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 OR 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.

PRE-FILING REPORT OF THE PROPOSED MONITOR ALVAREZ & MARSAL CANADA INC.

JANUARY 14, 2015

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1.0 INTRODUCTION

1.1 Alvarez & Marsal Canada Inc. ("**A&M**" or the "**Proposed Monitor**") understands that Target Canada Co. ("**TCC**") and those companies listed in **Appendix** "**A**" (collectively, the "**Applicants**") intend to bring an application before this Court seeking certain relief under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"), in the form of an Order granting, among other things, a stay of proceedings until February 13, 2015 and appointing A&M as Monitor (the "**Monitor**", and the proposed Order, the "**Proposed Initial Order**"). The proceedings to be commenced by the Applicants under the CCAA are referred to herein as the "**CCAA Proceedings**".

1.2 In addition, the Applicants are requesting the stay of proceedings and other benefits of the Proposed Initial Order be extended to the limited partnerships listed in **Appendix** "**A**" (the "**Partnerships**", and collectively with the Applicants, the "**Target Canada Entities**"), as the Partnerships are related to or carry on operations that are integral to the business of the Applicants.

1.3 The purpose of this pre-filing report (the "**Report**") is to provide this Court with:

(1) information regarding the following:

(a) A&M's qualifications to act as Monitor;

(b) background information with respect to the Target Canada Entities;

(c) proposed orderly wind-down of the Target Canada Entities;

(d) engagement of Lazard Frères & Co. LLC ("**Lazard**") as financial advisor and of Northwest Atlantic (Canada) Inc. ("**Northwest**") as broker advisor;

(e) proposed stay of proceedings;

(f) cash management system of the Target Canada Entities;

(g) intercompany arrangements among certain of the Target Canada Entities and their ultimate parent company, Target Corporation, and certain of its subsidiaries and affiliates;

(h) Target Canada Entities' 13-week cash flow forecast;

(i) proposed debtor-in-possession financing facility;

(j) proposed employee trust;

(k) proposed key employee retention plan;

(l) appointment of representative counsel;

(m) proposed payments during the CCAA Proceedings;

(n) court ordered charges sought in the Proposed Initial Order;

(o) powers related to foreign proceedings;

(p) proposed creditor notification procedures; and

(2) the Proposed Monitor's conclusions and recommendations in connection with the foregoing.

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this Report, the Proposed Monitor has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by the

Target Canada Entities and Target Corporation, and discussions with management of the Target Canada Entities and Target Corporation (collectively, the "**Information**"). Except as otherwise described in this Report in respect of the Target Canada Entities' cash flow forecast:

(a) the Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards ("**CASs**") pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and

(b) some of the information referred to in this Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

2.2 Future oriented financial information referred to in this Report was prepared based on management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

2.3 Unless otherwise stated, all monetary amounts contained in this Report are expressed in Canadian dollars.

3.0 A&M'S QUALIFICATION TO ACT AS MONITOR

3.1 Alvarez & Marsal Canada ULC and Alvarez & Marsal North America, LLC were engaged to act as consultant to TCC prior to the commencement of these CCAA Proceedings, and, as such, the Proposed Monitor is familiar with the business and operations of the Target Canada Entities, their personnel, and the key issues and stakeholders in the proposed CCAA Proceedings. A&M is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada) and is not subject to any of the restrictions on who may be appointed as monitor set out in section 11.7(2) of the CCAA.

3.2 A&M is related to Alvarez & Marsal Holdings, LLC. Alvarez & Marsal Holdings, LLC is an independent international professional services firm, providing, among other things, bankruptcy, insolvency and restructuring services. The senior A&M professional personnel with carriage of this matter include experienced insolvency and restructuring practitioners who are Chartered Professional Accountants, Chartered Insolvency and Restructuring Professionals and licensed Trustees in Bankruptcy, and whom have acted in cross-border restructurings and CCAA matters of a similar nature in Canada.

3.3 From time to time, Target Corporation (the ultimate parent company of the Applicants, headquartered in the United States) has engaged affiliates of A&M in the United States to advise on strategy, human resources, marketing, merchandising, technology implementation and expense optimization matters. While a number of such engagements are underway currently by distinct teams of A&M's U.S. affiliates, these have been segregated from both Target Corporation's decision to cease funding the Canadian operations on an ongoing basis, and TCC's considerations related to the present application before this Court for commencement of the CCAA Proceedings.

3.4 The Proposed Monitor has retained Goodmans LLP ("**Goodmans**") to act as its independent legal counsel. Goodmans acts for commercial landlords from time to time and distinct teams segregated from Goodmans' engagement as counsel to the Proposed Monitor may have represented landlords in respect of some prior lease assignments to certain Target Canada Entities.

3.5 A&M has consented to act as Monitor of the Applicants should this Court grant the Applicants' request to commence the CCAA Proceedings and as foreign representative of certain of the Applicants in any ancillary proceedings commenced under Chapter 15 of Title 11 of the *United States Bankruptcy Code*, should such a proceeding prove necessary.

4.0 BACKGROUND INFORMATION

General

4.1 This Report should be read in conjunction with the Affidavit of Mark J. Wong, General Counsel and Assistant Secretary of TCC, sworn January 14, 2015 (the "**Wong Affidavit**"), for additional background and other information regarding the Target Canada Entities.

4.2 TCC is an indirect, wholly-owned operating subsidiary of Target Corporation, one of the largest retailers in the United States, headquartered in Minneapolis, Minnesota. TCC entered Canada in 2011 by acquiring and accepting the assignment of certain leasehold interests from Zellers Inc., and opened its first stores in Canada in March, 2013.

4.3 TCC's corporate headquarters are located in Mississauga, Ontario. TCC operates 133 stores across Canada (55 in Ontario; 26 in Quebec; 19 in British Columbia; 15 in Alberta; and five or less in six other provinces) and three operating distribution centers (Milton and Cornwall, Ontario and Calgary, Alberta). As of January 12, 2015, TCC employed approximately 17,600 people, including approximately 800 employees at its corporate headquarters. There is no union representation of any of TCC's employees, nor are there any registered pension plans for TCC employees.

4.4 Of TCC's 133 open stores, 130 are leased and three are owned. Many of the retail leases are subject to a parent indemnity or guarantee by Target Corporation in favour of the landlord. TCC also has seven stores (six in Ontario; one in British Columbia) that have not opened for business. All of the unopened stores are leased. In addition to its headquarters, TCC also leases office space in eleven other locations across Canada (four in Ontario; two in each of Quebec and Alberta; and one in each of British Columbia, Manitoba and Nova Scotia). The three distribution centres are owned, and operation of the facilities has been outsourced to Eleven Points Logistics Inc. ("**Eleven Points**"), a third-party logistics services provider. In addition to the three distribution centres that TCC owns, TCC currently leases additional office and warehouse space in various locations across Canada.

<u>Corporate Organization</u>

4.5 TCC is a Nova Scotia unlimited liability company and is an indirect wholly-owned subsidiary of Target Corporation, which is incorporated under the laws of Minnesota. The other Target Canada Entities are 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 simplified corporate organizational chart for the Target Canada Entities is attached as **Appendix** "**B**" to this Report.

4.6 Almost all of the retail store leases held by TCC were subleased by TCC to Target Canada Property LP, a limited partnership organized under the laws of Ontario, and Target Canada Property LP subsequently assigned all of its rights relating to the stores to Target Canada Property LLC ("**TCC Propco**"), a limited liability company organized under the laws of Minnesota. TCC Propco made and financed real property improvements to the premises, including improvements to fixtures. TCC Propco subsequently sub-subleased the properties back to TCC. Arrangements in place between TCC and TCC Propco are described later in this Report.

<u>Goods and Services</u>

4.7 In addition to its core categories of merchandise (apparel and accessories, hardlines, household essentials, food and pet supplies, and home furnishings and decor), most of TCC's retail stores also offer:

(a) pharmacy goods and services through franchise arrangements:

(b) mobile phone sales and services through license arrangements with Glentel Inc.; and

(c) coffeehouse services through licence arrangements with Starbucks Coffee Canada, Inc. ("**Starbucks**").

A brief description of each of these arrangements is provided below.

Pharmacy

4.8 Target Canada Pharmacy Franchising LP ("**TCC Pharmacy**") is an Ontario limited partnership, with TCC as its limited partner (99.999% ownership). TCC Pharmacy's general partner is Target Canada Health Co. ("**TCC Health**"), a wholly-owned subsidiary of TCC. TCC Pharmacy has licensed to franchisees the right to operate Target-branded pharmacies, using Target Pharmacy trade-marks, within TCC stores.

4.9 In Quebec, pharmacies in TCC stores are co-branded with the Target trade-mark and the "Brunet" trade-mark, which is owned by McMahon Distributeur Pharmaceutique Inc. ("**McMahon**"). TCC Pharmacy has sublicensed the Target trade-marks to McMahon, which in turn has sub-licensed to third-party franchisees, the right to operate co-branded Target and "Brunet" pharmacies within 14 TCC stores.

4.10 TCC Pharmacy is the franchisor of 93 in-store pharmacies outside Quebec.

4.11 For all provinces except Quebec, regulated "Schedule I and II" drugs such as narcotics and antibiotics (behind-the-counter ("**BTC**") drugs), that either require a prescription to be sold or that must be held behind the counter, are owned by the pharmacists. The franchisees maintain their own point of sale ("**POS**") terminals at the pharmacies and sales of BTC drugs are for the account of the pharmacist.

