

Court File No. _____

**GOLF TOWN CANADA HOLDINGS INC.,
GOLF TOWN CANADA INC., and
GOLF TOWN GP II INC.**

PRE-FILING REPORT OF THE PROPOSED MONITOR

September 13, 2016

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**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
GOLF TOWN CANADA HOLDINGS INC., GOLF TOWN CANADA INC., AND
GOLF TOWN GP II INC.

**PRE-FILING REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS PROPOSED MONITOR**

INTRODUCTION

1. FTI Consulting Canada Inc. ("**FTI Consulting**" or the "**Proposed Monitor**") has been informed that Golf Town Canada Holdings Inc. ("**Golf Town Holdings**"), Golf Town Canada Inc. ("**GT Canada**") and Golf Town GP II Inc. (collectively, the "**Applicants**") intend to make an application under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") for an initial order (the "**Proposed Initial Order**") granting certain relief, including, *inter alia*, a stay of proceedings against the Applicants until October 14, 2016, extending the relief under the Proposed Initial Order to Golf Town Operating Limited Partnership ("**Golf Town LP**") and Golfsmith International Holdings L.P., ("**Holdings LP**" and, together with the Applicants and Golf Town LP, the "**Golf Town Entities**"), and appointing FTI Consulting as the monitor (the "**Monitor**"). The proceedings to be commenced by the Applicants under the CCAA will be referred to

herein as the “**CCAA Proceedings**”.

2. The purpose of this pre-filing report (the “**Report**”) is to inform the Court on the following:
 - (a) The qualifications of FTI Consulting to act as Monitor (if appointed);
 - (b) An overview of the business and affairs of the Company (as defined below);
 - (c) A summary of the events leading up to the CCAA Proceedings and the Chapter 11 Proceedings (as defined below);
 - (d) The Company’s restructuring efforts to date and the formal sale process commenced in June 2016;
 - (e) An overview of the proposed sale of the Canadian business of the Golf Town Entities (the “**Golf Town Transaction**”) and the proposed restructuring of the Golf Town Entities’ U.S. affiliate entities (the “**Golfsmith Restructuring**”), Golfsmith International Holdings, Inc. (“**GS Holdings**”) and its subsidiaries and Golf Town USA, L.L.C. (collectively, the “**Golfsmith Entities**”, and together with the Golf Town Entities, the “**Company**”) and the commencement of the CCAA Proceedings and the Chapter 11 Proceedings to implement such transactions;
 - (f) The Golf Town Entities’ objectives in commencing the CCAA Proceedings and the Golfsmith Entities’ objectives in commencing the Chapter 11 Proceedings;
 - (g) The activities of FTI Consulting and its counsel, Osler, Hoskin & Harcourt LLP (“**Osler**”), to date, including the status of the opinion being prepared by Osler in respect of the validity and enforceability of security held by:

- (i) Antares Capital LP as agent (the “**First Lien Agent**”) under a Credit Agreement dated July 24, 2012, as amended (the “**Credit Agreement**”) between, *inter alia*, the Company (other than Holdings GP and Holdings LP) and the lenders party thereto; and
- (ii) BNY Trust Company of Canada as collateral agent (the “**Second Lien Agent**”) under a Notes Indenture dated July 24, 2014 (the “**Notes Indenture**”) between, *inter alia*, GT Canada as Canadian issuer, GS Holdings, as U.S. issuer, and the Company (other than Holdings GP and Holdings LP) as guarantors thereunder;
- (h) FTI Consulting’s comments regarding the Company’s cash management system;
- (i) FTI Consulting’s comments regarding intercompany transfers between the Golf Town Entities and the Golfsmith Entities and the proposed intercompany charge in the Proposed Initial Order (the “**Intercompany Charge**”) and in the Chapter 11 Proceedings;
- (j) FTI Consulting’s comments regarding the proposed extension of the stay of proceedings to Golf Town LP and Holdings LP;
- (k) FTI Consulting’s comments regarding the Golf Town Entities’ proposed treatment of certain pre-filing payables in the Proposed Initial Order;
- (l) FTI Consulting’s comments regarding the Golf Town Entities’ consolidated cash flow projections of their receipts and disbursements to October 29, 2016 (the “**Cash**

Flow Forecast”) and the reasonableness thereof, in accordance with section 23(1)(b) of the CCAA;

- (m) FTI Consulting’s comments regarding the Golf Town Entities’ request for the approval of a debtor-in-possession (“**DIP**”) facility of up to \$135 million (the “**DIP Facility**”) pursuant to a Senior Secured, Super-Priority Debtor-In-Possession Credit Agreement (the “**DIP Agreement**”) to be provided by Antares Capital LP, as lender and as agent, and the lenders party thereto (all of whom are collectively the senior secured lenders to the Golf Town Entities), and a corresponding charge in respect thereof (the “**DIP Lenders’ Charge**”);
- (n) FTI Consulting’s comments regarding the Company’s Key Employee Incentive Plan (the “**KEIP**”), as guaranteed by GT Canada and Golf Town LP, and the Golf Town Entities’ request for a charge in favour of the beneficiaries of the KEIP (the “**KEIP Guarantee Charge**”);
- (o) FTI Consulting’s comments regarding the Golf Town Entities’ Transition Employee Plan as outlined in the Roussy Affidavit (as defined below) (the “**Transition Employee Plan**”) and their request for a charge in favour of the beneficiaries of the Transition Employee Plan (the “**Transition Employee Charge**”);
- (p) FTI Consulting’s comments regarding the Golf Town Entities’ proposed administration charge (the “**Administration Charge**”), the proposed financial advisor charge (the “**Financial Advisor Charge**”) and the proposed Directors’ Charges (as defined below) (the Directors’ Charges, and together with the Administration Charge, the Financial Advisor Charge, the KEIP Guarantee Charge,

the Transition Employee Charge, the Intercompany Charge and the DIP Lenders' Charge, the "**Proposed CCAA Charges**");

- (q) FTI Consulting's comments regarding the Golf Town Entities' request for the approval of the engagement of Jefferies LLC ("**Jefferies**"), Alvarez & Marsal North America LLC and Alvarez & Marsal Canada ULC (collectively, "**A&M**"), including the appointment of Brian E. Cejka of A&M as the chief restructuring officer of the Golf Town Entities (the "**CRO**"); and
- (r) FTI Consulting's conclusions and recommendation with respect to the proposed CCAA Proceedings.

TERMS OF REFERENCE

- 3. In preparing this Report, the Proposed Monitor has relied upon audited and unaudited financial information of the Golf Town Entities, the Golf Town Entities' books and records, certain financial information and forecasts prepared by the Golf Town Entities, and discussions with various parties, including senior management ("**Management**") of and advisors to the Company (collectively, the "**Information**"). To the extent necessary and appropriate, the Proposed Monitor has also reviewed audited and unaudited financial information and forecasts of the Golfsmith Entities.
- 4. Except as described in this Report:
 - (a) The Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered

Professional Accountants of Canada Handbook;

- (b) The Proposed Monitor has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.
5. Future oriented financial information reported or relied on in preparing this Report is based on Management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.
6. The Proposed Monitor has prepared this Report in connection with the application for the Proposed Initial Order to be filed by the Applicants (the "**Initial Application**"). The Report should not be relied on for other purposes.
7. Unless otherwise stated, all monetary amounts contained herein are expressed in United States Dollars.
8. Capitalized terms not otherwise defined herein have the meanings defined in the affidavit of Mr. David Roussy, the Chief Executive Officer of GT Canada, sworn September 13, 2016 and filed in support of the Initial Application (the "**Roussy Affidavit**").

A. FTI CONSULTING'S QUALIFICATIONS TO ACT AS MONITOR

9. FTI Consulting was engaged to provide certain financial advisory and consulting services to the Golf Town Entities and to act as Monitor (subject to Court approval) in the event the Golf Town Entities commenced proceedings under the CCAA, pursuant to an engagement letter dated August 10, 2016 with GT Canada. The engagement letter will terminate

effective as of the date of these CCAA Proceedings, should FTI Consulting be appointed as Monitor. The professionals of FTI Consulting who have carriage of this matter have acquired knowledge of the business and operations of the Company, its personnel, its stakeholders and the key issues in these CCAA Proceedings since the commencement of FTI Consulting's engagement. FTI Consulting is therefore in a position to immediately act as Monitor (if appointed) in these CCAA Proceedings.

10. Paul Bishop, the individual within FTI Consulting who will have primary carriage of this matter, is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended.
11. Neither FTI, nor any of its representatives or affiliates, has been, at any time in the two preceding years:
 - (a) a director, officer or employee of any of the Companies;
 - (b) related to the Company or to any director or officer of the Company; or
 - (c) the auditor, accountant or legal counsel, or a partner or an employee of the auditor, accountant or legal counsel, of the Company.
12. Berkeley Research Group LLC ("**BRG**") is the financial advisor to the First Lien Agent. A former employee of FTI Consulting, Inc. ("**FTI US**") based in Boston, Massachusetts acted as advisor to the First Lien Agent in respect of the Credit Agreement. When such employee joined BRG in April 2016, the engagement was transferred to BRG and FTI US' role with respect to the Company ceased.
13. At no time has FTI Consulting had any involvement with the Company other than its

current role as Proposed Monitor. The First Lien Agent and the Company are aware that FTI (US) had previous involvement with respect to the Credit Agreement and have not objected with respect to FTI Consulting acting as the Proposed Monitor.

14. FTI Consulting has consented to act as Monitor should this Honourable Court grant the Applicants' request to commence the CCAA Proceedings. A copy of FTI's consent to act as Monitor is included in the Applicants' Initial Application Record.

B. OVERVIEW OF THE COMPANY'S BUSINESS & AFFAIRS

15. This overview of certain background information relating to the Company is presented to provide context for, and to facilitate an understanding of, the issues addressed in this Report. A more detailed description of the business and affairs of the Company is contained in the Roussy Affidavit.

The Company

16. The Company is a leading retailer of golf equipment and related apparel in the North American marketplace. The Company sells a broad selection of golf products from leading national brands and also develops and sells golf products featuring its own private label brands. It operates through its extensive retail store network and through direct-to-consumer channels consisting of its e-commerce and catalogue platforms. In Canada, the Golf Town Entities operate in 55 stores across nine provinces. In the U.S., the Golfsmith Entities operate in 109 stores across 29 U.S. states. The Company's ultimate parent entity is owned and controlled by affiliates of OMERS Administration Corporation ("OMERS"). The Company's corporate organization is set out in a chart in Appendix "A" attached hereto.

The Company's Canadian Operations

17. The Golf Town Entities' operate across Canada, with approximately 60% of their retail operations in Ontario and Quebec. The Golf Town Entities' retail stores have an average size of approximately 21,500 square feet and carry an extensive selection of golf products, apparel and accessories. Additionally, the Golf Town Entities' retail stores offer a range of golf-related services and activities including club repair services, putting greens and teaching academies staffed by certified third party golf professionals. The Proposed Monitor understands that all of the Golf Town Entities' Canadian retail locations are leased.

