

**Court File No. CV-16-11527-00CL**

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

**SECOND REPORT OF THE MONITOR**

October 21, 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.

**SECOND REPORT TO THE COURT  
SUBMITTED BY FTI CONSULTING CANADA INC.  
IN ITS CAPACITY AS MONITOR**

**INTRODUCTION**

1. On September 14, 2016 (the “**Filing Date**”), Golf Town Canada Holdings Inc., Golf Town Canada Inc. (“**GT Canada**”) and Golf Town GP II Inc. (collectively, the “**Applicants**”) made an application under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), and an initial order (the “**Initial Order**”) was made by the Honourable Mr. Justice Newbould of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) granting, *inter alia*, a stay of proceedings against the Applicants until October 14, 2016 (the “**Stay of Proceedings**”) and appointing FTI Consulting Canada Inc. as monitor (the “**Monitor**”). The benefits of the protections and authorizations provided by the Initial Order were also extended 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**”). The proceedings commenced by the Applicants under the CCAA are referred to herein as the “**CCAA Proceedings**”.
2. On September 30, 2016, the Court extended the Stay of Proceedings against the Applicants until January 31, 2017.

3. The purpose of this, the Monitor's Second Report (the "**Second Report**"), is to inform the Court of the following:
- (a) the activities of the Monitor since September 27, 2016;
  - (b) the status of the Golf Town Entities' sale of their business (the "**Golf Town Transaction**") pursuant to the terms of a Purchase Agreement dated September 14, 2016 (the "**Purchase Agreement**") among GT Canada and Golf Town LP, as sellers (collectively, the "**Vendors**"), and 9918167 Canada Inc. (the "**Purchaser**"), an entity owned by Fairfax Financial Holdings Limited ("**Fairfax**") and certain investment funds managed by CI Investments Inc. ("**CI**"), as purchaser;
  - (c) the status of the Chapter 11 Proceedings (as defined below) initiated by the Golf Town Entities' U.S. affiliate, Golfsmith International Holdings, Inc. ("**GS Holdings**") and its wholly owned subsidiaries and Golf Town USA, L.L.C. (collectively, the "**Golfsmith Entities**", and together with the Golf Town Entities, the "**Company**") to effect the proposed restructuring of the Golfsmith Entities (the "**Golfsmith Restructuring**") in accordance with the terms of a Support Agreement dated September 13, 2016 among GS Holdings, an affiliate of Fairfax, and CI on behalf of certain funds managed by it (the "**Support Agreement**");
  - (d) the financial status of the Golf Town Entities, including:
    - (i) the Monitor's comments regarding the Golf Town Entities' motion to approve an amendment to the DIP Facility (as defined below) (the "**DIP Amendment**");
    - (ii) the Company's efforts to finalize a new senior secured debtor-in-possession financing facility (the "**Replacement DIP Facility**") in respect of the Golfsmith Entities to be provided by PNC Bank, National Association ("**PNC**") and the Monitor's comments on certain proposed consequential changes to the Approval and Vesting Order approving the Golf Town Transaction granted by the Court on September 30, 2016 (the "**Approval and Vesting Order**");

- (iii) vendor credit terms and liquidity issues encountered by the Golf Town Entities;
  - (iv) the actual receipts and disbursements of the Golf Town Entities for the three week period ending October 8, 2016 compared to the cash flow forecast presented in the First Report of the Monitor dated September 27, 2016 (the “**First Report**”); and
  - (v) the updated operational cash flow forecast for the 16-week period for the weeks ending from October 15, 2016 to January 28, 2017 (the “**Updated Operational Cash Flow Forecast**”).
4. In preparing this Second Report, the 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 Monitor has also reviewed audited and unaudited financial information and forecasts of the Golfsmith Entities.
5. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information. Accordingly, the Monitor expresses no opinion or other form of assurance on the Information contained in this Second Report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this Second Report is based on Management’s assumptions regarding future events; actual results may vary from the forecast and such variations may be material.
6. Unless otherwise stated, all monetary amounts contained herein are expressed in United States Dollars. Capitalized terms not otherwise defined herein have the meanings defined in the Initial Order, previous reports filed by the Monitor or the affidavit of David Roussy sworn October 20, 2016 and filed in support of the Applicants’ motion to approve the DIP Amendment and amendments to the Approval and Vesting Order (the “**Third Roussy Affidavit**”).

**A. ACTIVITIES OF THE MONITOR**

7. To date, the Company's Management, advisors and staff have continued to provide the Monitor with their full co-operation and all necessary access to the Golf Town Entities' personnel, premises and books and records. The Monitor has continued to monitor the Golf Town Entities' operations, cash receipts and disbursements, and the Company's cash management system - including the monitoring of intercompany amounts accruing between the Golf Town Entities and the Golfsmith Entities.
8. The Monitor has also continued to update the Monitor's website in the CCAA Proceedings in accordance with the terms of the Initial Order by posting updated information as it becomes available including reports of the Monitor, motion materials, Court Orders and a current Service List for the CCAA Proceedings.
9. As noted in the First Report, the Monitor established contact numbers and an email address to allow stakeholders to communicate directly with the Monitor in order to address any questions or concerns in respect of the CCAA Proceedings. Since the date of the First Report, the Monitor has responded to numerous inquiries received at the contact numbers and the email address it established.
10. In order to implement the Golf Town Transaction, the Golf Town Entities have had to effect store closures and inventory relocation at certain stores excluded by the Purchaser pursuant to the Purchase Agreement. The Monitor has assisted the Golf Town Entities with communications to employees and landlords affected by the store closures.
11. The Monitor has also assisted with the completion of a Transition Services Agreement among GS Holdings, the Purchaser and the Vendors (the "TSA"). The TSA is an integral aspect of the Golf Town Transaction and its completion and approval by the U.S. Bankruptcy Court is a condition precedent to the closing of the Golf Town Transaction. As described later in this Second Report, the U.S. Bankruptcy Court issued an Order on October 19, 2016 authorizing GS Holdings to enter into the TSA.
12. Pursuant to the Purchase Agreement and the TSA, the Monitor will act as escrow agent for certain amounts that are to be held back under each of the Purchase Agreement and the TSA. Accordingly, the Monitor is currently assisting the Purchaser and the Vendors with

the negotiation and conclusion of escrow agreements contemplated under each of the Purchase Agreement and the TSA, which are to be entered into on the closing of the Golf Town Transaction.

13. The Monitor has also attended, in person and by telephone, various meetings with the Company, Fairfax, the DIP Lenders, Alvarez & Marsal and the Unsecured Creditors' Committee in the Chapter 11 Proceedings and their respective counsel to discuss various aspects of the CCAA Proceedings, including the implementation of the Golf Town Transaction.
14. Finally, the Monitor continues to have its representatives on-site at the Company's head office in Austin, Texas and has worked closely with the Company's Management and Alvarez & Marsal to address various issues that have arisen in the CCAA Proceedings since the Filing Date.

**B. STATUS OF THE GOLF TOWN TRANSACTION**

15. On September 30, 2016, the Court granted an Approval and Vesting Order approving the Golf Town Transaction. A copy of the Approval and Vesting Order is attached as Appendix "A" hereto.
16. Since September 30, 2016, the Golf Town Entities and the Purchaser, with the assistance of the Monitor, have made significant progress towards the completion of the Golf Town Transaction and continue to work diligently and in good faith to advance and complete the Golf Town Transaction by October 31, 2016.
17. On October 14, 2016, the Golf Town Entities, with the consent of the Monitor, delivered notices to disclaim the real property leases and related agreements in respect of five existing Golf Town locations that the Purchaser indicated it would not acquire in connection with the Golf Town Transaction and in respect of a sixth location at which the Golf Town Entities had ceased operations shortly before the commencement of the CCAA Proceedings.
18. On October 21, 2016, the Golf Town Entities, with the consent of the Monitor, delivered notices to disclaim the real property leases and related agreements in respect of two

additional existing Golf Town locations that the Purchaser indicated it would not acquire in connection with the Golf Town Transaction.

19. The Monitor understands that the Golf Town Entities have provided notices of termination to the employees at the stores closed October 14 and October 21, 2016. As noted above, the Monitor has assisted the Golf Town Entities with the communications sent to employees and landlords affected by store closures that have taken effect since the Filing Date.
20. Representatives of the Purchaser continue to have discussions with Golf Town's landlords, suppliers and other contractual counterparties with respect to the assumption and/or renegotiation of Golf Town's real property leases and other material contracts. Pursuant to the Purchase Agreement, the Purchaser has until October 26, 2016 to finalize the list of real property leases and other contracts to be assumed by the Purchaser on closing (the "**Assumed Contracts**"). At the time of filing of this Second Report, the Monitor understands that if required third party consents have not been obtained in respect of the assignment and amendment (where applicable) of such Assumed Contracts, the Golf Town Entities intend to bring a motion returnable October 27, 2016 seeking the assignment of such contracts pursuant to the CCAA.
21. The parties have agreed on the TSA, which was subsequently approved by the U.S. Bankruptcy Court. In addition, the Monitor understands that the parties have received approval for the Golf Town Transaction pursuant to the *Competition Act*, R.S.C. 1985, c. C-34 (as amended), which is required in order close the Golf Town Transaction. Accordingly, these conditions set out in the Purchase Agreement have been met.
22. In order to ensure that the Golf Town Transaction closes on or before October 31, 2016, the Monitor understands that the Purchaser has created a transition team (the "**Transition Team**") to ensure an orderly transition of the Golf Town Entities' operations to the Purchaser. Among other things, the Transition Team is playing a key role in ensuring that vital functions such as IT, human resources, operational store management, business strategy and leasing are transitioned appropriately.



23. The Monitor has been advised by the Purchaser that the Transition Team has made multiple site visits to the Company's offices in Canada and is in regular communication with representatives from the Company's offices in the United States and Canada. In addition, the Monitor has met with various members of the Transition Team to discuss the Golf Town Transaction and to provide assistance with the goal of closing the Golf Town Transaction as planned on October 31, 2016.
24. On October 11, 2016, the Purchaser announced that, effective upon closing of the Golf Town Transaction, Mr. Bill Gregson would be appointed Chairman of Golf Town and Mr. Chad McKinnon would be appointed President of Golf Town. Mr. Gregson and Mr. McKinnon each have significant experience in the management of sporting retail operations and are expected to have a positive impact on the transition of the Golf Town Entities' business to the Purchaser. A copy of the press release announcing the appointments of Mr. Gregson and Mr. McKinnon is attached as Appendix "B" hereto.

#### **C. STATUS OF CHAPTER 11 PROCEEDINGS**

25. On September 14, 2016, the Golfsmith Entities filed 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**").
26. On September 15, 2016, a "First Day Hearing" was held in the Chapter 11 Proceedings. The Monitor and its counsel attended the first day hearing by phone. As set out in the First Report, the U.S. Bankruptcy Court granted the Golfsmith Entities several first day orders.
27. On September 15, 2016, the U.S. Bankruptcy Court also granted an *Interim Order Authorizing the Continuation of the Cash Management System* (the "**U.S. Cash Management Order**") and an *Interim Order Approving Post-Petition Financing* (the "**U.S. DIP Order**").
28. Since the date of the First Report, a number of important developments have taken place in the Chapter 11 Proceedings.

29. On October 6, 2016, as part of the dual-track restructuring strategy being undertaken in the Chapter 11 Proceedings, the U.S. Bankruptcy Court granted an Order approving bidding procedures for the sale of the Golfsmith Entities' assets (the "**U.S. Bidding Procedures Order**"). It has not yet been determined whether there will be a sale or other transaction for the Golfsmith Entities or whether a plan of reorganization will be pursued in accordance with the Support Agreement. The U.S. Bidding Procedures Order provides for, among other things:
- (a) a bid deadline of October 17, 2016;
  - (b) an auction which began on October 19 and as of the filing of this Second Report, was not yet complete, and will be reported on by the Monitor in a subsequent report (the "**Auction**");
  - (c) in the event that the successful bid at the Auction is a liquidation bid (referred to as an "**Alternative Sale Transaction**"), a sale hearing will be held before the U.S. Bankruptcy Court to approve such Alternative Sale Transaction; and
  - (d) in the event that the successful bid at the Auction is a going-concern bid (referred to as a "**Going-Concern Sale Transaction**"), a sale hearing is to be held on October 31, 2016 to approve such Going Concern Sale Transaction.
30. On October 13, 2016, the U.S. Bankruptcy Court issued final Orders with respect to the majority of the Interim Orders granted on September 15, 2016, including the U.S. Cash Management Order.
31. On October 17, 2016, the U.S. Bankruptcy Court issued a final Order with respect to the U.S. DIP Order, which included the approval of the DIP Amendment.
32. On October 17, 2016, as discussed below, the U.S. Bankruptcy Court granted a preliminary order authorizing the Golfsmith Entities to pay the reasonable fees and expenses of PNC, up to a maximum amount of US\$400,000, in connection with the negotiation and finalization of a replacement DIP facility (the "**PNC Work Fee Order**").

