

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

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

**THIRD REPORT OF THE MONITOR**

October 25, 2016

# TABLE OF CONTENTS

	<b>Page</b>
Introduction.....	1
A. The Assignment Order.....	3
B. The Monitor’s Comments and Recommendations .....	9

**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.

**THIRD 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, among other things, 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 granted an Approval and Vesting Order approving the sale of the Golf Town Entities’ 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 Golf Town Limited (formerly 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.

3. Also on September 30, 2016, the Court extended the Stay of Proceedings against the Applicants until January 31, 2017.
4. The purpose of this, the Monitor’s Third Report (the “**Third Report**”), is to provide the Court with information regarding the Golf Town Entities’ request for an Order pursuant to section 11.3 of the CCAA (the “**Assignment Order**”), among other things, assigning 13 real property leases and related agreements (the “**Assigned Leases**”) to the Purchaser in connection with the completion of the Golf Town Transaction.
5. In preparing this Third 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 Golf Town Entities’ U.S. affiliate, Golfsmith International Holdings, Inc. and its wholly owned subsidiaries and Golf Town USA, L.L.C. (collectively, the “**Golfsmith Entities**”).
6. 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 Third Report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this Third Report is based on Management’s assumptions regarding future events; actual results may vary from the forecast and such variations may be material.
7. 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 24, 2016 and filed in support of the Applicants' motion to approve the Assignment Order (the "**Fourth Roussy Affidavit**").

**A. THE ASSIGNMENT ORDER**

(i) *Background and Reasons for the Assignment Order*

8. The Monitor understands that, since the granting of the Approval and Vesting Order in respect of the Golf Town Transaction, representatives of the Purchaser, with the assistance of the Vendors, have engaged in extensive discussions with Golf Town's landlords and/or their counsel to determine which of Golf Town's retail stores the Purchaser will continue to operate (the "**Retained Locations**") and to obtain landlord agreement to the assignment, amendment or renegotiation of the real property leases in respect of the Retained Locations.
9. The Monitor also understands that, to date, the Purchaser has made good progress regarding the assignment and/or amendment of the leases for a large portion of the Retained Locations. However, the Purchaser has been unable to date to reach agreement on lease terms in respect of the Assigned Leases.
10. The Purchaser has informed the Vendors and the Monitor that it may be necessary to seek Court approval of the assignment of the Assigned Leases to the Purchaser in connection with the completion of the Golf Town Transaction. The 13 real property leases which form the Assigned Leases are listed in Schedule "A" to the proposed Assignment Order. Pursuant to the milestones contained in the DIP Facility, the motion for the Assignment Order was served on October 21, 2016.
11. The Purchaser has advised the Monitor that the Purchaser, with the assistance of the Vendors as required, will continue to advance discussions with landlords with whom agreements have not yet been reached, in an effort to reach agreement with respect to lease arrangements at the Retained Locations and avoid the need for the Assignment Order. To the extent that the Purchaser is able to obtain such consents prior to the return date of the motion for the Assignment Order, the relevant Assigned Lease will be removed from the schedule of Assigned Leases.

12. The Monitor also understands that the Purchaser may indicate on or before October 26, 2016 that certain of the 13 Assigned Leases will not be Assumed Contracts for purposes of the Purchase Agreement, in which case the Golf Town Transaction will be completed without such Assigned Leases and such Assigned Leases may be disclaimed in the CCAA Proceedings.
  
13. As set out in the Fourth Roussy Affidavit, in the event that certain real property leases have not been assumed by the Purchaser upon the closing of the Golf Town Transaction, the Purchaser has the option pursuant to the Purchase Agreement to designate, at least two days prior to closing, premises that the Purchaser will occupy during the 60-day Post-Closing Occupancy Period at the Purchaser's sole cost and expense, including all occupancy and operating costs. During this period, operations would continue at the designated locations while the Purchaser determines whether it can achieve acceptable lease arrangements with respect to such locations (whether through agreement with the applicable landlord or a subsequent assignment order pursuant to the CCAA) or whether the applicable real property leases may be disclaimed in the CCAA Proceedings. While the Purchaser has indicated that its preference is to finalize lease arrangements with respect to all Retained Locations prior to closing, it will continue to evaluate whether it is necessary to make use of the Post-Closing Occupancy Period in respect of certain premises.

