This is Exhibit “C” referred to in the

Affidavit of Mark Palmer

sworn before me virtually by Zoom at Toronto, Ontario, this

13th day of January, 2023

A Commissioner for taking Affidavits in the Province of Ontario

Jeffrey Levine, LSO# 55582H

Court File No. ____________

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)

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 GmbH[2] 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.

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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 Concona 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

<u>Canada</u>

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>U.S.</u>

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.

<u>Europe and Asia</u>

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 PSG[3] (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:

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[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. Reponses 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 financer to or purchaser of the Applicants' businesses.