18. The Golf Town Entities' Canadian corporate office is located in Vaughan, Ontario. Management of the Golf Town Entities and the Golfsmith Entities operate primarily out of the Company's U.S. head office located in Austin, Texas.

The Company's Capital Structure

19. The Company's capital structure consists principally of:
 - (i) a first lien revolving credit facility with a maximum total commitment of \$135 million and a first lien non-revolving first-in last-out term loan facility with a maximum total commitment of CDN\$15 million (collectively, the "**Credit Facility**"), both of which were provided under the Credit Agreement; and

 - (ii) CDN\$125 million second-lien notes bearing interest at 10.50% per annum payable semi-annually in arrears and

maturing on July 24, 2018, (the “**Secured Notes**”) which were issued under the Notes Indenture.

20. The status of Osler’s security opinion with respect to the security granted by the Golf Town Entities to secure the Credit Facility and the Secured Notes is discussed in greater detail below.
21. The rights and priorities of the First Lien Lenders and the holders of the Secured Notes are governed by an Intercreditor Agreement dated July 24, 2012 (the “**Intercreditor Agreement**”) among the First Lien Agent, the Second Lien Agent, and the Company entities party thereto. A copy of the Intercreditor Agreement is attached as an Exhibit to the Roussy Affidavit.
22. The Intercreditor Agreement provides that notwithstanding the grant of security in respect of the Secured Notes, the liens securing the Credit Facility rank in priority to the liens securing the Secured Notes in respect of substantially all of the Company’s present and after-acquired property. However, liens securing Credit Facility Obligations that exceed a “Maximum Priority Amount”, which amount cannot be less than the sum of USD\$135 million (the amount of the revolving facility) plus CDN\$15 million (the amount of the first-in last-out term loan facility) rank junior to the liens securing obligations in respect of the Secured Notes. The Proposed Monitor understands that as of the date of this Report, there are no liens securing Credit Facility Obligations that exceed the “Maximum Priority Amount”, as the Credit Facility Obligations are approximately \$106 million at this time (with \$94 million owing under the revolving facility and \$12 million owing under the first-in last-out term loan facility).
23. Availability under the Credit Facility is determined by a weekly borrowing base calculation

on certain assets of the consolidated Company. Given the amount of its current Borrowing Base, the Company is currently unable to access the full \$135 million availability under the Credit Facility.

24. The Proposed Monitor also understands that OCPI GT SPV Limited, a special purpose entity owned by OMERS, entered into a limited recourse guarantee pursuant to which it guaranteed the Company's Credit Facility Obligations in favour of the First Lien Agent under the Credit Agreement. The First Lien Agent's recourse under such guarantee is limited to an irrevocable standby letter of credit (the "OMERS LC") issued by Royal Bank of Canada on behalf of Borealis Infrastructure Management Inc., an affiliate of OMERS, in an amount of \$16,533,681.98. On the closing of the DIP Facility, the OMERS LC will be amended and the conditions pursuant to which it can be drawn will be solely governed by the DIP Agreement.
25. The OMERS LC draw events are described in the Roussy Affidavit. The Proposed Initial Order provides that nothing contained therein shall alter or impair the First Lien Agent's rights with respect to the OMERS LC.
26. The Roussy Affidavit also discusses an Intercompany Note in the principal amount of approximately CDN\$118 million which was granted in connection with the Merger (as defined below). Payment of the Intercompany Note is subordinated to the prior payment in full of the Credit Facility and the Secured Notes.

Company Shared Services

27. The Company has centralized its finance, accounting, payroll and human resource related services at its head office location in Austin, Texas. The Company monitors the provision

of these services among the various entities within the corporate group and allocates costs proportionally to the recipients of such services (primarily on a cost recovery basis and without a markup).

28. In addition, GT Canada, Golf Town LP and GS Holdings are also party to a separate management services agreement dated as of July 24, 2012 pursuant to which GS Holdings provides senior management and board member services to the Golf Town Entities (such as strategic planning services), at a total cost approximately equivalent to what would be paid in an arm's length transaction, payable quarterly in arrears, which includes a nominal mark-up as mutually agreed by the parties.
29. The total cost for shared services is on average approximately \$2,250,000 per month, and is allocated on a 60/40 split based on historical total revenue of the Golfsmith Entities and Golf Town Entities. This methodology represents monthly allocations of \$1,350,000 and \$900,000 to the Golfsmith Entities and Golf Town Entities, respectively.
30. As described in the Roussy Affidavit, during the CCAA Proceedings, the Golf Town Entities and the Golfsmith Entities intend to satisfy amounts owing to one another – on account of shared services or payments to vendors – through fund transfers to the party who is owed such funds. The Golf Town Entities are seeking an Intercompany Charge to secure any such amounts owed to the Golfsmith Entities from time to time in the CCAA Proceedings (as discussed in greater detail below) and the Golfsmith Entities will be seeking a similar intercompany charge in the Chapter 11 Proceedings to secure amounts owing from the Golfsmith Entities to the Golf Town Entities.

Company Financial Information

31. As indicated in the Roussy Affidavit, for the 2015 fiscal year, the Golf Town Entities had net sales of \$219.3 million and adjusted EBITDA of \$6.8 million. During the same period, the Golfsmith Entities had net sales of \$492.9 million and adjusted EBITDA of \$6.2 million. Audited financial statements for fiscal 2015 show that the Company had an operating loss of \$28.6 million and a net loss of \$47.3 million after interest, income tax, and other expenses.
32. The Company's most recent unaudited financial statements as at July 30, 2016 indicate that the Golf Town Entities had assets with a \$143.3 million stated book value and liabilities of \$216.4 million; the Golfsmith Entities had assets with a \$275.8 million stated book value and liabilities of \$301.8 million.

C. EVENTS LEADING UP TO THE CCAA PROCEEDINGS AND THE CHAPTER 11 PROCEEDINGS

33. The Roussy Affidavit sets out in detail the events leading up to the CCAA Proceedings. The Proposed Monitor understands that since the 2008 recession, the decline in the demand for golf products in the North American marketplace has directly impacted the Company's ability to generate sufficient revenues. As indicated in the Roussy Affidavit, the Company's net sales have decreased in each year since 2012 and such sale reductions have resulted in corresponding reductions in the Company's profitability.
34. The Proposed Monitor further understands that following the Company's 2012 merger (the "**Merger**"), the Company pursued a growth strategy focused on larger store formats, resulting in higher occupancy costs relative to sales. To finance this growth strategy, the Company took on additional debt, resulting in higher interest service costs which further reduced the Company's cash flow.

35. By 2014, the compounding effects of these events resulted in the Company needing to consider a number of initiatives to restructure the business.

D. RESTRUCTURING AND SALE INITIATIVES

Restructuring Initiatives

36. As described in the Roussy Affidavit, the Company has undertaken a number of restructuring initiatives in the last two years in an effort to enhance its profitability, namely:

- (a) the retention of A&M in 2014 to perform a financial and operational review of the Company, with particular emphasis on identifying cost reduction initiatives, developing and improving controls for forecasting and monitoring cash flows and strengthening stakeholder communications. In addition, in certain circumstances, A&M assisted the Company in: (i) achieving improved lease terms with landlords; (ii) obtaining improved supplier payment terms; (iii) reducing the number of employees; and (iv) selling non-core assets;
- (b) the replacement of its senior leadership team in 2015;
- (c) the further engagement of A&M in January 2016 to assist the Company in an in-depth, review of the Company's business, operations, financial outlook and strategic alternatives, including a comprehensive review of the Company's retail store network analysing, among other things, operating performance, lease and occupancy costs on a store-by-store basis, and attractiveness and significance of local golf markets; and
- (d) implementation of the Company's "Next Generation Strategy" (as described in

greater detail in the Roussy Affidavit), in order to drive financial and operational improvements.

37. The Company has also explored a range of potential out-of-court recapitalization and restructuring transactions to effect such improvements including, among other things: (i) closing a number of the Company's retail locations; (ii) refinancing the Credit Facility; (iii) and converting the Secured Notes into equity.

Commencement of Sale/Restructuring Process

38. The Proposed Monitor understands that in June 2016, Jefferies was engaged by the Company to further explore the feasibility of potential sale and/or restructuring transactions. Shortly thereafter, Jefferies contacted 214 potential buyers, comprised of 37 potential strategic buyers and 177 potential financial buyers. Sixty-seven potential buyers executed non-disclosure agreements and were granted access to the Company's confidential electronic data room.
39. Since its engagement on August 10, 2016, the Proposed Monitor and its counsel have received regular updates on the progress of the sale/restructuring process from management, Jefferies, A&M and counsel to the Golf Town Entities.
40. On July 1, 2016, Jefferies delivered a process letter to potential bidders who executed non-disclosure agreements. The process letter indicated that non-binding indications of interest were to be submitted to Jefferies by July 20, 2016 ("**Phase 1**") and that definitive transaction agreements were to be submitted as final bids to Jefferies by August 25, 2016 (which date was subsequently extended to August 29, 2016 upon notice to potential bidders) ("**Phase 2**").

41. Jefferies received twelve non-binding indications of interest at the end of the Phase 1 process. These indications of interest were extensively reviewed by the Company and its advisors; they ranged from potential offers to buy the entire Company, to potential offers to buy either the Golf Town Entities or the Golfsmith Entities, to potential offers to liquidate the Company or a portion thereof. Seven of these indications of interest were selected by the Company and Jefferies to progress to Phase 2 of the sale process.
42. During Phase 2, potential bidders were granted access to the Company's Management and to its site locations (as described in greater detail in the Roussy Affidavit), resulting in the submission of final bids for the Golf Town Business from multiple parties by the Phase 2 bid deadline. Following Phase 2 of the sale process, a number of bidders expressed an interest in acquiring the Golfsmith Business in a standalone transaction or acquiring both the Golf Town Business and the Golfsmith Business in a consolidated transaction.
43. One such Phase 2 bid received by Jefferies was a bid by certain holders of the second-lien Secured Notes – namely, Fairfax Financial Holdings Limited and certain investment funds managed by CI Investments Inc. (collectively, the “**Purchaser**”), who collectively own in excess of 40% of the Secured Notes – to purchase the Golf Town Business (each through an affiliated entity) pursuant to the terms of an asset purchase agreement (the “**Golf Town APA**”) and enter into a restructuring support agreement (the “**Support Agreement**”) to implement a going concern Golfsmith Restructuring. The terms of the Golf Town APA and the Support Agreement are discussed in greater detail below.
44. In evaluating the final Phase 2 bids, the Company, with the assistance of Jefferies, A&M, and in consultation with the Proposed Monitor and its legal counsel, considered a number of factors, including: (i) economic value, (ii) impact on various stakeholders, including

Company employees, (iii) impact on the Company's ability to continue to operate as a going-concern, and (iv) transaction structure and its impact on the ability of a bidder to conduct diligence and implement the proposed transaction. Additionally, the Company and its advisors provided Phase 2 bidders with opportunities to enhance the terms of their bids and engaged in subsequent discussions with the most promising bidders following the Phase 2 bid deadline. The Company, in consultation with its advisors and the Proposed Monitor and its counsel, ultimately decided that of the final Phase 2 bids received, the proposal submitted by the Purchaser to acquire the Golf Town Business and to support a restructuring of the Golfsmith Business represents the best option available to the Company and its stakeholders.