(ii) *Section 11.3 of the CCAA*

14. Section 11.3 of the CCAA applies to the assignment of contracts under the CCAA. Section 11.3 provides:

**11.3 (1) On application by a debtor company and on notice to every party to an agreement and the monitor, the court may make an order assigning the rights and obligations of the company under the agreement to any person who is specified by the court and agrees to the assignment.**

**Exceptions:**

**(2) Subsection (1) does not apply in respect of rights and obligations that are not assignable by reason of their nature or that arise under**

**(a) an agreement entered into on or after the day on which proceedings commence under this Act;**

**(b) an eligible financial contract; or**

(c) a collective agreement.

**Factors to be considered:**

(3) In deciding whether to make the order, the court is to consider, among other things,

(a) whether the monitor approved the proposed assignment;

(b) whether the person to whom the rights and obligations are to be assigned would be able to perform the obligations; and

(c) whether it would be appropriate to assign the rights and obligations to that person.

**Restriction:**

(4) The court may not make the order unless it is satisfied that all monetary defaults in relation to the agreement — other than those arising by reason only of the company's insolvency, the commencement of proceedings under this Act or the company's failure to perform a non-monetary obligation — will be remedied on or before the day fixed

15. With respect to the application of the criteria set out in section 11.3(3) of the CCAA, the Monitor notes that section 11.3(3) provides a non-exhaustive list of factors to be considered by the Court, and that section 11.3(3) does not require that each of the factors listed must be met in order for the assignment of an agreement to be ordered by the Court.

(iii) *Exceptions to Assignability*

16. The Monitor is not aware of any rights and obligations under the Assigned Leases that are not assignable by reason of their nature.

17. None of the Assigned Leases is: (a) an agreement entered into on or after the commencement of the CCAA Proceedings; (b) an eligible financial contract; or (c) a collective agreement.

(iv) *Whether the Monitor Approves the Proposed Assignments*

18. The Golf Town Transaction provides a going concern solution for the Golf Town business that will maximize value and result in the continuation of business at many of the Golf Town retail stores for the benefit of a broad range of stakeholders including landlords, customers, suppliers and employees. The Monitor has been working with the Golf Town Entities and the Purchaser to close the Golf Town Transaction by the targeted closing date of October 31, 2016.
19. The Purchaser has indicated that it is in a position to continue Golf Town's operations at the Retained Locations. The Court-ordered assignment of the Assigned Leases will preserve continued employment at up to 13 Golf Town locations.
20. The Monitor is of the view that the advantages of assigning the Assigned Leases outweighs any potential adverse effects to the applicable landlords as a result of the assignment of the Assigned Leases. In addition, for any contract that is designated by the Purchaser to be a "Material Contract" under the Purchase Agreement, a contractual assignment or a Section 11.3 order must be obtained. The Purchaser has until October 26, 2016 to designate which contracts of the Golf Town Entities are Material Contracts.
21. Accordingly, in order to facilitate the closing of the Golf Town Transaction, the Monitor supports the proposed assignments under the Assignment Order.

(v) *Whether the Purchaser Would be Able to Perform the Obligations*

22. The Purchaser has advised the Monitor that it is well capitalized and intends to grow the Golf Town business.
23. Fairfax is a publicly-traded company with common shares listed on the Toronto Stock Exchange (FFH). Fairfax has a current market capitalization of over C\$16.1 billion and its shares have had compounded growth of approximately 19% over the past 30 years. Fairfax's subsidiaries include a number of worldwide insurance and reinsurance companies and a number of non-insurance company investments in the Canadian retail and restaurant sectors, including Sporting Life, Cara (Harvey's and Swiss Chalet) and The Keg.



