Court File No.

Ontario
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF **TARGET CANADA CO., TARGET CANADA HEALTH CO., TARGET CANADA MOBILE GP CO., TARGET CANADA PHARMACY (BC) CORP., TARGET CANADA PHARMACY (ONTARIO) CORP., TARGET CANADA PHARMACY CORP., TARGET CANADA PHARMACY (SK) CORP.,** and **TARGET CANADA PROPERTY LLC**

APPLICANTS

AFFIDAVIT OF MARK J. WONG
(Sworn January 14, 2015)

I, Mark J. Wong, of the City of Mississauga, in the Province of Ontario, General Counsel and Secretary for the Applicant Target Canada Co. ("**TCC**"), MAKE OATH AND SAY:

1. This Affidavit is made in support of an Application by TCC and the other Applicants (together, the "**Applicants**") for relief under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). While the limited partnerships listed on Schedule A to this Affidavit (the "**Partnerships**") are not Applicants in this proceeding, the Applicants seek to have a stay of proceedings and other benefits of an Initial Order under the CCAA extended to the Partnerships, which are related to or carry on operations that are integral to the business of the Applicants.

2. I am General Counsel and Secretary for TCC, positions I have held since February 2012 and January 2015, respectively. I have been a Director of TCC since June 2012. I also hold the following positions with the other Applicants: (i) Director, Vice President and Secretary of Target Canada Health Co.; (ii) Director, President and Secretary of Target Canada Mobile GP Co.; (iii) Secretary of Target Canada Property LLC; (iv) Secretary and Vice President of Target Canada Pharmacy (Ontario) Corp.; (v) Director, Secretary and Vice President of Target Canada Pharmacy (BC) Corp.; (vi) Director, Secretary and Vice President of Target Canada Pharmacy (SK) Corp.; and (vii) Director, Secretary and Vice President of Target Canada Pharmacy Corp. As such, I have personal knowledge of the matters deposed to in this Affidavit. Where I have relied on other sources for information, I have specifically referred to such sources and verily believe them to be true. In preparing this Affidavit, I consulted with legal, financial and other advisors of TCC and Target Corporation (the ultimate parent corporation of the Applicants), and other members of the senior management teams of TCC and Target Corporation.

3. This Affidavit is organized in the following sections:

Introduction

4. TCC is a large Canadian retailer. Its corporate headquarters are in Mississauga, Ontario. TCC is an operating Canadian subsidiary of the United States-based retailer Target Corporation and is indirectly wholly-owned by Target Corporation.

5. Target Corporation, founded in 1902 as Dayton Hudson Corporation and based in Minneapolis, Minnesota, is one of the largest retailers in the United States. It operates 1,801 stores in the United States and employs more than 350,000 people. Target Corporation is a public company. Its common stock is listed on the New York Stock Exchange under the symbol TGT.

6. TCC operates 133 stores across Canada and, as of January 12, 2015, employed approximately 17,600 people. All or nearly all of the employees work in Canada, with almost half working in Ontario. Other stakeholder groups include vendors of inventory, suppliers of services, franchisee pharmacists operating businesses in TCC stores, landlords and others.

7. The Applicants in this CCAA proceeding do not comprise the entire Target enterprise. The Applicants and Partnerships (together, the "**Target Canada Entities**") consist of TCC and certain related entities solely involved in the Canadian retail operations (including the Canadian pharmacy operations) and the financing of certain leasehold improvements.

8. In early 2011, Target Corporation decided for the first time to expand its retail operations outside of the United States. At the time, Target Corporation's leadership saw expansion into Canada as an opportunity to extend the Target shopping experience to a broader group of people and thereby expand its revenues and profits. They also believed that there were

significant opportunities in the Canadian market that made their strategies well positioned to succeed.

9. TCC entered Canada in 2011 by purchasing certain leasehold interests, and ultimately accepting the assignment of some of those leases, from Zellers Inc. ("**Zellers**"). While TCC also intended to expand to other sites, the Zellers leases gave TCC immediate access to key locations in communities throughout Canada. TCC saw this as being more attractive than a typical greenfield expansion. TCC expected that this access would allow its operations to quickly reach an efficient scale. After renovations and leasehold improvements were complete, TCC opened at many of the former Zellers locations under the Target banner. The first stores opened in March 2013.

10. The financial returns for Canadian stores were expected to be in line with historical returns for U.S. store openings. This typically meant losses until the completion of the first full year of store operations, and profits thereafter. However, despite focused commitment and effort, Canadian consumers did not embrace the Target shopping experience in Canada to the same extent as consumers in the United States. In every quarter since TCC opened its first store, TCC has faced lower-than-expected sales and greater-than-expected losses. Sales for the 2013 fiscal year and the year-to-date 2014 fiscal year significantly missed expectations. As reported in Target Corporation's consolidated financial statements, the Canadian segment of Target Corporation's business has suffered a significant loss in every quarter since TCC opened stores in Canada.

Quarter	Canadian Segment Earnings (Loss) before Interest and Taxes (USD)
Q1 2013	($205 million)
Q2 2013	($169 million)
Q3 2013	($238 million)
Q4 2013	($329 million)
Q1 2014	($211 million)
Q2 2014	($204 million)
Q3 2014	($211 million)

11. TCC is completely operationally funded by its parent, Target Corporation, and related entities. TCC has put considerable financial pressure on Target Corporation and TCC continues to consume significant cash. It is projected that TCC's cumulative operating losses from its entry into the Canadian market to the end of the 2014 fiscal year (ending January 31, 2015) will be more than CAD $2.5 billion pre-tax – more than triple the originally expected loss for that period. It is projected that TCC's operations would remain unprofitable for at least five years, and would require significant and continued funding from Target Corporation during that period.

12. TCC believes that it did not succeed due to the following principal issues, among others:

(a) *Issues of scale*: TCC opened 133 stores across Canada in less than two years. This was, in part, an attempt to allow its operations to quickly reach an efficient scale. The breadth of the expansion stretched TCC's resources and limited TCC's ability to respond quickly and effectively to certain issues, including issues noted below.

In addition, the opening of that many stores resulted in market densification – particularly in large cities served by more than one Target store – and reduced the impact of many of the new store openings.

(b) *Supply chain issues*: Although TCC invested heavily in information technology to create synchronized retail, inventory and distribution systems for the Canadian operations, TCC has encountered significant supply chain issues. TCC stores were often: (i) out-of-stock for important merchandise, resulting in consumer dissatisfaction; and (ii) over-stocked on other merchandise, necessitating discounts to manage the inventory and impairing operating margins. These supply chain issues created a poor first impression in Canada and prevented TCC from offering the wide assortment of merchandise consistent with Canadian consumers' expectations. Although TCC has invested heavily and improved many of the initial supply chain issues, many potential customers appear to have returned to or maintained the shopping practices they had before TCC's entry into Canada.

(c) *Pricing and product issues*: Many in the Canadian market expected TCC to follow Target's U.S. prices, which is a significant source of loyalty to the Target brand and a factor that differentiates Target from many of its competitors. Rather than match or reflect the U.S. prices in Canada, TCC's pricing model was designed to compete with other similar Canadian retailers and included generally higher prices than Target's U.S. stores. This appears to have limited TCC's ability to distinguish itself in the competitive Canadian retail marketplace. Many

Canadian consumers also expected TCC to carry the same products as U.S. Target stores. While Canadian stores carry many of the same products as Target's U.S. stores, the precise product mix could not be replicated in Canada.

(d) *No online presence*: Although Target Corporation has an established and successful online retail business, TCC elected to focus on the build-out of the physical stores and improving store operations, and did not prioritize the establishment of an online retail business for Canadian customers. This turned out to be a significant competitive disadvantage as the retail market moves beyond traditional bricks-and-mortar stores. Target Corporation and TCC, along with their financial and other advisors, have analyzed a variety of options to overcome this absence – including extending the U.S. online Target.com retail business to Canada or establishing a stand-alone online Target.ca retail business – but none of these options are expected to stop the projected significant losses from TCC's operations, as discussed below.

13. TCC has been focused on finding a way to succeed in Canada, but recent results continue to fall below expectations. Beginning in Spring 2014, and continuing extensively over the past several months, TCC has added internal resources and consulted at great length with a variety of strategic, operational and financial advisors in an attempt to improve TCC's operations and identify strategies that could make the Canadian operations viable in the long term. Every one of TCC's retail stores was visited to assess strengths, opportunities and market potential. A variety of portfolio analyses were conducted to assess current and potential sales, gross margin performance, market demographics and site-specific attributes. Advisors and management

consultants visited all or substantially all of TCC's stores and assessed trade areas, mall quality, co-tenants and a variety of other store attributes and variables. However, these efforts did not yield forecasted financial improvements during the 2014 holiday season.

14. TCC and Target Corporation considered a wide range of options, including, among other things, closing underperforming stores; selling specific assets such as a portfolio of leases outside of an insolvency proceeding; improving logistics to improve performance; consolidating distribution operations; and a wide variety of combinations and other options. Even under the most optimistic scenarios, TCC and Target Corporation could not identify an option that would result in TCC breaking-even in the next five years.

15. TCC's operational funding is provided exclusively by Target Corporation and related entities. Target Corporation has invested more than CAD $7 billion into the expansion into Canada since the start of 2011. Following the thorough review of TCC's performance described above and careful consideration of all options, I am informed by senior management of Target Corporation that the board of directors of Target Corporation has determined that, in its business judgement, it is in the best interest of its business and its shareholders to discontinue operations in Canada and focus on driving growth and building further momentum in its omnichannel U.S. business. Without further funding and financial support from Target Corporation, the Applicants are unable to meet their liabilities as they become due and are therefore insolvent.

16. Given the size and complexity of TCC's operations and the numerous stakeholders involved in the business, including the employees, the Target Canada Entities believe that a controlled and orderly wind down and liquidation through this CCAA proceeding,

to be supervised by the Court with the assistance of the Monitor, is the only practical method to ensure a fair and orderly process for all stakeholders. TCC and Target Corporation intend to wind down Canadian operations in a responsible and controlled manner and, as explained below, intend to treat stakeholders as fairly and equitably as the circumstances allow. Without the continued financial support of Target Corporation, the Target Canada Entities believe that they will be unable to meet their liabilities as they come due and the Target Canada Entities will be unable to continue to operate outside of the "breathing space" afforded by a CCAA proceeding. As described below, Target Corporation has agreed to provide debtor in possession financing to assist the Target Canada Entities in the orderly wind down process.

17. The Target Canada Entities intend to engage in an orderly wind down with the goal of developing a plan of compromise or arrangement to present to their creditors as part of these proceedings. Under the current circumstances, including the continuing expected losses from TCC's ongoing operations, it is the Target Canada Entities' view that the optimal way to effect an orderly wind down will be to liquidate TCC's inventory and to attempt to sell its real estate portfolio, either en bloc, in groups, or individually. TCC is asking the Court to authorize TCC, in consultation with the Monitor, to solicit proposals from liquidators regarding the sale of the Target Canada Entities' inventory in a liquidation process. The Target Canada Entities intend to return to Court following the solicitation of proposals to seek approval of a liquidation agreement and process for the sale of its inventory. The Target Canada Entities are also asking, as part of the proposed Initial Order, for the Court to approve TCC's engagement of Lazard Freres & Co. LLC ("**Lazard**") and Northwest Atlantic (Canada) Inc. ("**Northwest**") as TCC's financial advisor and real estate advisor, respectively, to develop and assist with a sales process for TCC's real estate portfolio.

18. TCC's liquidity position continues to deteriorate. Subject to certain conditions including the granting of the proposed Initial Order, Target Corporation has agreed to provide TCC and its subsidiaries with an interim financing facility (the DIP Facility, as defined below) of up to USD $175 million. TCC and its subsidiaries have an immediate need for funding. Without the DIP Facility, TCC is unable to meet its next payroll (due on January 16, 2015) and other obligations. In addition, without the DIP Facility, TCC and its subsidiaries are unable to continue their operations throughout an orderly wind down of the business and sale of its real estate and other assets. In an effort to be as fair as possible to the Target Canada Entities' stakeholders, Target Corporation has offered to provide the DIP Facility on terms that are advantageous to the Applicants and their stakeholders.

19. In an effort to provide a measure of financial security during the orderly wind down and to diminish the financial hardship TCC's employees may suffer, Target Corporation has agreed to fund an Employee Trust (defined below) to a maximum amount of CAD $70 million, discussed further below, for the benefit of eligible employees of TCC to ensure payment of certain amounts, such as working notice following termination, should this Court grant CCAA protection. It is intended that the Employee Trust provide the employees with relief from any possible dispute from other creditors of the Target Canada Entities regarding the TCC employees' entitlement to receive the full amount of these employment benefits as part of the CCAA proceedings. No funds from the Target Canada Entities will be used to fund the Employee Trust. Target Corporation will not seek to recover from the Target Canada Entities' estates any amounts paid out of the Employee Trust. This approach is also intended to benefit other creditors by removing these employee claims from the creditor pool.

20. The Target Canada Entities are asking the Court to appoint representative counsel to represent TCC's employees in the CCAA proceedings to ensure their interests are adequately protected throughout, including by assisting with eligible claims under the Employee Trust.

21. Pursuant to an unsecured loan facility between TCC and its direct parent, Nicollet Enterprise 1 S.à r.l. ("**NE1**"), TCC owes NE1 approximately CAD $3.1 billion. NE1 and TCC have entered into a Subordination and Postponement Agreement (defined below) in which NE1 agrees to subordinate all amounts owed by TCC to NE1 under their loan facility to the payment in full of proven claims against TCC, excluding NE1's proven claims.

22. The Target Canada Entities are also seeking, among other relief, the following as part of the proposed Initial Order: (i) approval of a key employee retention plan; (ii) authorization (but not the requirement) to pay pre-filing amounts with the consent of the Monitor to key entities in TCC's distribution network, cash collection network, and to other critical suppliers if required to ensure an orderly wind down for the benefit of TCC's stakeholders; (iii) approval to continue making payments for shared services provided by Target Corporation and certain of its subsidiaries; (iv) an Administration Charge, a KERP Charge, a Directors' Charge and a Financial Advisor Subordinated Charge (each defined herein); (v) a stay of proceedings against the Target Canada Entities; (vi) a temporary stay of proceedings against Target Corporation and related entities relating to claims that are derivative of claims against the Target Canada Entities; and (vii) a stay of potential rights, including termination rights and claims for rent reduction or abatement, asserted by third party tenants in commercial properties where Target stores, offices or warehouses are located that arise as a result of the making of the proposed Initial Order or the Target Canada Entities' circumstances.

