April 13, 2016

TO: Creditors of Target Canada Co. and the other Target Canada Entities

Dear Sirs/Mesdames:

Proposed Amended and Restated Plan of Compromise and Arrangement

On behalf of the Target Canada Entities, Target Canada is pleased to present its Amended and Restated Plan of Compromise and Arrangement (the "**Plan**"). If approved by the creditors and sanctioned by the Court, the Plan will:

- provide significant monetary recovery for creditors,
- accelerate timely payout to creditors, and
- resolve our CCAA proceedings with certainty and finality.

The Plan is an amended and restated version of the "Original Plan" that Target Canada sought to file in late 2015. The most significant change from the Original Plan is that the amounts of all landlord claims arising from disclaimed leases and all related guarantee claims against Target Corporation have been resolved outside of the Plan. The agreement of the landlords is conditional on approval of the Plan by the creditors and the Court.

The Target Canada Entities have obtained Court approval that a single class of unsecured creditors be permitted to vote on the Plan at a meeting to be held on May 25, 2016. This class will include our landlords, trade creditors, suppliers of services, pharmacists and all of our other unsecured creditors.

Key features of the Plan include:

1. Based on current information, **we expect a range of recovery for affected unsecured creditors of approximately 68% to 78% of their proven claims**.[1]

2. Target Corporation's agreement to subordinate the majority of its intercompany claims against Target Canada has been maintained from the Original Plan.

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[1] This range is based on information from the Monitor as of April 1, 2016 and is provided on an estimated basis, as there remain significant claims that have not yet been finalized for distribution purposes. In addition, certain potential creditors such as the Canada Revenue Agency have filed claims for an unliquidated or unknown amount. Any references to range of recovery in this letter are subject to these important qualifications and those outlined in the Monitor's Twenty-Third, Twenty-Fourth and Twenty-Sixth Reports.

3. Target Corporation is the "Plan Sponsor" and will also make additional Cash contributions under the Plan, which are on top of the many contributions that Target Corporation has already made in these CCAA proceedings.[2] In exchange, the Plan will provide a release in favour of Target Corporation.[3]

4. Target Canada believes that this is the best available plan in the circumstances. It maximizes creditor recovery, expedites plan implementation and complies with the Court's orders and directions.

5. The alternative to the Plan is a bankruptcy. We understand that Target Corporation's agreement to subordinate the vast majority of the intercompany claims is on the basis of the Plan only and would not be available in bankruptcy proceedings. Both Target Canada and the Monitor believe that creditor recoveries under the Plan will be far superior to what would result from a bankruptcy. The significant recoveries under the Plan are only possible because of Target Corporation's agreement to permit the subordination of the intercompany claims.

6. If the creditors approve the Plan at the creditors' meeting, we expect to apply to the Court on June 2, 2016 for an order sanctioning the Plan. If the order is granted, we hope to make an initial distribution to creditors as quickly as possible.

1. Background to the Plan

We have worked tirelessly over the course of these CCAA proceedings to maximize the value of our assets for the benefit of all creditors, including through the sale of our inventory and real property. By July 2015, this realization phase was substantially complete. We began negotiating and developing the terms of a plan that would resolve all claims against the Target Canada Entities and complete our CCAA proceedings.

We developed and proposed a global resolution for consideration by the Monitor and held meetings with the Consultative Committee of creditors. Through this process, we refined the proposed global resolution in an effort to achieve a balanced plan for our

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[2] Target Corporation's significant economic contributions to date in these CCAA proceedings include: (1) the prior subordination of the approximately $3.1 billion intercompany claim by a subsidiary of Target Corporation against Target Canada; (2) funding the Employee Trust in the amount of $95 million and the consequent removal of the related employee claims from the Target Canada estate; (3) making available DIP financing to allow Target Canada to meet payroll and other obligations; and (4) providing ongoing shared services to Target Canada to facilitate the orderly wind down of the businesses, under which terms Target Corporation will not be fully compensated for its actual costs incurred.

[3] Target Corporation will not receive a release under the Plan in respect of Landlord Guarantee Claims (as that term is defined in the Plan).

stakeholders. We continued to meet with representatives of a range of our creditors, including landlords, trade creditors and other constituents, to obtain feedback and to garner support for the timely, consensual resolution to our CCAA proceedings.

In December 2015, Target Canada brought a motion asking the Court to accept the filing of the Original Plan and order a creditors' meeting to vote on it. That motion was opposed by certain landlords who objected to the Original Plan's treatment of their guarantee claims. The Original Plan proposed to compromise and settle those claims, which would have required the Court to amend the Initial Order to remove paragraph 19A. The Court dismissed the motion, finding, among other things, that compromising the guarantee claims without the landlords' consent would violate paragraph 19A of the Initial Order.