4.12 "Schedule III" drugs such as pain relievers and cough medicines (over-the-counter ("**OTC**") drugs) are owned by TCC until immediately prior to the retail sale to a customer, when title passes from TCC to the franchisee and the franchisee pays TCC the retail price at the time of the retail sale by the franchisee to the customer. OTC drugs are sold through TCC's POS terminals. TCC Pharmacy pays the franchisees a monthly royalty fee on the sale of OTC drugs and the franchisees may be eligible for support payments from TCC Pharmacy in certain circumstances. "Unscheduled" drugs such as vitamins are owned by TCC and are sold through TCC POS terminals for the account of TCC Pharmacy.

4.13 In Quebec, all drug inventory is owned by McMahon or the franchisees, and is sold through the franchisees' POS terminals. The only inventory owned by TCC or TCC Pharmacy is sanitary protection and incontinence products, which are sold through TCC's POS terminals.

Mobile

4.14 Target Canada Mobile LP ("**TCC Mobile**") is an Ontario limited partnership, with TCC as its limited partner (99.999% ownership). TCC Mobile's general partner is Target Canada Mobile GP Co., a wholly-owned subsidiary of TCC. TCC Mobile has licensed to Glentel the right to operate Target Mobile-branded kiosks to sell mobile phones and accessories within TCC stores. Glentel owns the mobile phone and accessories inventory sold at the kiosks, as well as the display fixtures and all electronic and communications equipment and operational accessories used in connection with the operation of the display fixture. Glentel maintains its own POS terminals at the kiosks and the sale of goods and services are for the account of Glentel. Glentel makes quarterly payments to TCC Mobile on account of carrier funding Glentel receives from its carriers, as well as an earnings share based on certain revenue and net income that Glentel earns from operating the kiosks (or, if Glentel incurs a Net Loss (within the meaning in the agreement), TCC Mobile may be required to pay certain amounts to Glentel in accordance with the agreement). In addition, contingent on Glentel paying TCC Mobile the carrier funding, TCC Mobile pays Glentel a quarterly management fee.

Starbucks

4.15 TCC acts as a licensee under a master license agreement with Starbucks, under which Starbucks granted TCC a non-exclusive license to use the Starbucks system and trademarks to construct and operate Starbucks cafes within certain TCC stores. TCC pays an up-front license fee for each café constructed. TCC maintains the POS terminals at the cafes and the sale of goods and services are for the account of TCC, with TCC paying monthly royalty and advertising fees to Starbucks.

Financial Information

4.16 The operational funding for TCC and TCC Propco is provided by their respective parent entities and ultimately by Target Corporation. As such, there is no third-party secured bank, bond or similar indebtedness within the Target Canada Entities' capital structure. Certain of the intercompany arrangements and agreements as between the Target Canada Entities and Target Corporation and its subsidiaries and affiliates, are described later in this Report.

4.17 A copy of each of Target Corporation's audited consolidated financial statements for the year ended February 1, 2014 and the most recent interim financial statements for the nine-months ended November 1, 2014 are attached as Exhibits L and M, respectively, to the Wong Affidavit. Those financial statements include the results of both the U.S. and Canadian operations. The Canadian segment of Target Corporation's business has incurred significant losses in every quarter since TCC opened stores in Canada. These losses (before interest expense and income taxes) have ranged from USD $169 million in Q2 2013 to USD $329 million in Q4 2013, with a loss of USD $211 million reported for the most recent quarter ended November 1, 2014. Unaudited, stand-alone financial statements for TCC and TCC Propco for the nine months ended November 1, 2014, which were prepared for the purpose of this application, are attached as Exhibits N and O, respectively, to the Wong Affidavit. The TCC financial statements for the nine months report a loss before interest expense and income taxes of approximately $790 million.

4.18 As described in the Wong Affidavit, following a thorough review by TCC and Target Corporation of the financial and operating performance of the Target Canada Entities (including the projection that TCC's operations would continue to incur significant losses over the next several years with no certainty of achieving profitable operations), the board of directors of Target Corporation determined that in its business judgement, it is in the best interest of its business and its shareholders to discontinue operations in Canada. Without further funding and financial support from Target Corporation, the Applicants are unable to meet their liabilities as they become due.

5.0 PROPOSED ORDERLY WIND-DOWN

5.1 The Proposed Initial Order contemplates the orderly wind-down of the businesses of the Target Canada Entities (the "**Orderly Wind-down**"). Key aspects of the Orderly Wind-down include the following, subject to the approval of this Court:

(a) the establishment of the Employee Trust and the KERP (each as defined and described later in this Report) in order to provide employees with a measure of financial security during the Orderly Wind-down process, and to facilitate and encourage the continued participation of senior and operational management and other key employees during the Orderly Wind-down process and the CCAA Proceedings;

(b) the ability, but not the requirement, to pay, with the consent of the Monitor, amounts owing for goods and services supplied to the Target Canada Entities prior to the date of the Proposed Initial Order, including logistics and supply chain services;

(c) the ability, but not the requirement, to honour gift cards issued before or after the date of the Proposed Initial Order and to pay amounts in respect of customer rebates, refunds, discounts or similar customer programs;

(d) the availability of the DIP Facility (as defined and described later in this Report) to assist with funding the Orderly Wind-down process and the CCAA Proceedings;

(e) the engagement of Lazard as financial advisor to TCC to develop and provide assistance with a sales process for the Target Canada Entities' real property assets (the "**Real Property Portfolio Sales Process**");

(f) the engagement of Northwest as advisor and broker to provide support to Lazard utilizing their in-depth knowledge of the individual leases and the properties, and their local market expertise;

(g) the ability for the Target Canada Entities, in consultation with the Monitor, to engage in discussions with and solicit proposals and agreements from third-party agents in respect of the liquidation of the inventory, furniture, equipment, and fixtures (collectively, the "**Retail Assets**") of the Target Canada Entities, and return to Court to seek approval of an agreement with a third-party agent for the sale or liquidation of the Retail Assets; and

(h) at such future time as the Applicants may deem appropriate: (i) the implementation of a claims process for purposes of determining the creditor claims of the Applicants; and (ii) the filing with the Court of a plan of compromise or arrangement (a "**Plan**") between one or more of the Target Canada Entities and one or more classes of their applicable secured and/or unsecured creditors.

6.0 ENGAGEMENT OF REAL ESTATE ADVISORS

Financial Advisor

6.1 On January 14, 2015, TCC engaged Lazard as its financial advisor to develop and provide assistance with the Real Property Portfolio Sales Process. TCC solicited and received proposals from three investment banking firms. Following a review of proposals received, TCC, in consultation with the proposed Monitor, selected Lazard to act as its financial advisor. Lazard, a leading investment banking and financial advisory firm, has significant experience with complex retail transactions, including assisting in connection with the sale of owned and leased real property portfolios.

6.2 A copy of Lazard's engagement letter (the "**Lazard Engagement Letter**") is attached as **Confidential Appendix "A"** to this Report. The Applicants are requesting that this Court seal the Lazard Engagement Letter as the fee structure contemplated in the Lazard Engagement Letter could potentially influence the structure of bids received in the Real Property Portfolio Sales Process.

6.3 Key terms of the Lazard Engagement Letter are as follows:

(a) scope of services: Lazard's primary role will be to advise the Target Canada Entities in developing, and provide assistance with, the Real Property Portfolio Sales Process (with the oversight of the Proposed Monitor), including identifying and evaluating candidates for a potential transaction and advising the Target Canada Entities in connection with negotiations;

(b) fee structure: (i) a monthly work fee of USD $200,000 (the "**Monthly Fee**") and reimbursement for reasonable out of pocket expenses (subject to a cap on expenses), which is credited against the Transaction Fee (defined below); and (ii) a fee payable upon the consummation of any transaction (such fees under clause (ii), collectively, the "**Transaction Fee**"); and

(c) term: automatically expires on conclusion of the CCAA Proceedings, unless earlier terminated by Lazard or TCC (if earlier terminated by TCC, Lazard is entitled to payment of its fees in respect of a transaction in respect of which a definitive agreement is executed during the period until six (6) months following such termination).

6.4 The Proposed Initial Order includes Lazard as a beneficiary under the Administration Charge (defined below) with respect to its Monthly Fee and contemplates the granting of a charge in favour of Lazard to secure the Transaction Fee, up to a maximum amount of $3 million, subordinate to all charges except the DIP Lender's Charge (the "**Financial Advisor Subordinated Charge**").

6.5 The Proposed Monitor supports the engagement of Lazard and the Lazard Engagement Letter. With Lazard's extensive experience it can quickly develop and provide assistance with the Real Property Portfolio Sales Process in the interests of the stakeholders, particularly given the parallel inventory liquidation process that is anticipated to empty stores over a relatively short period of time. In addition, it is a condition to the DIP Term Sheet that Lazard be engaged with respect to this process.

<u>Broker Advisor</u>

6.6 On January 14, 2015, TCC engaged Northwest, a licensed real estate broker, to act as advisor and broker to provide support to Lazard, utilizing Northwest's in-depth knowledge of the individual leases and the properties, and local market expertise. Northwest assisted with respect to the initial acquisition of most of TCC's leased properties and therefore is intimately familiar with TCC's real property portfolio and underlying lease documents. Northwest has national presence across Canada.