Comments on the Sale Process

45. The Proposed Monitor is of the view that the restructuring initiatives undertaken to date have been extensive and the Company has benefitted from the expertise of its experienced restructuring advisors. Following a full briefing on the restructuring and sale process initiatives implemented prior to it being retained, the Proposed Monitor has since received regular updates on the status of the Company's discussions with potential bidders in the sale process. Since its engagement, the Proposed Monitor has been provided with drafts of a number of the definitive transaction documents in the sale process and its views with respect to these documents have been taken into account by the Company and its advisors. The Proposed Monitor believes that the sale process was conducted in a manner which was fair, reasonable and comprehensive taking into account all of the circumstances.

E. OVERVIEW OF THE GOLF TOWN TRANSACTION AND THE GOLFSMITH RESTRUCTURING

46. The terms of the proposed Golf Town Transaction and the Golfsmith Restructuring are described in the Roussy Affidavit.

Golf Town Transaction

47. The Applicants are not seeking the Court's approval of the Golf Town Transaction in the Proposed Initial Order. If the Court grants the Proposed Initial Order, the Monitor understands that the Applicants will shortly thereafter seek the approval of the Golf Town Transaction in the CCAA Proceedings and will file the Golf Town APA in connection with such approval motion. The Proposed Monitor intends to provide this Honourable Court, in advance of the motion, with a report outlining its summary of, and its conclusions and recommendations with respect to, the Golf Town APA. However, the Proposed Monitor understands that pursuant to the terms of the Golf Town APA, the Purchaser thereunder will:

- (a) acquire the Golf Town Business on a going-concern basis (including inventory and certain other working capital assets), with the anticipated continuance of operations at existing retail locations, subject to the Purchaser and applicable landlords reaching satisfactory arrangements on amended lease terms. The Proposed Monitor understands that it is anticipated that certain retail locations may be excluded from the transaction;
- (b) pay a purchase price consisting of a fixed cash component and a variable component based on the Golf Town Entities' working capital at closing; and
- (c) offer employment to a majority of the employees of the Golf Town Business.

48. Under the terms of the Golf Town APA, the Purchaser is required to determine by no later

than October 26, 2016, which of the store leases (and other material contracts) will be acquired in connection with the Golf Town Transaction. Once the list of Excluded Locations, if any, is finalized, the Golf Town Entities intend to complete the wind-down of the stores during the CCAA Proceedings. To that end, the Proposed Initial Order authorizes the Golf Town Entities, with the consent of the Proposed Monitor, if appointed, to engage a consultant in connection with the sale of inventory and property at any Excluded Locations.

49. The Golf Town APA contains certain closing conditions as set out in the Roussy Affidavit, including the execution of a transition services agreement between the Purchaser and certain Golfsmith Entities providing for the provision of certain services to the Purchaser for one year following closing.
50. It is anticipated that the Golf Town Transaction will close by October 31, 2016. If the closing does not occur by such date, the Golf Town APA provides for an adjustment to the purchase price in favour of the Golf Town Entities to take into account the net operating costs of the Golf Town Business from and after that date until closing.

Golfsmith Restructuring

51. The Roussy Affidavit sets out the material terms of the Golfsmith Restructuring which is to be implemented pursuant to a Support Agreement with the Purchaser (or their affiliates) and certain of the Golfsmith Entities. The Support Agreement contemplates the continuation of the Golfsmith Business on a going concern basis and that the Golfsmith Restructuring will be implemented by no later than February 15, 2017. Under the Support Agreement, the Golfsmith Entities would be permitted to solicit and enter into an alternative sale or restructuring transaction in respect of the Golfsmith Business. The

Golfsmith Entities intend to initiate voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code (the “**Chapter 11 Proceedings**”) in the United States Bankruptcy Court for the District of Delaware (the “**U.S. Bankruptcy Court**”).

52. As part of the DIP Facility described below, the Company has agreed to undertake a dual track sale process in the Chapter 11 Proceedings to explore the potential for an alternative transaction for the Golfsmith Business. Concurrently with these efforts, the Proposed Monitor is advised that the Company intends to advance the Golfsmith Restructuring with the Purchaser and to take steps to refinance and repay the Credit Facility Obligations in connection with the completion of the restructuring. A copy of the Support Agreement is attached as an Exhibit to the Roussy Affidavit.
53. Key terms of the Support Agreement include, among other things:
- (a) Restructured Golfsmith will operate the Golfsmith Business following a restructuring and recapitalization to be effected pursuant to the Chapter 11 Proceedings;
 - (b) the Golf Town Transaction shall have been completed;
 - (c) the refinancing of the Credit Facility with a new first-lien asset-based revolving facility for Restructured Golfsmith;
 - (d) the Secured Notes and all obligations thereunder will be cancelled in exchange for New Secured Notes and 100% of the equity in Restructured Golfsmith;
 - (e) Restructured Golfsmith will enter into a Transition Services Agreement with the Purchaser in accordance with the Golf Town APA; and

(f) the Golfsmith Restructuring will be implemented through a Chapter 11 Plan of Reorganization that is confirmed through a final order by December 23, 2016.

54. As set out above, the completion of the Golf Town Transaction is a condition to the completion of the Golfsmith Restructuring. However, the Golf Town Transaction can proceed in the event that the Golfsmith Restructuring is not completed.

55. The Proposed Monitor understands that none of the Golf Town Entities will be debtors in the Chapter 11 Proceedings and none of the Golfsmith Entities are applicants in the CCAA Proceedings. As such, the Applicants are not seeking the approval of a cross-border protocol at this time. However, as the current business is centrally managed and operated and functions such that cash management and shared services are provided by the Company to both its Canadian and U.S. entities, the Proposed Monitor intends to actively monitor the Chapter 11 Proceedings to ensure that Canadian issues are adequately addressed. In particular, the Proposed Monitor intends to ensure that there is a proper tracking and allocation of receipts and disbursements among the two estates and will report to this Honourable Court on these matters in subsequent reports.

56. The Proposed Monitor notes that the Roussy Affidavit states that the successful completion of the Golf Town Transaction and the Golfsmith Restructuring are unlikely to satisfy the obligations under the Secured Notes in full. Accordingly, the Company anticipates that there will not be value for its unsecured creditors in connection with the transactions.

F. FTI CONSULTING'S INVOLVEMENT TO DATE

57. FTI Consulting was engaged by the Applicants on August 10, 2016 to act as financial advisor and Proposed Monitor in respect of the Golf Town Entities' proposed CCAA

Proceedings. Leading up to the filing date, FTI Consulting has been involved in numerous activities, including:

- (a) participating in numerous discussions with Company Management, the Golf Town Entities' legal advisors, Jefferies and A&M in connection with the Golf Town Business and financial affairs generally, the proposed Golf Town Transaction and the Golfsmith Restructuring, and the Initial Application;
- (b) reviewing and commenting on the Company's DIP budget and the Cash Flow Forecast;
- (c) reviewing and considering various documentation and information in connection with the CCAA Proceedings, including but not limited to:
 - (i) the Company's shared service arrangements;
 - (ii) the Company's cash management system;
 - (iii) the DIP Facility;
 - (iv) the KEIP and particulars relating to the Transition Employee Plan; and
 - (v) the quantum, nature and ranking of the Proposed CCAA Charges;
- (d) engaging with Osler as its legal counsel to consider issues with respect to the foregoing, and instructing Osler to perform a security review with respect to the Credit Facility and the Secured Notes; and

- (e) preparing this Report.

The Security Opinion

58. As counsel to the Proposed Monitor, Osler has undertaken a security review with respect to the security granted by the Golf Town Entities in respect of the Credit Facility and the Secured Notes. Osler has advised the Proposed Monitor that it is of the view that, subject to the standard assumptions and qualifications typically contained in a security opinion of this nature, the security granted by the Golf Town Entities to the First Lien Agent under the Credit Facility and the security granted by the Golf Town Entities to the Second Lien Agent under the Secured Notes constitute good and valid security enforceable in accordance with their respective terms. If FTI Consulting is appointed as Monitor, Osler will deliver a formal security opinion to the Monitor shortly after the commencement of the CCAA Proceedings and the Monitor will report on the security opinion in due course.

G. CASH MANAGEMENT SYSTEM

The Company's Cash Management System

59. The Company's cash management system is managed in Austin, Texas. The cash management system allows for the separate tracking of the receipts and disbursements of the Golf Town Business and the Golfsmith Business, respectively. Generally, cash generated from the Golf Town Business is used to pay the Golf Town Business' obligations and cash generated from the Golfsmith Business is used to pay the Golfsmith Business' obligations.

60. In certain instances, cash provided by certain Golfsmith Entities is used to pay U.S. based

vendors supplying the Golf Town Business and cash provided by certain Golf Town Entities is used to pay Canadian based vendors supplying the Golfsmith Business. These scenarios give rise to corresponding intercompany receivables/payables between the Golf Town Entities and the Golfsmith Entities which are internally tracked by the Company.

Canadian Cash Management

61. Cash receipts from the Golf Town stores are deposited into a TD Bank Canadian dollar deposit account maintained by Golf Town LP (the “**Golf Town Deposit Account**”). Payroll, tax and other operating expenses are paid out of a master TD Bank Canadian dollar operating account maintained by Golf Town LP (the “**Golf Town Operating Account**”).
62. In July 2016, in accordance with a notice provided by the First Lien Agent to the Company, TD Bank and Wells Fargo (which operates a majority of the Golfsmith Entities’ U.S. bank accounts), the First Lien Agent exercised its rights pursuant to Canadian and U.S. deposit control account agreements to exercise cash dominion over certain of the Company’s Canadian and U.S. bank accounts.
63. As such, in Canada, the First Lien Agent currently exercises cash dominion over the Golf Town Deposit Account. Cash is swept on a daily basis from the Golf Town Deposit Account into a collections account maintained by the First Lien Agent. Funds from the collections account are then used to satisfy draw requests from the Golf Town Entities for operating and other expenses and to make payments under the existing Credit Facility.
64. Golf Town LP also maintains a number of additional operating accounts from which supplier expenses and other operating expenses are paid. Cash dominion is not exercised over these accounts.