33. On October 19, 2016, the U.S. Bankruptcy Court issued an Order (the “**TSA Order**”) approving:
- (a) the TSA; and
  - (b) a Trademark Assignment in respect of certain trademarks registered in Canada owned by the Golfsmith Entities that the Purchaser requires to operate the Golf Town business.
34. Pursuant to the TSA, GS Holdings will continue to provide certain transition services to the Purchaser in order to assist with an orderly transition of the Golf Town Entities’ business to the Purchaser. The TSA contemplates that GS Holdings will provide the Purchaser with the following general categories of transitional services:
- (a) Warehouse / Supply Chain;
  - (b) Call Center Support;
  - (c) Special Order Support;
  - (d) Marketing, Customer Relationship Management and Communications;
  - (e) E-Commerce;
  - (f) Accounting / General Ledger;
  - (g) Accounts Receivable / Accounts Payable;
  - (h) IT and IT Incremental Services; and
  - (i) Merchandising.
35. A copy of the TSA Order which includes an unsigned version of the TSA is attached as Appendix “C” hereto.
36. On October 4, 2016, the Golfsmith Entities filed a motion to approve the Support Agreement. This motion is scheduled to be heard by the U.S. Bankruptcy Court on October

31, 2016. Additional details in respect of the Support Agreement are contained in the First Report.

**D. FINANCIAL STATUS OF THE GOLF TOWN ENTITIES**

(i) *Vendor Credit Terms and Liquidity Issues Encountered by the Golf Town Entities*

37. Since the Filing Date, the Company has continued to experience tightened trade terms, primarily as a result of vendors' concerns regarding the outcome of the Chapter 11 Proceedings. As a result of the Company's overall liquidity challenges, nearly all of the Golf Town Entities' vendors have refused to extend credit to the Company for the purchase of new inventory. Such vendors have indicated that they will only continue to supply inventory to the Golf Town Entities on cash-in-advance ("CIA") terms. Under CIA terms, inventory is only shipped by the vendor after payment in full has been received.
38. The requirement to pay for inventory on CIA terms reduces the volume of merchandise available for sale in the stores and could impact future sales and resulting net cash flows of the Golf Town Entities.
39. The Golfsmith Entities and the Golf Town Entities are subject to a consolidated borrowing base calculation under the DIP Facility, which incorporates inventory and credit card receivable components. Due to declining inventory levels and credit card receivable balances based on lower sales, the borrowing base and overall liquidity of the Golfsmith Entities and the Golf Town Entities has deteriorated since the Filing Date. The supply of goods on CIA terms (and the inability to obtain trade credit) further exacerbates the problem as inventory in transit is not applied to the borrowing base calculation until it is received by the Golf Town Entities and their stores or warehouse, which applies additional stress to the liquidity position of the Company.

(ii) *Golf Town Entities' Motion for Approval of the DIP Amendment*

40. On October 6, 2016, as a result of the negative impact on cash flows due to the vendor and liquidity issues described above, the Company requested, and the DIP Agent permitted, an

overadvance under the DIP Agreement, primarily to enable the Company to fund certain operating expenses of the Golfsmith Entities.

41. The Monitor understands that the Company has since repaid the majority of the overadvance, but anticipates that additional overadvances may be necessary to support the Company's operations until the Golf Town Transaction closes.
42. On October 14, 2016, the parties to the DIP Agreement entered into a Consent, Conditional Waiver and First Amendment to the DIP Agreement (the "**DIP Amendment**") to provide the Company with up to \$2.6 million of enhanced availability under the DIP Facility until October 31, 2016 (the "**Enhanced Availability**") to fund operations without disruption until the completion of the Golf Town Transaction and the restructuring initiatives in respect of Golfsmith in the Chapter 11 Proceedings. Details in respect of the DIP Amendment are contained in the Third Roussy Affidavit.
43. The Monitor notes that, in consideration for the concessions in the DIP Amendment, the Borrowers are required to pay the DIP Agent, for the ratable benefit of the DIP Lenders, a fee of \$250,000 (the "**Permitted Overadvance Fee**"), which fee is fully earned on the Effective Date of the DIP Amendment and payable on the earlier of: (i) the Revolving Termination Date (as defined in the DIP Amendment); and (ii) October 31, 2016.
44. The DIP Amendment contemplates that the Permitted Overadvance Fee will be waived provided that: (i) certain events of default specified in the DIP Agreement have not occurred; and (ii) the Borrowers repay in full the obligations under the DIP Facility and the Credit Facility on or prior to October 31, 2016.
45. The Monitor has considered the Permitted Overadvance Fee in relation to the Enhanced Availability. While the Permitted Overadvance Fee represents approximately 10% of the Enhanced Availability, the Monitor also recognizes that the Company has encountered liquidity issues and that the Enhanced Availability is necessary in the circumstances to provide for funding until the closing of the Golf Town Transaction.
46. The DIP Amendment is conditional on the satisfaction of certain conditions precedent, including approval of the DIP Amendment in both the CCAA Proceedings and the Chapter 11 Proceedings. The DIP Amendment was approved by the U.S. Bankruptcy Court on

October 17, 2016 as part of the Final DIP Order. As a result, the Golf Town Entities are seeking Canadian Court approval of the DIP Amendment Order. In the circumstances, the Monitor supports the Golf Town Entities' motion for approval of the DIP Amendment.

(iii) *Replacement DIP Facility*

47. In connection with its efforts to advance the Golfsmith Restructuring, the Company and its advisors have continued to solicit financing proposals to repay or refinance the DIP Facility as well as the Credit Facility and to provide working capital to the Company. The existing DIP Facility matures on October 31, 2016 and the milestones under the DIP Agreement require the completion of a sale of the Golfsmith Entities' assets and the repayment of all obligations under the DIP Facility and the Credit Facility by that date.
48. The Monitor understands that the DIP Lenders are not prepared to extend the existing DIP Facility past October 31, 2016. Accordingly, the Company has advised the Monitor that it is necessary to refinance the DIP Facility with a Replacement DIP Facility in order to provide the Company with the flexibility to pursue the Golfsmith Restructuring should it decide to do so following the completion of the ongoing auction process with respect to the assets of the Golfsmith Entities.
49. The Golfsmith Entities have received a commitment letter from PNC setting out the material terms of a Replacement DIP Facility that would, among other things, refinance the outstanding obligations under the DIP Facility and the Credit Facility following the application of certain proceeds from the Golf Town Transaction. The Replacement DIP Facility will provide the Company with the flexibility and opportunity to advance the Golfsmith Restructuring.
50. On October 17, 2016, as discussed above, the U.S. Bankruptcy Court issued the PNC Work Fee Order. The parties are working to finalize a definitive credit agreement and other documentation and the Golfsmith Entities have scheduled a hearing on October 31, 2016 to seek approval of the Replacement DIP Facility from the U.S. Bankruptcy Court.
51. The Company has advised the Monitor that the Golf Town Entities will not be party to any Replacement DIP Facility, as sufficient proceeds will be held back from the Golf Town Transaction to fund the completion of matters remaining in the CCAA Proceedings.

However, as part of the Order seeking approval of the DIP Amendment, the Golf Town Entities are also seeking amendments to the Approval and Vesting Order to provide for the appropriate distribution of the net proceeds from the Golf Town Transaction in the event that the Company enters into a Replacement DIP Facility. These amendments are required pursuant to the terms of the Replacement DIP Facility.

52. The proposed amendments to the Approval and Vesting Order will enable the Golf Town Entities and the Monitor to effectuate distributions in an efficient and appropriate manner, while ensuring that adequate reserves are maintained to complete the CCAA proceedings and the administration of the Golf Town Entities' estate. The Monitor has reviewed the proposed amendments to the Approval and Vesting Order and believes that they are appropriate in the circumstances.
53. In addition to the Replacement DIP Facility, the Monitor understands that PNC and the Company are also discussing exit financing in the context of a potential plan of reorganization.

(iv) *Receipts and disbursements of the Golf Town Entities for the three-week period for the weeks ending from September 24, 2016 to October 8, 2016*

54. The Golf Town Entities' actual net cash flow on a consolidated basis for the three-week period for the weeks ending from September 24, 2016 to October 8, 2016 was approximately \$0.12 million compared to a forecast amount of \$(3.07) million as noted in the Operational Cash Flow Forecast filed as Appendix "D" to the First Report – representing a positive variance of approximately \$3.19 million as summarized below:

| <b>Golf Town Entities</b>                                    |             |                                                             |                  |                 |
|--------------------------------------------------------------|-------------|-------------------------------------------------------------|------------------|-----------------|
| <b>Cash Flow Budget-to-Actual Variance Analysis</b>          |             |                                                             |                  |                 |
| <i>(USD, 000s)</i>                                           |             |                                                             |                  |                 |
|                                                              |             | <b>For the Three-Week Period<br/>Ending October 8, 2016</b> |                  |                 |
|                                                              | <b>Ref.</b> | <b>Actual</b>                                               | <b>Budget</b>    | <b>Variance</b> |
| Receipts                                                     | A           | \$ 7,832                                                    | \$ 7,768         | \$ 64           |
| <b><u>Operating and Non-Operating Disbursements</u></b>      |             |                                                             |                  |                 |
| Operating Disbursements                                      | B           | (6,455)                                                     | (7,863)          | 1,408           |
| Non-Operating Cash Flows                                     | C           | (1,255)                                                     | (2,970)          | 1,715           |
| Total Disbursements                                          | D=B+C       | (7,710)                                                     | (10,833)         | 3,123           |
| <b>Net Cash Inflows / (Outflows)</b>                         | <b>A+D</b>  | <b>\$ 122</b>                                               | <b>\$(3,065)</b> | <b>\$ 3,187</b> |
| <b><u>Book Cash</u></b>                                      |             |                                                             |                  |                 |
| Opening Book Cash Balance                                    |             | \$ 126                                                      | \$ 126           | \$ -            |
| Add: Receipts                                                | A           | 7,832                                                       | 7,768            | 64              |
| Less: Pre-Petition ABL / FILO (Repayments)                   |             | (6,632)                                                     | (7,768)          | 1,136           |
| Book Cash Available After Pre-Petition ABL / FILO Repayments |             | 1,326                                                       | 126              | 1,200           |
| Less: Total Disbursements                                    | D           | (7,710)                                                     | (10,833)         | 3,123           |
| Less: Intercompany Transfers (Post-Filing)                   |             | (150)                                                       | -                | (150)           |
| Net DIP Borrowing Requirement                                |             | (6,534)                                                     | (10,707)         | 4,173           |
| Add: DIP Borrowings / (Repayments)                           |             | 6,721                                                       | 10,707           | (3,986)         |
| <b>Ending Book Cash Balance</b>                              |             | <b>\$ 187</b>                                               | <b>\$ -</b>      | <b>\$ 187</b>   |

Please refer to Appendix “D” attached hereto for the detailed cash flow budget-to-actual variance analysis.

55. Explanations for the key variances in actual receipts and disbursements for the three-week period ending October 8, 2016 are as follows:
- (a) receipts were \$7.83 million compared to a forecast amount of \$7.77 million, which resulted in a positive variance of \$0.06 million due to cash receipts from sales being nominally higher than the forecast;
  - (b) total disbursements were \$7.71 million compared to a forecast amount of \$10.83 million, which resulted in a positive variance of \$3.12 million. The following factors contributed to this variance;
    - (i) disbursements for Merchandise and Freight were \$1.60 million compared to a forecast amount of \$2.36 million, which resulted in a positive variance of \$0.76 million. Merchandise purchases were less than forecast for the following reasons: (i) vendors were unwilling to supply merchandise on



terms satisfactory to, and viable for, the Golf Town Entities, including vendors requiring CIA for purchases; and (ii) the borrowing base declined under the DIP Facility and limited the amount of funds available to make purchases;

- (ii) disbursements for Employee Costs were \$0.78 million compared to a forecast amount of \$0.89 million, which resulted in a positive variance of \$0.12 million due to actual payroll costs being less than the amount forecast;
  - (iii) disbursements for Rent and Other Operating Costs were \$2.22 million compared to a forecast amount of \$2.67 million, which resulted in a positive variance of \$0.45 million due to the following: (i) lower than expected operating costs which includes marketing and advertising expenses; and (ii) lower than forecast rent payments for the stub-period from the Filing Date to the end of September;
  - (iv) disbursements for Non-Operating Cash Flows were \$1.26 million compared to a forecast amount of \$2.97 million, which resulted in a positive variance of \$1.71 million due to the following: (i) lower than expected DIP interest expense; (ii) lower than expected deposits required to be paid to third-parties; and (iii) lower than forecast professional fees primarily due to the timing of invoices received; and
- (c) an intercompany transfer was initiated from the Golf Town Entities to the Golfsmith Entities in the amount of \$0.15 million during the week ended October 8, 2016. This transfer was executed and recorded in accordance with the cash management policies and intercompany accounting practices of the Golf Town Entities and Golfsmith Entities.