24. CI has been managing investment funds for over 50 years and is one of Canada's largest investment fund companies. CI manages approximately C\$110 billion (as of September 30, 2016) on behalf of two million Canadian investors. CI is a subsidiary of CI Financial Corp., a publicly-traded, diversified wealth management firm listed on the Toronto Stock Exchange (CIX), and has a current market capitalization of approximately C\$6.7 billion.
25. The Purchaser has further advised the Monitor that it will have working capital of over C\$50 million on the closing of the Golf Town Transaction and will have no external debt obligations or payables. In addition, the Monitor understands that the Purchaser is in the process of securing new credit facilities with a tier one banking syndicate. The facilities are expected to be in place on the closing of the Golf Town Transaction and should provide the Purchaser with additional financial support of approximately C\$20-30 million.
26. The restructuring of the Golf Town business undertaken in connection with the Golf Town Transaction and the CCAA Proceedings will enhance the financial stability of the Golf Town business and the Purchaser's ability to perform the obligations under the Assigned Leases moving forward. Upon its emergence from CCAA protection, the Golf Town business is expected to have a significantly improved financial position and will be operated by an experienced and well-capitalized ownership group. Accordingly, the Monitor is of the view that the Purchaser has the financial ability to perform the obligations under the Assigned Leases.

(vi) *Whether it Would be Appropriate to Assign the Rights and Obligations*

27. As noted above, the Purchaser has the option to designate certain of the Assigned Leases as Material Contracts (as defined in the Purchase Agreement) on or prior to October 26, 2016. Pursuant to the Purchase Agreement, the assignment of such Materials Contracts (pursuant to the Assignment Order or otherwise) is a condition precedent for the completion of the Golf Town Transaction.

28. The Monitor is of the view that the approval of the Assignment Order will result in the continuation of the Golf Town business at as many Retained Locations as possible for the benefit of a broad range of stakeholders.
29. While the Purchaser and the Vendors have made significant efforts to obtain consensual assignments of the Assigned Leases in the short period of time that has passed since the Golf Town Transaction was approved, they have been unable to do so to date.
30. Accordingly, the Monitor is of the view that the assignment of the Assigned Leases is appropriate in the circumstances.

(vii) *Payment of Monetary Defaults*

31. The proposed Assignment Order provides that all monetary defaults in relation to an Assigned Lease existing prior to the closing of the Golf Town Transaction, other than those arising by reason only of the insolvency of the Golf Town Entities or the Golfsmith Entities, the initiation of the CCAA Proceedings, the initiation of the Golfsmith Entities' proceeding under Chapter 11 of the United States Bankruptcy Code, or the failure to perform a non-monetary obligation under the Assigned Lease, shall be paid to the applicable landlord under the Assigned Lease no later than three (3) business days following the delivery of the Monitor's Certificate evidencing completion of the Golf Town Transaction.

32. Accordingly, the Monitor understands that all monetary defaults in respect of the Assigned Leases will be satisfied in connection with the closing of the Golf Town Transaction and the assignment of the Assigned Leases to the Purchaser. The Monitor intends to work with the Golf Town Entities and their landlords with respect to the satisfaction of the monetary defaults.

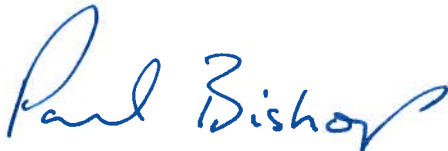
**B. THE MONITOR'S COMMENTS AND RECOMMENDATIONS**

33. Based on the foregoing, the Monitor supports the Golf Town Entities' motion for the Assignment Order and supports the granting of the Assignment Order.

The Monitor respectfully submits this Third Report to the Court.

Dated this 25<sup>th</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.



Paul Bishop  
Senior Managing Director

**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**

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

Proceeding commenced at Toronto

**THIRD REPORT OF THE MONITOR, FTI  
CONSULTING CANADA INC. DATED  
OCTOBER 25, 2016**

**OSLER, HOSKIN & HARCOURT LLP**  
1 First Canadian Place  
P.O. Box 50  
Toronto, ON M5X 1B8

**Tracy C. Sandler (LSUC#32443N)**  
Tel: (416) 862-5890

**Jeremy Dacks (LSUC#41851R)**  
Tel: (416) 862-4923

**Michael Shakra (LSUC#64604K)**  
Tel: (416) 862-6643

Fax: (416) 862-6666

**Lawyers for the Monitor, FTI Consulting  
Canada Inc.**