6.7 A copy of the Northwest engagement letter (the "**Northwest Engagement Letter**") is attached as Exhibit W to the Wong Affidavit.

6.8 Key terms of the Northwest Engagement Letter are as follows:

(a) <u>scope of services</u>: Northwest's primary role will be to provide local knowledge and expertise regarding real estate market conditions and activity, advise and consult with Lazard throughout the Real Property Portfolio Sales Process and provide any required licensed real estate brokerage services;

(b) fee structure: monthly work fee of $175,000 and reimbursement of reasonable out of pocket expenses (subject to a cap on expenses); and

(c) term: five (5) months, subject to TCC's ability to extend the term of the Agreement for two additional one-month periods.

6.9 The Proposed Monitor supports the engagement of Northwest and the Northwest Engagement Letter. Northwest has extensive knowledge of the real property portfolio and will provide important assistance and local market expertise to Lazard throughout the Real Property Portfolio Sales Process.

7.0 STAY OF PROCEEDINGS

7.1 The Applicants are seeking a stay of proceedings, including: (a) in respect of the Partnerships; (b) a temporary stay of proceedings against Target Corporation and related entities for claims that are derivative of claims against the Target Canada Entities; and (c) a stay of potential rights (including termination rights) 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.

7.2 As described in the Wong Affidavit:

(a) the Partnerships are related to or carry on operations that are integral to the business of the Applicants;

(b) any derivative litigation against Target Corporation or related entities would require the participation of the Target Canada Entities and the time and resources of remaining senior management, which the Applicants view as an unnecessary distraction at this time. It is the intention of the Target Canada Entities to establish a CCAA claims process during the CCAA Proceedings and the amount of derivative claims, if any, against Target Corporation or related entities will not be known until completion of a claims process; and

(c) 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.

7.3 The Proposed Monitor supports the requested stay of proceedings (including as described in 7.1 above) as it will provide the Target Canada Entities with the ability to continue to operate throughout the contemplated Orderly Wind-down and will facilitate implementation of the Orderly Wind-down for the benefit of stakeholders.

8.0 CASH MANAGEMENT SYSTEM

8.1 TCC has its own bank accounts, which are separate and apart from the bank accounts of Target Corporation. TCC's accounts are held at Royal Bank of Canada ("**RBC**"), The Toronto-Dominion Bank ("**TD**"), JP Morgan Chase Bank, National Association ("**JPM**") and Bank of America ("**BofA**"). All of TCC's receipts and disbursements are processed through accounts with these banks. TCC does not have stand-alone accounting and treasury departments. TCC's cash management system is operated by employees in Target Corporation's treasury and accounting departments pursuant to a master agreement effective February 3, 2013 (the "**Master Agreement**") between TCC and Target Brands, Inc. ("**Target Brands**"). An overview of Target Canada's bank account structure is provided below.

8.2 In summary: (i) the RBC accounts are used primarily to deposit store-level cash sales and receipts from vendors; (ii) TD serves as TCC's merchant processer for all debit and credit cards other than REDCard debit cards, and the TD accounts are used primarily for receipt of credit, debit and gift card sales; (iii) the JPM account is used to pay overseas vendors; and (iv) the BofA accounts are used as disbursement accounts to pay vendors and service providers, including payroll (funds are transferred into the BofA accounts on an as-needed basis from the RBC and TD concentration accounts).

8.3 More specifically, TCC utilizes the following bank accounts:

<u>RBC</u>

(i) two master concentration accounts - one Canadian dollar and one U.S. dollar account (together, the "**RBC Master Accounts**"); and (ii) eight deposit taking accounts – six Canadian dollar and two U.S. dollar, zero balance accounts (together, the "**RBC Deposit Accounts**"), where deposits are immediately swept into one of the two concentration accounts depending on currency type;

<u>TD Bank</u>

(i) one Canadian dollar master concentration account (the "**TD Master Account**"); (ii) three Canadian dollar deposit taking accounts (the "**TD Deposit Accounts**"), where receipts are immediately swept into the TD Master Account; and (iii) a Canadian dollar debit card bill pay concentration account.

<u>JPM</u>

(i) one U.S. dollar import trade payment account (the "**JPM Payment Account**") that is used to pay overseas vendors.;

BofA

(i) two master concentration disbursement accounts – one Canadian and one U.S. dollar account (together, the "**BofA Master Accounts**"); (ii) five disbursement accounts – three Canadian dollar and two U.S. dollar accounts (together, the "**BofA Disbursement Accounts**"); (iii) a master U.S. account used for currency conversion and funding the JPM Payment Account; and (iv) a Starbucks account for payments to Starbucks under the licensing arrangements.

Receipts

8.4 Cash and cheque receipts from TCC's stores, and vendor and other general receipts, are deposited daily into the RBC Deposit Accounts. Funds are swept immediately from the RBC Deposit Accounts into one of the two RBC Master Accounts depending on the currency. Funds from the RBC Master Accounts are then transferred to the BofA Master Accounts on an as-needed basis in order to fund TCC's operations (payroll, lease payments, domestic and trans-border vendor payments, etc.).

8.5 Credit, debit and gift card transactions ("**Card Transactions**") are administered through TD, which provides processing services for Visa, Mastercard, Discover, Target REDcard credit cards and Interac direct debit transactions for TCC (a third-party provides processing services for Target REDcard debit cards). Card transactions are settled within two business days and are deposited into one of the three TD Deposit Accounts. Funds are swept immediately from the TD Deposit Accounts into the TD Master Account. As with the RBC Master Accounts, funds from the TD Master Account are transferred to the BofA Master Account on an as-needed basis in order to fund TCC's operations.

Disbursements

8.6 Disbursements are processed through one of the five BofA Disbursement Accounts depending on the method of payment and currency type. Disbursements from these accounts pay operating expenses, including payroll, lease payments and domestic or trans-border vendors. TCC utilizes a third-party payroll services provider, ADP Canada Co., to administer its payroll.

8.7 TCC provides credit cards to certain of its employees under agreements with Amex Bank of Canada and JP Morgan Chase Bank (MasterCard) for business expenses, business travel and as an alternative to petty cash. The Proposed Initial Order provides for the ability, but not the requirement, to pay for amounts incurred on these credit cards before and after the commencement of the CCAA Proceedings.

8.8 The Applicants intend to continue using the existing cash management system during the CCAA Proceedings, and are seeking the approval of the Court to do so. Further, in order to minimize any disruption in the operation of the cash management system during the CCAA Proceedings, Target Corporation has provided certain guarantees to each of RBC, TD and BofA.

8.9 Given the scale and nature of TCC's operations, the volume of transactions that are processed daily within the cash management system and the fact that the bank accounts are separate and apart from Target Corporation, the Proposed Monitor is of the view that the continued use of the existing cash management system is required and appropriate in order for TCC to complete the Orderly Wind-down.

8.10 As part of its monitoring procedures, the Proposed Monitor will:

(a) review receipts and disbursements processed through the Target Canada Entities' bank accounts;

(b) prepare weekly receipts and disbursements summaries, compare the summaries to the corresponding 13-week cash flow forecasts and review variances with management; and

(c) review disbursements, as reasonably appropriate, for compliance with provisions of the Proposed Initial Order.

9.0 INTERCOMPANY ARRANGEMENTS AND AGREEMENTS

Master Agreement

9.1 Under the Master Agreement (a copy of which is attached to the Wong Affidavit as Exhibit F), Target Brands: (i) agreed to provide certain support services to TCC; and (ii) granted a license to TCC in respect of certain intellectual property.

Support Services

9.2 Certain aspects of the Target Canada Entities' business and operations are highly dependent on functions and services provided by Target Corporation and its subsidiary, Target Brands. These functions and services are integral to Target Canada's operations. Pursuant to the Master Agreement, Target Brands provides the following primary services to TCC (collectively, the "**Shared Services**"):

(a) administrative and business services – includes accounting, finance, financial reporting, treasury and cash management, human resources, payroll, legal, office administration, risk management, tax compliance and information system services;

(b) strategy and management consulting services – includes developing operating manuals and policies, developing financial metrics and strategies, advising on financial performance, advising on store locations, assisting with logistical and distribution strategies, leadership development, human resources management, retail information management system support, business intelligence and supply chain management;

(c) marketing and consulting services – includes developing and implementing marketing and promotional strategies and advertising campaigns;

(d) retail support services – includes training to all store and distribution centre employees and other consulting requests by TCC; and

(e) merchandising consulting services – includes merchandise planning and managing vendor relationships.

9.3 Target Brands performs these services using its own resources and personnel or through its contractual relationships with other affiliates or third-parties. Approximately 600 employees of Target Corporation, located at Target Corporation's headquarters in Minneapolis, and approximately 200 non-TCC employees based in India, are involved in providing the Shared Services.

9.4 The Master Agreement provides for the monthly payment of arm's length fees to Target Brands for the services, as agreed upon between the parties from time to time. TCC pays Target Brands a monthly fee, calculated primarily based on the number of hours spent by personnel to perform the services charged at their normal cost and also including a percentage fee for software licenses and for technology charges. The Applicants have advised the Proposed Monitor that they have submitted an application for a bilateral advanced pricing agreement with the Canadian and American tax authorities for approval of their transfer pricing activities (the "**BAPA Submission**"). The BAPA Submission, which was prepared by a leading accounting firm, indicates that the intercompany arrangements among the Target entities are consistent with similar arrangements among other multinational retail businesses.