65. E-commerce receipts with respect to the Golf Town Business are deposited into a Canadian TD Bank account maintained by Golfsmith International, Inc. (“**Golfsmith Inc.**”) and subsequently transferred to other TD Bank accounts maintained by the Golf Town Entities. Golfsmith Inc. also maintains a Canadian dollar account with TD Bank to facilitate payments to Canadian suppliers of the Golfsmith Business, which account is funded through transfers from other TD Bank accounts maintained by Golf Town LP (as was discussed above).

Proposed Monitor’s Comments

66. The Applicants have advised the Proposed Monitor that the current cash management system is critical to the orderly management of the Golf Town Entities’ business and affairs. As such, the Applicants are seeking to continue to operate their existing cash management system in the CCAA Proceedings. The Proposed Monitor has reviewed the documentation concerning the cash management system provided by A&M and the Applicants and supports the Applicants’ request for the continuation of the current cash management system. Further, the Proposed Monitor intends to monitor the treatment of the cash management system in the Chapter 11 Proceedings to ensure that the Golf Town Entities will have access to the system during the CCAA Proceedings.

H. INTERCOMPANY TRANSFERS AND INTERCOMPANY CHARGE

Intercompany Transfers

67. As indicated in the discussion of the Company’s shared services and existing cash management systems, the Golf Town Entities and the Golfsmith Entities currently track intercompany receivables/payables owing to one another. Such intercompany

receivables/payables arise principally due to payments owing from the Golf Town Entities to the Golfsmith Entities on account of shared service expenses and payments made by the entities in one country to domestic vendors for goods supplied to the Company's business in the other country. If appointed Monitor, the Proposed Monitor intends to review and comment on the nature and quantum of such intercompany transfers in a subsequent report submitted to the Court.

Intercompany Charge

68. To ensure that post-filing intercompany amounts owing between the Company's Canadian and U.S. entities are adequately protected during the course of the Canadian and U.S. insolvency proceedings, the Applicants are requesting that the Court grant an Intercompany Charge on the Golf Town Entities' assets, property and undertakings (the "**Golf Town Property**") to secure intercompany amounts owing from the Golf Town Entities to the Golfsmith Entities. Such amounts will constitute unaffected claims and will be paid in full. The Proposed Monitor also understands that the Golfsmith Entities intend to seek the granting of a corresponding charge by the U.S. Bankruptcy Court to secure amounts owing from the Golfsmith Entities to the Golf Town Entities.

Proposed Monitor's Comments

69. The Golf Town Entities require the continued provision of shared services from the Golfsmith Entities in order to effectively operate the Golf Town Business. The Golf Town Entities also require the continued payment by the Golfsmith Entities for certain goods supplied to the Golf Town Entities. The Intercompany Charge will allow for post-filing amounts owing from the Canadian business to the U.S. business to be adequately protected in the event that payment is not made. The Proposed Monitor notes that a corresponding

intercompany charge will be sought in the Chapter 11 Proceedings with respect to post-filing amounts owing from the Golfsmith Business to the Golf Town Business. As such, the Proposed Monitor is of the view that the Intercompany Charge is fair and reasonable in the circumstances.

70. Should the U.S. Bankruptcy Court not grant a reciprocal charge in the Chapter 11 Proceedings which is satisfactory to the Proposed Monitor, the Proposed Monitor will seek the direction of the Court with respect to any Intercompany Charge which is granted.

I. PAYMENT OF PRE-FILING AMOUNTS

71. The Proposed Initial Order provides the Golf Town Entities with the authority to pay certain specified expenses whether incurred prior to, or after, the commencement of the CCAA Proceeding. Specifically, such payments would include:
- (a) outstanding wages, salaries and other employee-related payments;
 - (b) outstanding and future contributions in respect of the Group RRSP and DPSP (which are discussed in greater detail in the Roussy Affidavit);
 - (c) fees and disbursements of Assistants (as defined in the Proposed Initial Order) retained in respect of the CCAA Proceedings;
 - (d) outstanding and future amounts in respect of Customer Programs, Customer Deposits and the honouring of gift cards; and
 - (e) with the Proposed Monitor's consent, amounts owing in respect of logistics or supply chain providers (including transportation providers and freight forwarders), providers of credit, debit, gift card or other payment processing services, and other

third party suppliers if, in the opinion of the Golf Town Entities, such payment is necessary to maintain uninterrupted operations.

Proposed Monitor's Comments

72. FTI Consulting has reviewed the Golf Town Entities' accounts payable and believes that authorizing the Golf Town Entities to pay certain pre-filing amounts as contemplated in the Proposed Initial Order, along with the oversight, and in certain instances consent, of FTI Consulting (if appointed as Monitor), is reasonable and necessary in the circumstances. Golf Town does not have its own logistics or transportation capabilities. The Proposed Monitor believes that the flexibility provided by these provisions in the Proposed Initial Order will help ensure that the Golf Town Entities will be able to receive and replenish inventory and prevent disruption to ordinary course business operations, while the Golf Town Transaction is being pursued. The control proposed by the involvement of the Proposed Monitor will also ensure that all stakeholder interests are adequately represented when the payment of pre-filing amounts is being considered on a case-by-case basis. Accordingly, the Proposed Monitor supports the Golf Town Entities' requested relief.

J. EXTENSION OF STAY OF PROCEEDINGS TO LIMITED PARTNERSHIPS

73. Although Golf Town LP and Holdings LP are not Applicants in these CCAA Proceedings, the Proposed Initial Order provides for an extension of the stay of proceedings and other benefits of the Proposed Initial Order to these limited partnerships. For the reasons set out in the Roussy Affidavit, the Proposed Monitor agrees that such an extension of the stay of proceedings is essential for the preservation of enterprise value and the successful completion of the Golf Town Transaction on a going concern basis. In particular, the

Proposed Monitor notes that Golf Town LP is the operating entity of the Golf Town Business, which business would be at risk if the benefits of the Proposed Initial Order are not extended to it.

K. CASH FLOW FORECAST

74. The Cash Flow Forecast, together with Management's report on the cash-flow statement as required by section 10(2)(b) of the CCAA, is attached as Appendix "B" to this Report. The Cash Flow Forecast covers the 7-week period for the weeks ending September 17, 2016 to October 29, 2016.

75. The Cash Flow Forecast shows cash flow from operations of \$(0.3) million, net cash outflow of \$(4.1) million, paydown of pre-filing indebtedness of \$17.1 million, and restructuring professional fees of \$2.0 million for the 7-week period from September 17, 2016 to October 29, 2016, and is summarized below:

GOLF TOWN ENTITIES	
Cash Flow and Book Cash Summary	Total (USD \$000s)
Receipts	\$ 17,095
Total Operating Disbursements	(17,358)
Cash Flow From Operations	(263)
<i>Non-Operating Disbursements:</i>	
DIP Fees and Interest	(1,239)
Professional Fees	(1,992)
Other	(563)
Total Non-Operating Disbursements	(3,793)
Net Cash Inflows / (Outflows)	\$ (4,056)
BOOK CASH	
Opening Book Cash Balance	\$ 300
Add: Receipts	17,095
Less: Pre-Petition ABL / FILO (Repayments)	(17,095)
Book Cash Available After Pre-Petition ABL / FILO Repayments	300
Less: Total Disbursements	(21,151)
Net DIP Borrowing Requirement	(20,851)
Add: DIP Borrowings / (Repayments)	20,851
Ending Book Cash Balance	\$ -

76. As shown in the Cash Flow Forecast attached as Appendix “B” to this Report and as summarized above, the Golf Town Entities, after paying down pre-filing indebtedness, will require additional funding for operations totalling approximately \$20.9 million during the period ending October 29, 2016.

77. Section 23(1)(b) of the CCAA states that the Monitor shall:

“review the company’s cash-flow statement as to its reasonableness and file a report with the court on the monitor’s findings;”

78. Pursuant to section 23(1)(b) of the CCAA and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practice 09-1, the Proposed Monitor hereby reports as follows:

- (a) The Cash Flow Forecast has been prepared by Management of the Golf Town Entities for the purpose described in notes to the Cash Flow Forecast (the “**Forecast Notes**”), using the Probable Assumptions and the Hypothetical Assumptions set out in the Forecast Notes thereof;
- (b) The Proposed Monitor’s review consisted of inquiries, analytical procedures and discussion related to information supplied by certain members of Management and employees of the Golf Town Entities. Since Hypothetical Assumptions need not be supported, the Proposed Monitor’s procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Proposed Monitor has also reviewed the support provided by Management of the Golf Town Entities for the Probable Assumptions, and the preparation and presentation of the Cash Flow Forecast;
- (c) Based on its review, nothing has come to the attention of the Proposed Monitor that causes it to believe that, in all material respects:
 - (i) The Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Forecast;
 - (ii) As at the date of this report, the Probable Assumptions developed by Management are not suitably supported and consistent with the plans of the Golf Town Entities or do not provide a reasonable basis for the Cash Flow Forecast, given the Hypothetical Assumptions; or
 - (iii) The Cash Flow Forecast does not reflect the Probable and

Hypothetical Assumptions;

- (d) Since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by the Proposed Monitor in preparing this Report; and
- (e) The Cash Flow Forecast has been prepared solely for the purpose described in the Forecast Notes and readers are cautioned that it may not be appropriate for any other purpose.

79. The borrowing base and related liquidity available to the Company is based on a consolidated borrowing base, which is summarized below:

Consolidated Golfsmith Entities and Golf Town Entities

Liquidity forecast (based on bank cash balance)
(USD, 000s)

	Week #:	2016-37	2016-38	2016-39	2016-40	2016-41	2016-42	2016-43	7 Week
	Week Ending:	9/17	9/24	10/1	10/8	10/15	10/22	10/29	Total
Net Borrowing Base		\$ 107,047	\$ 102,898	\$ 98,822	\$ 92,631	\$ 90,278	\$ 89,243	\$ 86,704	\$ 86,704
Facility Size		135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000
Maximum Borrowing Availability		107,047	102,898	98,822	92,631	90,278	89,243	86,704	86,704
Less: Pre-Petition ABL Balance (Including LCs)		82,624	70,934	60,205	50,049	39,609	30,695	22,283	22,283
Less: Pre-Petition FILO		11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250
Less: DIP ABL Balance (Including LCs)		6,855	14,964	21,920	31,147	37,685	45,254	52,025	52,025
Total ABL Balance		100,729	97,149	93,375	92,446	88,544	87,199	85,559	85,559
Excess Availability / (Over Advance)		6,318	5,749	5,447	185	1,734	2,044	1,146	1,146
Add: Bank Cash		500	500	500	500	500	500	500	500
Total Liquidity		\$ 6,818	\$ 6,249	\$ 5,947	\$ 685	\$ 2,234	\$ 2,544	\$ 1,646	\$ 1,646

80. During the forecast period, the maximum borrowing availability is expected to decline from \$107.0 million to \$86.7 million. The pre-petition ABL balance declines from \$82.6 million to \$22.3 million as a result of repayments from receipts during the forecast period. In relation to the repayments of the pre-petition ABL balance, the DIP ABL balance

increases accordingly as funds are required to pay post-petition disbursements.