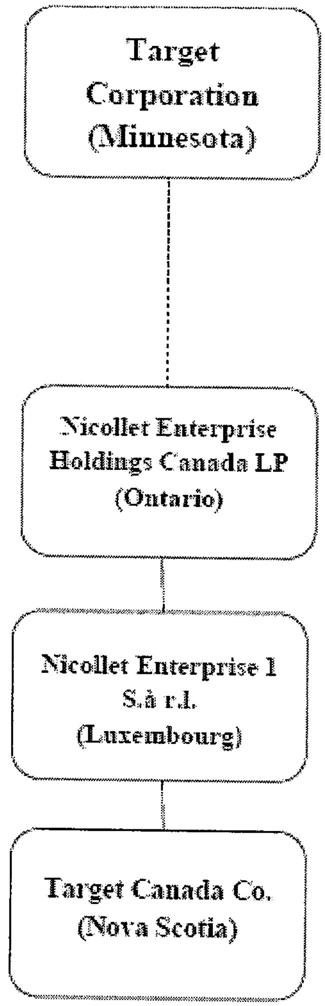
23. The Target Canada Entities require a stay of proceedings and related relief under the CCAA, including the temporary stay of proceedings against Target Corporation and related entities that are derivative of claims against the Target Canada Entities, in order to continue operating throughout the contemplated wind down and liquidation process. The stay will provide the Target Canada Entities with the breathing room to implement an orderly wind down, with the ultimate goal of developing a plan of arrangement for the benefit of their stakeholders.

Corporate Structure of the Target Canada Entities

24. TCC is a Nova Scotia unlimited liability company. The other Target Canada Entities are all either: (i) direct or indirect subsidiaries of TCC; or (ii) affiliates of TCC that have been involved in the financing of certain leasehold improvements. A copy of a chart showing the organizational structure of the Target Canada Entities and certain related entities as of today's date is attached as Exhibit A to this Affidavit.

A. TCC

25. As shown in the following chart, TCC is an indirect wholly-owned subsidiary of Target Corporation. The solid lines show a direct parent-subsidiary relationship. The dotted lines show an indirect parent-subsidiary relationship.



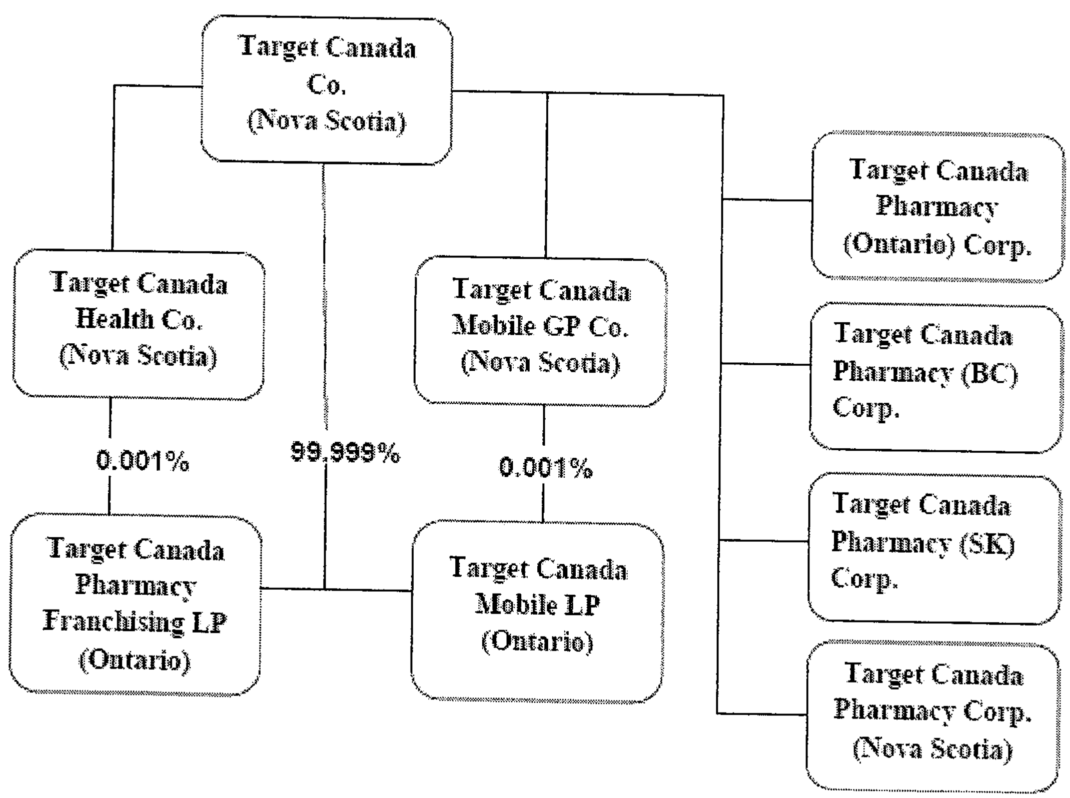
26. TCC is directly owned by NE1, an entity organized under the laws of Luxembourg. NE1 formerly operated under the name TSS 1 S.à r.l. NE1 owns all of the issued and outstanding shares of TCC. As explained below, NE1 has provided equity capital to TCC in the amount of approximately CAD $2.6 billion and NE1 has lent TCC approximately CAD $3.1 billion.

27. TCC is an indirect subsidiary of various entities, including Nicollet Enterprise Holdings Canada LP, all of which are subsidiaries of Target Corporation (which is incorporated under the laws of Minnesota).

28. TCC has two directors: Pam Tomczik and me. I became a director of TCC on June 30, 2012. Ms. Tomczik is Vice President of Business Development with Target Corporation and became a director of TCC on December 5, 2014. A list of TCC's officers as of the swearing of this affidavit is attached as Exhibit B to this Affidavit. On January 14, 2015, TCC appointed Aaron Alt as Chief Executive Officer, President and Treasurer of TCC to manage and direct the fair and orderly wind down. Mr. Alt also is a Senior Vice President and the Treasurer of Target Corporation.

B. TCC's Subsidiaries

29. As described below, TCC directly or indirectly owns 100% of each of the subsidiaries in the following chart:



i. *TCC Pharmacy and TCC Health*

30. Target Canada Pharmacy Franchising LP ("**TCC Pharmacy**") is a limited partnership formed in Ontario on March 8, 2012. TCC is the limited partner of TCC Pharmacy and owns 99.999% of TCC Pharmacy. TCC Pharmacy's general partner is Target Canada Health Co. ("**TCC Health**"), a wholly-owned direct subsidiary of TCC organized as a Nova Scotia unlimited liability company and incorporated on March 1, 2012, which holds the remaining ownership interest.

31. As explained below, TCC Pharmacy has licensed to franchisees the right to operate Target-branded retail pharmacies within TCC stores (and, in Quebec, has licensed to a third party, which in turn has sub-licensed to third party franchisees, the right to operate co-branded Target and "Brunet" pharmacies within TCC stores). As a limited partnership, TCC Pharmacy has no officers or directors. All actions by TCC Pharmacy are taken on its behalf exclusively by TCC Health. I am a Director, and the Vice President and Secretary, of TCC Health.

32. TCC also owns all of the issued and outstanding shares of the following Applicants: Target Canada Pharmacy (Ontario) Corp. ("**TCC Pharmacy Ontario**"), Target Canada Pharmacy (BC) Corp., Target Canada Pharmacy (SK) Corp. and Target Canada Pharmacy Corp. (collectively, the "**Pharmacy Corporations**"). I am the Vice President and Secretary of each of the Pharmacy Corporations. I am also a Director of each of the Pharmacy Corporations except TCC Pharmacy Ontario.

33. TCC Pharmacy Ontario currently operates Target-branded and owned pharmacies in three TCC stores in Ontario. The other three Pharmacy Corporations do not currently carry on business. TCC Pharmacy Ontario holds a charter, commonly referred to as a "Pre-54", that grants it an exemption that was grandfathered into the current legislation governing the ownership of pharmacies in Ontario. I am advised by Mark Austin of Osler, Hoskin & Harcourt LLP ("**Osler**"), counsel to the Target Canada Entities, and believe that, pursuant to the Ontario *Drug and Pharmacies Regulation Act*, corporate ownership of pharmacies is generally restricted to corporations where the majority of each class of shares is owned by and registered in the name of pharmacists or in the name of pharmacist health profession corporations, except that the share ownership restriction does not apply to a corporation that operated a pharmacy on May 14, 1954. In essence, the "Pre-54" exemption allows a qualified corporation to own and operate a retail pharmacy in Ontario if a majority of the directors are licensed pharmacists.

ii. ***TCC Mobile LP and TCC Mobile GP***

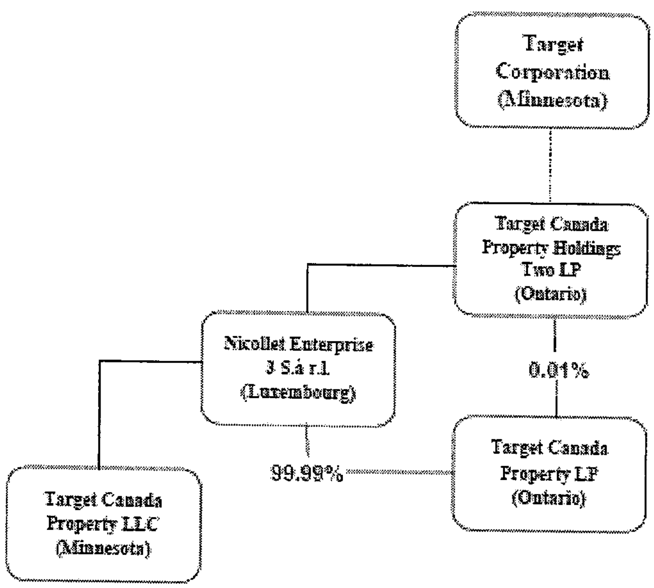
34. Target Canada Mobile LP ("**TCC Mobile**") is a limited partnership formed in Ontario on May 18, 2012. TCC is the limited partner of TCC Mobile and owns 99.999% of TCC Mobile LP. TCC Mobile's general partner is Target Canada Mobile GP Co. ("**TCC Mobile GP**"), a wholly-owned direct subsidiary of TCC organized as a Nova Scotia unlimited liability company and incorporated on May 15, 2012, which holds the remaining ownership interest.

35. As explained below, TCC Mobile has licensed to Glentel Inc. ("**Glentel**") the right to operate Target-branded kiosks to sell mobile phones and accessories within TCC stores. As a limited partnership, TCC Mobile has no officers or directors. All actions by TCC Mobile

are taken on its behalf exclusively by TCC Mobile GP. I am the sole director and officer (President and Secretary) of TCC Mobile GP.

C. Real Estate

36. Target Canada Property LLC ("**TCC Propco**") is a limited liability company organized under the laws of Minnesota. As shown in the following chart, TCC Propco is directly owned by Nicollet Enterprise 3 S.à r.l. ("**NE3**"), an entity organized under the laws of Luxembourg, which owns all of the issued and outstanding shares of TCC Propco. NE3 is a wholly-owned indirect subsidiary of Target Corporation.



37. As described in further detail below, for almost all the retail store leases entered into by TCC, TCC subleased the properties to TCC Propco, which has made and financed real property improvements to the premises, including improvements to fixtures. TCC Propco subsequently sub-subleased the properties back to TCC. Initially, TCC entered into that sublease / sub-subleaseback relationship with another affiliated entity, Target Canada Property LP, a

limited partnership organized under the laws of Ontario. Target Canada Property LP subsequently assigned all of its rights relating to the subleases and sub-subleases to, and all of Target Canada Property LP's obligations with respect to same were then assumed by, TCC Propco effective January 2014. Target Canada Property LP no longer carries on business. Given Target Canada Property LP's prior involvement in this sublease / sub-subleaseback arrangement, the Applicants are seeking to have the stay of proceedings extended to Target Canada Property LP.

38. As noted above, TCC Propco is a limited liability company organized under the laws of Minnesota. TCC Propco has assets situated in Canada. In addition to its leasehold interests, all of which are in respect of real property in Canada, TCC Propco holds Canadian Dollars in bank accounts located at a Canadian branch of Bank of America.

Chief Place of Business

39. The chief place of business of the Target Canada Entities is Ontario. TCC's head office and corporate headquarters is in Mississauga, Ontario. Approximately 800 employees work out of this office. Four of TCC's eleven other office locations are in Ontario. There are 55 operating TCC retail stores located in Ontario, which is the largest number of stores in any province where TCC operates. Almost half of the employees supporting TCC's operations work in Ontario. Two of TCC's three primary distribution centers are located in Ontario.

The Business of the Target Canada Entities

40. As noted above, TCC opened its first stores in the Canadian marketplace in 2013. Because of the wide variety of merchandise that Target specializes in selling, TCC's major competitors in Canada include not only major retailers such as Wal-Mart, The Bay and Sears, but

also major supermarket chains like Loblaws, electronic retailers like Best Buy and Future Shop, and home improvement stores like Canadian Tire, Home Depot, Rona and Lowes.

41. Target stores typically sell or carry the following categories of merchandise:

(a) Apparel and accessories including clothing and apparel for all ages, as well as jewelry, accessories and shoes;

(b) Hardlines including electronics such as video game hardware and software, music, movies, books, computer software, sporting goods and toys;

(c) Household essentials including beauty products, pharmaceutical products, personal care, baby care, cleaning and paper products;

(d) Food and pet supplies including dry grocery, dairy, frozen food, beverages, candy, snacks, deli, bakery, produce and pet supplies; and

(e) Home furnishings and decor including furniture, lighting, kitchenware, small appliances, home decor, bed and bath, home improvement, automotive and seasonal merchandise such as patio furniture and holiday decor.

A. **Store Formats and Locations**

42. A typical TCC store has a footprint in the range of 80,000 to 125,000 total retail square feet and is located in a shopping mall or a large strip mall. TCC is usually an anchor tenant for the mall or shopping centre. As explained below, TCC stores typically contain an in-store Target-brand pharmacy, Target Mobile kiosk and a Starbucks cafe.

