, an increase of \$6.6 million, compared to net cash from operating activities of \$3.5 million for the nine-month period ended February 28, 2015, primarily driven by the following:

- \$33.0 million lower source of cash due to a receivable collected from BRG Sports, Inc. (formerly Easton-Bell Sports, Inc.) in the nine-month period ended February 28, 2015 which consisted of cash receipts from customers collected by BRG Sports, Inc. during the period April 15, 2014 through May 31, 2014 that were owed to the Company as of May 31, 2014;
- \$18.5 million higher use of cash from accrued liabilities due to timing of settlement for the liabilities;
- \$17.7 million higher use of cash as a result of lower cash earnings; *partially offset by*
- \$8.9 million lower use of cash related to the timing of payments for prepaid expenses;
- \$3.2 million higher source of cash from accounts payable related to the timing of payments for inventory purchases;
- \$38.0 million higher source of cash from accounts receivable due to an increase in payments received for receivables; and
- \$25.2 million higher source of cash from inventory driven by the Company’s cash flow improvement initiative that is targeting an improvement in net cash flow from working capital of \$30 million in Fiscal 2016 (excluding certain non-recurring costs or one-time costs that may be required to implement some of the related initiatives).

Net Cash From (Used In) Investing Activities

Our cash outflows used in investing activities are primarily for acquisitions and the purchase of property, plant and equipment and intangible assets. Net cash used in investing activities for the nine-month period ended February 29, 2016 was \$37.6 million, an increase of \$28.5 million, compared to net cash used of \$9.1 million for the nine-month period ended February 28, 2015, primarily due to the following:

- \$6.9 million of higher cash outflow related to the purchase of property, plant and equipment;
- \$8.3 million of higher cash outflow related to the acquisition in certain exclusive and perpetual licensing rights in technology assets from Q30 Sports, LLC, a privately held entity and a purchase of a non-controlling interest in Q30 Sports Science, LLC, a privately held entity and parent of Q30 Sports, LLC and \$2.0 million of higher

cash outflow related to an increase in restricted cash in connection with the Company's acquisition of technology assets from Q30 Sports, LLC;

- \$5.6 million of higher cash outflow related to the Easton Hockey acquisition; and
- \$5.0 million of higher cash outflow related to the purchase of a non-controlling interest in Cocona, Inc., a privately held entity that created and owns 37.5™ technology, a patented moisture management technology that utilizes body heat to evaporate moisture from apparel and equipment.

Net Cash From (Used In) Financing Activities

Our cash flows from financing activities consist primarily of proceeds from and repayment of debt, proceeds from the issuance of Common Shares and share issuances under stock option plans. Net cash from financing activities for the nine-month period ended February 29, 2016 was \$27.1 million, an increase of \$5.9 million, compared to net cash from financing activities of \$21.2 million for the nine-month period ended February 28, 2015, primarily due to the following:

- \$2.6 million increase in net cash inflow related to the net movement in revolving debt;
- \$119.6 million increase in net cash inflow related to repayment of debt in the nine-month period ended February 28, 2015; *partially offset by*
- \$117.0 million decrease in net cash inflow related to the net proceeds of the U.S. Initial Public Offering ("U.S. IPO") in the nine-month period ended February 28, 2015.

Indebtedness

Credit Facilities

At April 15, 2014, the Company entered into the New Term Loan Facility and the Company and certain of its subsidiaries entered into the New ABL Facility. The New Term Loan Facility and the New ABL Facility (referred to herein together as the "Credit Facilities") replaced the Company's existing credit facilities. The New Term Loan Facility is an amortizing term credit facility in the principal amount of \$450 million U.S. dollars and matures on April 15, 2021. The New ABL Facility is a revolving, non-amortizing asset-based credit facility in an amount equal to the lesser of \$200 million U.S. dollars (or the Canadian dollar equivalent thereof) and the Borrowing Base (as defined herein). The New ABL Facility matures on April 15, 2019.

The borrowing base (the "Borrowing Base") equals the sum of the Canadian Borrowing Base (as defined herein) and the U.S. Borrowing Base (as defined herein). The "Canadian Borrowing Base" means, subject to customary reserves and eligibility criteria, the sum of: (a) 85% of the Canadian ABL Borrowers' eligible accounts receivable; plus (b) the lesser of 70% of the cost (valued on a first in, first out basis) of the Canadian ABL Borrowers' eligible inventory, or 85% of the appraised net orderly liquidation value of the Canadian ABL Borrowers' eligible inventory. The "U.S. Borrowing Base" means, subject to customary reserves and eligibility criteria, the sum of: (a) 85% of the U.S. ABL Borrowers' eligible accounts receivable; plus (b) the lesser of 70% of the cost (valued on a first in, first out basis) of the U.S. ABL Borrowers' eligible inventory, or 85% of the appraised net orderly liquidation value of the U.S. ABL Borrowers' eligible inventory.