Intellectual Property License

9.5 All Target brand intangible property ("**IP**") that is utilized by the Target Canada Entities is owned by Target Brands, which, under the Master Agreement, grants to TCC a license to use the IP and to sub-license the right to use the IP to related companies and third-parties such as the pharmacy franchisees. In consideration for the IP license, TCC pays Target Brands an annual royalty payment of 1.5% of TCC's net revenues, with provisions for adjustments if required by Canadian or U.S. tax authorities. Year-to-date, TCC has paid approximately $40 million to Target Brands under this arrangement, however, as TCC's revenues have been lower than anticipated, 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.

Termination of Master Agreement

9.6 As described in the Wong Affidavit, on January 14, 2015, as permitted by the terms of the Master Agreement, Target Brands gave to TCC three months' written notice of termination of the Master Agreement. Concurrently, Target Brands and TCC, in consultation with the Proposed Monitor, entered into an administrative services agreement and an intellectual property license agreement, each dated as of January 14, 2015 and effective as of April 14, 2015 (the date the three months' notice period expires) (the "**Administrative Services Agreement**" and the "**Intellectual Property License Agreement**", respectively).

<u>Administrative Services Agreement</u>

9.7 The Administrative Services Agreement provides for the continuation of services the Applicants anticipate requiring during the Orderly Wind-down, including accounting and finance services, cash management services, communications and public relations services, human resources and payroll services, legal services, office administration services, real estate services, tax compliance services and merchandise-related services. In addition, Target Brands has also agreed under the Administrative Services Agreement to provide such other services as may be agreed by Target Brands and TCC in consultation with the Proposed Monitor.

9.8 The Administrative Services Agreement will continue until the earlier of: (i) the date on which the proposed stay under the Proposed Initial Order, as amended from time to time, expires without being extended; (ii) the date on which the CCAA Proceedings are terminated; (iii) January 15, 2016; or (iv) such later date as the parties may agree, in consultation with the Proposed Monitor. The Administrative Services Agreement may be terminated by mutual agreement among the parties and approval of the Monitor.

9.9 TCC will pay Target Brands on a monthly basis an arm's length fee as agreed between the parties from time to time as consideration for the services Target Brands will provide to TCC. The Administrative Services Agreement provides for the adjustment of fees from time to time, in consultation with the Proposed Monitor, as the services provided by Target Brands are reduced during the CCAA Proceedings.

9.10 The Target Canada Entities project the monthly fee for the first full month after filing to be approximately $8.3 million, reducing as the Orderly Wind-down progresses and fewer shared services are required.

<u>Intellectual Property License Agreement</u>

9.11 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 the Orderly Wind-down. The Intellectual Property License Agreement will continue until the earlier of: (i) the completion of the 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 Proposed Monitor. The Intellectual Property License Agreement may be terminated by mutual agreement among the parties and approval of the Monitor.

Secondment Agreement

9.12 Approximately 70 employees have been seconded to work with TCC under a secondment agreement effective as of May 27, 2011 (the "**Secondment Agreement**") between Target Corporation and other U.S.-based entities (collectively, the "**Assigning Employers**") and TCC. TCC reimburses the Assigning Employers for expenses relating to the seconded employees (the "**Reimburseable Expenses**").

9.13 TCC's need for the seconded employees will likely decrease during the CCAA Proceedings. Accordingly, TCC and the Assigning Employers have agreed to review the schedule and the level of seconded employees from time to time and will make any necessary adjustments as they mutually agree in consultation with the Proposed Monitor.

9.14 The Target Canada Entities project the Reimbursable Expenses for the first full month after filing to be approximately $913,000, reducing as the Orderly Wind-down progresses and fewer seconded employees are required.

9.15 Recognizing that the levels of support and shared services TCC requires will reduce over time as the Orderly Wind-down progresses, and the importance of minimizing costs to the estate to the extent practicable, the Proposed Monitor will work closely with TCC to ensure that an appropriate and responsible reduction in support services under the Administrative Services Agreement and the Secondment Agreement and corresponding reduction in fees is effected on a timely basis.

Other Intercompany Arrangements

9.16 In addition to the above, and as described in the Wong Affidavit, other significant intercompany arrangements between the Target Canada Entities and Target Corporation and its subsidiaries and affiliates include the following.

TCC and TCC Propco

9.17 Real Property Improvements and Make Whole Payment: As indicated above, for almost all of TCC's retail stores, TCC subleased the properties to TCC Propco, which then made and financed real estate improvements and sub-subleased the properties back to TCC. TCC Propco continues to pay for all leasehold improvements at the retail stores, which, to date, have totaled approximately $1.45 billion. TCC makes payments of rent to TCC Propco under the sub-sublease arrangement, as more fully described below. Upon termination of any of these property leases, 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. TCC and TCC Propco make the following payments:

(a) Monthly: TCC pays its monthly lease payments directly to its landlords and TCC Propco reimburses TCC approximately USD $8 million per month under the sublease arrangements;

(b) Quarterly: TCC pays TCC Propco approximately USD $60 million per quarter for: (i) USD $24 million for its sublease obligations of USD $8 million per month for three months; and (ii) USD $36 million for additional rent covering TCC Propco's real property improvements; and

(c) Annually: TCC Propco pays TCC an administrative fee of approximately USD $9 million for property management, business and procurement services.

Buying Agency Agreement

9.18 Through an agreement with Target Brands and Target Sourcing Services Limited ("**Target Sourcing**"), as trustee of Target Sourcing Services, Target Sourcing or its affiliates source and purchase merchandise outside of Canada and the U.S. for sale in TCC's stores. Target Sourcing also provides related services such as quality control, logistics, monitoring compliance with local laws and market research. In consideration for those services, TCC pays Target Sourcing a monthly fee.

9.19 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 of the Buying Agency Agreement. The termination will be effective April 14, 2015.

9.20 The Applicants have advised the Proposed Monitor that the Applicants do not expect that they will need to source or purchase any new merchandise under the Buying Agency Agreement and do not expect to utilize the services provided under the Buying Agency Agreement during the Orderly Wind-down.

Design and Development Services Agreement

9.21 Target Brands and TCC entered into a design and development services agreement effective as of February 3, 2013 (the "**Development Agreement**"). Pursuant to the Development Agreement, Target Brands provided certain design and development services for goods purchased and sold by TCC in its retail operations.

9.22 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. The termination will be effective April 14, 2015.

9.23 The Applicants have advised the Proposed Monitor that they do not expect to need design and development services during the Orderly Wind-down.

10.0 CCAA CASH FLOW FORECAST

10.1 The Applicants and Target Corporation, with the assistance of the Proposed Monitor, have prepared a 13-week cash flow forecast (the "**Cash Flow Forecast**") for the period from January 15, 2015 to April 11, 2015 (the "**Cash Flow Period**"). A copy of the Cash Flow Forecast is attached to this Report as **Appendix** "**C**".

10.2 The Cash Flow Forecast is presented on a weekly basis during the Cash Flow Period and represents TCC management's estimates of the projected cash flow during the Cash Flow Period under the wind-down of the business. The Cash Flow Forecast has been prepared using the probable and hypothetical assumptions set out in the notes to the Cash Flow Forecast (the "**Cash Flow Assumptions**").

10.3 The Proposed Monitor has reviewed the Cash Flow Forecast to the standard required of a Court-appointed Monitor by section 23(1)(b) of the CCAA. Section 23(1)(b) requires a Monitor to review the debtor's cash flow statement as to its reasonableness and to file a report with the Court on the Monitor's findings. Pursuant to this standard, the Proposed Monitor's review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to information supplied to it by certain key members of management and employees of TCC and Target Corporation. The Proposed Monitor reviewed information provided by management for the Cash Flow Assumptions. Since the Cash Flow Assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast.

10.4 Based on the Proposed Monitor's review, nothing has come to its attention that causes it to believe, in all material respects, that:

(a) the Cash Flow Assumptions are not consistent with the purpose of the Cash Flow Forecast;

(b) as at the date of this Report, the Cash Flow Assumptions are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Cash Flow Forecast, given the Cash Flow Assumptions; or

(c) the Cash Flow Forecast does not reflect the Cash Flow Assumptions.

10.5 The Cash Flow Forecast projects that the Applicants will require DIP financing in the first week of the Cash Flow Period, with an estimated cash position at the commencement of the CCAA Proceedings of approximately $1 million, and forecast receipts of $507.8 million and forecast disbursements of $413.2 million during the Cash Flow Period.

10.6 The Cash Flow Forecast includes disbursements to Target Corporation of approximately $6.4 million in February, $8.3 million in March and $10.4 million in April for Shared Services (including seconded employees) provided during the preceding month. The payment projected in February, for services provided in January, is pro-rated for the post-CCAA filing period only. The payment projected in April, for services provided in March, is higher than the previous month's payment as March represents a five-week month in the Cash Flow Forecast. The projected Shared Services disbursements are based on the arrangements described above.