81. Despite the decline in the maximum borrowing availability, total liquidity is forecast to range from \$6.8 million to \$0.7 million, which suggests the Company (including the Golf Town Entities) will have sufficient access to financing during the forecast period.

L. DIP FINANCING AND DIP LENDERS' CHARGE

DIP Solicitation Process

82. The Company's financial forecasts have identified a requirement for external funding to maintain minimum cash balances and preserve ongoing business operations while the Golf Town Transaction and the Golfsmith Restructuring are implemented. The Company, with the assistance of Jefferies, therefore solicited DIP financing proposals that would provide sufficient liquidity for the U.S. and Canadian operations. The provision of DIP financing will provide assurance to the Golf Town Entities' employees, suppliers and customers that the Golf Town Entities will have sufficient liquidity to maintain their business until a going concern sale is completed.
83. The Proposed Monitor understands that in August 2016 the Company and Jefferies sent five non-disclosure agreements to potential providers of DIP financing, not including the First Lien Agent under the pre-petition Credit Agreement. Three of the five non-disclosure agreements were executed by such parties; however, the Company and Jefferies did not receive any written DIP financing proposals from these parties. Additionally, Jefferies discussed the potential provision of DIP financing with three potential buyers of the Company under the sale process. None of these potential buyers submitted written DIP financing proposals.

84. The Roussy Affidavit states that certain potential financing sources indicated that they were not prepared to advance a DIP proposal given their assessment that the First Lien Lenders were unlikely to support a third party interim financing proposal that would rank in priority to the Credit Facility.
85. Following its DIP solicitation process, the Company received one written proposal for DIP financing. The DIP proposal was provided by the First Lien Agent on behalf of the First Lien Lenders under the Credit Agreement.

The DIP Facility

86. The Proposed Initial Order seeks this Honourable Court's approval of the DIP Agreement substantially in the form attached as an Exhibit to the Roussy Affidavit and the granting of a DIP Lenders' Charge with respect to the DIP Facility obligations (which DIP Lenders' Charge shall not secure pre-petition obligations).
87. The terms of the DIP Facility as at the time of this Report are summarized in the table below. The Proposed Monitor understands that the Company and the First Lien Agent are still negotiating the final form of DIP Agreement, and in particular, the milestones contained therein have not yet been agreed. The Monitor will report on the final DIP Agreement in a subsequent report.
88. Unless otherwise defined herein, terms capitalized in the table have the same meaning ascribed in the DIP Facility. A more detailed description of the DIP Facility is provided in the Roussy Affidavit.

<i>Golf Town and Golfsmith Summary of DIP Facility Terms</i>	
Total Availability	The lesser of (a) \$135,000,000 and (b) a borrowing base calculated based on the eligible accounts, inventory and real estate of the Company on a consolidated basis, less any reserves established by the Agent (which include reserves for the Proposed CCAA Charges that are priming the DIP Facility and for amounts owing under the Pre-Petition Credit Agreement).
Effective Date	After the DIP Facility has been approved by the Court and the U.S. Bankruptcy Court and all other Conditions Precedent have been satisfied or waived.
Conditions Precedent	(i) Agent to have received all executed loan documents; (ii) OMERS LC to have been reissued or amended; (iii) Agent to have received certain financial statements and reports; (iv) Agent to have received certain corporate, borrowing base and good standing certificates; (v) no Material Adverse Effects have occurred and no Event of Default has occurred; (vi) representations and warranties are true and correct; (vii) Agent to have received and approved an Approved Budget setting out cash revenues, receipts, expenses and disbursements for a 13 week period; and (viii) general Chapter 11 and CCAA conditions precedent.
Purposed/Permitted Payments	Payments to be made in accordance with the Approved Budget, subject to permitted variances.
Cash Management	Agent can transfer daily receipts from Control Accounts to a Concentration Account (this is also done under the current cash management system).
Key Milestones	Presently include: (i) obtain Court approval of the Golf Town Transaction on or prior to October 4, 2016; (ii) with the prior approval of the U.S Bankruptcy Court, the Golfsmith Entities shall commence a process to liquidate certain underperforming stores, which process shall be completed by October 28, 2016; (iii) the Golfsmith Entities shall have received U.S. Bankruptcy Court approval by October 4, 2016 to conduct concurrent sale processes to solicit bids relating to the sale of the Golfsmith Business as a going concern and the liquidation of its retail stores; (iv) the Golfsmith Entities shall receive approval from the U.S. Bankruptcy Court by October 28, 2016 for the Golfsmith Sale and the Golfsmith Liquidation (as a back-up in the event a sale cannot be completed); and (v) by October 30, 2016, definitive documents shall have been entered into with respect to the Golfsmith Sale and/or the Golfsmith Liquidation and that the aggregate proceeds from such transaction(s) shall be sufficient to repay in full the DIP Facility obligations and the Credit Facility Obligations or such obligations shall have been refinanced in full in cash.
Events of Default	Include: (i) failure to pay principal when such payments come due or interest within three days of such interest coming due; (ii) breach of representations, warranties or covenants; (iii) the failure of the Debtors to comply with the Milestones; (iv) the conversion of the Chapter 11 proceedings to Chapter 7 proceedings or the conversion of the CCAA proceedings to proceedings under the <i>Bankruptcy and Insolvency Act</i> (Canada); (v) the appointment of a receiver and manager, receiver, interim receiver or similar official over all or any substantial portion of the assets of any Debtor; (vi) the granting of any lien or charge that is <i>parri passu</i> with or senior to the liens securing the DIP Obligations (other than liens or charges securing the obligations under the Credit Facility or charges created pursuant to the Initial Order); and (vii) the granting of any order

	by the Court or the U.S. Bankruptcy Court materially affecting the rights and interests of the DIP Agent or the DIP Lenders without the prior written consent of the DIP Agent.
Interest	Interest Rate per annum varies by funding type and base interest type. Loans: <ul style="list-style-type: none"> • LIBOR + 2.25% • BA Rate + 2.25% • Base Rate + 1.25% • Canadian Prime + 1.25% Letters of Credit: Applicable Rate + 2.25%
Fees	Agent's Fee: As agreed to in the Fee Letter. Unused Commitment Fee: 0.375% x (\$135,000,000 – previous month average DIP advances outstanding), paid monthly. Letter of Credit Fee: 2.25% per annum x the face amount of such letter of credit, paid monthly. Closing Fee: 1.75% x maximum availability of \$135,000,000 paid to the DIP Agent on the Closing Date for the account of each DIP lender. Administrative Fee: \$75,000 paid on the Closing Date.
Security	All existing and after-acquired personal and real property of the Borrower and a super-priority charge.
Maturity	Earliest of (a) six months from the closing of the DIP Facility, and (b) when the Revolving Loan Commitment terminates under the provisions of the Agreement.
DIP Lender's Charge	Agent's super-priority charge is subordinate only to the Administration Charge and the Priority Directors' Charge.

89. Each of the borrowers and guarantors under the Credit Agreement are borrowers and guarantors under the DIP Facility. As is the case under the Credit Agreement, the DIP Facility is provided to both the Golf Town Entities and the Golfsmith Entities on a consolidated basis. The borrowing base under the DIP Facility is calculated by reference to the Company's consolidated assets.

90. The DIP Facility requires that the Company pay down the pre-filing Credit Facility through a sweeping mechanism whereby the Company's gross post-filing operating receipts will be swept through the blocked Golf Town Deposit Account and applied towards the pre-filing Credit Facility consistent with the pre-filing practices under the current cash

dominion system. Proceeds from the sale of collateral securing the pre-petition Credit Facility are also required to be used to repay the Credit Facility Obligations. Funds advanced under the DIP Facility will be used to pay post-filing operating and other Company costs during the period that the Credit Facility Obligations are repaid through the First Lien Agent's continued dominion over the blocked Golf Town Deposit Account and the corresponding cash sweep into the First Lien Agent's concentration account.

91. The DIP Facility expressly prohibits the use of DIP funds to repay pre-petition indebtedness, including the Credit Facility Obligations, unless otherwise authorized by a Canadian or U.S. insolvency court. The Proposed Monitor understands that funds from the DIP Facility will not be used to repay pre-petition principal, interest or fees on the Credit Facility Obligations.
92. As indicated in the Roussy Affidavit, the continued repayment of the Credit Facility Obligations from the Company's operational and sale proceeds maintains the existing priorities among the Company's First Lien Lenders and the holders of the second-lien Secured Notes pursuant to the Intercreditor Agreement. Further, in the Intercreditor Agreement, the holders of the Secured Notes have agreed to be primed by a DIP Facility provided by the First Lien Lenders in any Company insolvency proceeding. Moreover, the total obligations under the DIP Facility that are proposed to rank ahead of the holders of the Secured Notes do not exceed the "Maximum Priority Amount" set out in the Intercreditor Agreement.

DIP Lenders' Charge

93. The DIP Facility is proposed to be secured by the DIP Lender's Charge, which will secure all post-filing advances. The DIP Lenders' Charge is proposed to rank behind the

Administration Charge of CDN\$1.6 million and the Priority Directors' Charge of CDN\$3.7 million and ahead of the Directors' Charge of CDN\$3 million, the KEIP Guarantee Charge of US\$1,803,750 million, the Transition Employee Charge of CDN\$80,000, the Financial Advisor Charge of US\$1,062,500 and the Intercompany Charge.

Proposed Monitor's Comments on the Proposed DIP Facility

94. The Proposed Monitor and its counsel have engaged in discussions with the Company, its advisors and counsel and Canadian counsel for the DIP Agent regarding the Company's funding requirements for its cross-border insolvency proceedings and the proposed DIP Facility. In the paragraphs below, the Proposed Monitor highlights for the Court's consideration certain issues with respect to the DIP Facility, being: (i) the consolidated borrowing base and its potential impact on availability of funds for the Golf Town Entities; (ii) the requirement to immediately pay-down the pre-filing Credit Facility Obligations through the application of post-filing receipts and asset sale proceeds; (iii) the application of the closing fee to the entire \$135 million amount under the DIP Facility; and (iv) the milestones, in particular, the requirement that all pre-filing and post-filing advances be repaid no later than October 31, 2016.

95. First, the Proposed Monitor notes that, with respect to the consolidated borrowing base, the Company has the ability to effectively track draws and pay-downs between these entities under its financing arrangements. If appointed as Monitor, FTI Consulting intends to closely monitor the use of cash advances under the DIP Facility in both the CCAA Proceedings and the Chapter 11 Proceedings to ensure that DIP obligations are being properly allocated. The Proposed Monitor will also monitor cash flow and availability in the two proceedings in order to identify in advance circumstances under which the Golf

Town Entities would have insufficient funding.