43. As of the date of this Affidavit, TCC conducts business through 133 stores across Canada including at least one store in each Canadian province. All but three of these retail stores are leased. TCC also has seven "unopened" stores across Canada, all of which are leased. The following chart summarizes TCC's current number of store locations by province:

Province	**Open Stores**	**Unopened Stores**
Alberta	15	
British Columbia	19	1
Manitoba	5	
New Brunswick	3	
Newfoundland	2	
Nova Scotia	4	
Ontario	55	6
PEI	1	
Quebec	26	
Saskatchewan	3	
Total	**133**	7

B. <u>Real Estate and Leases</u>

44. In January 2011, TCC agreed to pay approximately USD $1.861 billion to purchase up to 220 leases from Zellers. TCC accepted the assignment of 135 leases from Zellers in three tranches in 2011 with the intent to renovate them and open TCC stores throughout Canada under the Target banner. TCC sold the right to acquire leasehold interests in 54 of the Zellers sites to third parties in exchange for approximately USD $225 million, resulting in a final net purchase price for the 135 leases of approximately USD $1.6 billion. TCC has since acquired, agreed to enter into or entered into four additional leases that are unrelated to the leases it acquired from Zellers.

i. *TCC Propco*

45. For almost all of its store leases, as indicated above, TCC has subleased the properties to TCC Propco, which made real property improvements and subsequently sub-subleased the properties back to TCC. This relationship gives rise to a variety of payment obligations between TCC and TCC Propco, as described later in this Affidavit. TCC makes direct payments to TCC Propco for obligations under the sub-subleases. TCC makes direct, monthly payments to landlords for its lease obligations.

ii. *Landlords*

46. Many of TCC's store leases are held or managed by large retail landlords. Several of these landlords lease multiple locations to TCC. The leases are generally for a current term of 5 to 10 years, with most leases granting TCC the option to renew the lease beyond the existing term.

iii. *Lease Provisions*

47. Typical of retail leases in Canada, many of the leases contain provisions that impact TCC store operations.

Canada Going-out-of-business Sales

48. Many of the retail leases contain restrictions that relate to going out of business sales in one form or another. Some of these include blanket prohibitions. Others permit such sales related to the closing or bankruptcy of the existing operator, but restrict the length of the sales. Some include restrictions on selling products in bulk. Many leases also include restrictions

on TCC's ability to remove inventory, fixtures, chattels or other equipment from the premises, other than in the ordinary course of business.

Operating Covenants and Recapture Rights

49. Many of the retail leases contain express or implied operating covenants. These covenants take a variety of forms including covenants to continuously operate the store for varying periods of time. Some of these leases include covenants that require the tenant to operate the store under the Target banner or as a retail department store. Some of the covenants require the tenant to operate using substantially the full store, while others only require the tenant to operate in an area of the premises. Certain of the leases for unopened stores include a covenant to open the store and operate it for at least one day. In addition, many of the retail leases include recapture rights that permit the landlord to take back the premises if the store ceases or significantly changes operations.

iv. ***Parent Indemnities and Guarantees***

50. Many of the retail leases are subject to a parent indemnity or guarantee by Target Corporation in favour of the landlord. All the indemnities and guarantees contain language providing that the indemnifiers' or guarantors' obligations are not affected by the bankruptcy or insolvency of the tenant or disclaimer of the lease. As set out below, the draft Initial Order proposes a temporal stay of any proceedings of any derivative claims against Target Corporation and its U.S. affiliates.

v. ***Rights in Third Party Leases***

51. Many retail leases provide that tenants have certain rights against their landlords upon an anchor tenant's insolvency or upon an anchor tenant ceasing operations. For tenants of commercial properties where TCC's stores, offices or warehouses are located, the Target Canada Entities are asking the Court to stay rights, including but not limited to termination rights and reduction or abatement of rent, that tenants may have against the landlords, owners, operators or managers of the commercial properties that arise as a result of the Applicants' insolvency, or as a result of any steps taken by the Target Canada Entities pursuant to the proposed Initial Order.

vi. ***Subleases and Licenses to Third Parties***

52. As explained below, TCC entered into sublease agreements with McMahon Distributeur Pharmaceutique Inc. ("**McMahon**") relating to the space within the TCC stores used for the operation of the pharmacies in Quebec. McMahon, in turn, has entered into further sublease agreements with the Quebec franchisees. The McMahon Agreement (as defined herein) provides that TCC or its affiliates can terminate the subleases between TCC and McMahon without notice if it is not reasonably possible for TCC to give notice on electing to cease operations at one or more stores.

53. TCC and related entities including TCC Pharmacy and TCC Mobile have also granted licenses to certain third parties to operate, for example, Target-branded pharmacies and Target Mobile kiosks in TCC stores.

vii. ***Owned Stores***

54. TCC owns three open retail stores: one in each of Barrie, Ontario; Candiac, Quebec and Winnipeg, Manitoba. Attached as Exhibit C to this Affidavit are copies of the real property PIN identifiers and printouts for the stores located outside of Quebec. For the store in Candiac, Quebec, attached as part of Exhibit D is a printout of the index of immovables showing the registration of the sale of the property to TCC.

viii. ***Owned Distribution Centres***

55. TCC owns three distribution centres in Canada: two in Ontario (Milton and Cornwall) and one in Calgary, Alberta. Attached as Exhibit E to this Affidavit are copies of the real property PIN identifiers and printouts for these distribution centres. As discussed below, the distribution centres are operated by a third party, Eleven Points Logistics Inc. ("**Eleven Points**") and are used to receive and inspect shipments, handle return of products, manage inventory, and prepare outbound shipments for transportation to TCC's stores.

ix. ***Leases in Offices and Distribution Network***

56. TCC also has leased a variety of warehouse and office space as part of its office network and distribution network, including:

(a) *Headquarters*: TCC leases the office and other space for its corporate headquarters in Mississauga, Ontario.

(b) *Offices*: TCC leases additional office space in eleven other locations across Canada: four in Ontario, two in each of Quebec and Alberta, and one in each of BC, Manitoba and Nova Scotia.

(c) *Additional Leases*: In addition to the three distribution centres that TCC owns, TCC currently leases additional office and warehouse space in various locations across Canada.

C. Merchandising and Sourcing

i. *Canadian and U.S. Vendors*

57. Much of the merchandise sold in TCC stores is sourced from vendors located in Canada and the United States. For fiscal year-to-date through December 6, 2014, TCC made approximately CAD $1 billion in payments for merchandise sourced from such vendors. Many vendors, either directly or through related entities, supply merchandise to both TCC's Canadian stores and Target Corporation's U.S. stores, and many of those cross-over vendors have operations in Canada. In addition, some of the merchandise sold in TCC's Canadian stores is supplied by Canadian-based vendors who do not supply Target Corporation's U.S. stores. In certain circumstances, Target Corporation has guaranteed certain obligations of the Target Canada Entities to vendors.

58. TCC uses an online ordering system (the "**POL System**") to issue purchase orders to its vendors. The POL System establishes conditions of contract and other related agreements. Payment is typically required only after TCC receives the merchandise. These agreements provide that TCC may cancel any purchase order at any time prior to shipment of the goods.

Upon commencement of this CCAA proceeding, to the extent possible, TCC intends to immediately cancel all purchase orders that have been placed but have not been shipped. For the remaining purchase orders, TCC intends to receive the merchandise and sell it in the contemplated liquidation process.

ii. ***Overseas Merchandise Vendors***

59. Most of the merchandise supplied by "overseas" vendors is sourced by Target Sourcing Services Limited ("**Target Sourcing**"), a wholly-owned indirect subsidiary of Target Corporation, or certain related entities operating outside of Canada. For the twelve months ended November 30, 2014, TCC made approximately USD $367 million in first cost import payments for overseas merchandise.

60. TCC pays overseas merchandise vendors through an arrangement that Target Corporation and TCC have entered into with JPMorgan Chase Bank, National Association ("**JPMorgan**"). JPMorgan pays these vendors either by way of a letter of credit that is typically issued approximately 60 days before the expected shipping date (approximately 15%-20% of all import payments) or open account transactions (approximately 80%-85% of all import payments). These payments are discussed in the section of this Affidavit regarding Cash Management.

61. Upon commencement of this CCAA proceeding, to the extent possible, TCC intends to immediately cancel all purchase orders that have been placed with overseas vendors but have not yet resulted in the transfer of title to TCC. For any purchase orders that JPMorgan

and/or TCC has already paid for or taken title to, TCC intends to receive the inventory and include it in the contemplated liquidation sale.

D. Distribution

62. The Milton, Cornwall and Calgary distribution centres, including associated offsite warehouse space, operate to supply and replenish products sold in TCC's stores. The vast majority of product sold in TCC's stores is replenished through the distribution centres.

63. The primary distribution centres are operated by a third party, Eleven Points, pursuant to a master services agreement effective June 8, 2012, and a series of related statements of work. Eleven Points is responsible for all services required to operate the distribution centres including receiving, verifying and inspecting shipments; preparing outbound shipments for tender to third party transportation providers for transportation to TCC's stores; and inventory management.

64. Merchandise arrives at the distribution centres and is either stored temporarily in the distribution centre or immediately transported to TCC's stores. As of January 3, 2015, there was merchandise with a retail value of approximately CAD $202 million in the distribution centres.

65. Eleven Points also operates a return centre within the Milton distribution centre. The return centre serves to receive from all TCC stores unsold and damaged products for the purpose of distributing them back to vendors, or otherwise disposing of them through salvage or other means.

66. TCC engages third-party transportation companies to transport inventory between distribution centres and stores and from the Milton return centre to vendors. TCC does not have its own transportation capability. Ryder Integrated Logistics ("**Ryder**") provides TCC with transportation management services. TCC contracts directly with Ryder and other transportation providers to move product. TCC has rented trucks from Ryder Truck Rental Canada Ltd. and trailers from Trailer Wizards Ltd., both of which have registered security interests against TCC under the *Personal Property Security Act*, R.S.O. 1990, c. P.10, as amended (the "**PPSA**").

67. TCC believes that, given the amount of inventory at the distribution centres, the continued services of Eleven Points, Ryder and certain other transportation providers are critical to the success of the contemplated wind down and liquidation of TCC's operations for the benefit of all stakeholders. Based on the historical integration of these transportation providers into TCC's business, TCC believes that it would be unable to transition its business to different third-party transportation providers in time to serve TCC's needs for the liquidation process.

68. TCC also must pay customs brokers, clearing houses, freight forwarders and other supply chain providers for costs incurred in transporting products from their source outside of Canada to the distribution centres and ultimately to the stores. As of January 3, 2015, TCC estimates that merchandise at cost of approximately CAD $66 million was in transit to Canada or from Canadian ports to the distribution centres. TCC is seeking authority (but not the requirement) to pay, with the consent of the Monitor, transportation and logistics providers, customs brokers and other supply chain providers for amounts incurred before the commencement of these proceedings, if required, to ensure the continued flow of inventory

through its supply chain during the contemplated wind down process and to maximize recoveries to the estate from the inventory liquidation process.

69. For the vast majority of goods supplied by Canadian vendors, title passes to TCC upon TCC's receipt of the goods, which typically occurs at TCC's distribution centres.

70. A small proportion of product sold by TCC, such as goods from grocery vendors, is delivered directly to TCC's stores by the vendors. In addition, a small proportion of products, such as greeting cards, books and magazines are delivered directly to TCC stores under an arrangement by which the vendor holds title to the inventory until immediately before the sale, at which time title passes to TCC. (This is typically referred to as a "flash sale".) Carlton Cards Limited, Papyrus-Recycled Greetings Canada Ltd. and CMMI Canadian Mass Media Inc. have registered security interests in several provinces for goods that they provide under this type of arrangement.

E. <u>Pharmacies</u>

71. In most TCC stores across Canada, a Target-branded retail pharmacy operates within the store. The arrangements in respect of pharmacies differ between Quebec and the rest of Canada.

i. ***Canada (outside of Quebec)***

72. Outside of Quebec, there are 96 Target-branded retail pharmacies operating in TCC stores across Canada. Ninety-three of the pharmacies are operated by franchisees pursuant to separate agreements between each franchisee and TCC Pharmacy (as franchisor). These agreements grant to franchisees a specific license to operate the Target-branded pharmacy using

certain Target Pharmacy trade-marks. The franchisees are typically independent corporations which, in the majority of cases, are wholly owned by licensed pharmacists. A licensed pharmacist is a party to each franchise agreement. A licensed pharmacist must be present on the premises to operate the pharmacies. TCC Pharmacy Ontario currently operates the other three pharmacies.

73. The franchise agreements provide that no landlord and tenant relationship exists between TCC Pharmacy (or any of its affiliates) and any franchisee. TCC or its affiliate is the tenant under each TCC store lease and, pursuant to a pharmacy franchising agreement between TCC and TCC Pharmacy effective as of March 8, 2012, TCC or its affiliate has granted TCC Pharmacy the right to sublicense to franchisees a temporary license to use space within TCC stores for the operation of a Target-branded retail pharmacy. The franchise agreements provide that TCC Pharmacy may terminate the franchise agreement under various circumstances, including expiration or termination of the applicable retail store lease.

74. The franchise agreements provide that each franchisee operates as an independent business, with sole responsibility for all aspects of the employment relationship with its employees. The agreements explicitly provide that the franchisee's employees are not employees of TCC Pharmacy or TCC or its affiliates. My understanding is that most of the franchisees typically employ one additional pharmacist and up to two pharmacy technicians in addition to the franchisee pharmacist.

75. The franchise agreement requires franchisees to purchase and sell products that have been approved by TCC Pharmacy from suppliers designated by TCC Pharmacy. Pursuant to a wholesale distribution agreement between TCC and McKesson Canada Corporation

("**McKesson**") effective June 7, 2012, McKesson is the primary supplier of pharmaceutical, health and beauty products to the pharmacies. The agreement expires on December 31, 2016 but can be terminated by either party in the third contract year – i.e., January 1, 2015 to December 31, 2015 – upon 180 days' notice.

76. The cash registers that pharmacies use to process sales of Schedule I & II drugs – commonly known as "behind-the-counter" drugs – operate on a point-of-sale system ("**POS System**") that is segregated from the general POS Systems in TCC's stores. The pharmacists are responsible for maintaining all cash and credit receipts from the sale of Schedule I & II drugs. Schedule III drugs – commonly known as "over-the-counter" drugs – and unscheduled drugs are sold through the general POS Systems in TCC's stores.

77. Franchisees make monthly payments to TCC Pharmacy, including a franchise fee (based on sales), an operations fee (for, e.g., the computer system, utilities, etc.), a licensed space fee (based on fair market value of the licensed space) and an advertising fee (based on sales). In addition, for certain "over-the-counter" products, TCC provides a non-traditional form of inventory financing to franchisees, under which TCC orders and pays for certain products to be stocked in the pharmacy. TCC retains title to these products until immediately before the retail sale, at which time title passes to the franchisee. TCC Pharmacy makes a monthly payment to franchisees. The cash flow projections (described below) include the continuation of these payments post-filing as applicable as the arrangements with pharmacists will be wound down. In some provinces TCC Pharmacy also provides a rebate to franchisees in relation to certain generic drug purchases, where such payments are permitted by applicable legislation.

78. For the three pharmacies operated by TCC Pharmacy Ontario, TCC Pharmacy Ontario has agreements with managers of private health care plans and public health insurers who provide prescription drug insurance to certain populations such as senior citizens. These agreements allow for the payment for covered prescription drugs on behalf of the insured patient.