10.7 The Cash Flow Forecast has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

11.0 DEBTOR IN POSSESSION FINANCING

11.1 In order to assist with funding working capital and general corporate amounts during the CCAA Proceedings, the Applicants are seeking approval of: (i) a DIP facility term sheet dated as of January 14, 2015 (the "**DIP Facility Term Sheet**") pursuant to which Target Corporation (the "**DIP Lender**") will provide financing (the "**DIP Facility**") to TCC and its subsidiaries in the maximum amount of USD $175 million; and (ii) the creation of a related charge to secure the DIP Facility (the "**DIP Lender's Charge**"). The Cash Flow Forecast identifies an immediate requirement for DIP financing in the first week of the CCAA Proceedings.

11.2 The Applicants were offered DIP financing by Target Corporation on what the Applicants viewed as advantageous terms, including that no fees are payable to the DIP Lender thereunder and an interest rate of 5%. Accordingly, the Applicants are of the opinion there was no commercial advantage to pursue other options for DIP financing.

Summary of DIP Facility Terms

11.3 The DIP Term Sheet is attached as Exhibit R to the Wong Affidavit and is summarized in the table below. Terms capitalized in the table but not defined therein have the meaning ascribed to them in the DIP Term Sheet.

Target Canada Co. Summary of DIP Facility Terms	
Total Availability	• The maximum amount ("**Maximum Amount**") available under the DIP Facility will be USD $175 million.
Effective Date	• Effective upon the date upon which the Borrower obtains the Initial Order under the CCAA.
Lender/Borrowers	• Lender: Target Corporation. • Borrowers: Target Canada Co. and its subsidiaries (collectively, the "**Borrower**"). Each Borrower is jointly and severally liable for the amounts borrowed by any

Target Canada Co. **Summary of DIP Facility Terms**	
	Borrower and interest thereon.
Existing Facility	• The Borrower acknowledges and agrees the amount owing to Nicollet Enterprise 1 S.à.r.l. ("**Nicollet**") pursuant to the Loan Facility Agreement dated May 18, 2011, as amended (the "**Existing Credit Agreement**") is $3,068,729,437.67 (together with fees, costs, expenses and other charges now or hereafter payable by the Borrower pursuant thereto)[1].
Purpose/Permitted Payments	• Consistent with cash flow projections appended to the DIP Term Sheet, as updated every four weeks and approved by the Monitor.
Significant Terms and Covenants	• Advances under the DIP Facility shall only be used for working capital and general corporate purposes of the Borrower while under CCAA protection to pay those expenses contemplated by the Initial Order or any other order in the CCAA Proceedings and in the Cash Flow Projections (the "**Contemplated Expenses**"); • All material expenditures by the Borrower shall be consistent with the Cash Flow Projections and shall be subject in each case to the overall limit on the availability of DIP Advances imposed by the Maximum Amount. • Unless otherwise agreed by the DIP Lender, the Borrower shall make the following mandatory prepayments of the outstanding principal amount of the DIP Advances, if any, at the time of receipt of the net cash proceeds described below (subject in each case to payment or reserves for Court Ordered Charges, taxes and payment of Permitted Priority Liens): (a) Prepayments in amount equal to (i) 100% of the net cash proceeds received from the incurrence of indebtedness by the Borrower or any of its subsidiaries which, for greater certainty, may only be incurred with the consent of the DIP Lender; and (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 or any of its subsidiaries; and (b) Prepayments in an amount equal to 100% of the net cash proceeds of any sale or other disposition (including as a result of casualty or condemnation) by the Borrower or any of its subsidiaries 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). • The Borrower agrees to consult with the DIP Lender with respect to the asset sale and disposition process established in the CCAA Proceedings (the "**Approved**

[1] As indicated in the Wong Affidavit, Nicollet has agreed to subordinate the amounts owing under the Existing Credit Agreement to payment in full of proven claims against TCC, excluding Nicollet's proven claims.

Target Canada Co. Summary of DIP Facility Terms	
	Sale Process”), and any amendments thereto, and deliver to the DIP Lender draft copies of any court materials in respect of the CCAA Proceeding (including, without limitation, any notices of motion, affidavits, other evidence, and forms of orders) which the Borrower intends to file with the Court for review and comment by the DIP Lender no later than 2 Business Days prior to the date on which the Borrower serves and files such court materials. • The Borrower shall retain Lazard as financial advisor, such retention to be ratified by the Court, on terms and conditions acceptable to the Borrower and the DIP Lender acting reasonably, to conduct the Approved Sale Process in the CCAA Proceedings in accordance with a plan approved by the Monitor, the DIP Lender and the Court as may be amended from time to time.
Financial Covenants	• An Event of Default: any Updated Cash Flow Projections delivered to the DIP Lender reflect a material adverse change to the Borrower or there occurs any negative variance greater than 20% for all expenditures, on a cumulative basis from the Filing Date as compared to the Cash Flow Projections, excluding timing variances.
Fees and Interest	• No commitment, exit or other fees. • Interest Rate per annum of 5% payable on the Maturity Date. • Default Interest Rate per annum of 7% payable on the Maturity Date.
Security	• All Obligations of the Borrower under or in connection with the DIP Facility and any of the DIP Credit Documentation shall be secured by the DIP Lender’s Charge without need for any further loan or security documentation or filings in any personal property security registration regime or real property system.
Maturity Date	• The earlier of: (i) the date on which the stay of proceedings pursuant to the Initial Order as amended from time to time 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 in writing by the DIP Lender, in its sole discretion.
DIP Charge	• The DIP Lender’s Charge will rank behind the other Court Ordered Charges and Permitted Priority Liens arising by operation of law in the ordinary course of business without any contractual grant of security.

11.4 The DIP Term Sheet contains various other affirmative covenants, negative covenants, events of default and conditions that, in the Proposed Monitor’s view, are reasonable and customary for this type of financing, including the granting of the DIP Lender’s Charge.

11.5 The Proposed Monitor has assisted the Applicants in developing a 12-month cash flow forecast through January 30, 2016 (the "**12-Month Cash Flow Forecast**"). The 12-Month Cash Flow Forecast projects that there will be an ongoing requirement for DIP financing during the CCAA Proceedings. The Applicants are seeking the approval of the DIP Facility by this Court in order to provide stability during the CCAA Proceedings and to ensure that the Applicants have sufficient liquidity to complete the liquidation of the Retail Assets and the Real Property Portfolio Sales Process, in order to maximize realizations for the benefit of stakeholders.

11.6 The Proposed Monitor recommends that the Court approve the DIP Facility. In arriving at this recommendation, the Proposed Monitor considered: (i) the facts and circumstances of the Applicants; (ii) section 11.2(4) of the CCAA; (iii) the favourable financial terms of the DIP Facility relative to comparable facilities and the fact that it is unlikely that a superior DIP proposal could be obtained; (iv) the stability and flexibility the DIP Facility will provide to ensure there is sufficient liquidity to facilitate the Orderly Wind-down on a basis intended to maximize net realizations; and (v) the interests of the Applicants' stakeholders.

12.0 PROPOSED EMPLOYEE TRUST

12.1 In order to provide employees with a measure of financial security during the Orderly Wind-down process, the Applicants are seeking approval of: (i) an employee trust agreement dated as of January 14, 2015 (the "**Employee Trust Agreement**") pursuant to which Target Corporation (either directly or indirectly through an affiliate) is establishing and funding a trust for the benefit of certain employees of TCC (the "**Employee Trust**");[2] (ii) the appointment of Hon. John D. Ground as trustee of the Employee Trust; and (iii) the appointment of the Monitor as administrator (the "**Administrator**") of the Employee Trust.

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[2] Capitalized terms used but not defined in this section shall have the meanings ascribed to them in the Trust Agreement.

12.2 No funds from any of the Target Canada Entities will be used to fund the Employee Trust. Target Corporation is to be the settlor of the Trust and all funds are to be provided by Target Corporation, to a maximum of $70 million (the "**Maximum Required Trust Contribution**"), which is discussed further below. In addition, Target Corporation will waive any subrogation rights in respect of amounts paid from the Employee Trust and will not seek to recover from TCC's estate any amounts paid from the Employee Trust, thus benefiting all stakeholders. Payments from the Employee Trust will also reduce the cost to the estate of the KERP, discussed below. Further, the Employee Trust will bear the costs of its establishment and administration.

12.3 The vast majority of TCC's employees will be receiving working notice of termination of their employment immediately after the Initial Order is granted and issued**.** Due to the large number of individuals affected by the CCAA Proceedings, the Applicants have requested relief in the Proposed Initial Order whereby notice will be deemed to have been received seven (7) days after such notice was sent by ordinary mail, expedited parcel or registered mail. The Proposed Monitor supports the requested deemed notice relief as it addresses a practical concern in these circumstances, where notices will be mailed to approximately 17,600 individuals in a short time frame. The Proposed Monitor's support is based on: (i) the practical difficulties outlined above; (ii) the fact that notice of the CCAA Proceedings will be published in national print newspapers; and (iii) the fact that information regarding the CCAA Proceedings and the affected employees' rights will be made available on the Monitor's website, as well as on a website maintained by Employee Representative Counsel.