96. Second, with respect to the fact that the DIP Facility requires an immediate pay-down of Credit Facility Obligations from receipts and asset sales, the Proposed Monitor notes that the DIP Facility continues the practice under the Credit Agreement. However, the issue is one of fairness and allocation between the Canadian and the U.S. estates. At present, there is no mechanism for a reconciliation between the two estates to review and consider relative treatment of similarly situated creditors of the Canadian and the U.S. estates.
97. Third, the Proposed Monitor has expressed its view to the Company and Canadian counsel for the DIP Agent that a closing fee should not be calculated with reference to the maximum availability of \$135 million and would more appropriately be calculated upon incremental funding under the DIP Facility.
98. The Proposed Monitor has considered the interest rate and the fees under the DIP Facility relative to other DIP facilities in Canadian restructuring proceedings. As of today's date, the Proposed Monitor notes that the current interest rate is approximately 5% which remains subject to change due to fluctuations in the underlying bank rates. The Proposed Monitor's view is that the interest rate, when viewed in isolation, is reasonable in the circumstances.
99. The DIP Facility charges commitment and unused commitment fees based on the Maximum Amount. The Company proposes to allocate 40% of such fees to the Canadian estate, which when combined with the interest payable results in an imputed interest rate for the period from September 14 to October 31, 2016 of approximately 20%. Such rate is not inconsistent with the pricing of similar CCAA DIP facilities.

100. The DIP Facility only provides the Golf Town Entities with liquidity until October 31, 2016. The Company will need to close the Golf Town Transaction by that date in order to satisfy that requirement. The Roussy Affidavit states that if the Golf Town Transaction is not completed by October 31, 2016 or the cash needs of the Business exceed the amounts projected in the Cash Flow Forecast, the Company could experience liquidity challenges at that time. To date, the Company has been unable to secure a commitment from the DIP Lenders to permit temporary enhanced availability under the DIP Facility in the event that the Golf Town Transaction is not completed by October 31, 2016. The Proposed Monitor will closely monitor the Golf Town Entities' liquidity situation in light of the requirement of the DIP Facility.
101. In addition, the Monitor notes that there are other milestones in the Chapter 11 Proceedings that, if not met, would create an Event of Default under the DIP Facility to the detriment of the Golf Town Entities.
102. The Proposed Monitor is of the view that the Company and Jefferies sufficiently canvassed the market with respect to the provision of DIP financing for the Company. The Proposed Monitor also notes that the DIP proposal will not require the alteration of the Company's bank accounts or cash management systems and that the First Lien Lenders are already familiar with the Company's business and financial profile.
103. The Proposed Monitor also notes that the First Lien Agent has exercised cash dominion over the Company's operating receipts. As a consequence, the Golf Town Entities do not currently have access to liquidity to discharge their financial obligations. The Golf Town Entities cannot continue to operate without the support of the First Lien Lenders. The DIP Lenders have only agreed to provide the Company with access to DIP funds if the DIP

Facility is approved in its current form as a short-term bridge to complete the Golf Town Transaction.

104. The Proposed Monitor has been advised by the Golf Town Entities and their advisors that the DIP Facility is the only realistic financing alternative, given their deteriorating financial situation and the First Lien Lenders' position in the capital structure. Moreover, the Company's total projected borrowings under both the Credit Agreement and the DIP Facility are forecast to decline during the period to October 31, 2016 and in any event, at no time are forecast to exceed the Maximum Priority Amount contemplated under the Intercreditor Agreement. As such, the DIP Facility will not result in a greater level of secured debt than what was provided for under the pre-filing Credit Facility.
105. The Proposed Monitor further understands that the Golfsmith Entities will be seeking the approval of the DIP Facility in the Chapter 11 Proceedings.
106. On balance, the Proposed Monitor supports the Applicants' request that the Court approve the DIP Facility. In arriving at this conclusion, the Proposed Monitor considered: (i) the facts and circumstances giving rise to the proposed CCAA Proceedings; (ii) section 11.2(4) of the CCAA; (iii) the fact that the DIP Facility is the only realistic source of funding available given the urgency of the proposed filing, the prominent position of the First Lien Lenders in the Company's capital structure (i.e., ranking ahead of the second-lien holders of Secured Notes and unsecured creditors) and the minimal level of existing cash on hand; (iv) that the DIP Facility allows the Golf Town Entities to pursue the Golf Town Transaction, and (v) the interests of the Golf Town Entities' stakeholders, including the Purchaser as holders of second-lien Secured Notes, who has entered into the Golf Town APA and been made aware of the DIP Facility prior to the filing date. Further, the Monitor

is informed by counsel to the Applicants that the Second Lien Agent has been provided advance notice of the Initial Application.

107. In supporting the approval of the DIP Facility and the related DIP Lenders' Charge, the Proposed Monitor is aware that s. 11.2(1) of the CCAA prohibits the DIP Lenders' Charge from securing an obligation that exists before the requested order is made. The Proposed Monitor, having consulted with its counsel, is of the view that since the pre-filing Credit Facility is being reduced by the use of the Golf Town Entities' cash generated from its business, and not from the DIP Facility itself, the DIP Lenders' Charge is only securing advances made post-filing under the DIP Facility. Further, the DIP Agreement specifically prohibits the use of DIP advances to repay pre-filing obligations.

M. KEIP AND KEIP CHARGE

KEIP

108. As described in the Roussy Affidavit, in connection with the commencement of the Company's sale process in June 2016, the Company identified four senior management employees who provide important management services to the Golf Town Entities pursuant to the shared services arrangements (the "**Key Management Employees**") and are critical to the consummation of a sale or restructuring transaction. The Key Management Employees are employed by GS Holdings (a Golfsmith Entity); however, the Key Management Employees have significant knowledge and responsibility with respect to the Golf Town Entities and aid in their strategic direction. Certain Key Management Employees are also officers of the Golf Town Entities. Their continued active engagement during the Golf Town Transaction is crucial to the successful closing of same.
109. The Key Management Employees executed KEIP letters in June 2016 with GS Holdings

(which are attached as a confidential Exhibit to the Roussy Affidavit) providing for a maximum aggregate incentive payment of \$1,803,750. Each of these KEIP obligations are guaranteed by GT Canada and Golf Town LP (the “**KEIP Guarantee**”). The Proposed Initial Order seeks the Court’s approval of the KEIP Guarantee.

110. Each of the KEIP letters provide that the Key Management Employees are entitled to a KEIP incentive payment upon: (i) the implementation of a CCAA plan of arrangement and/or a Chapter 11 plan of reorganization of the Company; or (ii) the completion of a sale of substantially all of the business or assets of the Company, whether pursuant to, or through a combination of, a third party sale, a liquidation or otherwise (a “**Restructuring Transaction**”). Pursuant to the terms of the KEIP letters, if a Key Management Employee is terminated without cause prior to a Restructuring Transaction, he/she is entitled to receive a KEIP payment upon the occurrence of the Restructuring Transaction; if a Key Management Employee is terminated with cause or resigns prior to the occurrence of a Restructuring Transaction, he/she is not entitled to receive a KEIP payment.

KEIP Guarantee Charge

111. The Proposed Initial Order contains a KEIP Guarantee Charge in the amount of \$1,803,750 to secure GT Canada’s and Golf Town LP’s guarantee obligations to the Key Management Employees under the KEIP letters.

Proposed Monitor’s Comments

112. The terms contained in the KEIP letters and the quantum of KEIP payments to be received by Key Management Employees upon a Restructuring Transaction are similar to other Key Employee Incentive Plans that have been approved by this Honourable Court in the past.

Additionally, the Key Management Employees play a significant role in directing the strategic direction of the Golf Town Entities and, as such, the Proposed Monitor is of the view that GT Canada's and Golf Town LP's respective guarantees of the entire KEIP amount is commercially reasonable.

113. The Proposed Monitor also supports the granting of the KEIP Guarantee Charge to secure GT Canada's and Golf Town LP's KEIP Guarantee. However, if appointed, the Proposed Monitor intends to consider whether any payment by the Golf Town Entities under the KEIP Guarantee should be taken into account as part of an ultimate reconciliation between the U.S. and Canadian estates.

N. TRANSITION EMPLOYEE PLAN AND TRANSITION EMPLOYEE CHARGE

114. As there is a significant risk that certain employees of the Golf Town Entities (the "Transition Employees") may discontinue their employment prior to the completion of the Golf Town Transaction and the orderly liquidation and closure of any Excluded Locations, the Proposed Initial Order seeks the approval of a Transition Employee Plan to make aggregate incentive payments up to CDN\$80,000 with respect to the Transition Employees.
115. Pursuant to the terms of the Transition Employee Plan, the Golf Town Entities, with the Monitor's consent, will designate the Transition Employees. The Transition Employees will mainly consist of store-level managers and certain other employees who will aid in transitioning stores to the Purchaser or winding-down closing stores. The Transition Employee Plan is described in more detail in the Roussy Affidavit.

116. The Golf Town Entities have advised that the Transition Employee Plan is a critical component in ensuring the continued cooperation and support of the Transition Employees from the filing date until the completion of the Golf Town Transaction and the wind-down of the Excluded Locations.

Transition Employee Charge

117. The Golf Town Entities are seeking the approval of a Transition Employee Charge in the amount of CDN\$80,000 to secure payments in favour of the Transition Employees under the Transition Employee Plan.

Proposed Monitor's Comments

118. The Proposed Monitor has discussed the terms of the Transition Employee Plan with management of the Golf Town Entities and is aware of its general terms. The Proposed Monitor agrees with the Golf Town Entities' conclusion that the Transition Employee Plan is a critical component in incentivizing certain Transition Employees to aid in the consummation of the Golf Town Transaction and the wind-down of the Excluded Locations. The Proposed Monitor also notes that in the context of the Golf Town Entities' capital structure, the quantum of the Transition Employee Charge is *de minimus*. As such, the Proposed Monitor supports the Applicants' request that the Court approve the Transition Employee Plan and the corresponding Transition Employee Charge.

O. ADMINISTRATION CHARGE AND FINANCIAL ADVISOR CHARGE

119. The Proposed Monitor has worked with A&M in connection with estimating the fees and costs of the proposed beneficiaries of the Administration Charge during the CCAA

Proceedings. The Proposed Initial Order provides for a CDN\$1.6 million Administration Charge on the Golf Town Entities' assets to secure the fees and disbursements incurred in connection with services rendered to the Golf Town Entities both before and after the commencement of the CCAA Proceedings by counsel to the Golf Town Entities, the Proposed Monitor and its counsel and A&M. The Proposed Initial Order provides that Jefferies' monthly work fee will be secured by the Administration Charge and the portion of Jefferies' transaction fee allocated to Canada will be secured by the Financial Advisor Charge in the maximum amount of \$1,062,500.