79. The inventory in pharmacies operated by franchisees is owned by either the franchisee or TCC, as set out in this table:

Inventory	**Examples**	**Owner**
Schedule I & II Drugs	Behind-the-counter drugs such as antibiotics	Franchisee
Schedule III Drugs	Over-the-counter drugs such as Tylenol or cough syrup	TCC
Unscheduled Drugs	Items such as vitamins or toothpaste	TCC

80. Pursuant to the franchise agreements, the patient data in the pharmacy systems belongs to the franchisee operating the pharmacy or, in the case of the three pharmacies operated by TCC Pharmacy Ontario, to TCC Pharmacy Ontario. Any equipment installed in the pharmacy, including all fixtures, furnishings, signs and equipment, is owned by TCC Pharmacy (or its affiliates).

81. I am advised by Mark Austin of Osler and believe that pharmacy regulations throughout Canada generally require a pharmacy operator to provide notice of the termination and closure of a pharmacy. I am further advised by Mr. Austin and believe that TCC Pharmacy Ontario, which operates three pharmacies in Ontario, will be required to provide written notice to the Ontario College of Pharmacists at least seven days before the pharmacies' closure. TCC Pharmacy Ontario intends to do so at the appropriate time.

ii. ***Quebec***

82. In Quebec, pharmacies in TCC stores are intended to be co-branded with both the Target trade-mark and the "Brunet" trade-mark, which is owned by McMahon. There are currently 14 such pharmacies operating in Quebec.

83. Pursuant to a co-branding and services agreement dated as of August 9, 2013 between TCC, TCC Pharmacy, McMahon and McMahon's ultimate parent, Metro Inc. (the "**McMahon Agreement**"), TCC Pharmacy licensed to McMahon the right to use the Target trade-mark conjunctively with the "Brunet" trade-mark in respect of the pharmacies operating within TCC stores and granted to McMahon the right to enter into franchise agreements with third-party franchisees for the operation of the co-branded pharmacies within TCC stores. Neither TCC nor any of its affiliates is a party to the franchise agreements. McMahon pays TCC Pharmacy certain fees based on the franchisees' sales.

84. TCC entered into sublease agreements with McMahon relating to the space within the TCC stores used for the operation of the pharmacies. McMahon, in turn, has entered into further sublease agreements with the franchisees. The McMahon Agreement provides that TCC can terminate the subleases between TCC and McMahon without notice if it is not reasonably possible for TCC to give notice on TCC electing to cease operations in the TCC store where the pharmacy is operated. Moreover, each of the sublease agreements between TCC and McMahon provides that, notwithstanding anything to the contrary, the term of the sublease with McMahon will terminate automatically on the earlier of: (i) the expiry or earlier termination of the head lease between TCC and the landlord for any reason whatsoever; (ii) the closing of the TCC store for any reason whatsoever; (iii) the expiration or earlier termination, for any reason whatsoever,

of the McMahon Agreement; and (iv) the expiration or earlier termination, for any reason whatsoever, of the portion of the McMahon Agreement that relates to the pharmacy operated in the TCC store.

85. The only items of inventory that TCC or TCC Pharmacy owns in these pharmacies are sanitary protection and incontinence products. The McMahon Agreement provides that those products must be processed through TCC's POS System. All other inventory, including all "behind-the-counter" and "over-the-counter" products, is owned by McMahon or the franchisees.

F. <u>Glentel</u>

86. All TCC stores have a "Target Mobile" branded display kiosk that sells mobile phones and accessories. These kiosks are operated by Glentel, a third party, pursuant to an agreement between Glentel and TCC Mobile. The agreement with Glentel expires on March 31, 2016.

87. The agreement provides that Glentel operates as an independent business and has sole responsibility for all aspects of the employment relationship with its employees. Glentel provides its own POS System and cash management system at each TCC store. Glentel owns the inventory, including the mobile phones and accessories. The agreement includes a specific license to use the "Target Mobile" trade-mark in connection with the sale of products by Glentel in TCC's stores. In accordance with the agreement, Glentel makes quarterly payments to TCC Mobile based on certain revenue and net income that Glentel earns from operating the kiosks (or, if Glentel incurs a loss, TCC Mobile may be required to pay certain amounts to Glentel in accordance with the agreement).

88. The agreement explicitly provides that no landlord and tenant relationship exists between TCC Mobile (or any of its affiliates) and Glentel. Rather, the agreement provides that TCC Mobile has granted to Glentel a temporary license to use space within those TCC stores – including stores in Quebec – to operate the kiosks.

89. The agreement provides that either party can terminate the agreement if the 12-month projection under the agreement projects a Net Loss (within the meaning in the agreement).

G. Starbucks

90. Most TCC stores have a Starbucks-branded store operating within the TCC store. TCC and Starbucks Coffee Canada, Inc. ("**Starbucks**") entered into a master licensing agreement effective February 1, 2012 (and subsequently amended) pursuant to which Starbucks granted TCC a non-exclusive license to use the Starbucks system and trademarks to construct and operate Starbucks stores within certain TCC stores. In consideration for the rights granted under the master licensing agreement, TCC pays Starbucks, among other amounts, a license fee for each Starbucks store and monthly royalty and advertising fees. The master licensing agreement provides that the license for a particular Starbucks store terminates immediately if the site ceases to operate as a TCC retail store. Upon any termination of the master licensing agreement, TCC must, among other things, immediately cease operating the Starbucks stores, de-identify each Starbucks store and return to Starbucks all products containing Starbucks' licensed trademarks.

H. Support Services of Target Corporation and Target Brands

91. TCC relies extensively on Target Corporation and Target Corporation's subsidiary, Target Brands, Inc. ("**Target Brands**"), for administrative and business support services that are integral to TCC's operations. These services are performed pursuant to agreements between TCC and Target Brands and related corporations. Target Brands and its affiliates provide similar services for Target Corporation's U.S. operations and have the expertise and experience to provide these essential "shared" services much more efficiently and cost-effectively than TCC or a third party could.

i. *Master Agreement*

92. Target Brands and TCC entered into a master agreement effective as of February 3, 2013 ("**Master Agreement**"), a copy of which is attached as Exhibit F to this Affidavit.

93. Pursuant to the Master Agreement, Target Brands provides TCC with a variety of services including administrative and business services, strategy and management consulting services, marketing and consulting services, retail support services and merchandising consulting services. In consideration for these services, on a monthly basis TCC pays Target Brands an arm's length fee as agreed between the parties from time to time.

94. All intellectual property ("**IP**") relating to the Target brand is owned by Target Brands. The Master Agreement also grants TCC a license to commercially use the IP in connection with TCC's retail operations within Canada and to sub-license the right to use the IP to related companies and third parties such as the pharmacy franchisees. The license also gives

TCC the right to manufacture and merchandise goods to be purchased by TCC and sold in its stores.

95. As permitted by the terms of the Master Agreement, Target Brands gave three months' notice of termination to TCC of the Master Agreement by letter dated January 14, 2015, a copy of which is attached as Exhibit G to this Affidavit. Such termination will be effective April 14, 2015 and the Master Agreement will no longer be in effect.

96. In its notice of termination, Target Brands waived the requirement for TCC to assign to Target Brands any Sublicenses (as defined in the Master Agreement) in effect at the time of termination of the Master Agreement. As such, all Sublicenses shall remain with TCC until their expiration or termination.

ii. ***Administrative Services Agreement***

97. Concurrent with delivery of the notice of termination of the Master Agreement, Target Brands and TCC entered into an administrative services agreement dated as of January 14, 2015, effective as of April 14, 2015 ("**Administrative Services Agreement**"), a copy of which is attached as Exhibit H to this Affidavit. The Administrative Services Agreement was prepared by Target Brands and TCC in consultation with the proposed Monitor.

98. Pursuant to the Administrative Services Agreement, Target Brands will continue to provide TCC with a variety of services during the orderly wind down, including, among other things:

(a) accounting, accounts payable, financial reporting and finance services;

(b) cash management services;

(c) communication and public relations services;

(d) human resources and payroll services;

(e) legal services;

(f) office administration services;

(g) real estate services;

(h) tax compliance services; and

(i) other ad hoc merchandising systems support and consulting.

99. As determined by Target Brands and TCC in consultation with the proposed Monitor, such services to be provided by Target Brands are sufficient to address TCC's needs and requirements in connection with the orderly wind down of its Canadian retail operations. In addition, Target Brands has also agreed pursuant to the Administrative Services Agreement to provide such other services as may be agreed by Target Brands and TCC in consultation with the Monitor.

100. In consideration for the services to be provided by Target Brands under the Administrative Services Agreement, TCC will pay Target Brands on a monthly basis an arm's length fee as agreed between the parties from time to time. Target Brands and TCC have agreed to review the level of services from time to time and anticipate that such fee will be adjusted from time to time in consultation with the Monitor as the services provided by Target Brands are reduced during the CCAA proceeding.

101. The Administrative Services Agreement shall commence as of April 14, 2015 and shall continue until the earlier of: (i) the date on which the proposed stay pursuant to the CCAA Initial Order, as amended from time to time, finally expires without being extended; (ii) the date on which the CCAA proceedings are terminated; or (iii) January 15, 2016 (or such later date as the parties may agree, in consultation with the Monitor). The Administrative Services Agreement may be terminated by mutual agreement among the parties and approval of the Monitor.

iii. ***Intellectual Property License Agreement***

102. Also concurrent with delivery of the notice of termination of the Master Agreement, Target Brands and TCC entered into an intellectual property license agreement dated as of January 14, 2015, effective as of April 14, 2015 ("**Intellectual Property License Agreement**"), a copy of which is attached as Exhibit I to this Affidavit. The Intellectual Property License Agreement was also prepared by Target Brands and TCC in consultation with the proposed Monitor.

103. The Intellectual Property License Agreement grants TCC a revocable, exclusive, non-sublicensable, royalty-free license to use the IP for all legal purposes in connection with TCC's orderly wind down of its Canadian retail operations.

104. As determined by Target Brands and TCC in consultation with the proposed Monitor, the IP license as granted pursuant to the Intellectual Property License Agreement is sufficient to facilitate TCC's orderly wind down of its retail operations.

105. The Intellectual Property License Agreement shall commence as of April 14, 2015 and shall continue until the earlier of: (i) the completion of the orderly wind down of TCC's retail operations and the final going out of business sale; (ii) June 30, 2015; or (iii) such later date as the parties may agree, in consultation with the Monitor. The Intellectual Property License Agreement may be terminated by mutual agreement among the Parties and approval of the Monitor.

iv. ***Design and Development Services Agreement***

106. Target Brands and TCC entered into a design and development services agreement effective as of February 3, 2013 (the "**Development Agreement**"), a copy of which is attached as Exhibit J to this Affidavit. Pursuant to the Development Agreement, Target Brands provided certain design and development services for goods purchased and sold by TCC in its retail operations.

107. By letter dated January 14, 2015, and in accordance with the terms of the Development Agreement, Target Brands gave three months' notice of termination to TCC of the Development Agreement, such termination to be effective on April 14, 2015. It is not expected that TCC will need these services after the termination date.

v. ***Buying Agency Agreement***

108. TCC is a party to a buying agency agreement with Target Brands and Target Sourcing in its capacity as trustee of Target Sourcing Services (a trust organized under the laws of China), a copy of which is attached as Exhibit K to this Affidavit. Under this agreement Target Sourcing or its affiliates source merchandise outside of Canada and the U.S. for sale in

TCC's retail stores. Target Sourcing also provides related services, including quality control; logistics; monitoring compliance with local laws and regulations and market conditions; and market research.

109. By letter dated January 14, 2015, and in accordance with the terms of the buying agency agreement, Target Brands gave three months' notice of termination to TCC and Target Sourcing, such termination to be effective on April 14, 2015. It is not expected that TCC will need these services after the termination date.

I. Employees

110. As of January 12, 2015, TCC employed approximately 17,600 people.

i. *Store Level*

111. A typical Target store in Canada employs approximately 100 to 150 people. As of January 12, 2015, TCC employed approximately 16,700 people at the store level. The majority of these employees are "team members" (approximately 14,500) and "team leaders" (approximately 1,500) paid at hourly rates and, subject to eligibility based on length of service and hours worked, may receive benefits packages. During peak selling seasons, TCC hires temporary team members, but TCC does not currently employ any such employees. TCC also employs approximately 700 additional people, who are also "team leaders", at the store level who are compensated through base salary and benefits. TCC does not have any employees who are represented by a union.

ii. ***Management Group and Other Salaried Employees***

112. As of January 12, 2015, TCC employed approximately 127 people in its group and district offices and approximately 763 people at its headquarters in Mississauga, Ontario. All of these employees are compensated through base salary and benefits. In addition, some of these individuals are eligible to receive performance bonuses and certain directors, key management and officers are entitled to participate in a long-term incentive program involving stock options, Performance Share Units and Restricted Share Units in the stock of Target Corporation. There are no registered pension plans for TCC management or any other employees.

113. Subject to eligibility based on minimum length of service, all TCC employees – including hourly employees working at the store level – have the ability to participate in a combined group RRSP / Deferred Profit Sharing plan. TCC matches an employee's contribution dollar-for-dollar up to five percent of the employee's eligible compensation, subject to vesting provisions. This plan is managed by the Manufactures Life Insurance Company ("**Manulife**"). TCC makes payments to Manulife every two weeks based on contribution data provided by ADP Canada Co. ("**ADP**"), a third party funder that provides payroll services to TCC, as discussed below.

iii. ***Employees Seconded to TCC***

114. Approximately 70 employees have been seconded to work with TCC under a secondment agreement effective May 27, 2011 (the "**Secondment Agreement**") between Target Corporation and other U.S. based entities (collectively, the "**Assigning Employers**") and TCC. Most of these employees are based in Canada, although some commute from the U.S. These seconded employees are not compensated directly by TCC. TCC reimburses the Assigning

Employers for expenses related to the assigned employees. The Secondment Agreement provides that TCC may terminate the agreement without cause on 30 days notice. TCC's need for the seconded employees will likely decrease during the CCAA proceeding. Accordingly, TCC and the Assigning Employers have agreed to review and, subject to the agreement of the parties and in consultation with the Monitor, make any necessary adjustments to the provision of the seconded employees' services to TCC.

iv. ***U.S.-Based Dedicated Employees***

115. Approximately 600 non-TCC employees are based in the U.S. and approximately 200 non-TCC employees are based in India but provide dedicated services to TCC. Those employees are paid by Target Corporation or an affiliate, and then those costs are billed to TCC as part of an intercompany charge pursuant to the Master Agreement.

v. ***Employees By Province***

116. The following chart shows the approximate number of people employed by TCC in each province as of January 12, 2015. This chart does not include seconded employees, U.S.-based or India-based dedicated employees, or individuals employed by third parties such as Glentel, Eleven Points or the pharmacy franchisees.