12.4 The Employee Trust is designed to ensure payment of certain amounts to Eligible Employees (as defined below) in the event that they are terminated without cause prior to completion of their working notice period, or to the extent that they may have additional termination or severance entitlements under their contracts beyond their working notice period. The Employee Trust will provide for a distribution to Eligible Employees equal to A less B (the "**Eligible Employee Trust Claims**"), where:

"A" is the greatest of the Eligible Employee's:

(a) statutory minimum termination entitlement under applicable employee legislation, including any statutorily required post-termination vacation pay;

(b) 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

(c) contractual notice of termination or pay in lieu of notice required to be provided or 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

(d) "B" is all amounts earned by such Eligible Employee, up to their regular wages for a regular work week, 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.

12.5 The beneficiaries of the Employee Trust ("**Eligible Employees**") are to be:

(a) 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;

(b) 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

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

12.6 TCC employees who voluntarily leave or abandon 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.

12.7 In its capacity as Administrator of the Employee Trust, the Monitor's primary role is to determine, in consultation with the Target Canada Entities, the amounts Eligible Employees are entitled to under the Employee Trust and instruct the Trustee and authorize payments regarding funding to TCC for distribution to the Eligible Employees.

12.8 The Employee Trust was developed by TCC and Target Corporation in consultation with the Proposed Monitor. The Proposed Monitor has been provided with employee data and has considered various scenarios in which the Orderly Wind-down process may take place. Based on the data provided and its analysis, the Proposed Monitor believes the Maximum Required Trust Contribution will be sufficient to meet all Eligible Employee Trust Claims (defined above). In the unlikely event that additional funds are required beyond the Maximum Required Trust

Contribution, Target Corporation has advised the Proposed Monitor that it will consider seriously a request for additional contributions if necessary. The Administrator and Trustee will keep the Employee Representative Counsel informed of the status of funding and will report to this Court on a regular basis.

12.9 The Employee Trust Agreement provides that, upon acceptance of a distribution from the Employee Trust by an Eligible Employee, the Eligible Employee will be deemed to release TCC for the Eligible Employee Trust Claims to the extent of the amount of the distribution (the "**Payment Release**"). Following the Notice Period, a full and final release of claims will be deemed to be granted in favour of the Applicants upon the Eligible Employee's receipt of the final payment from the Employee Trust. An Eligible Employee has 60 days from the date of the final payment to notify the Administrator and Employee Representative Counsel of any dispute. In the unlikely event that the Maximum Required Trust Contribution is not sufficient to fund all such claims, only the Payment Release will apply.

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

12.11 The Proposed Monitor supports the creation of the Employee Trust and the appointment of Employee Representative Counsel as: (i) the Employee Trust will provide a measure of financial security to employees during the Orderly Wind-down; (ii) the Employee Trust will be funded by Target Corporation (with the trust bearing the costs of its establishment and administration), therefore, the funding of the trust does not deplete funds of the Applicants; (iii) the deemed release in favour of the Applicants, upon acceptance of a distribution from the Employee Trust by an Eligible Employee, will reduce the aggregate amount of claims against TCC, and no such claims will be subrogated to Target Corporation, thereby benefiting stakeholders; and (iv) the Employee Trust will provide a form of stay incentive for all employees which will benefit the Orderly Wind-down.

13.0 KEY EMPLOYEE RETENTION PLAN

13.1 In order to facilitate and encourage the continued participation of senior and operational management and other key employees during the Orderly Wind-down process and CCAA Proceedings, the Applicants are seeking approval of: (i) a key employee retention plan (the "**KERP**") for certain employees who are considered by the Applicants to be critical to the completion of the Orderly Wind-down and CCAA Proceedings (the "**KERP Participants**"); and (ii) the creation of a related charge to secure the payments due under the KERP.

13.2 Under the provisions of the KERP, any payments are conditional upon the KERP Participants continuing to provide services to TCC until such time as they are advised that they are no longer required to assist in the Orderly Wind-down, or other matters in these proceedings. With the exception of one senior management employee, it is proposed that payments to each KERP Participant will be made with his or her final pay.

13.3 The KERP Participants are categorized as follows:

(a) Senior and Operational Management – includes Mark Wong and approximately 20 to 25 management employees. The identity of the management employees has not been finalized, but it is anticipated that these employees will include human resources, legal, distribution, merchandising, store operations and property development personnel based in TCC's head office. TCC estimates that the total KERP payments to this category of employees will be approximately $770,000 ; and

(b) Store Level Management – Four employee positions from each store have been identified as KERP Participants. The KERP entitlements will be 8 to 12 weeks' salary totaling an estimated maximum amount of $5.7 million (net of an anticipated $1.3 million in payments to Store Team Leaders from the Employee Trust, discussed below):

(i) Store Team Leader: approximately 117 positions; total KERP payments estimated to be $1.8 million (net of the $1.3 million anticipated to be funded by the Employee Trust). The proposed KERP entitlement is 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. 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. 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) Executive Team Leader (Human Resources): 133 positions; total KERP payments estimated to be $1.5 million;

(iii) Executive Team Leader (Logistics): 133 positions; total KERP payments estimated to be $1.5 million; and

(iv) Store Facilities Technician: 133 positions; total KERP payments estimated to be $900,000.

13.4 The maximum aggregate amount of potential payments under the KERP is estimated to be approximately $6.5 million (net of the anticipated $1.3 million in payments to Store Team Leaders to be funded by the Employee Trust), with approximately 3% of store level employees anticipated to be KERP Participants.

13.5 The KERP was developed by TCC and Target Corporation in consultation with the Proposed Monitor. The Proposed Monitor supports the creation of the KERP as: (i) it will provide stability to, and facilitate the Orderly Wind-down process by, encouraging senior and operational management and key store level employees to remain with TCC, as required; (ii) the KERP Participants are considered to be key to the execution of the Orderly Wind-down and their participation will assist in maximizing realizations for the benefit of stakeholders; and (iii) given the very large scale of TCC's operations and the relatively small number of KERP Participants proportionate to the number of employees, as outlined in the Wong Affidavit, the KERP is reasonable and appropriate in the circumstances.

14.0 APPOINTMENT OF EMPLOYEE REPRESENTATIVE COUNSEL

14.1 The Applicants are seeking the appointment of Koskie Minsky LLP ("**Employee Representative Counsel**") as representative counsel to TCC's employees, other than its officers and directors, to assist with questions regarding Eligible Employee Claims and other issues with respect to the Employee Trust. The Applicants are seeking this appointment 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. It is proposed that that Employee Representative Counsel begin the process of identifying Employee Representatives as soon as practicable.

14.2 The Monitor supports the appointment of representative counsel and of Koskie Minsky LLP in that role. Representative counsel will help to reduce costs and streamline the CCAA process by serving as a single point of contact between thousands of employees, TCC, the Monitor and the Court. Koskie Minsky LLP is experienced representative counsel and has the expertise and resources required.

15.0 PAYMENTS DURING THE CCAA PROCEEDINGS

15.1 TCC intends to make payments for goods and services supplied post-filing as contemplated in the Cash Flow Forecast. In addition, the Applicants are requesting as part of the Proposed Initial Order the authority (but not the requirement) to pay pre-filing amounts with the consent of the Monitor to certain critical service providers if required to ensure the success of the Orderly Wind-down for the benefit of stakeholders. These critical service providers include:

(a) distribution services – logistics or supply chain providers, customs brokers and clearing houses, freight forwarding providers, armoured truck carriers;

(b) corporate credit card services – financial institutions providing corporate credit cards to employees for corporate purchasing and expenses, viewed by the Applicants as forming an important component of the cash management system; and

(c) customer card services – financial institutions providing debit or credit services to TCC's customers through co-branded credit or debit cards, merchant processors of TCC's gift cards.

15.2 The Applicants are also requesting the authority (but not the requirement) to pay: (i) outstanding or future amounts owing in respect of customer rebates, refunds, discounts or other amounts on account of similar customer programs or obligations; (ii) outstanding or future amounts related to honouring gift cards issued before or after the commencement of proceedings; and (iii) with the consent of the Monitor, other suppliers up to a maximum aggregate amount of $10 million if, in the opinion of the Target Canada Entities, the supplier is critical to the Orderly Wind-down.

15.3 The Proposed Monitor is of the view that the above relief is reasonable and appropriate in the circumstances, taking into consideration: (i) the scale and complexity of TCC's operations; (ii) the positive impact of minimizing disruption to the delivery of inbound goods-in-transit to TCC's distribution centres and warehouses, and to the delivery of outbound inventory from the distribution centres and warehouses to the retail stores, on the inventory liquidation sale process and realizations; and (iii) the Applicants' desire to facilitate the Orderly Wind-down and maximize realizations for the benefit of stakeholders.

16.0 COURT ORDERED CHARGES SOUGHT IN THE PROPOSED INITIAL ORDER

16.1 The Proposed Initial Order provides for five charges (collectively, the "**Charges**"), as described below.

Administration Charge

16.2 The Proposed Initial Order provides for a charge in an amount not to exceed $6.75 million in favour of the Monitor, counsel to the Monitor, counsel to the Target Canada Entities, counsel to the Directors, Employee Representative Counsel, Lazard (in respect of its Monthly Fee) and Northwest (the "**Administration Charge**").

16.3 The Proposed Monitor assisted the Applicants in the calculation of the Administration Charge and is of the view that it is reasonable and appropriate in the circumstances, having regard to the scale and complexity of the proceedings, potential work involved at peak times, and the size of charges approved in similar large scale proceedings.