Target Canada immediately resumed discussions with the landlords in an effort to develop a consensual, global resolution and achieve Court approval. On February 1, 2016, Target Canada proposed a timetable by which it would negotiate a resolution with the landlords and, if successful, seek approval of a revised plan. The timetable contemplated that, unless 100% of the landlords executed the necessary agreements (described below) by March 4, 2016, Target Canada would take steps to transition to a bankruptcy process.

On March 4, 2016, after weeks of tough negotiations, Target Canada announced that all landlords had entered into the necessary agreements, which included: (1) a settlement agreement between Target Corporation and all landlords with disclaimed leases guaranteed by Target Corporation, which contractually resolved the guarantee claims outside of the Plan; and (2) consent and support agreements between Target Canada and all other landlords with disclaimed leases. All of these landlords committed to support and vote for the Plan. Target Corporation also entered into a Plan Sponsor Agreement, which contains Target Corporation's commitment to fund certain contributions into the Plan and to support and be bound by the Plan. Target Canada also announced that the Monitor and the Consultative Committee support the filing of the Plan.

Since that date, we have continued to engage with a range of creditors and other stakeholders in an attempt to build consensus for the Plan and, ultimately, a positive vote at the creditors' meeting. Target Canada and the Monitor are also working to resolve disputed claims and unquantified claims (such as the unquantified claims by the Canada Revenue Agency) in an effort to maximize the initial distributions to creditors.

We are very pleased to present our Plan to you. We firmly believe that it maximizes creditor recovery and will facilitate the controlled and orderly wind down of the Target Canada Entities in a timely manner.

2. Treatment of Creditors and Expected Recoveries

This letter provides information about expected recoveries to help you understand the Plan. You should note, however, that the information in this letter is qualified in its entirety by reference to the detailed information contained in the Plan. You should read the Plan carefully to understand its terms, as well as the other considerations that may be important to you in deciding whether to approve the Plan. You should consult financial, tax or other professional advisors regarding the Plan.

(a) Claims Against Propco and Property LP

Third party creditors of Propco and Property LP will be paid 100% of their proven claims against Propco and Property LP on the initial distribution date, or, in the case of a disputed claim that becomes a proven claim against Propco or Property LP, by the final distribution date.

After the third party creditors of Propco and Property LP have been paid their proven claims, Propco's remaining cash will be paid toward valid intercompany claims against Propco that are held by Target Canada, Property LP and Target Corporation. The Plan provides that a limited amount of this cash will be paid to Target Corporation in respect of a valid intercompany claim. Target Corporation will direct that any other cash be delivered to Target Canada for distribution to creditors in accordance with the Plan.

(b) Convenience Class Creditors

The Plan refers to creditors with proven claims of less than or equal to $25,000 (in the aggregate) as "Convenience Class Creditors". They will be paid 100% of their proven claims on the initial distribution date.

Other creditors with claims in excess of $25,000 can elect to become, and be treated for all Plan purposes as, Convenience Class Creditors, in which case they will be paid $25,000 on the initial distribution date.

All Convenience Class Creditors are deemed to vote in favour of the Plan and will not receive further distributions under the Plan after the initial distribution date.

(c) Landlords with Disclaimed Leases

Landlords with disclaimed leases have agreed to the quantum of their claims against the Target Canada Entities as part of the consensual resolution. For disclaimed leases guaranteed by Target Corporation, on the initial distribution date the landlords will receive 100% of their proven claims from Target Canada and additional amounts funded by Target Corporation as agreed to between Target Corporation and the landlords.

Unlike the Original Plan, the Plan does not use a "Landlord Formula Amount" to value landlord claims. Instead, all landlords with disclaimed leases have consensually agreed to values for their restructuring period claims and pre-filing claims.

For disclaimed leases guaranteed by Target Corporation, Target Canada will pay landlords 100% of their proven claims against Target Canada on the initial distribution date. These payments will be funded by Target Canada.

Target Canada will pay all other landlords with disclaimed leases their *pro rata* share of their proven claims on the same dates that Target Canada pays other unsecured creditors. In addition, these landlords will receive an additional payment on the initial distribution date that is designed to provide them with approximately the same proven claim recovery that they would have received under the Original Plan. This additional amount will be funded by Target Corporation so that the payments will not dilute the recovery of the other creditors.

(d) Creditors of Target Canada and its Subsidiaries

All other creditors of Target Canada and its subsidiaries[4] are expected to be paid distributions in the range of 68% to 78% of their proven claims.[5] Payments will begin on the initial distribution date and continue until the final distribution date.

Creditors holding disputed claims will receive distributions on account of their claims once proven or the amount owing is resolved.

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[4] Target Canada Health Co., Target Canada Mobile GP Co., Target Canada Pharmacy (BC) Corp., Target Canada Pharmacy (Ontario) Corp., Target Canada Pharmacy Corp. and Target Canada Pharmacy (SK) Corp.