The New ABL Facility contains a Consolidated Fixed Charge Coverage Ratio that measures our ability to cover certain fixed charges including interest payments. The minimum ratio is set to 1.0 to 1.0 tested for the most recently ended four fiscal quarter period for which financial statements have been delivered, and is defined as the ratio of (a) Consolidated EBITDA for such period, minus (x) capital expenditures paid in cash for such period and (y) the amount of cash payments made during such period in respect of federal, state, provincial, local, and foreign income taxes to (b) Consolidated Fixed Charges for such period. The Consolidated Fixed Charge Coverage Ratio covenant is a springing covenant and is not triggered unless, on any date, Excess Availability is less than the greater of (i) 10% of the Line Cap (being the lesser of the aggregate commitments under the New ABL Facility at such time and the then applicable Borrowing Base), and (ii) \$15.0 million.

As of February 29, 2016, \$330.5 million was drawn under the New Term Loan Facility and \$119.2 million was drawn under the New ABL Facility. The interest rate on the Credit Facilities for the nine-month period ended February 29, 2016 ranged from 1.93% to 4.50%. As of February 29, 2016, there are three letters of credit totaling \$1.3 million outstanding under the New ABL Facility.

Leverage Ratio

The Credit Facilities define Leverage Ratio as Net Indebtedness divided by EBITDA, as described in this paragraph, for the most recent four fiscal quarter period for which financials have been delivered. Net Indebtedness includes such items as the Company's term loan, capital lease obligations, subordinated indebtedness, and average revolving loans for the last 12 months as of the reporting date, less the average amount of cash for the last 12 months as of the reporting date. EBITDA is defined in the Credit Facilities as consolidated net income/(loss) for the applicable period; plus, among other things, interest expense, provision for taxes, depreciation and amortization expense, share-based payment expense, certain fees, costs, and expenses incurred in connection with corporate transactions, certain restructuring charges or reserves and business optimization expenses and the pro forma amount of certain projected savings, improvements and synergies projected to be realized by the Borrower from certain transactions and operational changes, in each case incurred within the applicable period. The amount of restructuring charges or reserves and business optimization expenses together with the pro forma amount of certain projected savings, improvements and synergies costs added back to EBITDA shall not exceed an amount equal to 15% of EBITDA for the applicable four fiscal quarter period.

The following table depicts the Company's Leverage Ratio:

	As of February 29, 2016 ^{(1) (2)}	As of November 30, 2015	As of August 31, 2015	As of May 31, 2015	As of February 28, 2015	As of November 30, 2014	As of August 31, 2014
Leverage Ratio	10.98	6.61	5.73	4.29	3.87	3.62	3.61

(1) Using the definition of EBITDA per the Credit Facilities, as described above, the Leverage Ratio was 19.93.

(2) Excluding the impact of foreign exchange on the Company's trailing twelve month EBITDA, the Leverage Ratio was 5.72.

Off-Balance Sheet Arrangements

We enter into agreements with our manufacturing partners on tooling requirements for our manufactured products. These agreements form an important part of the Company's supply chain strategy and cash flow management. The following table summarizes our vendor tooling commitments as of February 29, 2016 and Fiscal 2016:

(millions of U.S. dollars)

Vendor	Tooling acquisition value	Cost paid	Owed amounts as of February 29, 2016	Open purchase orders amortization value	Outstanding liability Fiscal 2016
Supplier A	\$ 7.4	\$ 5.9	\$ 1.5	\$ 0.1	\$ 1.4
Supplier B	7.5	7.0	0.5	0.2	0.3
Supplier C	1.6	1.0	0.6	0.1	0.5
Supplier D	0.7	0.7	—	—	—
Supplier E	0.9	0.6	0.3	—	0.3
Supplier F	0.2	0.2	—	—	—
Supplier G	0.1	0.1	—	—	—
Supplier H	0.1	0.1	—	—	—
Total	\$ 18.5	\$ 15.6	\$ 2.9	\$ 0.4	\$ 2.5

Capital Expenditures

In the three-month period ended February 29, 2016 and the three-month period ended February 28, 2015, we incurred capital expenditures of \$4.7 million and \$4.9 million, respectively. In the nine-month period ended February 29, 2016 and the nine-month period ended February 28, 2015, we incurred capital expenditures of \$16.8 million and \$9.8 million, respectively. As a percentage of revenues, our capital expenditures for the trailing twelve-months ended February 29, 2016 were 4.1% of revenues, compared to 2.0% of revenues for the trailing twelve-months ended February 28, 2015. The capital investments were incurred for information systems to assist in streamlining our growing organization, investments related to the Own The Moment Hockey Experience retail stores, leasehold improvements related to the Thousand Oaks, California Easton Baseball/Softball facility, tooling,