Province	Store Level	Head, Group or District Offices	Total
Alberta	1,952	10	1,962
British Columbia	2,446	18	2,464
Manitoba	677	5	682
New Brunswick	290	0	290

Province	Store Level	Head, Group or District Offices	Total
Newfoundland	234	0	234
Nova Scotia	429	7	436
Ontario	7,203	808	8,011
PEI	108	0	108
Quebec	3,017	42	3,059
Saskatchewan	350	0	350
Total	16,706	890	17,596

vi. ***Payroll***

117. TCC employees are paid every second Friday through ADP. TCC funds ADP on the Thursday before the pay date through an account at Bank of America. Most employee taxes and deductions are funded to ADP on a gross basis and ADP then makes the required payments.

J. REDcards®, Gift Cards and Warranties

118. Royal Bank of Canada ("**RBC**") offers credit to TCC's guests through a co-branded credit card: the Target RBC MasterCard. RBC and TCC entered into a Credit Card Program Agreement dated effective August 24, 2012. Under the agreement, the parties settle any amounts owing by one to the other on a monthly basis. Additionally, TCC offers guests a Target-branded debit card. In general, Total System Service, Inc. ("**TSYS**"), an unrelated third party, processes the Target-branded debit card payments pursuant to an agreement with TCC effective October 5, 2012. Collectively, TCC refers to these credit and debit cards as REDcards. Guests receive a 5 percent discount on most purchases when they use a REDcard at a TCC store. Upon the commencement of this proceeding, TCC intends to cease soliciting REDCards.

119. TCC also sells Target gift cards denominated in Canadian Dollars. A third party serves as the processor who tracks the outstanding gift cards, which are recorded as a liability in Target Corporation's consolidated financial statements. As at November 1, 2014 TCC recognized a liability of approximately CAD $7 million on outstanding gift cards. TCC intends to continue to honour, but not sell, any Target gift cards during the contemplated liquidation process.

120. TCC also sells warranties and other service contracts offered by a third party that relate primarily to electronic merchandise. Upon the commencement of this proceeding, TCC intends to cease selling these service contracts and warranties.

K. Retailing of Cultural Products: Undertakings

121. In accordance with the *Investment Canada Act*, as consideration for being allowed by the Minister of Canadian Heritage to engage in the retailing of cultural products in Canada, TCC made contractual commitments, referred to as "Undertakings", to the Federal Government.

122. TCC has fully performed and, in some cases, its performance has materially exceeded, some of the non-cultural Undertakings: for example, TCC and its affiliates have made aggregate capital expenditures in Canada of approximately USD $4.572 billion – approximately 33% in excess of the total capital expenditures required by the Undertakings.

123. The Undertakings specifically provide that if TCC ceases retailing cultural products the Undertakings related to cultural products cease to be effective. The only other Undertakings which would not be performed for their full term upon TCC's ceasing to operate in Canada prior to March 5, 2018 are Undertakings that require TCC to: (a) maintain a head office

in Canada; (b) ensure that at least 25% of the directors on TCC's board are Canadian; (c) ensure that Canadians are in management positions at TCC; (d) maintain a website that includes both English-language and French-language content; and (e) donate more than $1 million to eligible charities by March 5, 2018. With regard to the last of the Undertakings in that list, Target Canada has contributed more than 50% of the total contribution required. In addition, during the orderly wind down, TCC may not be able to comply with the undertaking relating to employment.

The Financial Position of TCC and TCC Propco

124. As a publicly traded company, Target Corporation files consolidated financial statements with the Securities and Exchange Commission in the United States. These financial statements include the consolidated results of both the U.S. and Canadian operations. A copy of Target Corporation's audited financial statements as of February 1, 2014 is attached as Exhibit L to this Affidavit. A copy of Target Corporation's interim financial statements as at November 1, 2014 is attached as Exhibit M to this Affidavit. These are Target Corporation's most recently filed audited and interim financial statements, respectively.

125. In its public reporting, Target Corporation provides information regarding the Canadian segment of its operations, including information regarding sales; cost of sales; selling, general and administrative expenses; depreciation and amortization; and earnings before interest and taxes.

126. TCC does not prepare stand-alone financial statements for the Canadian operations. As noted above, pursuant to the Master Agreement, Target Brands or its affiliates perform many of the core financial and accounting services for TCC. For the purposes of this application, TCC and Target Corporation have prepared stand-alone financial statements as at

November 1, 2014 for each of TCC (which consolidates the financial results of TCC and its subsidiaries) and TCC Propco, copies of which are attached as Exhibits N and O, respectively, to this Affidavit. These financial statements have not been audited.

A. <u>TCC</u>

i. *Assets*

127. As at November 1, 2014, TCC had total assets of approximately CAD $5.408 billion. This included current assets of approximately CAD $879 million and non-current assets of approximately CAD $4.530 billion.

ii. *Current Assets*

128. As at November 1, 2014, TCC's current assets consisted of the following:

(a) Inventory: approximately CAD $683,555,000;

(b) Cash and cash equivalents: approximately CAD $12,692,000; and

(c) Other current assets: approximately CAD $182,551,000.

129. It is estimated that, as of the filing of this Affidavit on January 15, 2015, TCC will have cash on hand of approximately CAD $1 million. As set out above, inventory comprises the vast majority of TCC's current assets. TCC and its affiliates routinely enter into arrangements with vendors – for example, with respect to greeting cards – whereby TCC does not purchase or pay for merchandise until the merchandise is sold. This merchandise is not included in inventory because of TCC's virtually simultaneous purchase and sale of this merchandise.

130. The other current assets include, among other amounts, approximately CAD $40 million in prepaid expenses, approximately CAD $23 million in debit balances owed from vendors, approximately CAD $26 million in GST, HST and QST input tax credit receivables, approximately CAD $24 million in current deferred tax assets and approximately CAD $21 million in income receivables from vendors. The other current assets also include approximately CAD $17 million in intercompany accounts receivable – primarily for rent payments and an administrative fee – from TCC Propco.

iii. ***Non-Current Assets***

131. As at November 1, 2014, TCC's non-current assets consisted of the following:

(a) Property and equipment (net of accumulated depreciation): approximately CAD $3,764,534,000; and

(b) Other non-current assets: approximately CAD $765,160,000.

132. The vast majority of the property and equipment asset consists of buildings and improvements, which were recorded at approximately CAD $3.554 billion. This amount is exclusive of the buildings and improvements asset that is reflected on TCC Propco's financial statements.

133. Target Corporation assesses its long-lived assets as part of its year-end financial reporting and when events or changes in circumstances indicate that the asset's carrying value may not be recoverable. Target Corporation expects that TCC will incur significant impairment

charges in light of its financial situation, which will materially reduce the carrying value of the assets.

iv. ***Liabilities***

134. As at November 1, 2014, TCC had total liabilities of approximately CAD $5.118 billion. This included current liabilities of approximately CAD $689 million and non-current liabilities of approximately CAD $4.429 billion.

135. As at November 1, 2014, TCC's current liabilities consisted of the following:

(a) Accounts Payable: approximately CAD $546,325,000;

(b) Accrued and other current liabilities: approximately CAD $128,748,000; and

(c) Current portion of long-term debt and other borrowings related to capital leases: approximately CAD $13,603,000.

136. Although the vast majority of the accounts payable liabilities are trade debts, approximately CAD $109 million was payable to TCC Propco as at November 1, 2014. Approximately CAD $70 million of that amount was paid on or about December 31, 2014 in the normal course, which payment covered the amounts owing quarterly under the sublease / sub-subleaseback arrangement. The CAD $109 million payable also included a non-recurring amount of approximately CAD $39 million for fixed asset overpayments that TCC Propco had made under the sublease / sub-subleaseback arrangement. The overall accounts payable liability included approximately CAD $15 million owing to Target Brands in relation to the use of IP and

shared services. The other current liabilities included approximately CAD $7 million relating to gift card liability.

137. As at November 1, 2014, TCC's non-current liabilities consisted of the following:

(a) Long-term debt and other borrowings: CAD $4,404,369,000; and

(b) Other non-current liabilities: CAD $25,130,000.

138. TCC's long-term debt consists primarily of the approximately CAD $3.1 billion owing to NE1 under their loan facility agreement (discussed below) and approximately CAD $1.3 billion in long-term debt relating to leases with third party landlords. In addition, TCC is obligated to make payments to TCC Propco under the sub-subleases, which non-current amounts are not reflected on the current financial statements but which would be recorded upon termination of the sub-subleases.

B. TCC Propco

i. *Assets*

139. As at November 1, 2014, TCC Propco had total assets of approximately CAD $1.632 billion. This included current assets of approximately CAD $185 million and non-current assets of approximately CAD $1.447 billion.

140. As at November 1, 2014, TCC Propco's current assets consisted of the following:

(a) Cash and cash equivalents: approximately CAD $36,860,000; and

(b) Other current assets: approximately CAD $148,270,000.

141. Cash on hand as of January 8, 2015 is approximately CAD $77 million. The other current assets consist primarily of intercompany receivables from TCC relating to the sublease / sub-subleaseback arrangement. The primary source of income for TCC Propco is payments received from TCC.

142. As at November 1, 2014, TCC Propco's non-current assets consisted of property and equipment (net of accumulated depreciation) of approximately CAD $1.427 billion. This reflects, among other things, the real property improvements that TCC Propco has made under the sublease / sub-subleaseback arrangement.

143. Target Corporation assesses its long-lived assets as part of its year-end financial reporting and when events or changes in circumstances indicate that the asset's carrying value may not be recoverable. Target Corporation expects that TCC Propco will incur significant impairment charges in light of its financial situation, which will materially reduce the carrying value of the assets.

ii. ***Liabilities***

144. As at November 1, 2014, TCC Propco had total liabilities of approximately CAD $1.643 billion. TCC Propco's current liabilities consisted of the following:

(a) Accounts Payable: approximately CAD $100,609,000; and

(b) Accrued and other current liabilities: approximately CAD $8,483,000.

145. The accounts payable consisted of approximately CAD $84 million in intercompany interest owing to Target Canada Property LP under their loan facility agreement (discussed below). The accounts payable also included approximately CAD $17 million in intercompany payments to TCC, primarily for rent payments and an administrative fee, and approximately CAD $440,000 to Target Corporation under their revolving credit facility (discussed below).

146. TCC Propco's non-current liabilities consisted of long-term debt and other borrowings of approximately CAD $1.534 billion. This consisted primarily of the amount owing to Target Canada Property LP under their loan facility agreement.

C. Revenue

147. The following chart shows the sales and earnings before interest and taxes ("**EBIT**") for each of the quarters that TCC has operated stores in Canada. The increasing sales in this chart reflect the opening of new stores in Canada throughout 2013 and 2014. The increase in sales in Q4 2013 reflects higher sales, as is typically seen by retailers, during the peak sales season in the lead-up to Christmas. These figures are taken from the Canadian segment results reported in the consolidated financial statements of Target Corporation. All figures in this chart are in USD millions.

	Q1 2013	**Q2 2013**	**Q3 2013**	**Q4 2013**	**Q1 2014**	**Q2 2014**	**Q3 2014**
Sales	86	275	333	623	393	449	479
EBIT	(205)	(169)	(238)	(329)	(211)	(204)	(211)

148. For the nine months ended November 1, 2014, TCC had total revenue of approximately CAD $1.448 billion and net losses of approximately CAD $700 million.

149. For the nine months ended November 1, 2014, TCC Propco had total revenue (all from lease revenue from TCC) of approximately CAD $185 million and net losses of approximately CAD $12 million. These losses were driven by interest expenses.

D. Intercompany Funding

150. The operational funding for TCC and TCC Propco is provided by their respective parent entities and, ultimately, by Target Corporation, which, either directly or indirectly through subsidiaries, has invested more than USD $6.6 billion. This section describes the main sources of this funding, as summarized in the following chart and described below. The Target Canada Entities have only been able to maintain their operations to date as a result of amounts provided in the form of equity capital and amounts drawn under these loan agreements. The amounts in this chart are denominated in Canadian Dollars and are as at November 1, 2014.

	Source of Funds	**Recipient**	**Type**	**Approximate Amount Provided (CAD$)**
Loan Facility (unsecured)	NE1	TCC	Debt	$3.1 billion
Equity Capital	NE1	TCC	Equity	$2.5 billion
Loan Facility (unsecured)	Target Canada Property LP	TCC Propco	Debt	$1.5 billion
Credit Facility / Promissory Note	Target Corporation	TCC Propco	Debt	$100 million

i. ***TCC's Loan Facility***

151. TCC's direct parent, NE1 has extended funding to TCC pursuant to an unsecured loan facility agreement effective May 18, 2011. Copies of the agreement and subsequent amendments to the agreement are attached as Exhibit P to this Affidavit. The maximum amount available under the loan facility is CAD $4 billion. As of November 1, 2014, TCC owed NE1 approximately CAD $3.1 billion. Effective September 1, 2014, the parties agreed that interest would no longer accrue on the outstanding principal balance. Interest was previously charged at a rate determined based on the time that amounts were drawn down, as provided in the agreement.

152. As previously described, NE1 and TCC have entered into a Subordination and Postponement Agreement dated January 12, 2015 (the "**Subordination and Postponement Agreement**") in which NE1 agrees to subordinate all amounts owed by TCC to NE1 under their loan facility to the payment in full of proven claims against TCC, excluding NE1's proven claims. A copy of the Subordination and Postponement Agreement is attached as Exhibit Q to this Affidavit.

ii. ***TCC's Equity Funding***

153. As at November 1, 2014, NE1 has provided equity capital to TCC in the amount of approximately CAD $2.5 billion. As a result of the continuing and significant losses in TCC's operations, NE1 provided an additional approximately CAD $62 million in the form of equity capital to TCC since November 1, 2014 to fund TCC's operations.

iii. *TCC Propco's Loan Facility*

154. Coincident with Target Canada Property LP's assignment of its leasehold interests to TCC Propco effective January 2014, TCC Propco entered into a loan facility agreement in favour of Target Canada Property LP, pursuant to which TCC Propco has borrowed approximately CAD $1.5 billion. This obligation was incurred primarily to pay for real property improvements in TCC's stores pursuant to the sublease / sub-subleaseback arrangement.

iv. *TCC Propco's Revolving Credit Facility*

155. TCC Propco and Target Corporation were parties to a Revolving Line of Credit Agreement dated as of February 13, 2014 with a maximum amount of USD $300 million. The agreement was terminated on January 9, 2015 and the outstanding balance of USD $89 million due to Target Corporation was memorialized by a demand promissory note.

E. Other Intercompany Obligations

156. This section sets out certain other financial obligations between the Target Canada Entities and their related parties, as summarized in the following chart summarizing certain intercompany obligations as of November 1, 2014 and described below.