56. On a consolidated basis as summarized below, total liquidity available to the Golf Town Entities and the Golfsmith Entities for the week ending October 8, 2016 was \$0.28 million compared to forecast total liquidity of \$0.70 million as presented below. Total liquidity availability for the Golf Town Entities and Golfsmith Entities has decreased from \$10.28 million for the week ending September 17, 2016, to \$0.28 million for the week ending October 8, 2016. This decrease is directly correlated to the decline in the net borrowing base – primarily as a result of the seasonal decline in inventory balances due to lower than forecast merchandise purchases and lower inventory values applied for borrowing base calculation purposes for the month of October.

| <b>Consolidated Golfsmith Entities and Golf Town Entities</b> |                                 |                   |                 |                              |                  |                   |
|---------------------------------------------------------------|---------------------------------|-------------------|-----------------|------------------------------|------------------|-------------------|
| Liquidity Variance Analysis (based on bank cash balance)      |                                 |                   |                 |                              |                  |                   |
| <i>(USD, 000s)</i>                                            |                                 |                   |                 |                              |                  |                   |
|                                                               | Week Ended - September 17, 2016 |                   |                 | Week Ended - October 8, 2016 |                  |                   |
|                                                               | Actual                          | Budget            | Variance        | Actual                       | Budget           | Variance          |
| Net Borrowing Base                                            | 106,300                         | 107,047           | (747)           | 90,646                       | 91,796           | (1,149)           |
| Facility Size                                                 | 135,000                         | 135,000           | -               | 135,000                      | 135,000          | -                 |
| <b>Maximum Borrowing Availability</b>                         | <b>\$ 106,300</b>               | <b>\$ 107,047</b> | <b>\$ (747)</b> | <b>\$ 90,646</b>             | <b>\$ 91,796</b> | <b>\$ (1,149)</b> |
| Less: Pre-Petition ABL Balance (Including LCs)                | 87,707                          | 82,624            | 5,083           | 56,533                       | 52,917           | 3,615             |
| Less: Unapplied Pre-Petition ABL Paydown                      | (2,215)                         | -                 | (2,215)         | -                            | -                | -                 |
| Less: Pre-Petition FILO                                       | 11,695                          | 11,250            | 445             | 11,535                       | 11,250           | 285               |
| Less: DIP ABL Balance (Including LCs)                         | 1,574                           | 6,855             | (5,281)         | 22,738                       | 27,427           | (4,690)           |
| Total ABL Balance                                             | 98,761                          | 100,729           | (1,968)         | 90,805                       | 91,595           | (789)             |
| <b>Excess Availability / (Over Advance)</b>                   | <b>7,539</b>                    | <b>6,318</b>      | <b>1,220</b>    | <b>(159)</b>                 | <b>201</b>       | <b>(360)</b>      |
| Add: Bank Cash                                                | 2,737                           | 500               | 2,237           | 438                          | 500              | (62)              |
| <b>Total Liquidity</b>                                        | <b>\$ 10,276</b>                | <b>\$ 6,818</b>   | <b>\$ 3,457</b> | <b>\$ 279</b>                | <b>\$ 701</b>    | <b>\$ (422)</b>   |

57. Please refer to Appendix “E” attached hereto for a week-by-week comparison of liquidity for the Consolidated Golfsmith Entities and Golf Town Entities since the Filing Date.

(v) *Updated Operational Cash Flow Forecast*

58. The Updated Operational Cash Flow Forecast for the 16-week period for the weeks ending from October 15, 2016 to January 28, 2017, was developed to reflect management’s current expectations for the Golf Town Entities’ cash receipts and disbursements, and is summarized below:

| <b>Golf Town Entities</b>                                           |                             |
|---------------------------------------------------------------------|-----------------------------|
| <b>Cash Flow and Book Cash Summary</b>                              |                             |
| <i>(USD, 000s)</i>                                                  |                             |
|                                                                     | <b><u>16-Week Total</u></b> |
| Receipts                                                            | \$ 4,706                    |
| Total Operating Disbursements                                       | <u>(10,902)</u>             |
| <b>Cash Flow From Operations</b>                                    | <b><u>(6,196)</u></b>       |
| <u>Non-Operating Disbursements:</u>                                 |                             |
| DIP Fees and Interest                                               | (123)                       |
| Professional Fees                                                   | (3,755)                     |
| Other                                                               | <u>(100)</u>                |
| <b>Total Non-Operating Disbursements</b>                            | <b><u>(3,978)</u></b>       |
| <b>Net Cash Inflows / (Outflows)</b>                                | <b><u>\$ (10,174)</u></b>   |
| <br><b>Book Cash</b>                                                |                             |
| <b>Opening Book Cash Balance</b>                                    | <b>\$ (89)</b>              |
| Add: Receipts                                                       | 4,706                       |
| Less: Pre-Petition ABL / FILO (Repayments)                          | <u>(4,706)</u>              |
| <b>Book Cash Available After Pre-Petition ABL / FILO Repayments</b> | <b>(89)</b>                 |
| Less: Total Disbursements                                           | <u>(14,880)</u>             |
| <b>Net DIP Borrowing Requirement</b>                                | <b>(14,969)</b>             |
| Add: DIP Borrowings / (Repayments)                                  | <u>14,969</u>               |
| <b>Ending Book Cash Balance</b>                                     | <b><u>\$ -</u></b>          |

59. The Updated Operational Cash Flow Forecast shows net cash outflows from operations of \$6.20 million, total non-operating disbursements of \$3.98 million, net cash outflows of \$10.17 million, and repayment of pre-filing indebtedness of \$4.71 million. The Updated Operational Cash Flow Forecast is attached as Appendix “F” hereto .
60. The Updated Operational Cash Flow Forecast was prepared on the same basis as the Operational Cash Flow Forecast filed as Appendix “D” and as discussed in paragraph 36 of the First Report.
61. In addition, the Monitor notes the following:
- (a) the Updated Operational Cash Flow Forecast assumes the closing of the Golf Town Transaction as scheduled during the week ending November 5, 2016. As a result, there are nominal cash inflows and outflows expected during the weeks subsequent to November 5, 2016;

- (b) the Updated Operational Cash Flow Forecast should be read in conjunction with the notes to the Updated Operational Cash Flow Forecast as included in Appendix “F”; and
- (c) the Golf Town Entities, after paying down pre-filing indebtedness, will require additional funding for operations totaling approximately \$10.95 million up to the date of closing of the Golf Town Transaction.

62. Certain information regarding the Golf Town Transaction, including the Golf Town Transaction sale proceeds, was sealed by Order of the Court until the Monitor files its certificate confirming successful completion and closing of the Golf Town Transaction. For this reason, the Operational Cash Flow Forecast and Updated Operational Cash Flow Forecast exclude sale transaction data. After closing of the Golf Town Transaction, the Monitor intends to file a report to the Court which includes a cash flow forecast that reflects sale proceeds from the Golf Town Transaction, anticipated disbursements, and a standalone analysis on the Golf Town Entities’ liquidity.


**E. THE MONITOR’S COMMENTS AND RECOMMENDATIONS**

- 63. The Monitor is of the view that the Golf Town Entities have made and continue to make progress in the CCAA Proceedings and in implementing the Golf Town Transaction. The completion of the Golf Town Transaction is intended to maintain operations at the majority of Golf Town’s stores and continued employment for a majority of Golf Town’s employees. The continuance of operations will also benefit Golf Town’s suppliers and customers.
- 64. As indicated above, the Monitor supports the Applicants’ motion for an Order approving the DIP Amendment and the amendments to the Approval and Vesting Order.
- 65. The Monitor therefore respectfully recommends that this Honourable Court grant the proposed Order contained in the Applicants’ motion record.

The Monitor respectfully submits this Second Report to the Court.

Dated this 21<sup>st</sup> day of October, 2016.

FTI Consulting Canada Inc.  
In its capacity as Monitor of  
Golf Town Canada Holdings Inc., Golf Town Canada Inc. and Golf Town GP II Inc.

A handwritten signature in black ink that reads "Paul Bishop". The signature is written in a cursive, slightly slanted style.

Paul Bishop  
Senior Managing Director

**APPENDIX "A"**

**APPROVAL AND VESTING ORDER**

(see attached)

ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST

THE HONOURABLE ) FRIDAY, THE 30<sup>TH</sup>  
JUSTICE NEWBOULD ) DAY OF SEPTEMBER, 2016



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.

Applicants

APPROVAL AND VESTING ORDER

**THIS MOTION**, made by Golf Town Canada Holdings Inc., Golf Town Canada Inc., Golf Town GP II Inc. (collectively, the "**Applicants**" and, together with Golfsmith International Holdings LP and Golf Town Operating Limited Partnership, the "**Golf Town Entities**") pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") for an order (i) approving the sale transaction (the "**Golf Town Transaction**") contemplated by a Purchase Agreement dated as of September 14, 2016 (the "**Purchase Agreement**") between Golf Town Canada Inc. and Golf Town Operating Limited Partnership (together, the "**Vendors**") and 9918167 Canada Inc.; and (ii) vesting in 9918167 Canada Inc. or such other person as 9918167 Canada Inc. may designate with the consent of the Vendors (the "**Purchaser**") all of the Vendors' right, title and interest in and to the Purchased Assets was heard this day at 330 University Avenue, Toronto, Ontario.

**ON READING** the affidavit of David Roussy sworn September 13, 2016, the affidavit of Robert White sworn September 23, 2016 (the "**White Affidavit**") and the first report (the "**First Report**") of FTI Consulting Canada Inc. in its capacity as the Court-appointed monitor of the Golf Town Entities (the "**Monitor**") and on hearing the submissions of counsel for the Golf

Town Entities, 9918167 Canada Inc., the First Lien Agent and the DIP Agent, and the Monitor and such other counsel who were present and wished to be heard, and on reading the affidavit of service of Bradley Wiffen sworn September 27, 2016:

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof.

2. **THIS COURT ORDERS** that, unless otherwise indicated or defined herein, capitalized terms used in this Order shall have the meanings given to them in the Purchase Agreement.

3. **THIS COURT ORDERS AND DECLARES** that the Golf Town Transaction is hereby approved, and the execution and delivery of the Purchase Agreement by the Vendors is hereby authorized and approved, with such minor amendments to the Purchase Agreement as the Vendors and the Purchaser may agree to with the consent of the Monitor. The Vendors are hereby authorized and directed to take such additional steps and execute such additional documents as may be necessary or desirable for the completion of the Golf Town Transaction and for the conveyance of the Purchased Assets to the Purchaser pursuant to the Purchase Agreement, including, without limitation, the Transition Services Agreement, the Escrow Agreement and any occupancy agreement.

4. **THIS COURT ORDERS** that the Purchase Agreement and any ancillary documents entered into by the Vendors and the Purchaser in connection therewith shall not be repudiated, disclaimed or otherwise compromised in these proceedings.

5. **THIS COURT ORDERS AND DECLARES** that upon the delivery of a Monitor's certificate to the Vendors and the Purchaser substantially in the form attached as Schedule A hereto (the "**Monitor's Certificate**"), all of the Vendors' right, title and interest in and to the Purchased Assets shall vest absolutely in the Purchaser, free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts, or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, rights of distraint, levies, charges, or other financial or monetary claims, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured or otherwise (collectively, the "**Claims**") including, without limiting the generality of the foregoing: (i) any encumbrances or



charges created by the Order of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) dated September 14, 2016 or any other Order of the Court in these proceedings; and (ii) all charges, security interests or claims evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property registry system (all of which are collectively referred to as the “**Encumbrances**”), provided that (i) the Claims and the Encumbrances referred to herein shall not include Permitted Encumbrances, and (ii) except as may otherwise be agreed to by the Purchaser and the applicable landlord with respect to an Assumed Real Property Lease, nothing herein shall affect the rights and remedies of such landlord against the Purchaser that may exist or arise under or in respect of an Assumed Real Property Lease. For greater certainty, this Court orders that all of the Claims and Encumbrances affecting or relating to the Purchased Assets are hereby expunged and discharged as against the Purchased Assets.

6. **THIS COURT ORDERS** that the Monitor is authorized and directed to undertake and perform such activities and obligations as are contemplated to be undertaken or performed by the Monitor pursuant to this Order or the Purchase Agreement or any ancillary document related thereto, including the Escrow Agreement and the Transaction Services Agreement, and shall incur no liability in connection therewith, save and except for any gross negligence or wilful misconduct on its part.

7. **THIS COURT ORDERS** that: (a) nothing in this Order shall amend or vary, or be deemed to amend or vary, the terms of any real property lease; (b) where any real property lease is not, in accordance with its terms, transferrable or assignable to the Purchaser without first obtaining the consent of the applicable landlord, such real property lease shall not be transferred, conveyed, assigned or vested in the Purchaser by operation of this Order, save and except to the extent that the requisite consent has been, or is in the future, obtained from such landlord, or upon further Order of the Court.

8. **THIS COURT ORDERS** that the Vendors and the Monitor are authorized and directed to make any payment to the Purchaser required pursuant to section 2.8(f) of the Purchase Agreement (the “**Working Capital Adjustment Payment**”) from the net proceeds from the sale of the Purchased Assets (the “**Net Proceeds**”) as and when such Working Capital Adjustment Payment becomes due in accordance with the Purchase Agreement, including from the escrow

funds held by the Monitor in accordance with sections 2.5 and 2.8 of the Purchase Agreement and the Escrow Agreement (the “**Escrow Funds**”). The Escrow Funds shall be released in accordance with section 2.8 of the Purchase Agreement and the Escrow Agreement.

9. **THIS COURT ORDERS** that, subject to the terms of the Purchase Agreement, the Vendors are hereby authorized and directed at Closing to reserve, with the consent of the DIP Agent or pursuant to further Order of this Court, such amount, if any, of the Net Proceeds in excess of the Escrow Funds as the Monitor, in consultation with the Vendors and the Purchaser, determines should be reserved in respect of the potential obligation of the Vendors with respect to the Working Capital Adjustment Payment (a “**Reserve**”); and in the event of any disagreement as to the amount or timing of the release of all or any portion of any Reserve established hereunder, then the amount and timing of such release shall be determined by further Order of this Court.

10. **THIS COURT ORDERS** that the Vendors are authorized and directed, with the consent of the Monitor, to release any Reserve or portion thereof or any Escrow Funds that have not been paid to the Purchaser as a Working Capital Adjustment Payment promptly upon the determination that the Working Capital Adjustment Payment has been satisfied or is not payable pursuant to the terms of the Purchase Agreement.