R&D and investments in retail marketing assets. The year-over-year increase is driven by investments related to the Own The Moment Hockey Experience retail stores, higher investments in information systems, leasehold improvements related to the Blainville, Quebec research, design and development facility and the Thousand Oaks, California Easton Baseball/Softball facility. Our ordinary course of operations requires minimal capital expenditures for equipment, given that we manufacture most of our products through our manufacturing partners. Going forward, to support our growth and key business initiatives, we currently anticipate our capital expenditures to include investments in information systems, Own The Moment Hockey Experience retail stores, and the Thousand Oaks, California Easton Baseball/Softball facility. We currently expect the Thousand Oaks, California Easton Baseball/Softball facility to be completed in the first half of Fiscal 2017. We also currently anticipate that the quarterly levels of capital expenditures may be uneven based on the timing of opening new Own The Moment Hockey Experience retail stores and other corporate projects.

Contractual Obligations

The following table summarizes our contractual obligations as of February 29, 2016 and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

(millions of U.S. dollars)	Payments due by period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Operating lease obligations ⁽¹⁾	\$ 29.7	\$ 4.6	\$ 6.5	\$ 5.1	\$ 13.5
Financing and capital lease obligations ⁽¹⁾	16.0	1.5	3.0	3.0	8.5
Endorsement contracts ⁽²⁾	20.5	8.5	8.8	2.0	1.2
Inventory purchases ⁽³⁾	58.7	58.7	—	—	—
Non-inventory purchases ⁽⁴⁾	2.0	1.7	0.2	0.1	—
Long-term borrowings: ⁽⁵⁾					
New ABL Facility	119.2	119.2	—	—	—
New Term Loan Facility due 2021	330.5	—	—	—	330.5
Interest payment obligations	76.4	14.9	29.8	29.8	1.9
Total	\$ 653.0	\$ 209.1	\$ 48.3	\$ 40.0	\$ 355.6

- (1) Future operating lease obligations are not recognized in our unaudited consolidated balance sheets. The operating lease obligations for buildings and equipment expire at various dates through the fiscal year ended May 31, 2026. The financing and capital lease obligations for buildings expire at various dates through the fiscal year ended May 31, 2030. Certain of the operating and capital leases contain renewal clauses for the extension of the lease for one or more renewal periods.
- (2) The amounts listed for endorsement contracts represent approximate amounts of base compensation and minimum guaranteed royalty fees the Company is obligated to pay athletes, sports teams, and other endorsers of the Company's products. Actual payments under some contracts may be higher than the amounts listed as these contracts provide for bonuses to be paid to the endorsers based upon certain achievements and/or royalties on product sales in future periods. Actual payments under some contracts may also be lower as these contracts include provisions for reduced payments if certain performance criteria are not met. In addition to the cash payments, the Company is obligated to furnish the endorsers with products for their use. It is not possible to determine how much the Company will spend on this product on an annual basis as the contracts do not stipulate a specific amount of cash to be spent on the product. The amount of product provided to the endorsers will depend on many factors including general playing conditions, the number of sporting events in which they participate, and the Company's decisions regarding product and marketing initiatives. In addition, the costs to design, develop, source, and purchase the products furnished to the endorsers are incurred over a period of time and are not necessarily tracked separately from similar costs incurred for products sold to customers.
- (3) Inventory purchase obligations include various commitments in the ordinary course of business that would include the purchase of goods that are not recognized in our unaudited consolidated balance sheets.
- (4) Non-inventory purchase obligations include other binding commitments for the expenditure of funds that are not recognized in our unaudited consolidated balance sheets, including (i) capital expenditures for approved projects, and (ii) amounts related to contracts not involving the purchase of inventories, such as the non-cancelable portion of service or maintenance agreements for management information systems.
- (5) The New ABL Facility and the New Term Loan Facility due 2021 amounts represent principal payments on outstanding debt. The interest payment obligations represent interest payments on the term loan due 2021. Estimates of interest payments are based on outstanding principal amounts, currently effective interest rates as of February 29, 2016, and the term of the debt obligation. The interest payment obligations exclude expected interest payments on our revolving loan, which can fluctuate based on the amount of outstanding borrowings in any given period. For more information, please refer to the "Indebtedness" section.

