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 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.

<u>20 Day Goods Suppliers</u>

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.

<u>Shippers and Warehousemen</u>

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, warehousers, 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 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 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. Kathleen Jewkes Commissioner for Taking Affidavits	MARK VENDETTI

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

Schedule "1"

Charges Priority Waterfall[5]

		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 Collateral[6]**	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