11. **THIS COURT ORDERS** that, subject to the terms of this Order, the Monitor, on behalf of the Golf Town Entities, shall be authorized and directed, without further Order of the Court, to distribute to Antares Capital LP, as DIP Agent and First Lien Agent, from the Net Proceeds following the delivery of the Monitor’s Certificate:

- (a) forthwith, an amount to be determined by the Monitor to be reasonable after deducting the Escrow Funds, any Reserve and other reasonable reserves determined by the Monitor in its sole discretion to be necessary in connection with these proceedings or the administration of the Golf Town Entities’ estate; and
- (b) from time to time in its sole discretion, amounts released from any Reserve and the Escrow Funds in accordance with this Order;

in each case free and clear of all Encumbrances other than those in favour of Antares Capital LP, which distributions shall be applied against the indebtedness, liabilities and obligations owing by any of the Golf Town Entities pursuant to the Senior Secured, Super-Priority Debtor-in-Possession Credit Agreement dated as of September 19, 2016 or the Credit Agreement dated as of July 24, 2014, as amended, provided that nothing in this Order shall impair, limit, derogate from or otherwise affect the right of any Golf Town Entity to assert or claim a right of contribution or subrogation against any of its affiliates in respect of any amount paid to Antares Capital LP pursuant to this Order.

12. **THIS COURT ORDERS** that for the purposes of determining the nature and priority of Claims and Encumbrances, from and after the delivery of the Monitor's Certificate, the Net Proceeds shall stand in the place and stead of the Purchased Assets and all Claims and Encumbrances shall attach to the Net Proceeds with the same priority as they had with respect to the Purchased Assets immediately prior to the sale, as if the Purchased Assets had not been sold and remained in the possession or control of the person having that possession or control immediately prior to the sale, provided that, notwithstanding anything to the contrary in this paragraph, (a) the Working Capital Adjustment Payment shall rank in priority to all other Claims or Encumbrances in respect of the Net Proceeds, and (b) the Claims and Encumbrances shall not attach to any portion of the Reserve or the Escrow Funds that has not been released in favour of the Vendors pursuant to the terms of this Order.

13. **THIS COURT ORDERS AND DIRECTS** the Monitor to file with the Court a copy of the Monitor's Certificate, forthwith after delivery thereof to the Vendors and the Purchaser.

14. **THIS COURT ORDERS** that the Monitor may rely on written notice from the Vendors and the Purchaser or their respective counsel regarding the satisfaction of the Purchase Price and the fulfillment of conditions to closing under the Purchase Agreement and shall incur no liability with respect to the delivery of the Monitor's Certificate.

15. **THIS COURT ORDERS** that, pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act*, the Vendors are authorized and permitted to disclose and transfer to the Purchaser customer, employee, human resources and payroll information in the Vendors' records. The Purchaser shall maintain and protect the privacy of

such information and shall be entitled to use the personal information provided to it in a manner that is consistent with the prior use of such information by the Vendors.

16. **THIS COURT ORDERS** that, notwithstanding:

- (a) the pendency of these proceedings;
- (b) any applications for a bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) (the “**BIA**”) in respect of the Vendors and any bankruptcy order issued pursuant to any such applications; and
- (c) any assignment in bankruptcy made in respect of the Vendors,

the entering into of the Purchase Agreement and the vesting of the Purchased Assets in the Purchaser pursuant to this Order shall be binding on any trustee in bankruptcy that may be appointed in respect of the Vendors and shall not be void or voidable by creditors of the Vendors, nor shall it constitute nor be deemed to be a fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or other reviewable transaction under the **BIA** or any other applicable federal or provincial legislation, nor shall it constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

17. **THIS COURT ORDERS AND DECLARES** that the Golf Town Transaction is exempt from the application of the *Bulk Sales Act* (Ontario) or any similar legislation in any other province and section 6 of the *Retail Sales Tax Act* (Ontario) or any equivalent or corresponding provision under any other applicable tax legislation.

18. **THIS COURT ORDERS** that the Vendors and the Purchaser are deemed to have obtained clearance certificates as required under the *Tax Administration and Miscellaneous Taxes Act* (Manitoba), the *Revenue and Financial Services Act* (Saskatchewan), and the *Provincial Sales Tax Act* (British Columbia), and the Purchaser shall not be liable for any taxes or penalties based on or in respect of any unpaid taxes of the Vendors pursuant to such statutes.

19. **THIS COURT ORDERS** that each of the Golf Town Entities is authorized, following delivery of the Monitor’s Certificate, to execute, deliver and file any document, including,

without limitation, any articles of reorganization, required to effect a change of its corporate or partnership name without any requirement to obtain shareholder or partner consent.

20. **THIS COURT ORDERS** that Confidential Supplement No. 1 to the Monitor's First Report be sealed, kept confidential and not form part of the public record, but rather shall be placed separate and apart from all other contents of the Court file, in a sealed envelope attached to a notice that sets out the title of these proceedings and a statement that the contents are subject to a sealing order and shall only be opened upon further Order of this Court.

21. **THIS COURT ORDERS** that Confidential Supplement No. 2 to the Monitor's First Report be sealed, kept confidential and not form part of the public record, but rather shall be placed separate and apart from all other contents of the Court file, in a sealed envelope attached to a notice that sets out the title of these proceedings and a statement that the contents are subject to a sealing order, until delivery of the Monitor's Certificate pursuant to this Order.

22. **THIS COURT ORDERS** that leave is hereby granted to the Golf Town Entities, the Purchaser, the Monitor or the DIP Agent to apply for assistance and further order of this Court with respect to any supplementation or variation of this Order.

23. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada, the United States or in any other foreign jurisdiction to give effect to this Order and to assist the Vendors, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Vendors and the Monitor, as an officer of this Court, as may be necessary or desirable to recognize and give effect to this Order and to assist the Vendors, the Monitor and their respective agents in carrying out the terms of this Order.

  
\_\_\_\_\_

ENTERED AT / INSCRIT À TORONTO  
ON / BOOK NO:  
LE / DANS LE REGISTRE NO:

SEP 30 2016

PER / PAR: 

SCHEDULE A  
FORM OF MONITOR'S CERTIFICATE

Court File No.: CV-16-11527-00CL

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.

Applicants

MONITOR'S CERTIFICATE

RECITALS

A. Pursuant to an Order of the Ontario Superior Court of Justice (Commercial List) (the "**Court**") dated September 14, 2016, FTI Consulting Canada Inc. was appointed as the monitor (the "**Monitor**") of Golf Town Canada Holdings Inc., Golf Town Canada Inc., Golf Town GP II Inc., Golfsmith International Holdings LP and Golf Town Operating Limited Partnership (collectively the "**Golf Town Entities**") in proceedings pursuant to the *Companies' Creditors Arrangement Act* (Canada).

B. Pursuant to an Order of the Court dated September 30, 2016 (the "**Approval and Vesting Order**"), the Court approved the Purchase Agreement dated as of September 14, 2016 (the "**Purchase Agreement**") between Golf Town Canada Inc. and Golf Town Operating Limited Partnership (together, the "**Vendors**") and 9918167 Canada Inc. and provided for the vesting in 9918167 Canada Inc. or such other person as 9918167 Canada Inc. may designate with the consent of the Vendors (the "**Purchaser**") all of the Vendors' right, title and interest in and to the Purchased Assets, which vesting is to be effective with respect to the Purchased Assets upon the

delivery by the Monitor to the Vendors and the Purchaser of a certificate confirming (i) the satisfaction of the Purchase Price for the Purchased Assets by the Purchaser in accordance with the Purchase Agreement; (ii) that the conditions to closing as set out in the Purchase Agreement have been satisfied or waived by the Vendors and the Purchaser; and (iii) the Golf Town Transaction has been completed to the satisfaction of the Monitor.

C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Purchase Agreement.

**THE MONITOR HEREBY CERTIFIES** the following:

1. The Purchaser has satisfied the Purchase Price for the Purchased Assets in accordance with the Purchase Agreement;
2. The conditions to closing as set out in the Purchase Agreement have been satisfied or waived by the Vendors and the Purchaser;
3. The Golf Town Transaction has been completed to the satisfaction of the Monitor; and
4. This Certificate was delivered by the Monitor at \_\_\_\_\_ ● [p.m.] on \_\_\_\_\_ ●, 2016.

**FTI Consulting Canada Inc., in its capacity as  
Monitor of the Golf Town Entities and not in  
its personal capacity**

Per: \_\_\_\_\_  
Name:  
Title:

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.

Court File No: CV-16-11527-00CL

Applicants

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**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at Toronto

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**APPROVAL AND VESTING ORDER**

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**GOODMANS LLP**

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Lawyers for the Applicants



**APPENDIX "B"**

**PRESS RELEASE DATED OCTOBER 11, 2016**

(see attached)

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Golf Town Canada

October 11, 2016 17:25 ET

## Golf Town Canada: Executive Announcements

TORONTO, ONTARIO--(Marketwired - Oct. 11, 2016) - Fairfax Financial Holdings Limited ("Fairfax") and CI Investments Inc. ("CI") are pleased to announce that, effective on the closing of their previously announced acquisition of Golf Town, Bill Gregson will be appointed Chairman of Golf Town and Chad McKinnon will be appointed President of Golf Town. Mr. McKinnon has over 25 years of experience in sporting goods management, with over 20 years spent in numerous roles at FGL Sports / Forzani Group, most recently as Chief Operating Officer. Golf Town is Canada's leading specialty retailer of golf equipment, consumables, golf apparel and accessories.

As previously announced, Fairfax and certain investment funds managed by Signature Global Asset Management, a division of CI, have entered into an asset purchase agreement with Golf Town Canada Inc. and Golf Town Operation Limited Partnership to acquire the Canadian-based business of Golf Town out of its current proceedings under the Companies' Creditors Arrangement Act (Canada) (the "CCAA Proceedings"). The transaction was recently approved by the Ontario Superior Court of Justice in the CCAA Proceedings, is subject to receipt of remaining regulatory approvals and is expected to close by October 31, 2016.

"We are thrilled to continue working with Bill Gregson, who has achieved tremendous success in his roles at The Brick and Cara, and we welcome Chad McKinnon as the new President of Golf Town," said Paul Rivett, President of Fairfax. "Golf Town has a leading presence as a specialty golf retailer in Canada, and we look forward to working with Bill, Chad and the Golf Town team to re-invigorate and grow the business over the long term."

"We are looking forward to bringing Golf Town's business out of its CCAA Proceedings," said Bill Gregson, Chairman of Golf Town on closing. "The transaction will provide long term stability for Golf Town's customers, employees, landlords and suppliers, and we look forward to introducing Golf Town to Chad McKinnon, a proven leader in the sporting goods retail sector."

"I'm excited to be joining the Golf Town team and to be working with all of its stakeholders, primarily its fantastic employees and vendors", said Chad McKinnon, President of Golf Town on closing. "Golf Town will continue in its unwavering commitment to provide customers with exceptional service and high-quality golf products and I look forward to building the Golf Town brand over the long term."

### About Golf Town

Golf Town is the largest specialty golf retailer in Canada and has over 50 stores. The company also offers convenient, 24/7 shopping at [www.golftown.com](http://www.golftown.com). The company features the broadest selection of the best brands in golf, expert staff who share its customers' love of the game, and state-of-the-art custom fitting services and technology - truly Anything For Golf.

### About Fairfax

Fairfax is a holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and investment management.

### About CI and Signature Global Asset Management

Signature Global Asset Management, a division of CI, manages over \$50 billion in core equity, balanced and income-oriented portfolios and has offices in Toronto and Hong Kong. CI is one of Canada's largest investment fund companies, managing approximately \$110 billion (as of September 30, 2016) on behalf of two million Canadian investors. CI is a subsidiary of CI Financial Corp., a diversified wealth management firm listed on the Toronto Stock Exchange (symbol: CIX).

---

## Contact Information

Fairfax Financial Holdings Limited  
Paul Rivett  
President  
(416) 367-4941



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**APPENDIX “C”**

**TSA ORDER**

(see attached)

**UNITED STATES BANKRUPTCY COURT  
DISTRICT OF DELAWARE**

|                                                            |    |                                |
|------------------------------------------------------------|----|--------------------------------|
|                                                            | -X |                                |
| <b>In re</b>                                               | :  | <b>Chapter 11</b>              |
|                                                            | :  |                                |
| <b>GOLFSMITH INTERNATIONAL<br/>HOLDINGS, INC., et al.,</b> | :  | <b>Case No. 16-12033 (LSS)</b> |
|                                                            | :  |                                |
| <b>Debtors.<sup>1</sup></b>                                | :  | <b>Jointly Administered</b>    |
|                                                            | :  |                                |
|                                                            | :  | <b>Re: Docket No. 205</b>      |
|                                                            | -X |                                |

**ORDER AUTHORIZING ENTRY INTO  
TRANSITION SERVICES AGREEMENT AND TRADEMARK ASSIGNMENT**

Upon the motion, dated October 7, 2016 (the "Motion")<sup>2</sup> of Golfsmith International Holdings, Inc. ("GS USA") and its debtor affiliates, as debtors and debtors in possession (collectively with GS USA, the "Debtors") for authority (i) for GS USA to enter into that certain Transition Services Agreement (the "TSA") with the Golf Town Sellers and the Golf Town Buyer, and (ii) for Golfsmith International, Inc. to enter into that certain Trademark Assignment, pursuant to sections 105(a) and 363(b) of the Bankruptcy Code, as more fully set forth in the Motion; and the Court having jurisdiction to consider the Motion and the relief requested therein pursuant to 28 U.S.C. §§ 157 and 1334, and the *Amended Standing Order of Reference from the United States District Court for the District of Delaware* dated February 29, 2012; and consideration of the Motion and the requested relief being a core proceeding pursuant

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<sup>1</sup> The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, as applicable, are: Golfsmith International Holdings, Inc. (4847); GMAC Holdings, LLC (3331); Golf Town USA Holdco Limited (5562); Golf Town USA Holdings Inc. (7038); Golf Town USA, LLC (0259); Golfsmith 2 GP, L.L.C. (2218); Golfsmith Europe, L.L.C. (2408); Golfsmith Incentive Services, L.L.C. (2730); Golfsmith International, Inc. (7337); Golfsmith International, L.P. (4257); Golfsmith Licensing, L.L.C. (5499); Golfsmith NU, L.L.C. (2404); and Golfsmith USA, L.L.C. (2405). The Debtors' corporate headquarters is located at 11000 North IH-35, Austin, TX 78753.