Debtor	Creditor	Reason for Obligation	Approximate Amount Due
TCC Propco	TCC	Lease Payments and Administrative Fee	CAD $15.5 million
TCC	Target Brands	Shared Services and Royalties	USD $16.3 million
TCC	Target Sourcing	Overseas Sourcing	USD $0.6 million
TCC	TCC Pharmacy	Pharmacy Franchising	USD $4 million

i. *Real Property Improvements and Make Whole Payment*

157. As explained above, for almost all of the retail store leases, TCC has subleased the properties to TCC Propco, which then made real estate improvements and then sub-subleased the properties back to TCC. TCC Propco continues to pay for all leasehold improvements, which, to date, have amounted to approximately CAD $1.45 billion. TCC makes payments of rent to TCC Propco under the sub-sublease arrangement, as more fully described in the following paragraph. Upon the termination of any of these subleases, the arrangement provides for a make whole payment from TCC to TCC Propco equal to the difference between the amount paid for the leasehold improvements and the amounts already repaid.

ii. *Other Intercompany Amounts Owing between TCC and TCC Propco*

158. Monthly, TCC pays landlords directly for lease obligations of approximately USD $8 million. TCC Propco reimburses TCC for those payments by remitting approximately USD $8 million based on the sublease / sub-subleaseback arrangement, out of funds received by TCC Propco from TCC on a quarterly basis, as described in the next sentence. Quarterly, TCC transfers to TCC Propco approximately USD $60 million of rent. This amount reflects its obligations under the sub-sublease (e.g. USD $8 million for 3 months = USD $24 million) plus additional rent of approximately USD $36 million, covering TCC Propco's real property improvements. The most recent quarterly remittance was made on or about December 31, 2014. Annually, TCC Propco owes TCC an administrative fee of approximately USD $9 million for property management, business services and procurement-type activities. As previously noted above, as at November 1, 2014, TCC also owed TCC Propco a non-recurring balance relating to

TCC's reimbursement of TCC Propco for miscellaneous expenses including fixed asset overpayments.

iii. ***Shared Services***

159. In consideration for the shared services that Target Brands or its affiliates perform for TCC pursuant to the Master Agreement, on a monthly basis TCC pays Target Brands arm's length fees as agreed between the parties from time to time. These payments are typically in the range of approximately CAD $15.2 million. As described above, Target Brands gave notice of termination of the Master Agreement, such termination will be effective April 14, 2015 and the Master Agreement will no longer be in effect. Concurrent with delivery of the notice of termination of the Master Agreement, Target Brands and TCC entered into the Administrative Services Agreement.

iv. ***IP License***

160. In consideration for the IP license granted under the Master Agreement, TCC pays Target Brands an annual royalty payment amounting to 1.5% of TCC's net revenues, with provisions for adjustments if required by U.S. or Canadian tax authorities. For the 2014 fiscal year, TCC has paid Target Brands approximately USD $40 million under the IP license. However, based on TCC's actual revenues, which have been lower than expected, Target Brands may be required to return a portion of that payment, depending on TCC's results at the end of the 2014 fiscal year. As described above, concurrent with delivery of the notice of termination of the Master Agreement, Target Brands and TCC entered into the Intellectual Property License Agreement.

v. ***Buying Agency Agreement***

161. In consideration for the services provided by Target Sourcing under the buying agency agreement, TCC pays Target Sourcing an arm's length fee for sourcing and inspection services. As of November 1, 2014, TCC owed Target Sourcing approximately USD $0.6 million. As described above, by letter dated January 14, 2015, Target Brands gave three months' notice of termination of the buying agency agreement to TCC, such termination to be effective on April 14, 2015. It is not expected that TCC will need these services after the termination date.

vi. ***Pharmacy Franchising***

162. Pursuant to a pharmacy franchising agreement between TCC Pharmacy and TCC, TCC Pharmacy and TCC make monthly payments to each other. TCC Pharmacy pays TCC for support services such as advertising and rebate processing, administrative and business services, and the fair market value of the space licensed for the pharmacy operations. As of November 1, 2014, TCC owed TCC Pharmacy a true-up payment in the amount of approximately USD $4 million.

Cash Management System

163. In the ordinary course of business, the Target Canada Entities use a centralized cash management system to monitor account activity and balances for each entity (the "**Cash Management System**"). These accounts are monitored daily and managed centrally by the treasury department of Target Corporation or its subsidiaries. The Cash Management System facilitates cash forecasting and reporting, monitoring collection and disbursement of funds, and control over the administration of various bank accounts required to effect the collection, disbursement and movement of cash.

164. In addition to the cash management services that Target Corporation and its subsidiaries provide to TCC, TCC provides cash management services for TCC Pharmacy and TCC Mobile pursuant to cash management agreements with each of TCC Pharmacy and TCC Mobile.

165. The Cash Management System relating to the Target Canada Entities involves four banks. In general terms, RBC and Toronto-Dominion Bank (“**TD**”) accounts act primarily as receipt or deposit accounts, whereas Bank of America accounts are primarily disbursement accounts. JPMorgan accounts are used primarily to pay vendors located outside of Canada and the United States. Except for certain US Dollar accounts at Bank of America, all of the accounts are located in Canada, regardless of the financial institution. Target Corporation has guaranteed the obligations of the Target Canada Entities to RBC, TD and Bank of America with respect to the Cash Management System.

A. <u>RBC</u>

166. In general terms, TCC's Canadian Dollar accounts at RBC are organized as six deposit-only zero balance accounts that immediately feed into a master concentration account upon receiving deposits.

167. The US Dollar accounts at RBC are similarly organized: for example, US currency used in Canadian stores is deposited into a US Dollar denominated store depository account and immediately flows into a US Dollar denominated master concentration account.

168. RBC provides two additional Canadian Dollar accounts. The first is a funding account in the name of TCC Propco. The second is a funding account in the name of NE3, which serves as a pass-through account for intercompany payments.

169. RBC and TCC have entered into a revolving overdraft credit facility allowing TCC to borrow up to USD $10 million. However, this facility is not active; TCC only maintains it as a contingency.

B. <u>TD</u>

170. TD serves as TCC's merchant processor for all debit and credit cards other than REDCard debit cards. All of the TD accounts are denominated in Canadian dollars. In general terms, TCC's accounts at TD are organized as three deposit-only zero balance accounts – for receipts from each of credit cards, debit cards and gift cards – that immediately feed into a master concentration account. The credit card account processes payments from both the RBC Target MasterCard and third party credit cards. There is a second stream of accounts consisting of a deposit-only zero balance account relating to debit card bill payments that feeds into a master account.

171. TD also provides a Canadian Dollar denominated funding account in the name of NE1. This account is generally used for payments from NE1 to TCC.

172. TD and TCC have entered into an overdraft credit facility allowing TCC to borrow up to CAD $10 million. However, this facility is not active; TCC only maintains it as a contingency.

C. Bank of America

173. As noted above, TCC's disbursements are generally paid out of accounts with Bank of America. The Canadian Dollar accounts are located in Canada; the US Dollar accounts are located in the United States. These disbursement accounts are generally not pre-funded. Funds are withdrawn on an as-needed basis from the RBC and TD master concentration accounts to fund the disbursements. The incoming funds then flow through either a Canadian Dollar or US Dollar denominated master disbursement account at Bank of America into the applicable disbursement account. If there are insufficient funds in the RBC and TD master concentration accounts to fund the disbursements, Target Corporation (or a related entity) will typically transfer the difference.

174. There are several other stand-alone Bank of America accounts that Target Canada and related entities use to make specific payments. TCC Propco also uses an account with Bank of America to make payments relating to leases.

D. JPMorgan

175. TCC pays overseas vendors through an arrangement that Target Corporation and TCC have with JPMorgan. JPMorgan pays the vendors either by way of a letter of credit that is typically issued approximately 60 days before the expected shipping date (approximately 15%-20% of all import payments) or open account transactions (approximately 80%-85% of all import payments).

176. For letters of credit, TCC typically approves the issuance of letters of credit on a vendor-by-vendor basis. JPMorgan typically funds the letters of credit directly from TCC's US Dollar-denominated trade account with JPMorgan before being reimbursed by TCC.

177. Target Corporation is jointly and severally liable with TCC for obligations to JPMorgan for any issued letters of credit and open account obligations. As of November 30, 2014, there were approximately USD $24.8 million in outstanding, issued letters of credit and approximately USD $41 million in open account approved outstanding invoices. TCC estimates that as of December 11, 2014, the estimated retail value of overseas goods in transit was approximately CAD $183 million.

E. Corporate Credit Cards

178. TCC provides credit cards to certain of its management and employees pursuant to agreements with Amex Bank of Canada ("**Amex**") and JPMorgan. The American Express credit cards are used by management for a variety of expenses, including business travel and business expenses. The MasterCard credit cards provided pursuant to the agreement with JPMorgan are used by certain operations employees as an alternative to petty cash. These cards are a critical component of TCC's cash management and account functions, and the ability of the employees of the Target Canada Entities to use these cards is essential for the continued operation of their businesses. The Target Canada Entities are seeking authority to pay for amounts incurred through such credit cards before and after the commencement of these proceedings should it be necessary to do so. Target Corporation has issued an unsecured guarantee in favour of each of JPMorgan and Amex to keep the accounts open and running as part of this CCAA proceeding.

The Urgent Need for Relief under the CCAA

179. All of TCC's operational funding is provided exclusively by Target Corporation and related entities. Target Corporation has invested more than CAD $7 billion into the expansion into Canada since the start of 2011.

180. Following the thorough review of TCC's performance described above and careful consideration of all options, I am informed by senior management of Target Corporation that the board of directors of Target Corporation has determined that, in its business judgement, it is in the best interest of its business and its shareholders to discontinue operations in Canada and focus on driving growth and building further momentum in its U.S. business.

181. Without further funding and financial support from Target Corporation, the Applicants are unable to meet their liabilities as they become due and are therefore insolvent. On January 14, 2015, the respective boards of directors of the Applicants resolved to commence this CCAA proceeding.

Relief Sought

182. Given the size and complexity of TCC's operations, the Target Canada Entities believe that this CCAA proceeding is the only practical method to ensure a fair and orderly wind down in the interests of all stakeholders. The Target Canada Entities urgently require a stay of proceedings and other protections provided by the CCAA so that they will have the breathing space to develop and conduct a controlled and orderly wind down of operations for the benefit of their stakeholders.

A. DIP Financing

183. Target Corporation and its subsidiaries are not willing to provide continued funding to TCC and its subsidiaries outside of a CCAA proceeding. TCC and its subsidiaries require interim financing to provide an immediate source of cash funding and to provide stability as part of this process and to fund operations during the implementation of the orderly wind down of its business as part of this CCAA proceeding. Subject to certain terms and conditions, Target Corporation (the "**DIP Lender**") has agreed to provide a non-revolving credit facility (the "**DIP Facility**") of USD $175 million to TCC and its subsidiaries (the "**Borrower**"). No fees are payable under the DIP Facility and only 5% interest is being charged. The cash flow projections show an immediate funding need for TCC to meet payroll and other immediate obligations. The DIP term sheet is attached as Exhibit R to this Affidavit.

184. The funds available under the DIP Facility will be used to meet the Borrower's immediate funding requirements during the CCAA proceedings in accordance with the cash flow projections discussed below (subject to cumulative variance of less than 20% as approved by the Monitor), including costs and expenses in connection with the CCAA proceedings. TCC believes that having access to sufficient funding to ensure there is enough flexibility and sufficient time to facilitate a process to maximize net realizations on all assets of the estate (including inventory and real estate assets) for the benefit of all stakeholders is crucial and necessary to provide stability as part of the CCAA proceedings. TCC consulted with the proposed Monitor, Alvarez & Marsal Canada Inc. ("**A&M**"), regarding the DIP Facility. Based on discussions with the proposed Monitor, TCC anticipates that the proposed DIP Facility will accommodate the Target Canada Entities' anticipated liquidity requirements during the CCAA proceedings.

185. The Borrower has agreed to pay the DIP Lender interest on the outstanding principal amounts advanced under the DIP Facility and all other obligations owing under the DIP Facility, both before and after maturity, and until actual payment in full, at the rate of 5% per annum. Upon the occurrence of an event of default that is continuing the rate shall automatically become 7% per annum until the maturity date. However, no other fees are being charged by the DIP Lender, and the DIP Lender is not seeking reimbursement of its expenses. The maturity date is the earlier of (i) the date on which the proposed stay of proceedings pursuant to the Initial Order, as amended from time to time, finally expires without being extended, (ii) the date on which the CCAA proceedings are terminated or (iii) January 15, 2016, or such later date as may be agreed to in writing by the DIP Lender, in its sole discretion. All amounts outstanding under the DIP Facility shall be repaid in full on the maturity date, subject to the order of the Court. TCC and its subsidiaries are jointly and severally liable for the amounts borrowed under the DIP Facility and any interest thereon.

186. Other key elements of the DIP Facility are as follows:

(a) Unless otherwise agreed by the DIP Lender, the Borrower shall make the following mandatory prepayments of the outstanding principal and interest amounts of the advances under the DIP Facility, if any, at the time of receipt of the net cash proceeds described below (subject to, among other things, payment or reserves for Court-ordered charges):

(i) 100% of the net cash proceeds received from the incurrence of indebtedness by the Borrower, which may only be incurred with the consent of the DIP Lender;

(ii) 100% of the net cash proceeds from the receipt of any extraordinary income or receipts (including, without limitation, insurance proceeds (excluding business interruption, workers compensation or liability insurance), tax refunds and similar receipts outside of the ordinary course) by the Borrower; and

(iii) 100% of the net cash proceeds of any sale or other disposition (including as a result of casualty or condemnation) by the Borrower of any assets other than inventory (whether such inventory is sold or disposed of through return to the vendor or wholesaler, the liquidation of the inventory by the Agent once appointed by the Court or otherwise).

(b) All net cash proceeds payable to the DIP Lender from any of the events described above shall be applied, except as otherwise agreed to by the DIP Lender in writing, as follows:

(i) first, to pay accrued and unpaid interest on the obligations under the DIP Facility;

(ii) second, to repay any principal amounts outstanding in respect of the DIP Facility; and

(iii) third, the balance to be paid to the Borrower.

(c) Any repayment of principal under the DIP Facility will not affect the remaining amount available under the DIP Facility.

(d) Advances under the DIP Facility are contingent, among other things, on the issuance of the Initial Order, which shall be in full force and effect and shall grant the DIP Lender's Charge (as defined herein) and on the absence of an event of default or pending event of default.