[5] See footnote 1.

Although the expected range of recoveries is approximately 7% lower under this Plan than under the Original Plan, this reduction was necessary to: (1) provide enhanced recoveries to Landlord Guarantee Creditors to achieve the consensual resolution with the landlords; and (2) maintain Target Corporation's subordination of the majority of its intercompany claims against Target Canada. We believe that we have taken all reasonably available steps to maximize the recoveries for creditors given the circumstances we faced and believe that the recoveries contemplated under this Plan are far superior to the recoveries that creditors would receive under an alternate plan without this subordination or in a bankruptcy.

(e) <u>Employees</u>

Target Canada and Target Corporation designed the Employee Trust to provide a measure of financial security for current employees during the orderly wind down, by ensuring that employees were paid certain amounts, including receiving working notice following termination. Target Corporation has paid $95 million to fund the Employee Trust. Creditors of Target Canada benefit from the Employee Trust because significant employee claims have been eliminated from the Target Canada estate. Based on current information from the Monitor, we expect that approximately $81 million will have been paid in respect of employee claims through the Employee Trust.

Although the CCAA provides that a Plan must provide for payment in full of "Employee Priority Claims", the Employee Trust has already paid most, if not all, claims that would otherwise be considered Employee Priority Claims. Based on information from the Monitor, there is currently a surplus in the Employee Trust. Employee Priority Claims – if any exist – are therefore expected to be paid entirely out of the Employee Trust. Any balance in the Trust will be repaid to Target Corporation.

(f) <u>Additional Information about Claims, Generally</u>

(i) *Currency*

All monetary amounts in this letter are in Canadian dollars, unless otherwise stated. All payments under the Plan will be made in Canadian dollars. In accordance with the Claims Procedure Order, any claim denominated in a foreign currency will be converted at the Bank of Canada noon exchange rate in effect on January 15, 2015. For claims denominated in US dollars, the conversion rate is US$1 : Cdn$1.1932.

(ii) *Assignment of Claims*

A creditor may only transfer or assign its claim in accordance with, and subject to the restrictions in, the Plan.

(iii) *Tax Considerations*

Creditors are urged to consult their own advisors regarding the income or other tax consequences of their participation in the Plan.

All creditors and assignees of creditor claims should be aware that payments made under the Plan, if paid to persons who are not resident in Canada for purposes of Canada's *Income Tax Act*, may be subject to Canadian withholding tax. In particular, payments made to such non-residents under the Plan on account of landlord claims will generally be subject to a 25% Canadian withholding tax.

Target Canada will be entitled to deduct and withhold and remit from any distribution payable to any person pursuant to the Plan such amounts as are required by applicable laws, including Canada's *Income Tax Act*. To the extent that amounts are so withheld or deducted and remitted to the relevant taxing authority, such amounts will be treated as having been paid to such person under the Plan.

Payments made under the Plan may be inclusive of applicable Canadian federal goods and services and harmonized sales taxes, and other applicable Canadian provincial sales taxes, as may be required to be remitted by the recipient to an applicable taxing authority.

3. The Creditors' Meeting and Voting on the Plan

As noted above, the Court ordered on April 13, 2016 that a single class of unsecured creditors be permitted to vote on the Plan at a meeting to be held on **May 25, 2016**. At the creditors' meeting, creditors will consider and, if thought advisable, vote to approve the Plan. All creditors that will be affected by the Plan will be entitled to vote on the Plan.

Certain persons are not entitled to vote on the Plan, including holders of unaffected claims and intercompany claims, among others. As a related party, Target Corporation is not entitled to vote in support of the Plan in respect of any of its claims.

4. Where You Can Find More Information

As stated above, the information provided in this letter is intended to help you understand the Plan. You should note, however, that the governing document is the Plan. You should read the Plan carefully in its entirety to understand its terms, as well as the other considerations that may be important to you in deciding whether to approve the Plan. You should consult financial, tax or other professional advisors regarding the Plan and should not construe the contents of this letter as investment, legal or tax advice. The Monitor will be serving its report on the Plan on or before May 11, 2016 in advance of the creditors'meeting.

If you have any questions with respect to the Plan, you should contact our counsel at Osler or the Monitor. All questions and correspondence to Osler or the Monitor should be directed to Tracy Sandler or Alan Hutchens, respectively:

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Attention: Alan J. Hutchens
Email: targetcanadamonitor@alvarezandmarsal.com

Additional information is available on the website that is maintained by the Monitor in respect of these CCAA proceedings at http://www.alvarezandmarsal.com/targetcanada.

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We thank you for your continued support, cooperation and confidence in the Target Canada Entities throughout our restructuring process. We hope that you will vote for the Plan.

Yours very truly,

Target Canada Co.
per:

"Aaron Alt"

Aaron Alt,
Chief Executive Officer