<sup>2</sup> Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to such terms in the Motion.

to 28 U.S.C. § 157(b); and venue being proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409; and due and proper notice of the Motion having been given as provided in the Motion, and such notice having been adequate and appropriate under the circumstances; and it appearing that no other or further notice need be provided; and a hearing having been held to consider the relief requested in the Motion; and the Court having found and determined that the legal and factual bases set forth in the Motion establish just cause for the relief granted herein; and it appearing that the relief requested in the Motion is in the best interests of the Debtors and their respective estates and creditors; and upon all of the proceedings had before the Court and after due deliberation and sufficient cause appearing therefor;

**IT IS HEREBY ORDERED THAT:**

1. The Motion is granted.
2. GS USA is authorized, but not directed, to enter into the TSA, together with all additional instruments and documents that may be reasonably necessary or desirable to implement the terms of the TSA, and to provide the Services on the terms outlined in the TSA.
3. Golfsmith International, Inc. is authorized, but not directed, to enter into the Trademark Assignment.
4. Notwithstanding anything to the contrary contained in this Order, this Order does not approve the use of the software (the "**Infor Software**") of Infor (US), Inc. ("**Infor**") for the benefit of the Golf Town Buyer, absent a written agreement with Infor. For the avoidance of doubt, the Golf Town Buyer shall not receive any rights to use or otherwise benefit from the Infor Software as a result of entry of this Order.
5. Notwithstanding anything to the contrary in this Order or the TSA, no Oracle America, Inc. ("**Oracle**") agreements, software, products or services shall be subject to

the TSA, absent a separate order of the Court or written agreement between Oracle and the Debtors. The inclusion of this paragraph is without prejudice to each of the parties' existing rights, arguments and defenses under the underlying Oracle agreements or under any applicable law in any future dispute.

6. Nothing contained herein shall be construed as authorizing or approving any assumption or assumption and assignment of any executory contract or unexpired lease.

7. Notwithstanding the provisions of Bankruptcy Rule 6004, this Order shall not be stayed for fourteen (14) days after the entry hereof, but shall be effective and enforceable immediately upon entry.

8. The Debtors are authorized to take all steps necessary or appropriate to carry out this Order.

9. This Court shall retain jurisdiction to hear and determine all matters arising from or related to the implementation, interpretation, or enforcement of this Order.

Dated: October 19, 2016  
Wilmington, Delaware

  
\_\_\_\_\_  
THE HONORABLE LAURIE SELBER SILVERSTEIN  
UNITED STATES BANKRUPTCY JUDGE

**Exhibit B**

**Transition Services Agreement**



## TRANSITION SERVICES AGREEMENT

This TRANSITION SERVICES AGREEMENT (the “**Agreement**”) is dated as of the \_\_\_\_\_ day of October, 2016 (the “**Closing Date**”) among GOLFSMITH INTERNATIONAL HOLDINGS, INC., a corporation organized under the laws of the State of Delaware (the “**Provider**”), 9918167 CANADA INC., a corporation incorporated under the federal laws of Canada (the “**Buyer**”) and Golf Town Canada Inc. and Golf Town Operating Limited Partnership (together, the “**Sellers**”). The Provider, the Buyer and each Seller are each referred to in this Agreement, individually, as a “**Party**” and, collectively, as the “**Parties**.”

**WHEREAS**, the Sellers and the Buyer are parties to a Purchase Agreement dated as of September 14, 2016 (as may be amended, modified, supplemented or restated from time to time, the “**Purchase Agreement**”), pursuant to which the Sellers agreed to sell, convey, assign, transfer and deliver to the Buyer, and the Buyer agreed to purchase, acquire, assume and accept from the Sellers, substantially all of the Sellers’ respective assets used exclusively in connection with, and certain liabilities and obligations of, the Canadian Business.

**AND WHEREAS**, the Buyer requires entry into this Agreement as a condition precedent to its obligations to complete the proposed transaction under the Purchase Agreement.

**AND WHEREAS**, the Sellers and the Provider are affiliates of each other.

**AND WHEREAS**, prior to the Closing Date, the Provider (directly or indirectly through the Third Party Service Providers) has provided certain services, including, but not limited to, IT, marketing, accounting, merchandising, warehouse and supply chain management, call centre operations and special order processing, to the Sellers for the Canadian Business.

**AND WHEREAS**, an order was granted on September 14, 2016 by the CCAA Court granting protection to the Sellers pursuant to the CCAA.

**AND WHEREAS**, on September 14, 2016, the Provider and certain U.S. Affiliates commenced proceedings under Chapter 11 of the U.S. Bankruptcy Code (the “**U.S. Proceedings**”).

**AND WHEREAS**, an order was granted on September 30, 2016 by the CCAA Court approving the Purchase Agreement.

**AND WHEREAS** on October 5, 2016 an order was granted in the U.S. Proceedings approving the sales process undertaken by the Provider in connection with the U.S. Business.

**AND WHEREAS**, the Parties have agreed that this Agreement would survive the U.S. Proceedings and the CCAA Proceedings, and any purchaser or other Person acquiring the U.S. Business on a going concern basis, or acquiring the assets of the Provider necessary to provide all or any part of the Transitional Services, pursuant to the U.S. Proceedings would assume and be bound by the Provider’s obligations under this Agreement and, in the event of a liquidation or sale not on a going concern basis, the Provider would remain subject to the provisions of this Agreement.

**AND WHEREAS**, pursuant to the terms of the Purchase Agreement, the net Purchase

Price payable by the Buyer to the Sellers (the “**Purchase Proceeds**”) shall be paid to the Monitor, subject to the CCAA Proceedings.

**AND WHEREAS**, in connection with and as a condition of the Purchase Agreement, and in order to assist in an orderly transition of the ownership of the Canadian Business from the Sellers to the Buyer, the Parties have agreed that (i) the Provider (directly or indirectly through the Third Party Service Providers) will provide certain transitional services to the Buyer, and (ii) the Sellers will grant to the Buyer a right to use and occupy the Designated Premises in accordance with the terms and conditions of their respective Leases, in each case, for the period of time beginning on the Closing Date, on and subject to the terms and conditions of this Agreement.

**NOW, THEREFORE**, in consideration of the foregoing and the covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto, intending to be legally bound, agree as follows:

1. **Definitions.** Capitalized terms used but not defined herein shall have the meanings assigned to them in the Purchase Agreement. In addition, the following terms shall have the following meanings for purposes of this Agreement:

- (a) “**Additional Period**” has the meaning given to such term in Section 6(b).
- (b) “**Base Period**” means a period of up to one year beginning on the Closing Date.
- (c) “**Designated Premises**” means those premises occupied by the Canadian Business that are not acquired or assumed by the Buyer at Closing pursuant to the Purchase Agreement and that are listed in Annex C.
- (d) “**IT**” means all software and information technology systems.
- (e) “**Lease**” has the meaning given to such term in Section 7.
- (f) “**Occupancy Period**” has the meaning given to such term in Section 7.
- (g) “**Third Party Service Provider**” means a third party contractor or other service provider who provides Transition Services for or on behalf of the Provider.
- (h) “**Transition Services**” means (A) the transition services to be provided pursuant to this Agreement by the Provider (directly or indirectly through Third Party Service Providers) as described on Annex A and as the context requires, each ‘**category**’ of Transition Services means each of the 10 categories of Transition Services as a whole enumerated in Annex A and (B) such other services that are mutually agreed by the Provider and the Buyer (in each such party’s respective sole discretion, acting reasonably and in good faith) in writing after the date hereof as forming part of any such category or any additional category, at the sole cost and expense of the Buyer (for greater certainty, including during the Base Period).
- (i) “**Transition Services Manager**” has the meaning given to such term in Section 5.

2. Transition Services.

(a) Transition Services. During the term of this Agreement, upon and subject to the terms and conditions set forth in this Agreement (including Section 3), the Provider agrees to provide, or cause to be provided, the Transition Services to the Buyer.

(b) Service Levels.

(i) In respect of each Transition Service, the Provider agrees that such Transition Service shall be provided during the Base Period and Additional Period(s) (as applicable) applicable to such Transition Service as set out in Annex A, at a level and on a basis consistent with those services provided by the Provider to the Sellers prior to Closing in the Ordinary Course of the Canadian Business (disregarding the CCAA Proceedings and circumstances leading up to the CCAA Proceedings), taking into account that reasonable additional effort may be required due to the transition resulting from the Transaction and the U.S. Proceedings. Notwithstanding anything else contained in this Agreement, the Purchase Agreement or otherwise, under no circumstance will the Provider, any Third Party Service Provider or any of their respective Representatives be obligated to provide any Transition Service to the Buyer at a level or standard exceeding that expressly prescribed in this Section 2(b), unless otherwise agreed to in writing by the Parties (including as to all costs and expenses therefor), in their respective sole and absolute discretion.

(ii) The Parties acknowledge and agree that during the applicable term for the Transition Services, the Buyer may request, in writing, changes to business processes and practices comprising any one or more of the Transition Services and these changes, if implemented, may have an impact on the ability of the Provider and/or the Third Party Service Providers to provide Transition Services to the standard required in this Section 2(b). Provided the Provider has provided advance written notice to the Buyer that provision of such Transition Services with such changes, if implemented, with detailed reasons therefor, that the implementation of such changes would adversely impact the cost or service level of the Transition Services provided and, notwithstanding such written notice, the Buyer continues to require such change, then, for all purposes, the Provider is relieved from such standard to the extent caused by the implementation of the Buyer's written requested changes to those business processes and practices comprising the applicable Transition Services. Additionally, to the extent that the Provider or any Third Party Service Provider is unable to provide a Transition Service as a result of the acts or omissions of the Buyer or any of its respective Representatives that are notified to the Buyer in writing and remain uncured or unremedied within seven (7) Business Days after such notification, such inability to perform will not be considered a breach of the standard or this Agreement by the Provider. For greater certainty, and notwithstanding Section 4(a)(i), all additional costs and expenses to provide any Transition Services arising from the Buyer's requested changes to processes and/or practices shall be at the Buyer's sole responsibility and account (for greater certainty, including during the Base Period).

(iii) Each Transition Service will be provided subject to the existence or occurrence of the following dependencies (each, a "**Dependency**"): (i) failure by Buyer to comply with its obligations under this Agreement, (ii) defects in the completeness, accuracy and quality of information provided by or on behalf of Buyer, (iii) changes in

control of the Buyer or entrance into a definitive written agreement providing for such a change in control to the extent the change of control results in the Buyer or its affiliate being subject to, directly or indirectly, regulatory or other requirements that limits or prohibits the provision of such Transition Service, (iv) issues with the suitability, quality or performance of software or equipment provided by or on behalf of the Buyer that affect such Transition Service, (v) security or intrusion issues or disabling features in the Buyer's computing environment, (vi) any defects in the completeness, accuracy and quality of network links provided by any third-party vendor (other than a Third Party Service Provider) provided by or on behalf of the Canadian Business, (vii) any modification after the Closing by the Canadian Business of any of its processes or information technology systems to the extent such modification adversely impacts the provision of IT application or support services as such service existed in the Ordinary Course prior to the Closing, (viii) failure by the Buyer to provide the Provider with access to its systems, (ix) any configurations of or modifications to the underlying software and system used to provide a Transition Service that are requested by the Buyer from time to time, and (x) any other dependencies otherwise mutually agreed upon.

(iv) To the extent that the existence or occurrence of a Dependency adversely affects the provision of any Transition Service, the Provider will be relieved of its obligation to provide such affected Transition Service, but only (i) for that part of the Transition Service affected by the Dependency, (ii) for the duration of that effect and (iii) to the extent that the Provider uses Commercially Reasonable Efforts to mitigate the adverse effect, and gives the Buyer notice of the adverse effect reasonably promptly after becoming aware of the Dependency and its adverse effect. The Parties will propose and attempt to agree upon any steps to be taken to address an adverse effect. Following the cessation of the Dependency, Provider shall as soon as practicable resume providing that part of the Service that was affected by the Dependency.

(v) The Buyer will use the Transition Services (i) only for the benefit of the Canadian Business, (ii) in a manner that does not materially adversely affect the use of Transition Services by the Provider and its affiliates, and (iii) in compliance with Applicable Law and applicable third party agreements, approvals or consents.

(c) Third Party Service Providers. The Provider may provide the Transition Services by and through one or more Third Party Service Providers, including, for greater certainty, on terms pursuant to existing agreements between the Provider with any such Third Party Service Provider or on new terms with such currently-existing Third Party Service Providers to be negotiated and agreed to by the Provider, during the Base Period, in the Provider's sole and absolute discretion, and during any Additional Period, only with approval by the Buyer (not to be unreasonably withheld or delayed), with any such currently-existing Third Party Service Provider in connection with the Transaction and/or the U.S. Proceedings, *provided that* this shall not relieve the Provider of any of its obligations under this Agreement, and the Provider shall maintain responsibility for the provision to the Buyer of the Transition Services with the same level of functionality and at the same cost as provided in this Agreement.

