

**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.**

**SUPPLEMENTAL REPORT TO THE FIRST REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.**

FEBRUARY 3, 2015

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1.0 INTRODUCTION

1.1 On January 15, 2015, Target Canada Co. (“**TCC**”) and those companies listed in Appendix A (collectively, the “**Applicants**”), together with the Partnerships also listed in Appendix A (the “**Partnerships**”, and collectively with the Applicants, the “**Target Canada Entities**”), applied for and were granted protection by the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). Pursuant to an Order of this Court dated January 15, 2015 (the “**Initial Order**”), Alvarez & Marsal Canada Inc. (“**A&M**” or the “**Monitor**”) was appointed Monitor of the Target Canada Entities in the CCAA proceedings. The proceedings commenced by the Applicants under the CCAA are referred to herein as the “**CCAA Proceedings**”.

1.2 In connection with these CCAA Proceedings, A&M provided to this Court the First Report of the Monitor (the “**First Report**”) dated January 30, 2015. The First Report, the Pre-Filing Report of the Proposed Monitor (the “**Pre-Filing Report**”), Initial Order and other Court-filed documents and notices in these CCAA Proceedings are available on the Monitor’s website at www.alvarezandmarsal.com/targetcanada.

1.3 The purpose of this first supplemental report (the “**First Supplemental Report**”) is to provide this Court with information regarding the updated and extended cash flow forecast of the Target Canada Entities.

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this First Supplemental Report, the 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 First Supplemental Report, in respect of the Target Canada Entities’ cash flow forecast:

- (a) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the 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 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 First Supplemental 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 First Supplemental 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 This First Supplemental Report should be read in conjunction with the Affidavit of Mark J. Wong, General Counsel and Assistant Secretary of TCC, sworn January 29, 2015 (the “**Second Wong Affidavit**”) and the First Report.

2.4 Capitalized terms used but not otherwise defined in this First Supplemental Report are as defined in the Pre-Filing Report, the First Report, the Initial Order and the Second Wong Affidavit, as applicable.

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

3.0 CCAA CASH FLOW FORECAST

3.1 As referenced in paragraph 9.3 of the First Report, the Applicants have prepared an updated and extended cash flow forecast (the “**Cash Flow Forecast**”) for the period February 1, 2015 to May 16, 2015 (the “**Cash Flow Period**”). Pursuant to the Initial Order, the Stay Period is to expire on February 13, 2015. The Applicants are seeking an extension of the Stay Period to May 15, 2015 and the Cash Flow Period corresponds with this extension request. A copy of the Cash Flow Forecast is attached to this First Supplemental Report as Appendix B.

3.2 The Cash Flow Forecast is presented on a weekly basis during the Cash Flow Period and represents TCC management’s estimates of 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**”).

- 3.3 The 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) 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 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 Monitor reviewed information provided by management for the Cash Flow Assumptions. Since the Cash Flow Assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast.
- 3.4 The Cash Flow Forecast has been updated for actual cash flow results through the week ended January 31, 2015. The opening cash position as at February 1, 2015 was approximately \$74.9 million. Forecast receipts for the Cash Flow Period are approximately \$542.1 million and forecast disbursements are \$414.3 million (including approximately \$25.0 million for Shared Services).
- 3.5 The Cash Flow Forecast includes disbursements of approximately \$6.8 million in February, \$5.6 million in March, \$7.0 million in April and \$5.6 million in May for Shared Services (including seconded employees) provided during the preceding months. 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 in the Pre-Filing Report, and are generally lower when compared to the cash

flow forecast attached to the Pre-Filing Report as the Applicants work toward reducing costs where appropriate.

- 3.6 The Cash Flow Forecast includes a repayment of approximately \$21.7 million against the DIP Facility. There are no projected borrowings under the DIP Facility during the Cash Flow Period.
- 3.7 The closing cash position in the Cash Flow Forecast for the week ending May 16, 2015 is projected to be approximately \$178.9 million.
- 3.8 The Cash Flow Forecast has been prepared solely for the purposes described above, and readers are cautioned that it may not be appropriate for other purposes.

All of which is respectfully submitted to this Court this 3rd day of February, 2015.

**Alvarez & Marsal Canada Inc., in its capacity
as 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

APPENDIX A
LIST OF THE APPLICANTS AND PARTNERSHIPS

Applicants

Target Canada Co.

Target Canada Health Co.

Target Canada Mobile GP Co.

Target Canada Pharma varman@blaney.com cy (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
CASH FLOW FORECAST

**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 or other assurance that any of the estimates, forecasts or projections will be realized.

Overview:

The Forecast reflects the projected cash flows from the orderly wind-down of the Target Canada Entities’ operations. 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 31, 2015 was approximately \$70 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 actual opening cash balance as of January 31, 2015.

2. Sales Receipts

Receipts from sales are estimated based on the terms of the proposed Agency Agreement dated January 29, 2015. Timing of receipts is based on forecast sales during the 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. Potential receipts from the proposed Real Property Portfolio Sales Process and potential receipts from the sale of furniture, fixtures and equipment are not included in the Forecast.

3. 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.

4. Rent and Occupancy

The Forecast assumes that TCC pays rent and occupancy expenses semi-monthly during the wind-down process and during the proposed Real Property Portfolio Sales Process. The Forecast applies estimated de-commissioning and store cleaning costs based on square footage for stores

and distribution centers. Disbursements related to utilities are estimated based on historical monthly run-rates.

5. Distribution Centres/Logistics

Disbursements to the distribution centre logistics provider are forecast based on historical run-rates during the inventory liquidation process and to decrease significantly thereafter. Freight to/from the distribution centres and to stores is estimated at 4% of inventory cost based on historical run-rates.

6. Normal Course Taxes

The Forecast assumes sales tax collections and remittances based on a weighted average tax rate of 12%, accumulated and paid monthly. Property taxes are forecast based on current estimates by property.

7. Professional Fees

Include payments to TCC's advisors and their legal counsel, the Monitor and its counsel, and counsel to the Directors.

8. All Other

Includes projected credit card processing fees, liquidation firm cost reimbursements, telecom and technology expenses, insurance, supplies and other wind-down operating expenses.

9. Intercompany

Represents projected payments related to Shared Services provided by Target Corporation. Forecast amounts decrease in accordance with projected requirements during the wind-down process.

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PHARMACY CORP., TARGET CANADA PHARMACY (SK) CORP., AND TARGET CANADA
PROPERTY LLC**

Court File No.: CV-15-10832-00CL

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SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

**FIRST SUPPLEMENTAL REPORT
OF THE MONITOR**

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