KERP Charge

16.4 The Proposed Initial Order provides for a charge in an amount not to exceed $6.5 million (the "**KERP Charge**") in favour of the KERP Participants as security for all amounts becoming payable under the KERP.

16.5 The Proposed Monitor is of the view that the KERP Charge is required and is reasonable in the circumstances.

Directors' and Officers' Charge

16.6 The Proposed Initial Order provides that the Applicants jointly and severally indemnify their directors and officers against obligations and liabilities that they may incur as directors and officers of the Applicants after the commencement of the CCAA Proceedings, except to the extent that the obligation or liability was incurred as a result of an officers' or directors' gross negligence or wilful misconduct.

16.7 The Proposed Initial Order provides for a charge in the amount of $64 million (the "**Directors' Charge**") in favour of the Applicants' directors and officers as security for any obligations or liabilities that may arise after the commencement of the CCAA Proceedings, except to the extent that such obligation or liability is incurred as a result of such directors' or officers' gross negligence or wilful misconduct.

16.8 TCC has a liability insurance policy for the potential benefit of present and former directors and officers who were employed by TCC that covers an aggregate annual limit of $25 million.

16.9 The Proposed Monitor assisted the Applicants in the calculation of the Directors' Charge, taking into consideration the amount of the Applicants' payroll, vacation pay and federal and provincial sales tax liabilities. The Proposed Monitor is of the view that the Directors' Charge is required and is reasonable in the circumstances. The Proposed Monitor also notes that the potential exposure of the Directors to the liabilities referenced above is expected to decline substantially as the Orderly Wind-down is completed.

Financial Advisor Subordinated Charge

16.10 The Proposed Initial Order provides for the Financial Advisor Subordinated Charge in the amount of $3 million as security in respect of Lazard's Transaction Fee.

16.11 The Proposed Monitor is of the view that the Financial Advisor Subordinated Charge is reasonable in the circumstances.

DIP Lender's Charge

16.12 The Proposed Initial Order provides for a DIP Lender's Charge as security for outstanding advances made under the DIP Facility. It is a condition of the DIP Term Sheet that the DIP Lender's Charge be granted by the Court. Such charges are customary when a DIP Facility has been approved by the Court. The Proposed Monitor recommends that the Court approve the DIP Facility, and accordingly, also supports the granting of the DIP Lender's Charge.

Priority of Charges Created by the Proposed Initial Order

16.13 The priorities of the Charges are proposed to be as follows:

(a) First – Administration Charge (to the maximum amount of $6.75 million);

(b) Second – KERP Charge (to the maximum amount of $6.5 million);

(c) Third – Directors' Charge (to the maximum amount of $64 million);

(d) Fourth – Financial Advisor Subordinated Charge (to the maximum amount of $3 million); and

(e) Fifth – DIP Lender's Charge.

16.14 In summary, the Proposed Monitor has assisted in the preparation and/or reviewed the calculations that support the Administration Charge, the KERP Charge, the Directors' Charge, the Financial Advisor Subordinated Charge, and the DIP Lender's Charge, and believes that the amounts are reasonable in the circumstances.

17.0 FOREIGN PROCEEDINGS

17.1 As stated in the Wong Affidavit, it is not yet known whether a recognition proceeding under Chapter 15 of the United States Bankruptcy Code will be necessary in respect of some or all of the Target Canada Entities.

17.2 In the event that such recognition proceedings become necessary or desirable, the Applicants are also requesting for the Proposed Monitor to be at liberty to serve as a "foreign representative" and assist the Applicants with any matters relating to any foreign proceedings commenced in relation to any of the Target Canada Entities, including retaining independent legal counsel, agents, experts, accountants, or such other persons as the Proposed Monitor deems necessary or advisable. The Proposed Monitor is of the view that these powers are appropriate to provide the necessary flexibility should recognition proceedings become necessary or desirable to facilitate the Orderly Wind-down for the benefit of stakeholders.

18.0 CREDITOR NOTIFICATION

18.1 The Applicants have engaged the services of Prime Clerk as notice agent to assist the Applicants and the Monitor with notification procedures throughout the CCAA Proceedings, including the notices of termination that TCC will be providing to the vast majority of its employees and the Monitor's notice of the Initial Order contained therein through specific reference in such notice to the posting of the Initial Order on the Monitor's website. Prime Clerk has experience in numerous restructuring proceedings of a similar size and nature to the proposed CCAA Proceedings, and offers a range of specific noticing solution services. In light of the fact that there are approximately 17,600 employees in addition to other interested parties, the Proposed Monitor views the engagement of Prime Clerk as a reasonable and efficient use of resources to facilitate the Orderly Wind-down.

19.0 PROPOSED MONITOR'S RECOMMENDATION

19.1 For the reasons set out in this Report, the Proposed Monitor is of the view that the relief requested by the Applicants is reasonable and respectfully recommends that this Court make the Order granting the relief requested by the Applicants.

All of which is respectfully submitted to this Court this 14th day of January, 2015.

Alvarez & Marsal Canada Inc., in its capacity as Proposed Monitor of Target Canada Co., and the other Applicants listed on Appendix "A"

Per: ______________________________
Name: Douglas R. McIntosh
Title: President

Per: ______________________________
Name: Alan J. Hutchens
Title: Senior Vice President

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APPENDIX "A"

Applicants

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 (SK) Corp.

Target Canada Pharmacy Corp.

Target Canada Property LLC

Partnerships

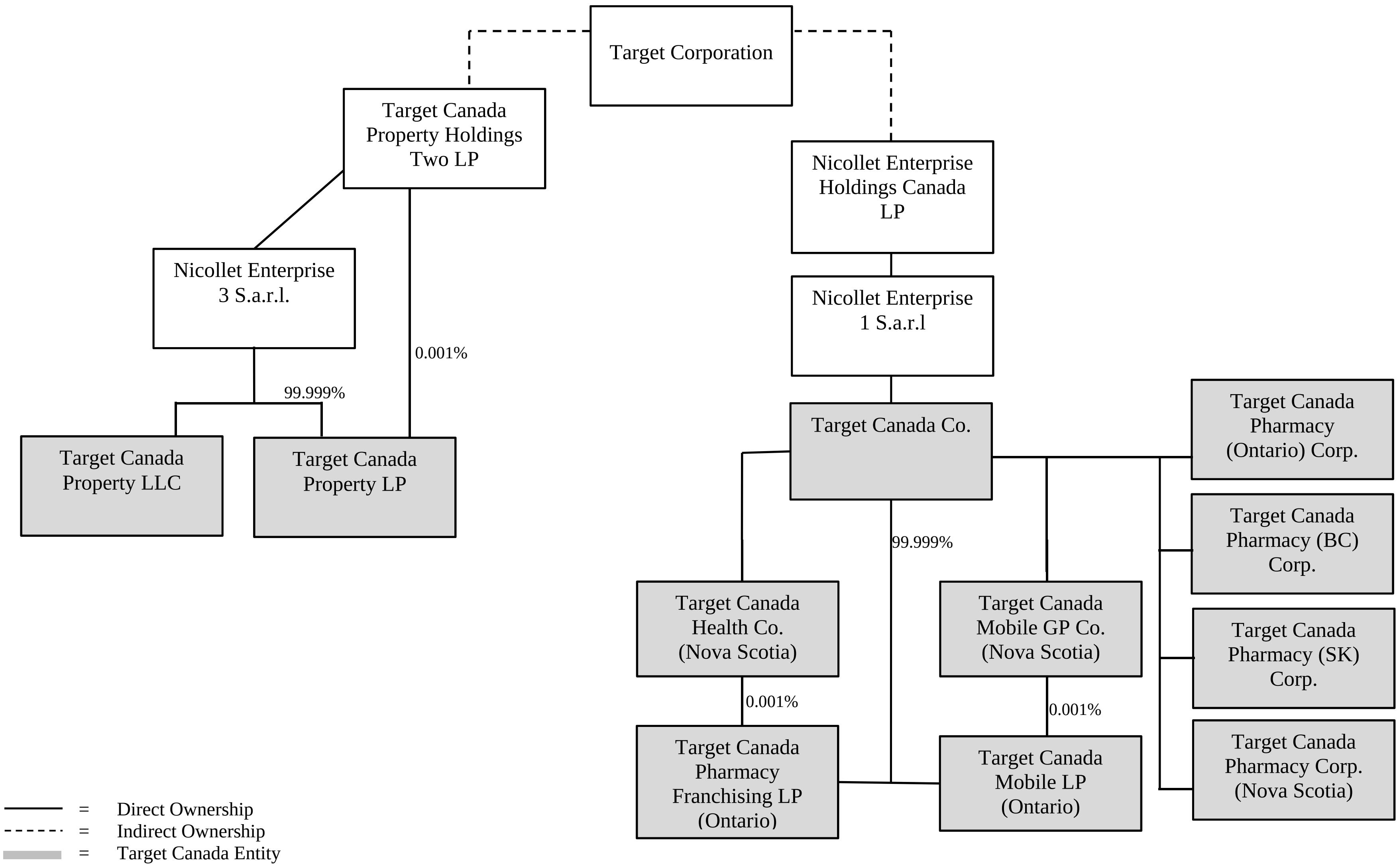
Target Canada Pharmacy Franchising LP

Target Canada Mobile LP

Target Canada Property LP

APPENDIX “B”