(d) Cooperation. The Parties shall use good faith and Commercially Reasonable Efforts to cooperate with each other in all matters relating to the provision and receipt of the Transition Services, including reasonable consultation with each other in respect of the Transition Services and the transition from the Sellers to the Buyer's systems.

(e) Modifications to Transition Services. Any material modification to be made to the scope, volume, quantity, location, duration, service level, cost or other material aspect of any Transition Service shall be binding only if made in writing and signed by all Parties to this Agreement and no such modification shall be implemented unless and until such writing is so signed.

(f) No Exclusivity. Nothing in this Agreement shall preclude the Provider, any Third Party Service Provider or any of their respective Representatives from providing services similar (in whole or in part) to the Transition Services to any other Person at any time. For greater certainty, the preceding sentence in no way reduces the Provider's obligations under this Agreement, including as to service levels pursuant to Section 2(b).

3. TSA Consents. If the performance of any Transition Service requires any licenses, consents, permits or approvals (each, a "**TSA Consent**") from third parties, and/or any such TSA Consent or any alternative arrangements in lieu of TSA Consent as contemplated in this Section 3 result in additional costs and/or requires the provision of services not otherwise expressly provided for in this Agreement (without duplication of, and excluding, any cost and expense contemplated in Annex A hereto, each, a "**New Cost**"), the Provider shall use Commercially Reasonable Efforts, with the assistance and cooperation of the Buyer and, as may be required, the Sellers, to obtain such TSA Consent, *provided that* prior to agreeing to or incurring any New Cost, the Provider shall provide the Sellers and the Buyer with details available to the Provider of the proposed New Cost and shall consult with the Sellers and the Buyer, including as to negotiating strategies and alternatives. The Buyer may determine that such New Costs not be incurred in which case the Transition Services for which the New Costs are required (and for which the Buyer has determined shall not be incurred) shall no longer be required to be provided pursuant to this Agreement. If, despite Commercially Reasonable Efforts, a required TSA Consent cannot be obtained without payment of the New Cost, the Sellers shall be responsible for the first \$550,000 of such New Costs, with the Buyer being solely responsible for all New Costs in excess of \$550,000, *provided that* the Parties shall co-operate and act in good faith and reasonably to make alternative arrangements (all such arrangements at the Provider's sole cost and expense) for the alternative provision of the corresponding Transition Service(s) without the New Cost, on terms acceptable to all Parties, each acting reasonably. Without limiting the generality of the foregoing, but in each case subject to the foregoing as to responsibility for New Costs, at or prior to the Closing Date, the Provider shall use Commercially Reasonable Efforts to have obtained all TSA Consents reasonably necessary for the Provider to provide the Transition Services with those third parties identified by the Buyer in writing upon or prior to the execution of this Agreement to ensure that the Buyer has the right to receive and use such Transition Services, or entered into such other arrangements and agreements with such Third Party Providers that are satisfactory to the Buyer, in its sole discretion, acting reasonably. The Parties will consult with one another as part of any discussions with such third parties in connection with any such consent, arrangement or agreement.

4. Payments, Fees and Costs.

(a) Transition Services. In consideration of the performance by the Provider (directly or indirectly by causing such performance by Third Party Service Providers) of the Transition Services, the Provider shall be paid the following:

(i) During the Base Period (or such lesser period as determined in accordance with Section 6), the Sellers shall cause the Monitor to pay out of the Purchase Proceeds to the Provider the fees and costs as set forth in Annex A for Transitions Services rendered.

(ii) If the Buyer elects to extend the term for the provision of any Transition Service(s) beyond the Base Period for one or more Additional Periods pursuant to Section 6(b), the Buyer shall pay to the Provider all fees and costs as set forth in Annex A *plus* 10% during each such Additional Periods for Transitions Services rendered.

(b) Taxes. During the Base Period, the Sellers shall, and during the Additional Periods, the Buyer shall, pay all Transfer Taxes incurred with respect to the sale, performance, provision or delivery of Transition Services. Such Transfer Taxes shall be in addition to the other fees or payments provided for in this Agreement.

(c) Other Costs. Notwithstanding anything to the contrary herein, in respect of the receipt of Transition Services, neither the Sellers nor the Buyer shall be liable for any additional fees, costs or expenses in excess of those contemplated in Sections 4(a) and 4(b) unless approved in advance in writing by the Buyer and, during the Base Period, also by the Sellers. For greater certainty, other than in respect of its obligation with respect to the applicable service standard pursuant to Section 2(b), under no circumstances shall the Provider, any Third Party Services Provider or any of their Representatives be required or obligated to incur, or become liable for, any additional fees, costs or expenses for the Transition Services unless the Buyer has agreed in writing to reimburse all such fees, costs and expenses to the Provider in full.

(d) Sellers Cap. Notwithstanding anything to the contrary herein, unless approved in advance in writing by the Sellers and the Monitor, the aggregate amount the Sellers are liable to pay or to cause the Monitor to pay out of the Purchase Proceeds pursuant to this Agreement shall be the total amount set forth at the end of Annex A, plus up to \$550,000 of New Costs incurred pursuant to Section 3.

(e) Invoicing and Payments.

(i) During the Base Period and any Additional Period(s) (if applicable), the Provider shall render an invoice (each, an “**Invoice**”) to the Sellers, the Monitor and the Buyer during the Base Period, and to the Buyer during the Additional Periods, on the last Business Day for each month in which the applicable Transition Services are provided or upon its receipt of a termination notice from the Buyer as contemplated in Section 6(c), setting forth in reasonable detail the amounts to be paid in accordance with the terms set out for each applicable Transition Service set out in Annex A, for such Transition Services that are provided during the month in accordance with the terms of this Agreement, including all information reasonably required to support such invoice.

(ii) During the Base Period (or such lesser period as determined in accordance with Section 6), the Sellers shall cause the Monitor to pay out of the Purchase Proceeds all amounts owing to the Provider, or such other parties as the Provider may have otherwise directed in writing for an Invoice (or part thereof), within fifteen (15) days of the end of each applicable month.

(iii) During the Additional Periods (if applicable), the Buyer shall pay all amounts owing to the Provider, or such other parties as the Provider may have otherwise directed in writing for an Invoice (or part thereof), within fifteen (15) days of the end of

each applicable month.

(iv) In the event of a dispute with respect to any Invoice, the paying Party shall deliver a written statement to the Provider prior to the date payment is due on the disputed Invoice listing all disputed items and providing a reasonably detailed description of each disputed item. Amounts not so disputed shall be deemed accepted and shall be paid, notwithstanding disputes on other items, as provided in this Section 4(d). The applicable Parties shall seek to resolve all such disputes expeditiously and in good faith. The Provider shall continue performing the Transition Services in accordance with this Agreement pending resolution of any dispute

(f) Monitor Escrow. On or prior to the Closing Date, the Parties shall enter into an escrow agreement with the Monitor, in form and substance satisfactory to the Monitor and each of the Parties, which escrow agreement shall be, but only be, in effect during the Base Period (or such lesser period as determined in accordance with Section 6), providing for the payment out of the Purchase Proceeds of the Invoices and applicable Transfer Taxes pursuant to Sections 3, 4(a)(i), 4(b) and 4(d)(ii) to the Provider, Third Party Service Providers and any other providers of the Transition Services, for the retention of any employees of Provider or other alternative arrangements to provide Transition Services (including in the event of a liquidation or other sale not on a going concern basis) and providing for the return of any remaining funds upon termination or expiry of the Base Period (subject to any claims against such escrowed funds arising pursuant to facts or circumstances arising prior to the termination or expiry of the Base Period) to the Sellers, without any further notice, consent or direction of any Party.

5. Management of Transition Process. Each of the Buyer and the Provider has designated the employee of such Party set forth below its name on Annex B hereto as its “**Transition Services Manager**” for this Agreement. Each Transition Services Manager shall have appropriate decision-making authority from his or her respective Party, and shall be responsible for such Party’s general oversight and monitoring of all the activities contemplated by this Agreement. A Party may replace its Transition Services Manager at any time and for any reason, and such replacement shall be effective upon written notice to the other Parties of such replacement. The duties of the Transition Services Managers shall include facilitating continuity of services to those affected by the Transaction, review and approval of additional services not provided for in this Agreement, cut-over planning, testing and approvals. The Transition Managers shall discuss with one another matters arising in respect of this Agreement at least on a weekly basis.

6. Term & Termination.

(a) Term. Unless terminated earlier or extended in accordance with this Section 6, this Agreement shall commence on the Closing Date and shall automatically expire and terminate upon the earlier of (i) the end of the Base Period and (ii) with respect to each Transition Service, the last date of such applicable Transition Service as set forth in Annex A.

(b) Extension. Notwithstanding Section 6(a), the Buyer shall have the option in its discretion to extend the term of any Transition Service (upon providing both the Provider and the Sellers with an irrevocable advance written notice at least forty-five (45) days prior to the scheduled expiry of the then-current term) for up to two sequential three-month periods (each, an “**Additional Period**”), *provided that* the Buyer pays the fees and costs pursuant to

Section 4(a)(ii) and as specified in Annex A in respect of the extended period.

(c) Termination.

(i) This Agreement may be terminated by mutual agreement of the Parties, or by a Party for material breach by the other Party of any of the terms hereof (with any failure to pay any fees hereunder constituting a material breach) if such material breach is not cured within seven (7) days after written notice of such breach is delivered to the breaching Party.

(ii) The Provider may terminate this Agreement forthwith, upon notice to the Buyer:

(1) if the Buyer ceases or threatens to cease to carry on business, or takes or threatens to take any action to liquidate substantially all of its assets other than to a buyer that will continue operating the Canadian Business as a going concern;

(2) if the Buyer becomes insolvent or generally stops making payments when due in the ordinary course of business;

(3) if the Buyer admits its inability to pay its debts generally, or makes or purports to make a general assignment for the benefit of its creditors;

(4) if the Buyer shall institute or have instituted against it any proceedings seeking:

(A) to adjudicate it a bankrupt or insolvent;

(B) any liquidation, winding-up, reorganization, arrangement, adjustment, protection, relief or composition of the Buyer or its debts under any law (whether statutory or otherwise) relating to bankruptcy, insolvency or reorganization or relief of debtors; or the entry of an order for relief or the appointment of a receiver, trustee or similar official for the Buyer or for any substantial part of its properties or assets,

and in the case of any such proceeding instituted against it (but not instituted by it) either such proceeding shall remain undismissed or unstayed for a period of thirty (30) days, or any of the actions sought in such proceeding (including the entry of an order for relief against the Buyer or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property or assets) shall occur; or

(5) if the Buyer shall take any corporate action to authorize any of the foregoing actions.

(iii) Any one or more category of Transition Services, in whole but not in part (each, a “**Terminated Category**”), as specified by the Buyer, may be terminated by the Buyer for any reason and any time in its sole and absolute discretion by providing to both the Provider and the Sellers with an irrevocable advance written notice at least forty-five (45) days prior to the scheduled expiry of the then-current term for such category of Transition Service to be terminated, and any such termination shall be effective upon the date specified in such notice provided that such date may not be earlier than forty-five (45) days from the date the irrevocable advance written notice is delivered to the Provider



and the Sellers. Upon receipt by the Provider and the Sellers of an irrevocable advance written notice of termination of a Terminated Category in respect of an Additional Period, the Provider may issue an invoice to the Buyer in respect of the Terminated Category for amounts payable by the Buyer in respect thereof for the period up to the date of early termination, as well as all additional cost and expenses as a result of such early termination.

(iv) This Agreement shall in any event terminate upon expiration or termination of the term of all Transition Services.

(d) Effect of Termination.

Upon termination for any reason or expiry of this Agreement:

(i) the Provider shall discontinue and shall have no further obligation in providing any then-remaining Transition Services;

(ii) the Sellers and the Buyer, as applicable, shall pay to the Provider the full amount of all fees, if any, payable hereunder outstanding as of the date of termination or expiry, in accordance with Section 4; and

(iii) if requested in writing by the other Party, each Party will return to the other Party within seven (7) days of receiving such request, all of the confidential and proprietary information relating to the other Party to which such Party has had and will have access which is then in its possession or control,

*provided that*, for greater certainty, the rights and obligations of the Parties under Sections 4, 8, 9 and 10, and all of the payment obligations of the Sellers and the Buyer, as applicable, with respect to any unpaid amounts owed hereunder subject to the terms and conditions of this Agreement shall survive any expiration or termination hereof.