(e) Events of default include, among others: (i) a breach of covenanted reporting requirements that remains unremedied for three business days; (ii) a breach of any other covenant under the DIP term sheet that remains unremedied for more than 10 business days (including, among others, the failure to conclude substantially all of the contemplated liquidation of retail inventory by June 1, 2015); (iii) the expiration of the stay of proceedings in these CCAA proceedings; (iv) the delivery of updated cash flow projections that reflect a material adverse change to the Borrower or there occurs any negative variance greater than 20% for all expenditures, on a cumulative basis (other than timing variances); (v) a material payment by the Borrower of any kind not permitted by the Initial Order or the DIP term sheet; (vi) failure of the Borrower to pay principal or interest when due; and (vii) the proposal or filing of any plan of compromise or arrangement that is not acceptable to the DIP Lender if such plan of compromise or arrangement does not either provide for the repayment of the obligations under the DIP Facility in full by the maturity date or designate the DIP Lender as unaffected by such plan.

187. The entire amount of the DIP Facility is to be secured by a security interest on all real and personal property leased, owned or hereafter acquired by the Borrower. The amount actually borrowed by the Borrower is proposed to be secured by, among other things, a Court-

ordered charge on the Borrower's property (the "**DIP Lender's Charge**") that ranks in priority to all unsecured claims, but is subordinate to the Administration Charge, the KERP Charge, the Directors' Charge and the Financial Advisor Subordinated Charge (each of which is discussed and defined below), and any purchase money security interests.

188. The Target Canada Entities have not sought alternative financing proposals because they believe that the DIP Facility is being offered on more favourable terms than any other potentially available third-party financing and is in the best interests of TCC and its subsidiaries and their stakeholders.

189. The DIP Facility is crucial to the orderly wind down of the Canadian operations, as it will provide the Borrower with the necessary liquidity to operate during these proceedings and ensure there is enough flexibility and sufficient time to facilitate a process to maximize net realizations on their assets for the benefit of all stakeholders.

B. Monitor

190. It is proposed that A&M will act as Monitor in the CCAA proceedings if the proposed Initial Order is issued. A&M has consented to act as the Monitor of the Target Canada Entities.

191. TCC, with the assistance of A&M, has prepared 13-week cash flow projections, as required by the CCAA. A copy of the cash flow projections is attached as Exhibit S to this Affidavit. They show that TCC can continue operations during the proposed initial stay period.

192. I understand that A&M will file an initial pre-filing report with the Court as proposed Monitor in conjunction with the Target Canada Entities' request for relief under the CCAA.

193. In addition to other general powers, the proposed Initial Order includes powers relating to the wind down of TCC's operations to enable the Monitor to:

(a) oversee the liquidation agent solicitation process and work closely with TCC and any liquidation agent in connection with the liquidation process;

(b) oversee the development and implementation of the real estate portfolio sales process to be developed by Lazard and Northwest in consultation with the Target Canada Entities;

(c) oversee the marketing and sales of other assets of the Target Canada Entities, in consultation with the Target Canada Entities;

(d) oversee the controlled wind down of shared services and other intercompany arrangements with Target Corporation, in consultation with TCC; and

(e) administer the Employee Trust, in consultation with the trustee thereof and Employee Representative Counsel.

C. Key Employee Retention Plan

194. The proposed Initial Order includes approval of a key employee retention plan (as set out below, the "**KERP**") and granting of a Court-ordered charge up to the maximum aggregate amount of CAD $6.5 million as security for payments under the KERP.

195. The KERP was developed by the Target Canada Entities, in consultation with A&M, to facilitate and encourage the continued participation of senior management and other key employees of the Target Canada Entities who are required to guide the business through the contemplated orderly wind down process and preserve value for stakeholders. The KERP will provide its participants with additional payments as an incentive to continue their employment for varying durations, as required, through the CCAA proceedings. These employees have significant experience and specialized expertise that cannot be easily replicated or replaced.

196. The Target Canada Entities propose to include the following employees in the KERP:

Role	**Approximate Number Required**	**Amount of KERP Payment**	**Estimated Maximum Cost (CAD$)**
(a) Senior and Operational Management	21-26	Varies	$770,000
(b) Store Level Management	520	8-12 weeks' salary	$5.7 million (net of anticipated $1.3 million payment to store team leaders from the Employee Trust)
Total			$6.5 million

(a) ***Senior and Operational Management***: The Target Canada Entities are proposing that I, as a member of senior management, will be eligible to participate in the KERP. The identity of operational management employees eligible for the KERP is being finalized but is projected to include approximately 20 to 25 key employees who operate primarily out of TCC's head office in Mississauga, Ontario in the Human Resources, Legal, Distribution, Merchandising Store Operations and Property Development departments. These operational management employees will be needed for both the contemplated inventory liquidation and for the following period. The Target Canada Entities are proposing that these employees be eligible for payments under the KERP that, for most such employees, equal to 8 to 12 weeks of salary.

It is estimated that the KERP for operational and senior management will cost approximately CAD $770,000.

(b) ***Store Level Management***: As each store is, in effect, its own individual operation and entity, TCC has identified four key individuals at each store, amounting to approximately 3% of the store employee population, whose continued participation going forward will be critical to executing the contemplated orderly wind down process. The following chart summarizes the categories of store level employees that the Target Canada Entities are proposing to include in the KERP:

Employee	Approximate Number Required	Maximum Amount of KERP Payment	Estimated Maximum Cost (CAD$)
Store Team Leader	117	12 weeks	$1.8 million (net of anticipated $1.3 million payment to store team leaders from the Employee Trust)
Executive Team Leader, HR	133	8 weeks	$1.5 million
Executive Team Leader, Logistics	133	8 weeks	$1.5 million
Store Facilities Technician	133	At least 8 weeks	$0.9 million

(i) The Store Team Leader is responsible for running the store and is the highest-level leadership position within a store. During the wind down process, TCC will rely on Store Team Leaders with respect to communications with store stakeholders including employees, clients, franchisees, as well as interactions with any liquidator. TCC considers this the most important role in the store. Accordingly, to ensure such employees' participation in an effective and orderly wind down process, TCC is proposing that they be paid additional compensation up to a maximum of 12 weeks' base salary, calculated as follows: 28 weeks' base salary (30 weeks' for Store Team Leaders in Manitoba) from the effective date of the employee's notice of termination less the sum of: (i) the total amount that the employee is paid in respect of services performed from the effective date of the notice of termination; and (ii) any amount that the employee is eligible to receive as an Eligible Employee Claim under the Employee Trust (as discussed below). Examples of Store Team Leader KERP calculations are set out in Exhibit T to this Affidavit. The Target Canada Entities are proposing that approximately 117 store team leaders be eligible for participation under the KERP. It is estimated that providing these employees with an additional 12 weeks of salary would cost a maximum of approximately CAD $3.1 million. However, under the terms of their individual employment agreements approximately 25 Store Team Leaders have an entitlement to more than 12 weeks' pay beyond the 16 week notice period, which entitlement will be eligible to be separately funded entirely under the Employee Trust. It is estimated that the other approximately 92 Store Team Leaders will be eligible to be paid either partially under the Employee Trust and partially under the KERP, or entirely under the KERP. It is estimated that the total amount payable under the Employee Trust will be approximately $1.3 million and the total amount payable under the KERP will be approximately $1.8 million. (The Store Team Leaders for the approximately 16 remaining stores are international assignees, and the Target Canada Entities do not propose to include such individuals in the KERP.)

(ii) The <u>Executive Team Leader, Human Resources</u> is the store-level Human Resources professional and has primary responsibility at the store level for, among other things, scheduling and payroll, and will play a key role in employee communications. These employees are necessary to ensure proper scheduling continues in accordance with the change in operations, to make payroll calculations and to assist with ongoing workplace issues. It is estimated that providing these employees with a KERP equal to an additional 8 weeks of salary would cost approximately CAD $1.5 million.

(iii) The Executive Team Leader, Logistics is the store-level employee responsible for coordinating the store's receipt of inventory and placement of inventory in the store and will be crucial to any liquidation. It is estimated that providing these employees with a KERP equal to an additional 8 weeks of salary would cost approximately CAD $1.5 million.

(iv) The Store Facilities Technician is the store-level employee responsible for building operations and maintenance. TCC believes that their participation will contribute to the safe and smooth operation of the stores through the contemplated wind down process. Depending on the results of store closures, these technicians may also be necessary through the contemplated process of selling the leases. It is estimated that providing these employees with a KERP equal to an additional 8 weeks of salary would cost approximately CAD $0.9 million.

197. Any payments under the KERP are conditional upon the employee continuing to provide services to TCC until such time as they are advised that they are no longer required to assist in the wind down, sales, or other matters in these proceedings. With the exception of the

senior management employee, the Target Canada Entities are proposing to make payments to each employee under the KERP with his or her final pay.

198. Assuming the Target Canada Entities are able to retain all of the key employees, the total amount payable under the KERP would be a maximum of approximately CAD $6.5 million. The Target Canada Entities are seeking a charge (the "**KERP Charge**") to secure the amounts payable under the KERP. The KERP Charge is proposed to rank immediately below the Administration Charge and immediately above the Directors' Charge (both discussed below).

D. Employee Trust

199. TCC is asking the Court to approve a trust established for the benefit of employees of TCC (the "**Employee Trust**"), and funded by Target Corporation.

200. TCC and Target Corporation have always considered team members to be integral to Target's business. However, given that TCC will be winding down its operations and ceasing to carry on business, it will be immediately providing notice of termination to the vast majority of its employees. TCC and Target Corporation wish to provide TCC employees with a measure of financial security during the wind down process. Target Corporation has therefore agreed to fund the Employee Trust to a maximum amount of CAD $70 million (the "**Maximum Required Trust Contribution**"), discussed further below. If approved, the Employee Trust will provide funding for payment to employees of at least their full statutory or contractual termination entitlements even if they are not required to work for their entire notice period. It is intended that the Employee Trust protect the TCC employees against any dispute by any creditors of the Target Canada Entities regarding the employees' entitlement to receive the full amount of these employments benefits under the CCAA proceedings.

201. In order to further benefit TCC employees and all other unsecured creditors of TCC, Target Corporation will not assert any right of subrogation against TCC in respect of amounts paid pursuant to the Employee Trust. The Employee Trust and not the estate will bear the costs associated with its establishment and administration.

202. The Employee Trust was established in consultation with A&M, and is supported by Employee Representative Counsel. The trust agreement provides that the proposed Monitor is the administrator and Hon. John D. Ground is the trustee. A copy of the proposed trust agreement is attached as Exhibit U to this Affidavit. All defined terms in this section are as set out in the trust agreement.

203. The trust agreement provides:

(a) the beneficiaries of the Employee Trust ("**Eligible Employees**") include:

(i) active employees of TCC as of the date of the CCAA filing who have not given notice to, or received notice of termination from, TCC and who are terminated without cause by TCC following the CCAA filing;

(ii) inactive employees of TCC on approved disability leaves, statutory leaves, or authorized personal leaves as of the CCAA filing who have not given notice to, or received notice of termination from, TCC and who are terminated without cause by TCC following the CCAA filing; and

(iii) such other inactive employees of TCC on authorized leaves of absence as TCC and the Monitor may expressly agree.

(iv) TCC employees who voluntarily leave their employment prior to being advised by TCC that their services are no longer needed are not eligible to receive payments funded by the Employee Trust.

(b) the distribution by the Employee Trust to TCC for payment to an Eligible Employee will be equal to A minus B (the "**Eligible Employee Claim**") where:

(i) A is the greatest of:

(I) such Eligible Employee`s statutory minimum termination entitlement under applicable employment standards legislation, including any statutorily required post-termination vacation pay;

(II) beginning from the Effective Date of Notice, 16 weeks' Regular Wages for a Regular Work Week as well as the cost of TCC's portion of premium contributions required to continue such Eligible Employee's benefit coverage for such 16 week period to the extent permitted by the insurance carrier, but not less than minimum ESA entitlement; or

(III) contractual notice or pay in lieu required to be paid to such Eligible Employee pursuant to the terms of any applicable written employment agreement between TCC and the Eligible Employee, including the cost of TCC's portion of premium contributions required to continue such Eligible Employee`s benefit coverage as required by such written employment agreement to the extent permitted by the insurance carrier, but not less than minimum ESA entitlements; and

(ii) B is all amounts earned by such Eligible Employee up to their regular wages for a regular work week, inclusive of benefits and vacation pay, in respect of actual post-filing services provided following the Effective Date of Notice; provided however that B shall be deemed to be zero (0) for any such Eligible Employee whose written employment agreement specifically provides that the contractual termination entitlements cannot be reduced through working notice;

(c) payments to employees of funds distributed by the Employee Trust will be made directly by TCC or by a third party payroll provider pursuant to TCC's existing payroll system. The Employee Trust will distribute funds to TCC on a pay period by pay period basis, based on estimates jointly developed by TCC and the Monitor, as administrator of the Employee Trust. Any surplus or deficiency from the previous pay period(s) will be reconciled in the next pay period. On or after the final distribution, TCC and the Monitor will consult and perform a final "true up"; and

(d) a deemed release by each Eligible Employee of TCC, Target Corporation and other Releasees (as defined in the trust agreement) on the payment of a distribution from the Employee Trust in respect of an Eligible Employee Claim, to the extent of such distribution. This is proposed to operate as a "rolling release": that is, for each distribution funded from the Employee Trust, the employee will be deemed to release all Releasees in respect of the Eligible Employee Claim for the amount he receives plus appropriate remittances or withholdings (the "**Payment Release**"). Once the final distribution has been made by the Employee Trust and paid by TCC, the Eligible Employee will be deemed to have released TCC, Target Corporation and the other Releasees in respect of the full amount of the Eligible Employee Claim, subject to any dispute, as described below. In the unlikely event the Maximum Required Trust Contribution is not sufficient to fund all such claims, only the Payment Release will apply.

(e) contractual termination entitlements in excess of statutory minimum requirements will be subject to a release in accordance with the terms of the written employment contracts; and

(f) only Eligible Employee Claims are covered.

204. For additional clarity, the Employee Trust does not cover damages or claims against TCC, Target Corporation or any related entities from any existing or potential litigation or other proceedings by TCC employees in respect of their employment. Any other employee claims or potential claims against TCC will be dealt with through the claims procedure, once established.

205. TCC is proposing that any dispute with respect to an Eligible Employee Claim must be made within 60 days of the final payment thereof by notice to the Administrator (Monitor) and Employee Representative Counsel (discussed below), specifying the grounds and particulars of the dispute. The deemed release will not come into effect for any Eligible

Employee who commences a dispute until the dispute is finally resolved. The directions of this Court for dispute resolution will be sought if necessary.

206. If approved, the first contribution to the Employee Trust will be $52.5 million, payable by Target Corporation upon the making of the Initial Order. Target Corporation will provide further funding if required to satisfy Eligible Employee Claims to the Maximum Required Trust Contribution, following notice from the Administrator. If the Administrator considers there are excess funds, the Trustee, on the direction of the Administrator, may refund such excess to the Settlor.