Summary of Organizational Chart



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APPENDIX “C”

13-Week Cash Flow Forecast

($ in 000's CAD)	Wk-1	Wk-2	Wk-3	Wk-4	Wk-5	Wk-6	Wk-7	Wk-8	Wk-9	Wk-10	Wk-11	Wk-12	Wk-13	13-Week
Week Ending ==>	17-Jan	24-Jan	31-Jan	07-Feb	14-Feb	21-Feb	28-Feb	07-Mar	14-Mar	21-Mar	28-Mar	04-Apr	11-Apr	Total
OPERATING RECEIPTS														
Sales Receipts	$ 8,300	$ 43,921	$ 43,125	$ 51,769	$ 59,167	$ 45,359	$ 42,220	$ 47,832	$ 46,518	$ 46,541	$ 31,838	$ 24,093	$ 17,122	$ 507,804
Other Receipts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL RECEIPTS	**8,300**	**43,921**	**43,125**	**51,769**	**59,167**	**45,359**	**42,220**	**47,832**	**46,518**	**46,541**	**31,838**	**24,093**	**17,122**	**507,804**
OPERATING DISBURSEMENTS														
Employee Payments	16,085	303	17,393	303	16,321	305	17,161	285	14,376	269	14,944	250	13,077	111,072
Rent & Occupancy	-	9,558	354	6,558	608	6,812	608	6,812	791	6,995	791	6,995	791	47,669
DC / Logistics	10,094	18,941	2,235	7,396	2,211	7,073	1,181	6,235	-	5,625	-	5,625	-	66,616
Normal Course Taxes	4,400	12,871	437	11,474	328	18,812	328	11,365	262	20,491	262	262	262	81,555
Professional Fees	-	3,747	-	3,810	-	3,977	-	3,047	-	2,477	-	2,477	-	19,536
All Other	5,429	9,313	4,879	3,821	5,080	4,758	5,153	4,161	4,869	3,684	3,728	3,451	3,328	61,654
Current Operating Disbursements	36,007	54,733	25,299	33,363	24,547	41,737	24,431	31,905	20,298	39,541	19,725	19,060	17,458	388,102
OPERATING CASH FLOW	**(27,707)**	**(10,811)**	**17,826**	**18,406**	**34,620**	**3,622**	**17,789**	**15,927**	**26,220**	**7,000**	**12,113**	**5,033**	**(336)**	**119,702**
INTERCOMPANY DISBURSEMENTS														
Intercompany Services	-	-	-	6,247	-	-	-	8,329	-	-	-	-	10,411	24,986
DIP Interest	-	-	-	-	-	129	-	-	-	-	-	-	-	129
Intercompany Disbursements	-	-	-	6,247	-	129	-	8,329	-	-	-	-	10,411	25,116
NET CASH FLOW	**$ (27,707)**	**$ (10,811)**	**$ 17,826**	**$ 12,160**	**$ 34,620**	**$ 3,493**	**$ 17,789**	**$ 7,599**	**$ 26,220**	**$ 7,000**	**$ 12,113**	**$ 5,033**	**$ (10,747)**	**$ 94,586**
WEEKLY LIQUIDITY														
Beginning Bank Cash Balance	$ 1,000	$ 13,293	$ 10,000	$ 10,000	$ 10,000	$ 27,086	$ 30,579	$ 48,369	$ 55,967	$ 82,187	$ 89,187	$ 101,300	$ 106,333	$ 1,000
Weekly Cash Flow	(27,707)	(10,811)	17,826	12,160	34,620	3,493	17,789	7,599	26,220	7,000	12,113	5,033	(10,747)	94,586
DIP Funding	40,000	7,519	(17,826)	(12,160)	(17,534)	-	-	-	-	-	-	-	-	-
Total	13,293	10,000	10,000	10,000	27,086	30,579	48,369	55,967	82,187	89,187	101,300	106,333	95,586	95,586
FX Translation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in Float	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ending Bank Cash Balance	$ 13,293	$ 10,000	$ 10,000	$ 10,000	$ 27,086	$ 30,579	$ 48,369	$ 55,967	$ 82,187	$ 89,187	$ 101,300	$ 106,333	$ 95,586	$ 95,586
Ending DIP Balance	**$ 40,000**	**$ 47,519**	**$ 29,693**	**$ 17,534**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

In the Matter of the CCAA Proceedings of Target Canada Co. ("TCC") and the Other Applicants and Partnerships Identified in the Initial Order (collectively, the "Target Canada Entities")
Notes to the Target Canada Entities' Unaudited 13-Week Cash Flow Forecast

Disclaimer:

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

Overview:

The Forecast reflects cash flows from the orderly wind-down of the Target Canada Entities' operations and assumes that the Target Canada Entities file for protection under the CCAA on January 15, 2015. TCC, with the assistance of the Monitor, has prepared the Forecast based primarily on historical results and TCC's current expectations. The Forecast does not include Target Canada Property LLC ("**TCC Propco**"), as minimal cash flow activity is anticipated for that entity during the Forecast Period. TTC Propco's cash balance as at January 15, 2015 is anticipated to be approximately $77 million. The Forecast is presented in thousands of Canadian dollars. Receipts and disbursements denominated in US currency have been converted into Canadian dollars.

Assumptions:

1. **Beginning Balance**
   This is the anticipated opening cash balance at the commencement of the CCAA proceedings.

2. **Sales Receipts**
   Receipts from sales are estimated based on assumed cash recoveries by merchandise category on inventory as of the filing date. Timing of receipts is based on forecast sales during the contemplated orderly wind-down process. Cash adjustments are made in the Forecast for sales tax collections, gift card/coupon redemptions and collection delays by tender type. Sales taxes are included in forecast receipts.

3. **Merchandise Payments**
   The Forecast assumes that all future and outstanding orders are cancelled as of the filing date.

4. **Employee Payments**
   These disbursements include payroll, payroll taxes and employee benefits costs for salaried and hourly employees, and are forecast based on historical run-rates. Employee payments are reduced in accordance with projected requirements during the orderly wind-down process. The Forecast includes KERP payments but excludes disbursements anticipated to be made from the Employee Trust. Salaried and hourly employees are paid bi-weekly.

5. **Rent & Occupancy**
The Forecast assumes that rent and occupancy expenses are paid semi-monthly during the contemplated wind-down process and during the real estate portfolio sales process. The Forecast applies de-commissioning and store cleaning costs based on square footage for stores and distribution centers. Disbursements related to utilities are estimated based on monthly run-rate amounts.

6. **Distribution Centres/Logistics**
Disbursements to distribution centre logistics provider are forecast based on historical run-rate during the contemplated wind-down process and decrease thereafter. Freight to/from the DCs and to stores assumed at 4% of inventory cost based on historical run-rates.

7. **Normal Course Taxes**
The Forecast assumes sales tax collections and remittances based on a weighted average provincial tax rate of 12%, accumulated and paid monthly. Property taxes are forecast based on current estimates by property. Property tax payment timing is varied by Province.

8. **Professional Fees**
These disbursements include payments to TCC's advisors and their counsel, the Monitor and its counsel, and counsel to the Directors.

9. **All Other**
These disbursements include projected credit card processing fees, liquidation firm agency fees, marketing expenses, telecom and technology expenses, insurance, supplies, and other wind-down operating expenses.

10. **Intercompany**
These disbursements represent projected payments related to Shared Services provided by Target Corporation. Forecast amounts decrease is accordance with projected requirements during the contemplated wind-down process.

APPENDIX “D”

TARGET

Alvarez & Marsal Canada Inc.
Royal Bank Plaza South Tower
200 Bay Street, Suite 2900
Toronto, ON M5J 2J1

Attention: Mr. Alan J. Hutchens

January 14, 2015

Dear Sirs:

Re: Target Canada Co. ("TCC") and the Other Applicants and Partnerships Identified in the Proposed Initial Order (collectively, the "Target Canada Entities") – CCAA section 10(2) Prescribed Representations with Respect to Cash Flow Forecast

In connection with the application by the Applicants for the commencement of proceedings under the *Companies' Creditors Arrangement Act*, the management of TCC has, with the assistance of Alvarez & Marsal, prepared the attached 13-week projected cash flow statement of the Target Canada Entities for the period January 15, 2015 to April 11, 2015 (the "**Cash Flow Statement**") and the list of assumptions on which the Cash Flow Statement is based. The purpose of the Cash Flow Statement is to determine the liquidity requirements of the Target Canada Entities during the CCAA proceedings.

TCC confirms that the hypothetical assumptions on which the Cash Flow Statement is based are reasonable and consistent with the purpose described herein, and the probable assumptions are suitably supported and consistent with the plans of the Target Canada Entities and provide a reasonable basis for the projections. All such assumptions are disclosed in notes to the Cash Flow Statement (the "**Notes**").

Since the projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projections have been prepared solely for the purpose described herein, using the probable and hypothetical assumptions set out in the Notes. Consequently, readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.

Yours truly,

Per: Name: Aaron Alt
Title: CEO, Target Canada Co.

IN THE MATTER OF A PLAN OR 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.

Court File No.: ___________

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
Proceeding commenced at Toronto

PROPOSED MONITOR'S
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