7. Occupation of Certain Premises Occupied by the Canadian Business. Separate and in addition to the Transition Services to be provided and the payment therefor as contemplated in this Agreement, from the Closing Date until the earlier of (i) 60 days from the Closing Date, and (ii) the date that all of the leases or Contracts for the leasehold interests underlying the corresponding Designated Premises (each, a “**Lease**”) have been effectively disclaimed for the sole account of the Buyer (after the Buyer has vacated such Designated Premises) (the “**Occupancy Period**”), the Sellers hereby grant to the Buyer a right to the use and occupation of the Designated Premises in accordance with the terms and conditions of their respective Leases, *provided that*, during the Occupancy Period:

(a) at least fifteen (15) days prior to the end of the Occupancy Period for a Designated Premise, the Buyer shall reach a final decision and notify the Sellers as to whether each such Designated Premise is to be disclaimed or assumed by the Buyer;

(b) for each Designated Premise, the Buyer shall be solely responsible for, all costs and expenses (including all occupancy costs (including rent, utilities and all other carrying costs and expenses pursuant to each Lease for such Designated Premise), insurance, employees and maintenance) during and for the duration of the Occupancy Period, and shall promptly reimburse the Sellers for all such payments made upon receipt of evidence any such payment has been made or has been withheld or applied by the counterparty to the relevant Lease against any

security deposit, letter of credit or other similar security provided to such counterparty by the Sellers; and

(c) the Buyer shall indemnify and save harmless the Sellers, their affiliates and their respective Representatives from and against any and all Indemnified Losses which may be suffered, sustained, incurred or brought against any of them as a result of, in respect of, or arising out of any one or more of the following:

(i) the use or occupancy of the Buyer of the Designated Premises during the Occupancy Period;

(ii) any breach or default of any Lease resulting or arising from the use or occupancy of the Buyer of the Designated Premises during the Occupancy Period;

(iii) any physical loss of or damage to all or any part of the Designated Premises during the Occupancy Period; or

(iv) the death or personal injury of any person in the Designated Premises during the Occupancy Period.

8. Limitation of Liability.

(a) None of the Parties, their respective affiliates nor any of their respective Representatives shall be liable for any lost profits or for any indirect, special (other than direct special), incidental, consequential or punitive damages arising out of this Agreement or any performance or non-performance of any Transition Services hereunder or the performance or breach of any obligations hereunder or otherwise, even if the applicable Party has been advised of the possibility of such damages.

(b) The waiver of damages and the limitation of liability set forth in Section 8(a) expressly excludes all liability arising from a Party's fraud, gross negligence or intentional misconduct.

(c) Notwithstanding anything else in this Agreement, other than as set forth in Section 2(b) of this Agreement in respect of the applicable standards only, none of the Provider, the Sellers, their respective affiliates or any of their respective Representatives make any representation or warranty whatsoever, express or implied, including, but not limited to, any representation or warranty as to the merchantability or fitness for a particular purpose of the Transition Services.

9. Force Majeure. Notwithstanding anything in the Agreement to the contrary, no Party shall have any liability under this Agreement relating to, arising from or in connection with a delay in performance or a failure to perform caused by any matter that is due to circumstances beyond the reasonable control of the Party affected thereby, including acts of God, acts of civil or military authority, fires, floods, inclement weather, epidemics, accidents, quarantine restrictions, war, terrorist acts, riots, demonstrations, strikes, lock-outs, labor disputes, labor shortages, sabotage, whether as a result of any virus, worm, Trojan Horse, malware or other malicious or unauthorized code, accidents with respect to machinery or equipment, governmental action or inaction, order or restraints of governmental or other competent authorities, unavoidable delay in obtaining necessary materials, facilities or equipment in the open market caused by third parties, and delays in transportation caused by third parties; provided that the

Party affected by such force majeure event uses diligent efforts, under the circumstances, to notify each other Party in writing of the circumstances causing the delay or non-performance and resumes performance as soon as reasonably practicable.

10. Miscellaneous.

(a) Notices. Any notice, request, demand or other communication required or permitted to be given to a Party pursuant to the provisions of this Agreement will be in writing and will be effective and deemed given under this Agreement on the earliest of: (i) the date of personal delivery; (ii) the date of transmission by facsimile or e-mail, with confirmed transmission and receipt or the date of transmission by electronic transmission (in each case, if sent during normal business hours of the recipient, and if not, then on the next Business Day); (iii) two days after deposit with a nationally-recognized courier or overnight service such as Federal Express; or (iv) five days after mailing via certified mail, return receipt requested. All notices not delivered personally or by facsimile or e-mail will be sent with postage and other charges prepaid and properly addressed to the Party to be notified at the following addresses:

|                        |                                                                                                                                                                                                                                   |
|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| If to the Buyer at:    | c/o Fairfax Financial Holdings Limited<br>95 Wellington Street West, Suite 800<br>Toronto, ON<br>CANADA M5J 2N7<br>Attention: Derek Bulas<br>Facsimile: 416-367-4946<br>E-mail: dbulas@fairfax.ca                                 |
| with a copy to:        | Stikeman Elliott LLP<br>5300 Commerce Court West<br>199 Bay Street<br>Toronto, ON<br>CANADA M5L 1B9<br>Attention: Elizabeth Pillon<br>Facsimile: (416-947-0866<br>E-mail: lpillon@stikeman.com                                    |
| If to the Provider at: | Golfsmith International Holdings, Inc.<br>11000 N IH-35<br>Austin, TX<br>U.S.A. 78753<br>Attention: David Roussy<br>E-mail: David.Roussy@Golfsmith.com                                                                            |
| with a copy to:        | Weil, Gotshal & Manges LLP<br>767 Fifth Avenue<br>New York, NY<br>U.S.A. 10153<br>Attention: Michael Walsh and<br>David N. Griffiths<br>Facsimile: 212-310-8197<br>E-mail: michael.walsh@weil.com and<br>david.griffiths@weil.com |

If to the Sellers at: c/o Golf Town Canada Inc.  
610 Applewood Crescent  
Vaughan, ON  
CANADA L4K 0E3  
Attention: David Roussy  
E-mail: David.Roussy@Golfsmith.com

with a copy to: Goodmans LLP  
333 Bay Street, Suite 3400  
Toronto, ON  
CANADA M5H 2S7  
Attention: Robert J. Chadwick and  
Melaney J. Wagner  
Facsimile: 416-979-1234  
E-mail: rchadwick@goodmans.ca and  
mwagner@goodmans.ca

Any Party may change its address or other information for service from time to time by notice given in accordance with the foregoing and any subsequent notice shall be sent to such Party at its changed address or such change information.

(b) Counterparts, Facsimile Signatures. This Agreement may be signed in counterparts and each of such counterparts shall constitute an original document and such counterparts, taken together, shall constitute one and the same instrument. Execution of this Agreement may be made by facsimile signature, by email, PDF or other electronic format or transmission which, for all purposes, shall be deemed to be an original signature.

(c) Time of the Essence. Time will be of the essence in this Agreement.

(d) Headings. The inclusion of headings in this Agreement is for convenience of reference only and shall not affect the construction or interpretation hereof.

(e) Waiver. Except as expressly provided in this Agreement, no amendment or waiver of this Agreement shall be binding unless executed in writing by each of the Parties hereto. No waiver of any provision of this Agreement shall constitute a waiver of any other provision nor shall any waiver of any provision of this Agreement constitute a continuing waiver unless otherwise expressly provided.

(f) Remedies Cumulative. The rights and remedies of the Parties under or pursuant to this Agreement are cumulative, and no single or partial exercise by a Party of any right or remedy precludes or otherwise affects the exercise of any other right or remedy to which that Party may be entitled.

(g) Entire Agreement. This Agreement and the agreements and other documents required to be delivered pursuant to this Agreement, together with the Purchase Agreement and the Non-Disclosure Agreement dated May 14, 2016 constitute the entire agreement between the Parties and set out all the covenants, promises, warranties, representations, conditions and agreements between the Parties in connection with the subject matter of this Agreement and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, pre-contractual or otherwise. There are no covenants, promises, warranties,

representations, conditions, understandings or other agreements, whether oral or written, pre-contractual or otherwise, express, implied or collateral between the Parties in connection with the subject matter of this Agreement except as specifically set forth in this Agreement, the Purchase Agreement or the Non-Disclosure Agreement.

(h) Invalidity of Provisions. Each of the provisions contained in this Agreement is distinct and severable and a declaration of invalidity or unenforceability of any such provision or part thereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision hereof.

(i) Dispute Resolution. In the event of any controversy, difference, dispute or claim (a “**Dispute**”) arising out of or relating to a Party's rights or obligations under this Agreement (whether arising in contract, tort or otherwise), the calculation or allocation of the costs of or charges for any Transition Service or otherwise arising out of or relating in any way to this Agreement (including the interpretation or validity of this Agreement), such Dispute shall first be referred to the Parties' Transition Services Managers, who shall be responsible for working within the protocols established between the Parties to resolve such Disputes. If after ten (10) Business Days following the referral of a Dispute to the Transition Services Managers, the Transition Services Managers are unable to resolve such Dispute, either Party may bring an action in accordance with the provisions of Section 10(j).

(j) Governing Law, Jurisdiction and Venue. This Agreement, the rights and obligations of the Parties under this Agreement, and any claim or controversy directly or indirectly based upon or arising out of this Agreement or the Transaction (including for the U.S. Proceedings or any part thereof, and in each case whether based on contract, tort, or any other theory), including all matters of construction, validity and performance, as well as the rights and obligations of the Parties hereunder or thereunder, shall in all respects be governed by, and interpreted, construed and determined in accordance with, the laws of the State of New York, without regard to the conflicts of law principles thereof. The Parties consent to the jurisdiction of the U.S. Bankruptcy Court for the duration of the U.S. Proceedings, and subsequently the courts of the State of New York for the resolution of any such disputes arising under this Agreement or any other arrangement between the Parties (including the U.S. Proceedings or any part thereof). Each Party agrees that service of process on such Party as provided in Section 10(a) shall be deemed effective service of process on such Party.

(k) Further Assurances. If any further action is necessary, proper or desirable to carry out any purpose of this Agreement, then each Party hereto will take such further action (including the execution and delivery of further documents) as the other Party hereto reasonably requests to carry out such purpose. The foregoing will be at the expense of such requesting Party, except to the extent such requesting Party is entitled to indemnification therefor or to the extent this Agreement otherwise expressly allocates such expense to the other Party.

(l) Independent Contractor Status. Nothing contained in this Agreement shall be deemed to constitute a single employer, joint employer, co-employer, alter-ego, agency, partnership, joint venture or similar relationship between the Provider or any of the Provider's affiliates or Third Party Service Providers, on the one hand, and the Buyer or any of the Buyer's affiliates, on the other hand. Each Party is acting pursuant to this Agreement solely as an independent contractor.

(m) Assignment. This Agreement will be binding upon and enure to the benefit of each Party and its respective successors and permitted assigns. It is expressly acknowledged, confirmed and agreed by the Parties that this Agreement shall be assigned, with notice to the Buyer but without any requirement of consent of the Buyer or the Sellers, by the Provider to (i) any going concern purchaser of all of substantially all of the Provider's assets used in the Provider's business in a transaction approved by the U.S. Bankruptcy Court in the U.S. Proceedings and (ii) to any non-going concern purchaser to the extent necessary to allow the Provider to satisfy its obligations hereunder under alternative support arrangements satisfactory to the Buyer in its sole discretion are provided. This Agreement shall survive, and not (as applicable) be disclaimed, rejected or subject to any compromise, in the U.S. Proceedings and the CCAA Proceedings.

(n) Currency. All references to dollars or "\$" in this Agreement shall mean U.S. Dollars.

(o) Further Agreement. Whenever there is reference herein to the Parties agreeing on a matter, or to resolve a matter, or similar language, the Parties shall act promptly, reasonably and in good faith in doing so.

(p) Interpretations. In this Agreement, unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders. In addition, every use of the words "including" or "includes" in this Agreement is to be construed as meaning "including, without limitation" or "includes, without limitation", respectively. In this Agreement, unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders. In addition, every use of the words "including" or "includes" in this Agreement is to be construed as meaning "including, without limitation" or "includes, without limitation", respectively.

(q) Effectiveness. Notwithstanding anything else contained herein, this Agreement and the terms and conditions hereof shall be effective only upon approval of this Agreement by the U.S. bankruptcy court in the U.S. Proceedings.