Contingencies

In connection with the purchase of Bauer Hockey from Nike, Inc. on April 16, 2008 (the "Business Purchase"), a subsidiary of Kohlberg Sports Group Inc., a Cayman Island corporation ("KSGI"), agreed to pay additional consideration to Nike, Inc. ("Nike") in future periods based upon the attainment of a qualifying exit event. As of February 29, 2016, the maximum potential future consideration pursuant to such arrangements, to be resolved on or before April 16, 2016, such date being the eighth anniversary of April 16, 2008, is \$10.0 million. As a condition to the acquisition in connection with our initial public offering in

Canada in March 2011, the former securityholders of KSGL, who sold KSGL and its subsidiaries to the Company on March 10, 2011 pursuant to the acquisition agreement dated March 3, 2011 (the “Existing Holders”), entered into a reimbursement agreement with the Company pursuant to which each of the Existing Holders agreed to reimburse the Company, on a *pro rata* basis, in the event that the Company or any of its subsidiaries are obligated to make such a payment to Nike. The Company currently expects that a qualifying exit event will not be attained.

In connection with the acquisition of certain exclusive and perpetual licensing rights in technology assets from Q30 Sports, LLC, a privately held entity, future licensing payments of up to \$18.0 million are conditional upon the achievement of certain product development and sales milestones. These milestones have not yet been achieved.

In addition to the matters above, during the ordinary course of its business, the Company is involved in various legal proceedings involving contractual and employment relationships, product liability claims, trademark rights and a variety of other matters.

For further detail on legal proceedings, please refer to Part II. Item 1 “Legal Proceedings” section.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

We believe that the estimates, assumptions and judgments involved in the accounting policies described in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Annual Report on Form 10-K have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Actual results could differ from the estimates we use in applying our critical accounting policies. We are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

New Accounting Pronouncements

See Item 1 of Part I, “Financial Information - Notes to Consolidated Financial Statements - Significant Accounting Policies - Recent Accounting Pronouncements”.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Except as otherwise described below, as of February 29, 2016, there have been no material changes from the information previously reported under Part II, Item 7A. in the Company’s Annual Report on Form 10-K for the fiscal year ended May 31, 2015. See “Factors Affecting Our Performance - Impact of Foreign Exchange and Hedging Practices” for more information.

Our customers in the retail industry continue to experience consolidation and some may face financial difficulties from time to time. A large portion of our sales are to specialty and “big box” sporting goods retailers, certain of whom are not strongly capitalized. Adverse conditions in the sporting goods retail industry can adversely impact the ability of retailers to purchase our products, or could lead retailers to request credit terms that would adversely affect our cash flow and involve significant risks of non-payment. As a result, we may experience a loss of customers or the un-collectability of accounts receivable in excess of amounts against which we have reserved, which could adversely affect our business and financial condition.

Item 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of the end of the period covered by this quarterly report on Form 10-Q.

As required by Rule 13a-15(d) under the Exchange Act, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to determine whether any changes occurred during the quarter covered by this quarterly report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there have been no such changes during the quarter covered by this quarterly report on Form 10-Q.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Except as otherwise described below, as of February 29, 2016, there have been no material developments with respect to the information previously reported under Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

On March 18, 2016, Brian Apel, individually and on behalf of all others similarly situated, filed a class action complaint against us and certain of our current and former executive officers in the United States District Court for the Central District of California. The complaint alleges that we and certain of our current and former executive officers made false and/or misleading statements and failed to disclose material adverse facts about our business, operations, prospects and performance in violation of Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiff seeks unspecified damages, as well as costs, attorneys' fees, and other unspecified relief. We intend to vigorously defend this matter.

In addition to the matters above, during the ordinary course of its business, the Company is involved in various legal proceedings involving contractual and employment relationships, product liability claims, trademark rights and a variety of other matters.

Item 1A. RISK FACTORS

As of February 29, 2016, there have been no material changes in our risk factors from those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2015, and in Part II, Item 1A of our Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2015.

Item 6. EXHIBITS

The following exhibits are filed as part of this quarterly report on Form 10-Q:

Exhibit Number	Description
10.1	Offer Letter to Amir Rosenthal, dated as of March 25, 2016 and effective as of March 22, 2016.
10.2	Shareholder Nomination Agreement, dated March 28, 2016, between Performance Sports Group Ltd. and Sagard Capital Partners, L.P. (incorporated by reference to Exhibit 99.1 to Performance Sports Group Ltd.'s Form 8-K filed with the Securities and Exchange Commission on March 28, 2016, File No. 001-36506).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's quarterly report on Form 10-Q for the three-month period ended February 29, 2016.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's quarterly report on Form 10-Q for the three-month period ended February 29, 2016.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company's quarterly report on Form 10-Q for the three-month period ended February 29, 2016.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company's quarterly report on Form 10-Q for the three-month period ended February 29, 2016.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PERFORMANCE SPORTS GROUP LTD.

Dated: April 14, 2016

By: /s/ Mark Vendetti

Mark Vendetti

Executive Vice President/Chief Financial Officer