Proposed Monitor's Comments

120. The Proposed Monitor is of the view that given the anticipated amount of time it will take to complete the Golf Town Transaction and the CCAA Proceedings, both the size of the Administration Charge and the list of recipients entitled to the benefit of the Administration Charge is fair and reasonable in the circumstances and that the Financial Advisor Charge is also appropriate in the circumstances. As such, the Proposed Monitor supports the Applicants' request that the Court approve the Administration Charge and the Financial Advisor Charge.

P. DIRECTORS' CHARGES

121. The Proposed Monitor understands that the Company maintains a CDN\$5 million directors and officers insurance policy with Travellers Insurance Company of Canada that expires on November 15, 2016 (the ("**D&O Insurance Policy**"). The D&O Insurance Policy also insures the directors and officers of the Golfsmith Entities. The Proposed Monitor further understands that the D&O Insurance Policy contains several exclusions and limitations to

the coverage provided by such policy, and as such, there is a potential for there to be insufficient coverage in respect of the potential directors' and officers' liabilities for which they may be found to be responsible.

122. The Proposed Monitor has worked with A&M in estimating the potential liabilities that the directors and officers of the Golf Town Entities may experience in their capacities as directors and officers under provincial and federal legislation during the CCAA Proceedings. Accordingly, the Proposed Initial Order provides for a CDN\$3.7 million charge over the Golf Town Property to secure the indemnity provided to the directors and officers of the Golf Town Entities and Holdings GP (the “**Directors and Officers**”) in respect of liabilities they may incur after the filing date in their capacity as directors and officers with respect to any failure to pay wages and source deductions, vacation pay, severance and termination amounts, other employee related obligations and Sales Taxes (as defined in the Proposed Initial Order) (the “**Priority Directors’ Charge**”). The Priority Directors’ Charge is proposed to rank behind the Administration Charge and ahead of the other Proposed CCAA Charges.

123. The Proposed Initial Order also provides for a charge on the Golf Town Property in an amount of CDN\$3 million to secure the indemnity provided to the Directors and Officers in respect of liabilities they may incur during the CCAA Proceedings in their capacity as directors and officers (the “**Directors’ Charge**”, and together with the Priority Directors’ Charge, the “**Directors’ Charges**”). The Directors’ Charge is proposed to rank behind the Administration Charge, the Priority Directors’ Charge and the DIP Lenders’ Charge, and ahead of the remaining Proposed CCAA Charges.

124. The Directors’ Charges are meant to protect the Directors and Officers against obligations

and liabilities that they may incur as directors and officers of the Golf Town Entities after the commencement of the CCAA Proceeding, except to the extent that obligations or liabilities are incurred as a result of a Director's or Officer's gross negligence or wilful misconduct. The benefit of the Directors' Charges will only be available to the extent that an applicable liability is not covered under the D&O Insurance Policy, or to the extent that such coverage is insufficient.

Proposed Monitor's Comments

125. It is the Proposed Monitor's view that the continued support and service of the Golf Town Entities' and Holdings GP's Directors and Officers during the CCAA Proceedings is essential to the Golf Town Entities' efforts to preserve value and maximize recoveries for stakeholders through the completion of the Golf Town Transaction. The Proposed Monitor has been informed that the Directors and Officers will not continue to serve unless the Directors' Charges are granted. Accordingly, the Proposed Monitor is of the view that the granting of the Directors' Charges is fair and reasonable in the circumstances.

Q. APPROVAL OF THE ENGAGEMENT OF A&M, JEFFERIES AND THE CRO

126. Since 2014, A&M has been actively involved in assisting the Company with its operational and strategic review and has played a crucial role in the Company's restructuring efforts to date. Similarly, since the commencement of the Company's sale process in June 2016, Jefferies has played a pivotal role in driving deal negotiations with various stakeholders, resulting in the execution of the Golf Town APA and the Support Agreement. The Proposed Monitor has had various discussions with A&M and Jefferies, both of whom have provided the Proposed Monitor with critical financial and other information including

information with respect to the Company's prior restructuring initiatives and the sale process. The Proposed Monitor also understands that the A&M engagement letter provides for the appointment of Brian Cejka as the CRO of the Golf Town Entities. The Roussy Affidavit contains additional information with respect to A&M's and Jefferies' engagement letters.

Proposed Monitor's Comments

127. The Proposed Monitor believes that the continued involvement of both A&M and Jefferies is required and appropriate in order to consummate the Golf Town Transaction in the CCAA Proceedings. The Proposed Monitor has reviewed the A&M and Jefferies engagement letters and believes that the approval of these engagement letters, including the appointment of Brian Cejka as CRO of the Golf Town Entities, is fair and reasonable in the circumstances. As part of this review, the Proposed Monitor has specifically reviewed the compensation arrangements between A&M and Jefferies and the Company. Based on the nature of this restructuring and the Proposed Monitor's knowledge of advisor compensation arrangements in CCAA and Chapter 11 Proceedings, the Proposed Monitor believes that the compensation arrangements are appropriate. As such, the Proposed Monitor supports the Applicants' request that the Court approve both the A&M and Jefferies engagement letters. If appointed, the Proposed Monitor intends to review the allocation of the A&M and Jefferies fees as between the U.S. and Canadian estates.

R. FINAL CONCLUSIONS AND RECOMMENDATION

128. The Roussy Affidavit states that the Golf Town Entities are insolvent. Since 2014, the Company has made significant efforts to implement various out-of-court restructuring

initiatives to enhance its EBITDA and profitability. These attempts have not been successful and the Company has determined that co-ordinated cross border insolvency proceedings have the best chance to maintain going concern operations and preserve enterprise value.

129. The Company, with the assistance of its advisors, ran a comprehensive sale process. The sale process resulted in several proposed transactions being advanced by various bidders. The Company, with the assistance of Jefferies, determined that the Golf Town Transaction and the Support Agreement provide the Company with the best opportunity to maximize value for both the Golf Town Business and the Golfsmith Business. The CCAA Proceedings are an important component to achieving stability for the Business as a whole.
130. If the Proposed Initial Order is granted and the Proposed Monitor is appointed as Monitor, a detailed report on the Golf Town Transaction will be provided by the Monitor in conjunction with the Applicants' upcoming proposed motion for approval of the Golf Town Transaction.
131. Given the foregoing, the Monitor is of the view that the CCAA Proceedings will provide the Golf Town Entities with the necessary stability and the best opportunity to implement the Golf Town Transaction and continue as a going concern for the benefit of their stakeholders. The Proposed Monitor therefore respectfully recommends that the Court approve the Proposed Initial Order.

The Proposed Monitor respectfully submits to the Court this, its Pre-Filing Report.

Dated this 13th day of September, 2016.

FTI Consulting Canada Inc.

In its capacity as Proposed Monitor of

Golf Town Canada Holdings Inc., Golf Town Canada Inc. and Golf Town GP II Inc.

A handwritten signature in black ink, appearing to read "Paul Bishop", written over a faint horizontal line.

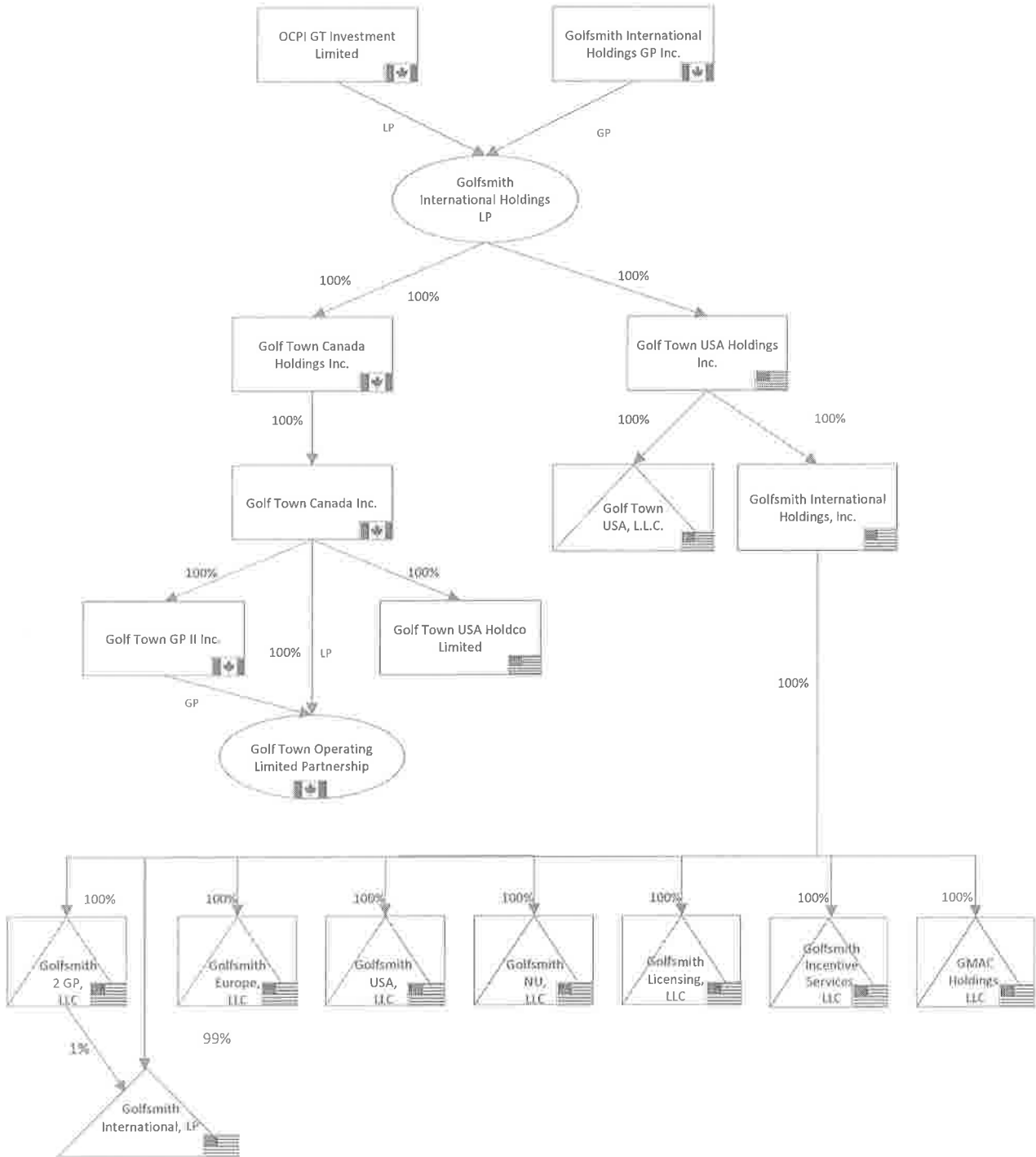
Paul Bishop

Senior Managing Director

APPENDIX "A": CORPORATE CHART

(see attached)

Golf Town and Golfsmith Simplified Organizational Chart



APPENDIX "B": GOLF TOWN ENTITIES CASH FLOW FORECAST

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
GOLF TOWN CANADA HOLDINGS INC., GOLFSMITH INTERNATIONAL HOLDINGS
L.P., and GOLF TOWN GP II Inc. (collectively, the "**Applicants**")

September 13, 2016

REPORT ON CASH FLOW STATEMENT
(paragraph 10.2(b) of the CCAA)

The management of the Applicants has developed the assumptions and prepared the attached statement of projected cash flow dated September 12, 2016, consisting of a 7-week cash flow forecast for weeks ending from September 17, 2016 to October 29, 2016 (the "**Cash Flow Forecast**").