**[Signature Page Follows]**

**IN WITNESS WHEREOF**, the Parties hereto have executed this Agreement as of the date first written above.

**Provider**

**GOLFSMITH INTERNATIONAL  
HOLDING, INC.**

Per: \_\_\_\_\_  
*Name:*  
*Title:*

Per: \_\_\_\_\_  
*Name:*  
*Title:*

**Buyer**

**9918167 CANADA INC.**

Per: \_\_\_\_\_  
*Name:*  
*Title:*

**Sellers**

**GOLF TOWN CANADA INC.**

Per: \_\_\_\_\_  
*Name:*  
*Title:*

Per: \_\_\_\_\_  
*Name:*  
*Title:*

**GOLF TOWN OPERATING LIMITED  
PARTNERSHIP, by its general partner, GOLF  
TOWN GP II INC.**

Per: \_\_\_\_\_  
*Name:*  
*Title:*

Per: \_\_\_\_\_  
*Name:*  
*Title:*



## ANNEX A

## SERVICES TO BE PROVIDED BY THE SELLERS

All Figures in USD

| Department                     | Services/Functions/Costs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Proposed Number of Months Duration | Estimated Cost for Proposed Duration (USD) |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|--------------------------------------------|
| Warehouse/<br>Supply Chain     | <p>Manage and coordinate all modes of transportation including customs compliance, import regulations, and contract negotiation; review, audit, and pay invoices; research and file claims; and manage freight and transportation accounts / login credentials across stores and corporate users, including the following examples:</p> <ol style="list-style-type: none"> <li>1) Small Parcel account &amp; user maintenance including store support; invoice review, audit, and payment; claim filing.</li> <li>2) LTL (Less than Truckload) &amp; Full Truckload shipment coordination; invoice review, audit &amp; payment; claim filing; OS&amp;D reconciliation.</li> <li>3) Coordinate import booking through freight forwarder, ensure correct HS classification, duty and brokerage calculations; invoice review, audit, and payment; customs compliance.</li> <li>4) Contract transition for freight audit &amp; pay company.</li> <li>5) Manage 3rd Party Warehouse with NLS (National Logistics Svcs) - Manage relationship &amp; handle daily tasks, such as Email box, SKU fix, OS&amp;D, WMS/file transfer oversight, order supplies (boxes, packing materials, stretchwrap, pallets), general troubleshooting and fulfill e-commerce orders.</li> <li>6) Cost of Shipping Supplies until transitioned to an alternative supplier</li> <li>7) Facilitating the move of approx. 28 pallets of Golf Town historical records</li> <li>8) Cost incurred to modify Bond and POA information, as well as any other necessary changes to existing Golf Town Contracts</li> </ol> | 4                                  | \$105,200                                  |
| Call Center                    | Provide support for any customer related tasks, including responding to calls and emails, gift card activations, customer refunds, order cancellations, etc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 3                                  | \$41,700                                   |
| Special Orders                 | Provide support in processing the custom orders from customers and handling any customer service requests related to these types of orders (i.e. status, coordinating with vendors, changes, cancellations, interaction with store personnel, etc.)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 3                                  | \$20,700                                   |
| Marketing,<br>CRM, Comm<br>Eng | <ul style="list-style-type: none"> <li>- CRM (Customer Database) - Omniview Customer Processing, Market Research, SMS Text Messaging, Marketing emails, Email marketing, Pop Up campaigns/site overlays and email capture campaigns on GT site</li> <li>- Media advertising, Email retargeting, email marketing deliverability, social media management, Dynamic email content</li> <li>- Personnel time to support Marketing and CRM functions. Also to assist with the development of a detailed promotional calendar for Golf Town.</li> <li>- Cost above does not include implementation costs to transfer contracts or other marketing capabilities to Golf Town</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 3                                  | \$303,200                                  |

| Department                                                    | Services/Functions/Costs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Proposed Number of Months Duration | Estimated Cost for Proposed Duration (USD) |
|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|--------------------------------------------|
| Ecomm                                                         | <ul style="list-style-type: none"> <li>- GT.com maintenance, CMS, CDN for images, image caching, site search, product recommendations, analytics, video platform, mobile provider, registering domain names, address verification</li> <li>- Online advertising, SEO service, feed management for PLAs, digital catalogs, 360 degree photography</li> <li>- Personnel time to support eComm functions</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 12                                 | \$379,800                                  |
| Accounting GL Team                                            | <ul style="list-style-type: none"> <li>- Monthly Close Process, Financial Reporting (using Buyer's accounting policies and provisions), General Ledger Accounting, Tax, Sales Audit, External Audit facilitation, purchase and other accounting support during transition.</li> <li>- Taxware software fees that are used for payment of monthly provincial sales taxes until transitioned to new system.</li> <li>- Personnel time of at least one qualified and dedicated Provider employee to support Accounting GL team functions and timely response to Buyer's enquiries and request for analyses</li> <li>- The Cognos management and operational reports as currently produced for the Seller.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                  | 12                                 | \$267,600                                  |
| Accounting Operations (Accounts Payable /Accounts Receivable) | <p>Costs include the following roles:</p> <ul style="list-style-type: none"> <li>- AP Supervisor oversee the transition process and pick up roles that are eliminated after estimated tenure of staff is completed</li> <li>- AP Merch Rep-reconcile merchandise invoices not yet received &amp; vendor statements against AP aging. Collect credits memos, RTV and vendor funding</li> <li>- AR Rep-reconcile customer balances, collecting and/or refunding against pre-paid orders, close out all chargeback request, preparing deposits</li> </ul> <p>Services also include oversight from existing Golfsmith roles:</p> <ul style="list-style-type: none"> <li>- AP Expense Rep-to close/pay out open expenses</li> <li>- AR Supervisor-oversee the transition process and pick up roles that are eliminated after estimated tenure of staff is completed</li> <li>- EDI Supervisor-oversee the transition process &amp; ensure all PO's, PO changes, ASN and invoices have transmitted for all prior &amp; up to purchased date</li> <li>- SPS Commerce contract-EDI transactions</li> </ul> | 6                                  | \$80,400                                   |
| IT                                                            | <ul style="list-style-type: none"> <li>- Provide basic system support to keep the systems running to support the Golf Town business until a new system is set up.</li> <li>- This basic system support includes a shared amount for third-party contracts related to subscriptions, licenses, and other areas for the related systems being used by the Golf Town business.</li> <li>- Using the Austin data centre or comparable cloud-based solution, Provider will continue to manage IT operations of: the Oracle SCM and Oracle Financial enterprise applications; Retail PRO 9 software; Cognos reporting tools; GT.Com (hosted by third party); Payworks; applicable merchandise-related software; and other software in a secured network. Provider will also offer IT helpdesk support for users and ensure that all records are backed-up at a secured offsite location on a weekly basis.</li> </ul>                                                                                                                                                                                    | 12                                 | \$1,921,200                                |

| Department              | Services/Functions/Costs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Proposed Number of Months Duration                                                                                                                                   | Estimated Cost for Proposed Duration (USD) |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| IT Incremental Services | <p>- If requested by the Buyer, the Provider will set up, assist and manage a cloned IT Services environment with the Buyer being responsible for all incremental hardware and software licensing costs to establish such cloned environment, provided that at least one qualified and dedicated Provider employee is able to assist and support the Buyer in such cloning process.</p> <p>- IT Incremental Services also includes Buyer requested system services rendered in connection with the conversion to new systems, with such service to be supported by at least one qualified and dedicated Provider employee.</p> <p>- Provider will assist with the transfer of any existing licenses to the Buyer and outsourced vendor contracts and services as soon as practicable after the Closing Date and in any event within sixty (60) days of the Closing Date. Such transfer or separate Golf Town related licenses, contracts and accounts from Golfsmith will include but not be limited to the following: Domain name registrar account - golftown.com and other domain names; Microsoft enterprise licenses - windows server licenses, windows server CAL licenses, MS office, terminal server license; MS office 365 licenses for email; Retail pro licenses; Cisco Meraki Dashboard account - Meraki Access point; and Cisco switch and firewall devices maintenance agreement</p> <p>- Provider IT personnel will be available to be engaged by Provider on consulting basis and at \$100 per hour for additional services not contemplated above (not included in the \$280,000 cost above)</p> | 12                                                                                                                                                                   | \$280,000                                  |
| Merchandising           | <p>Merchandise Operations-Data Management, including item master maintenance, new item setup, promotion setup and maintenance</p> <p>Replenishment-Overseeing the daily operations of the replenishment/allocation team, replenishment system configuration, operation, maintenance, training</p> <p>Product replenishment and allocations</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <p>12 for IT and system related merchandising – Note: These costs are included above within the IT section.</p> <p>8 for non IT and system related merchandising</p> | \$63,200                                   |
|                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>Total</b>                                                                                                                                                         | <b>\$3,463,000</b>                         |

**ANNEX B**

**TRANSITION SERVICES MANAGERS**

**The Sellers:**

Name: ●

Title: ●

Email: ●

**The Buyer:**

Name: ●

Title: ●

Email: ●

**ANNEX C**

**DESIGNATED PREMISES**

To be updated at least two (2) Business Days prior to Closing Date.

APPENDIX "D"

DETAILED BUDGET TO ACTUAL ANALYSIS

| <b>Golf Town Entities</b>                                    |                                                             |                   |                    |                 |
|--------------------------------------------------------------|-------------------------------------------------------------|-------------------|--------------------|-----------------|
| <b>Detailed Cash Flow Budget-to-Actual Variance Analysis</b> |                                                             |                   |                    |                 |
| <i>(USD, 000s)</i>                                           |                                                             |                   |                    |                 |
|                                                              | <b>For the Three-Week Period<br/>Ending October 8, 2016</b> |                   |                    |                 |
|                                                              | <b>Ref.</b>                                                 | <b>Actual</b>     | <b>Budget</b>      | <b>Variance</b> |
| Receipts                                                     | A                                                           | \$ 7,832          | \$ 7,768           | \$ 64           |
| <b>Operating Disbursements</b>                               |                                                             |                   |                    |                 |
| Merchandise and Freight                                      |                                                             | (1,601)           | (2,357)            | 756             |
| Employee Costs                                               |                                                             | (777)             | (893)              | 116             |
| Rent and Other Operating Costs                               |                                                             | (2,222)           | (2,671)            | 449             |
| Sales Taxes                                                  |                                                             | (1,855)           | (1,926)            | 71              |
| Capex and Maintenance                                        |                                                             | -                 | (16)               | 16              |
| Total Operating Disbursements                                | B                                                           | \$ (6,455)        | \$ (7,863)         | \$ 1,408        |
| <b>Non-Operating Cash Flows</b>                              |                                                             |                   |                    |                 |
| DIP Fees and Interest                                        |                                                             | (1,024)           | (1,141)            | 117             |
| Third Party Deposits                                         |                                                             | (72)              | (563)              | 491             |
| Professional Fees                                            |                                                             | (159)             | (1,266)            | 1,107           |
| KEIP                                                         |                                                             | -                 | -                  | -               |
| Total Non-Operating Cash Flows                               | C                                                           | \$ (1,255)        | \$ (2,970)         | \$ 1,715        |
| <b>Total Disbursements</b>                                   | <b>D=B+C</b>                                                | <b>\$ (7,710)</b> | <b>\$ (10,833)</b> | <b>\$ 3,123</b> |
| <b>Net Cash Inflows / (Outflows)</b>                         | <b>A + D</b>                                                | <b>\$ 122</b>     | <b>\$ (3,065)</b>  | <b>\$ 3,187</b> |
| <b>Book Cash</b>                                             |                                                             |                   |                    |                 |
| Opening Book Cash Balance                                    |                                                             | \$ 126            | \$ 126             | \$ -            |
| Add: Receipts                                                | A                                                           | 7,832             | 7,768              | 64              |
| Less: Pre-Petition ABL / FILO (Repayments)                   |                                                             | (6,632)           | (7,768)            | 1,136           |
| Book Cash Available After Pre-Petition ABL / FILO Repayments |                                                             | 1,326             | 126                | 1,200           |
| Less: Total Disbursements                                    | D                                                           | (7,710)           | (10,833)           | 3,123           |
| Less: Intercompany Transfers (Post-Filing)                   |                                                             | (150)             | -                  | (150)           |
| Net DIP Borrowing Requirement                                |                                                             | (6,534)           | (10,707)           | 4,173           |
| Add: DIP Borrowings / (Repayments)                           |                                                             | 6,721             | 10,707             | (3,986)         |
| <b>Ending Book Cash Balance</b>                              |                                                             | <b>\$ 187</b>     | <b>\$ -</b>        | <b>\$ 187</b>   |

**APPENDIX “E”**  
**ACTUAL WEEKLY LIQUIDITY VARIANCE**

| <b>Consolidated Golfsmith Entities and Golf Town Entities</b> |                            |                   |                  |                  |
|---------------------------------------------------------------|----------------------------|-------------------|------------------|------------------|
| Weekly Liquidity (based on bank cash balance)                 |                            |                   |                  |                  |
| <i>(USD, 000s)</i>                                            |                            |                   |                  |                  |
|                                                               | <b>Actuals Week Ending</b> |                   |                  |                  |
|                                                               | <b>9/17</b>                | <b>9/24</b>       | <b>10/1</b>      | <b>10/8</b>      |
| Net Borrowing Base                                            | 106,300                    | 102,525           | 97,999           | 90,646           |
| Facility Size                                                 | 135,000                    | 135,000           | 135,000          | 135,000          |
| <b>Maximum Borrowing Availability</b>                         | <b>\$ 106,300</b>          | <b>\$ 102,525</b> | <b>\$ 97,999</b> | <b>\$ 90,646</b> |
| Less: Pre-Petition ABL Balance (Including LCs)                | 87,707                     | 75,110            | 65,111           | 56,533           |
| Less: Unapplied Pre-Petition ABL Paydown                      | (2,215)                    | -                 | -                | -                |
| Less: Pre-Petition FILO                                       | 11,695                     | 11,695            | 11,535           | 11,535           |
| Less: DIP ABL Balance (Including LCs)                         | 1,574                      | 11,676            | 15,058           | 22,738           |
| Total ABL Balance                                             | 98,761                     | 98,481            | 91,704           | 90,805           |
| <b>Excess Availability / (Over Advance)</b>                   | <b>7,539</b>               | <b>4,044</b>      | <b>6,295</b>     | <b>(159)</b>     |
| Add: Bank Cash                                                | 2,737                      | 3,443             | 882              | 438              |
| <b>Total Liquidity</b>                                        | <b>\$ 10,276</b>           | <b>\$ 7,487</b>   | <b>\$ 7,177</b>  | <b>\$ 279</b>    |





## **GOLF TOWN ENTITIES CASH FLOW FORECAST NOTES AND SUMMARY OF ASSUMPTIONS**

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**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 16-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 16-week period for the weeks ending from October 15, 2016 to January 28, 2017.
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 cyclicity 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 reflect 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 the Pre-Filing 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.

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

Court File No. CV-16-11527-00CL

**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.**

**Applicants**

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***ONTARIO***  
**SUPERIOR COURT OF JUSTICE**  
**(COMMERCIAL LIST)**

Proceeding commenced at Toronto

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**SECOND REPORT OF THE MONITOR, FTI  
CONSULTING CANADA INC. DATED  
OCTOBER 21, 2016**

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