207. The Employee Trust will be fully revocable until certain conditions set out below are fulfilled, as detailed in the trust agreement:

(a) the Court grants the Initial Order which, among other things:

(i) approves and authorizes the creation of the Employee Trust on the terms and conditions set out in the trust agreement;

(ii) provides for a deemed release of claims by Eligible Employees no less favourable to TCC, Target Corporation and their affiliates than the Deemed Release Terms;

(iii) appoints the proposed Monitor to act in such capacity, and in addition to the other powers granted to the Monitor therein, authorizes and directs the Monitor to act as Administrator of the Employee Trust;

(iv) declares that Target Corporation shall not be, and shall not be deemed to be, an employer or a common, related or successor employer with respect to any TCC Employee by virtue of settling the Employee Trust; and

(v) establishes a stay of proceedings on substantially the terms and conditions requested by TCC; and

(b) the Initial Order becomes a Final Order; and

(c) notices of termination by TCC have been sent to Eligible Employees.

208. In summary, TCC is of the view the Employee Trust is of great benefit to its employees, estate and stakeholders because:

(a) no funds from any of the Target Canada Entities will be used to fund the Employee Trust;

(b) Target Corporation is the settlor of the Employee Trust and will provide all funds required, to the Maximum Required Trust Contribution;

(c) Target Corporation will not assert any subrogation rights in respect of amounts paid out of the Employee Trust and will not seek to recover from TCC's estate any amounts paid out of the Employee Trust;

(d) As discussed in respect of the KERP, the cost to the estate of the KERP will be reduced because of payments under the Employee Trust; and

(e) the Employee Trust will bear the costs of its establishment and administration.

E. Employee Representative Counsel

209. The Target Canada Entities propose that the Court appoint Koskie Minsky LLP ("**Koskie Minsky**") as Employee Representative Counsel, with Susan Philpott acting as senior counsel, to represent TCC's employees, save and except directors and officers, including, but not limited to, assisting with questions regarding Eligible Employee Claims and other issues with respect to the Employee Trust.

210. I am advised by Sven Poysa of Osler and believe that Koskie Minsky has been appointed by the court as representative counsel in many CCAA and other restructurings, including, among others, *Air Canada*, *Nortel*, *Hollinger Canadian Publishing Holdings* and *Eaton's*. I am advised by Mr. Poysa and believe that Koskie Minsky has extensive experience representing large groups of employees and former employees in matters involving employment-based claims for such things as termination entitlements and benefits in restructuring and liquidation situations. I am advised by Mr. Poysa and believe that Koskie Minsky also has extensive experience in establishing and advising members and trustees of employee benefit plans across Canada, and is uniquely qualified to represent TCC employees in the Proceeding.

211. I am also advised by Mr. Poysa and believe that Koskie Minsky has been consulted regarding the Employee Trust and supports the Court's approval of the Employee Trust.

212. To the best of my knowledge, the employees have a common interest in these CCAA proceedings. I am not aware of any material conflict existing between the interests of

employees or groups of employees at this time. If any material conflict does arise in the future, Employee Representative Counsel may attend before the Court to seek directions at that time.

213. TCC is proposing that:

(a) Employee Representative Counsel be appointed immediately, before the appointment of employees as Court-appointed representatives (the "**Employee Representatives**"), because of the importance of establishing the Employee Trust at the earliest possible time for the benefit of the employees, the estate and other stakeholders;

(b) Employee Representative Counsel begin the process of identifying no more than seven employees to be nominated to the Court as Employee Representatives as soon as practicable, with the goal of two employees being selected from each of the three groups or regions in which TCC is organized, the Western, Central (Ontario) and Eastern (including Ottawa, Quebec and the Maritimes) Regions, and one from head office; and

(c) opt-out rights be provided when the Employee Representatives are appointed.

214. TCC recognizes that the employees are an important stakeholder group and deserve adequate and meaningful representation in the CCAA proceeding.

215. I am advised by Mr. Poysa and believe that Koskie Minsky intends to: (i) establish a toll-free dedicated phone line and a dedicated email address through which TCC employees can obtain information about this CCAA proceeding; and (ii) post information for

TCC employees on the Koskie Minsky website, which will be regularly updated with information directed to TCC employees about the CCAA process, including a section for frequently asked questions.

216. TCC believes that Employee Representative Counsel will contribute to overall costs savings and a streamlining of the CCAA process by serving as a single point of contact between thousands of employees, the Target Canada Entities, the Monitor and the Court.

F. Administration Charge

217. In connection with its appointment, the Target Canada Entities propose that the Monitor, along with its counsel, counsel to the Target Canada Entities, the proposed financial advisor (Lazard, with respect to its Monthly Fee set out in the Financial Advisor Agreement, as discussed below), the real estate advisor to the Target Canada Entities (Northwest, as discussed below), the Employee Representative Counsel for the employees, and independent counsel for the Directors of the Target Canada Entities will be granted a Court-ordered charge on all of the present and future assets, property and undertakings of the Target Canada Entities as security for their respective fees and disbursements relating to services rendered in respect of the Target Canada Entities up to a maximum amount of CAD $6.75 million (the "Administration Charge"). The Administration Charge is proposed to have first priority over all other charges.

G. Directors' and Officers' Protection

218. The Target Canada Entities believe that an orderly wind down will only be possible with the continued participation of their respective boards of directors and key management and employees who are essential to the viability of the orderly wind down of TCC's business.

219. I am advised by Shelley Obal of Osler and believe that, in certain circumstances, directors can be held liable for certain obligations of a company owing to employees and government entities, which may include unpaid accrued wages; unpaid accrued vacation pay; and unremitted sales, goods and services, and harmonized sales taxes.

220. It is my understanding that TCC's present and former directors and officers who are or were employed by TCC are among the potential beneficiaries under a liability insurance policy that covers an aggregate annual limit of USD $25 million. I do not believe that this insurance policy provides sufficient coverage against the potential liability that I or other directors could incur in relation to this CCAA proceeding.

221. Certain of TCC's directors and officers who are employed by Target Corporation or certain of its subsidiaries may also be covered under a separate liability insurance policy in the amount of approximately USD $450 million. However, I am advised by such directors and officers and believe that they are concerned about whether this policy would fully insulate them from a Canadian statutory liability in their roles as directors and officers of a Canadian corporation. In addition, I understand that there may be competing claims against the US policy as it is a broad policy that covers many other individuals in many other circumstances.

222. In light of the potential liabilities and the uncertainty surrounding available indemnities and insurance, I and the other directors and officers have indicated to the Target Canada Entities that our continued service and involvement in this proceeding is conditional upon the granting of an Order under the CCAA which grants a charge in favour of the directors and officers of the Target Canada Entities in the amount of CAD $64 million on the property of the Target Canada Entities (the "**Directors' Charge**"). The Directors' Charge would act as

security for indemnification obligations for the Directors' potential liabilities as set out above. As noted above, the Directors' Charge is proposed to stand in priority to the proposed Financial Advisor Subordinated Charge and DIP Lender's Charge, but would be subordinate to the proposed Administration Charge and KERP Charge. The Directors' Charge is necessary so that the Target Canada Entities may benefit from their directors' and officers' experience with the business and guide TCC's liquidation and wind down efforts.

H. <u>Payments During this CCAA Proceeding</u>

223. During the course of this CCAA proceeding, TCC intends to make payments for goods and services supplied post-filing as set out in the cash flow projections described above and as permitted by the draft Initial Order. TCC is proposing in the Initial Order that TCC be authorized, with the consent of the Monitor, but not required, to make certain payments, including payments owing in arrears, to certain critical third parties that provide services that are integral to TCC's ability to operate during, and implement, its controlled and orderly wind down process. These third parties include key logistics or supply chain providers, customs brokers and clearing houses; parties providing freight forwarding, transportation and logistics services; armoured truck carriers; and financial institutions providing corporate credit cards, including Amex and JPMorgan, as well those involved in the cash management system. In addition, the draft order provides for the Target Canada Entities' ability to pay other categories of suppliers with the consent of the Monitor up to a maximum amount of $10 million.

I. <u>Inventory Liquidation Process</u>

224. As part of the overall wind down process for the Canadian business, the Target Canada Entities are seeking the Court's approval to, in consultation with the Monitor, meet immediately with liquidation firms to solicit proposals, assess such proposals and, on subsequent

approval of the Court, enter into an agreement with a liquidator selected as part of this solicitation process.

J. Approval of TCC's Engagement of Lazard and Northwest

i. *Lazard*

225. TCC is asking the Court to approve TCC's engagement of Lazard as TCC's financial advisor to develop and assist with a sales process for TCC's real estate portfolio. In the event that the Court grants the Initial Order, the Target Canada Entities will return to Court to seek approval of such process. It is my understanding that a copy of TCC's engagement letter with Lazard (the "**Financial Advisor Agreement**") will be attached as a confidential appendix to the pre-filing report of the proposed Monitor.

226. TCC solicited proposals from three investment banks and selected Lazard. TCC consulted the proposed Monitor on these proposals and the selection of Lazard. I believe that Lazard's significant experience and expertise will greatly benefit TCC. It is my understanding that Lazard is one of the world's leading investment banking and financial advisory firms, offering a broad range of corporate advisory services including, among other things, general financial advice, corporate restructurings and divestitures. It is my further understanding that Lazard has extensive worldwide experience in the reorganization and restructuring of companies, both out-of-court and in U.S. and Canadian restructuring cases.

227. As set out above, the Target Canada Entities propose that Lazard's monthly fee under the Financial Advisor Agreement (the "**Monthly Fee**") will be covered by the Administration Charge discussed above. In addition, the Target Canada Entities propose that

Lazard will be granted a Court-ordered charge on all of the present and future assets, property and undertakings of the Target Canada Entities with respect to its fees under the Financial Advisor Agreement other than its Monthly Fee thereunder (the "**Transaction Fee**"), which charge shall not exceed an aggregate amount of $3 million (the "**Financial Advisor Subordinated Charge**"), as security for the Transaction Fee. The Financial Advisor Subordinated Charge is proposed to stand in priority to the proposed DIP Lender's Charge, but would be subordinate to the proposed Administration Charge, KERP Charge and Directors' Charge.

ii. ***Northwest***

228. TCC is asking the Court to approve TCC's engagement of Northwest as TCC's real estate advisor to provide local knowledge and expertise regarding real estate market conditions and activity, and to advise and consult with Lazard in the development of a sales process for TCC's real estate portfolio. A copy of the TCC's proposed agreement with Northwest (the "**Real Estate Advisor Agreement**") is attached as Exhibit V to this Affidavit.

229. It is my understanding that North West specializes in, among other things, services relating to retail leasehold interests, and has significant experience and expertise regarding retail leases in malls and other retail-related real property, including distribution centres and warehouses. In addition, North West has knowledge of, and direct experience with, many of the leases in the Target Canada Entities' real estate portfolio. It is my further understanding that Northwest is licensed to act as a real estate broker, should it be necessary for Northwest to act in that capacity in relation to the sale of the Target Canada Entities' real estate portfolio.

K. Stay of Derivative Claims against Target Corporation

230. As noted above, the draft Initial Order proposes, subject to certain exceptions regarding the Cash Management System, a temporary stay of any proceeding against or in respect of Target Corporation arising out of or in connection with any obligation of Target Corporation that is derivative of the primary liability of any of the Target Canada Entities.

231. The Target Canada Entities believe that this relief is necessary to allow the Target Canada Entities to have sufficient "breathing space" under the CCAA to focus their resources on a fair and orderly wind down process. Any derivative litigation against Target Corporation would necessarily require the participation of the Target Canada Entities and would result in a significant distraction of remaining senior management from the goals of this proceeding.

232. It is the intention of the Target Canada Entities to establish a CCAA claims process during these CCAA proceedings. The amount of these derivative claims against Target Corporation, if any, will not be known until a claims process with respect to such claims has been completed.

L. Chapter 15 Proceedings

233. A Chapter 15 recognition proceeding under the US Bankruptcy Code may be necessary in respect of some or all of the Target Canada Entities. As described herein, TCC Propco is a limited liability company organized under the laws of Minnesota and there are numerous relationships and flows of funds between the Target Canada Entities and entities located in the United States that may necessitate the filing of a Chapter 15 proceeding.

234. Out of an abundance of caution and to prevent delay should a Chapter 15 proceeding prove necessary, the Target Canada Entities are seeking in the Initial Order to have the Monitor authorized but not required to act as a foreign representative and commence proceedings under Chapter 15 with respect to all or some of the Target Canada Entities.

235. In all of the circumstances, including those set out below, the centre of main interest (the "**COMI**") of the Target Canada Entities is in Canada. With respect to the Target Canada Entities other than TCC Propco:

(a) each of the Target Canada Entities is incorporated or organized under the laws of Canada or provinces of Canada;

(b) the registered office of each of the Target Canada Entities is located in Canada;

(c) TCC's retail operations are headquartered in Mississauga, Ontario;

(d) the vast majority of the assets of each of the Target Canada Entities are located in Canada;

(e) the corporate tax returns of each of the Target Canada Entities are filed in Canada;

(f) substantially all of the employees of the Target Canada Entities are located in Canada and are paid on Canadian payroll;

(g) the compensation and benefits paid to substantially all of the employees of the Target Canada Entities are regulated in Canada; and

(h) certain of the Target Canada Entities hold real property assets located in Canada.

236. For TCC Propco, although it is a Minnesota limited liability company, it has been established solely to facilitate the build-out of TCC's Canadian stores and only operates in Canada.

Conclusion

237. I believe that the Target Canada Entities and Target Corporation have made every reasonable effort, and assessed every available option, in their extensive efforts to find a way to succeed in Canada. However, no way was identified that could stop the significant losses projected for the foreseeable future. Given Target Corporation's decision to cease funding TCC and to effect an orderly and responsible wind down of its subsidiaries' Canadian operations, TCC has no means to continue operating. I believe that the contemplated CCAA proceeding is the optimal method – indeed, the only viable method – to effect a fair and orderly wind down process for the benefit of all stakeholders.

238. TCC and Target Corporation intend to wind down Canadian operations in a responsible and controlled manner and intend to treat stakeholders as fairly and equitably as the circumstances allow. The Target Canada Entities are asking the Court to approve the Employee Trust to provide a measure of financial security for employees and a DIP Facility that has been offered on favourable terms and to facilitate the orderly wind down. I am confident that granting the Initial CCAA Order sought by the Target Canada Entities is in the best interests of the Target Canada Entities and their stakeholders.

SWORN BEFORE ME at the City of Toronto, on the 14th day of January, 2015.	
Commissioner for taking Affidavits Alexis Beale	Mark J. Wong

SCHEDULE A

Partnerships

1. Target Canada Pharmacy Franchising LP

2. Target Canada Mobile LP

3. Target Canada Property LP