The hypothetical assumptions are reasonable and consistent with the purpose of the projections as described in the notes to the Cash Flow Forecast (the "**Forecast Notes**"), and the probable assumptions are suitably supported and consistent with the plans of the Applicants and provide a reasonable basis for the Cash Flow Forecast. All such assumptions are disclosed in the Forecast Notes.

Since the Cash Flow Forecast is based on future events, actual results will vary from the information presented and the variations may be material.

The Forecast has been prepared solely for the purpose outlined in the Forecast Notes, using the probably and hypothetical assumptions as set out in the Forecast Notes. Consequently readers are cautioned that the Cash Flow Forecast may not be suitable for other purposes.

Dated at Toronto, Ontario this 13th day of September, 2016.



Brian Cejka
Chief Restructuring Officer

Golf Town Canada Inc.
Golf Town Canada Holdings Inc.
Golfsmith International Holdings LP

Golf Town Entities

Cash Flow Forecast (USD, 000s)

	Week #:	2016-37	2016-38	2016-39	2016-40	2016-41	2016-42	2016-43	7 Week	
	Week Ending:	9/17	9/24	10/1	10/8	10/15	10/22	10/29	Total	
Receipts	Notes									
	2	A \$ 3,769	\$ 2,949	\$ 2,517	\$ 2,302	\$ 2,031	\$ 1,774	\$ 1,753	\$ 17,095	
Operating Disbursements										
Merchandise and Freight	3	(662)	(1,191)	(787)	(636)	(1,266)	(1,598)	(1,504)	(7,643)	
Employee Costs	4	-	-	(893)	-	(832)	-	(832)	(2,556)	
Rent and Other Operating Costs	5	(1,415)	(83)	(1,135)	(47)	(1,203)	(147)	(1,203)	(5,232)	
Sales Tax	6	(443)	(1,243)	(200)	-	-	-	-	(1,887)	
Capex and Maintenance	7	(5)	(5)	(5)	(6)	(6)	(6)	(6)	(40)	
Total Operating Disbursements		B \$ (2,525)	\$ (2,522)	\$ (3,020)	\$ (688)	\$ (3,306)	\$ (1,752)	\$ (3,545)	\$ (17,358)	
Non-Operating Disbursements										
DIP Fees and Interest	8	(1,020)	(43)	(40)	(38)	(35)	(32)	(31)	(1,239)	
Third-Party Deposits	9	(563)	-	-	-	-	-	-	(563)	
Professional Fees	10	(720)	-	-	(646)	-	(625)	-	(1,992)	
KEIP	11	-	-	-	-	-	-	-	-	
Total Non-Operating Disbursements		C \$ (2,303)	\$ (43)	\$ (40)	\$ (684)	\$ (35)	\$ (657)	\$ (31)	\$ (3,793)	
Total Disbursements		D=B+C	\$ (4,828)	\$ (2,565)	\$ (3,059)	\$ (1,373)	\$ (3,341)	\$ (2,409)	\$ (3,575)	\$ (21,151)
Net Cash Inflows / (Outflows)		A - D	\$ (1,059)	\$ 384	\$ (543)	\$ 929	\$ (1,310)	\$ (635)	\$ (1,822)	\$ (4,056)
Book Cash										
Opening Book Cash Balance			300	-	-	-	-	-	300	
Add: Receipts		A	3,769	2,949	2,517	2,302	2,031	1,774	1,753	17,095
Less: Pre-Petition ABL / FILO (Repayments)	12		(3,769)	(2,949)	(2,517)	(2,302)	(2,031)	(1,774)	(1,753)	(17,095)
Book Cash Available After Pre-Petition ABL / FILO Repayments			300	-	-	-	-	-	-	300
Less: Total Disbursements		D	(4,828)	(2,565)	(3,059)	(1,373)	(3,341)	(2,409)	(3,575)	(21,151)
Net DIP Borrowing Requirement			(4,528)	(2,565)	(3,059)	(1,373)	(3,341)	(2,409)	(3,575)	(20,851)
Add: DIP Borrowings / (Repayments)	13		4,528	2,565	3,059	1,373	3,341	2,409	3,575	20,851
Ending Book Cash Balance			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



September 13, 2016

FTI Consulting Canada Inc.
79 Wellington Street West | Suite 2010
Toronto, Ontario, M5K 1G8

Dear Sirs,

Re: Proceedings under the *Companies' Creditors Arrangement Act* ("CCAA") for Golf Town Canada Inc., Golf Town Canada Holdings Inc., and Golf Town GP II Inc. (collectively, "Golf Town" or the "Company"), Responsibilities/Obligations and Disclosure with Respect to Cash-flow Projections

In connection with the application by the Company, for the commencement of proceedings under the CCAA in respect of the Company, the management of the Company ("Management") has prepared the attached cash-flow statement and the assumptions on which the cash-flow statement is based.

The Company confirms that:

1. the cash-flow statement and the underlying assumptions are the responsibility of the Company;
2. all material information relevant to the cash-flow statement and to the underlying assumptions has been made available to FTI Consulting Canada Inc. in its capacity as Monitor ("FTI"); and
3. Management has taken all actions that it considers necessary to ensure:
 - a. That the individual assumptions underlying the cash-flow statement are appropriate in the circumstances; and
 - b. That the assumptions underlying the cash-flow statement, taken as a whole, are appropriate in the circumstances.
 - c. That all relevant assumptions have been properly presented in the cash-flow statement or in the notes accompanying the cash-flow statement.
4. Management understands and agrees that the determination of what constitutes a material adverse change in the projected cash flow or financial circumstances, for the purposes of our monitoring the ongoing activities of the Company, is ultimately at your sole discretion, notwithstanding that Management may disagree with such determination.

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5. Management understands its duties and obligations under the CCAA and that a breach of these duties and obligations could make the Management liable to fines and imprisonment in certain circumstances.

6. The cash-flow statement and assumptions have been reviewed and approved by the Company's board of directors or Management has been duly authorized by the Company's board of directors to prepare and approve the cash-flow assumptions.

Yours truly,

A handwritten signature in black ink, appearing to read "B. Cejka", written over a faint, circular watermark or background.

Name: Brian Cejka

Title: Chief Restructuring Officer

All for the Game®

GOLF TOWN ENTITIES CASH FLOW FORECAST NOTES AND SUMMARY OF ASSUMPTIONS

In the Matter of the CCAA Proceedings of Golf Town Canada Holdings Inc., Golf Town Canada Inc., and Golf Town GP II Inc. (collectively, the “Applicants” or “Golf Town Entities”).

Disclaimer

In preparing this cash flow forecast (the “**Cash Flow Forecast**”), the Company has relied upon unaudited financial information and has not attempted to further verify the accuracy or completeness of such information. The Cash Flow Forecast includes assumptions discussed below with respect to the requirements and impact of a filing under the Companies’ Creditors Arrangement Act (“CCAA”). Since the Cash Flow Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Cash Flow Forecast period will vary from the Cash Flow Forecast, even if the assumptions materialize, and such variations may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized.

Overview

The Company, with the assistance of A&M, the CRO, and the Monitor, has prepared the Cash Flow Forecast based primarily on historical results and Management’s current expectations for operations during the 7-week forecast period. The Cash Flow Forecast is presented in thousands of US dollars.

Assumptions to Golf Town Entities Cash Flow Forecast:

1. The purpose of this cash flow forecast is to determine the liquidity requirements of the Golf Town Entities during the 7-week period for the weeks ending from September 17, 2016 to October 29, 2016.
2. Receipts include product sales net of credit card and processing fees, and include sales tax collections. Product sales include sales from all in-store and e-commerce sales of merchandise and gift cards, net of returns and discounts. Forecast product sales amounts are based on historical sales patterns on a weekly basis, accounting for seasonal cyclicality in the Canadian market. Sales tax collections are based on a blended average sales tax rate for all in-store sales and all e-commerce sales across Canada. Payments for sales tax are forecast to be made one month in arrears for the prior month’s collections. Credit card and processing fees are forecast at 1.5% of all credit in-store sales, and 2.3% of all e-commerce sales.
3. Merchandise and Freight include payments to vendors based on forecast purchasing requirements, and amounts include sales taxes paid. Freight includes costs associated with all outbound shipping for e-commerce customers, inbound from all vendors, and other transportation related costs.
4. Employee costs include all corporate and store related payroll, benefits, employer/employee taxes, and store employee commissions (paid quarterly).
5. Rent and other operating costs includes payments to landlords, common area maintenance

(CAM), sales tax, utilities, maintenance, advertising, marketing, and other operating costs.

6. Sales taxes reflects the net PST, HST, and GST amounts remitted (collected) to (from) the provinces and federal governments in lieu of prior month's activity. Payments are generally made one month in arrears for the prior month's collections.
7. Capex and maintenance is an estimate for capital spending required to maintain the stores in the normal course.
8. DIP fees and interest include all payments regarding the Golf Town Entities borrowings during the forecast period including a commitment fee, an unused commitment fee, a letter of credit fee, and an administration fee.
9. Third-party deposits, if required, are payable to utility providers in relation to the supply of services at the stores and corporate offices.
10. Professional fees include fees of consultants, advisors, and lawyers involved in the CCAA Proceedings.
11. KEIP payments are not expected to be paid within the forecast period.
12. Pre-petition ABL / FILO repayments represent the forecast repayment amount based on receipts in accordance with the terms of the DIP Facility. Even though receipts deposited into the GTW Bank Account are excluded from the required pre-filing ABL / FILO repayments as noted in this Report, Management has assumed for the purposes of this Cash Flow Forecast that receipts collected by the GTW Bank Account will be applied against the pre-petition ABL / FILO repayments. Alternatively and at Management's discretion, these funds could also be used to pay post-filing operating expenses of the Golf Town Entities, thereby reducing the amount of DIP borrowings.
13. DIP borrowings (repayments) are calculated based on the cash balance requirements from post-filing operating disbursements. Since all cash receipts are to be applied against the pre-petition ABL /FILO repayments, all disbursements will be funded using DIP borrowings.