

November 27, 2015

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

Dear Sirs/Mesdames:

**Proposed Plan of Compromise and Arrangement in the
Target Canada Co. CCAA Proceeding, Court File No. CV-15-10832-00CL**

On behalf of the Target Canada Entities, Target Canada is pleased to present its Plan of Compromise and Arrangement (the “**Plan**”). If approved by the creditors, the Plan will:

- provide significant monetary recovery for creditors,
- accelerate timely payout to creditors,
- ensure global resolution of all claims against the Target Canada Entities, and
- resolve with certainty and finality our CCAA proceedings.

The Target Canada Entities are asking the Court on December 8, 2015 to order that a single class of unsecured creditors be permitted to vote on the Plan at a meeting to be held on January 15, 2016 – exactly one year from the date on which the Target Canada Entities filed for CCAA protection. This creditor class will include our landlords (with and without guarantees), trade creditors, suppliers of services, pharmacists and all of our other unsecured creditors.

Key features of the Plan include:

1. Based on current information available to date, and working with the Monitor to understand the creditor claims profile, **we currently anticipate an expected range of recovery for the affected unsecured creditors of 75% to 85% of their proven claims.**¹
2. An essential component of the Plan is the involvement of Target Corporation, the largest single creditor of the Target Canada Entities, as Plan Sponsor.

¹ This range is based on information from the Monitor and is preliminary and estimated 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.

3. The level of recovery under the Plan is only possible because Target Corporation has agreed for purposes of the Plan to permit the subordination of approximately \$5 billion of the intercompany claims against the Target Canada Entities, including Propco's intercompany claim against Target Canada.
4. Landlord claims arising from disclaimers of real property leases are valued for Plan purposes by applying a uniform formula that provides a reasonable approximation of the value of their damage claims. The formula, while initially derived from that contained in the *Bankruptcy and Insolvency Act*, has been enhanced by the Target Canada Entities to provide a more substantial recovery for landlords. Use of a uniform formula avoids the cost and delay inherent in valuing landlord claims on an individual lease-by-lease basis and the uncertainty associated with future events, including mitigation.
5. The Plan resolves all guarantee claims held by landlords of real property leases against Target Corporation, facilitating a global and certain resolution to Target Canada's estate, including resolution of any subrogated claims held by Target Corporation relating to such landlord guarantee claims. Target Corporation will fund accelerated and enhanced payments in a net amount estimated to be between \$19 million and \$33 million to landlords with guarantees, by way of a "top-up" of the general landlord recovery (discussed below), which top-up will be fully paid to these landlords with guarantees on the initial distribution to creditors. **In effect, landlords with guarantee claims will be paid 100% of their formula claim amounts on the initial distribution date.**
6. A global solution that includes resolution of landlord guarantee claims eliminates any delay associated with protracted litigation relating to the resolution of guarantee claims outside of our CCAA proceedings (and related subrogated claims arising therefrom against the Target Canada estate), enabling us to make distributions to our unsecured creditors on a more timely basis.
7. The Plan separates claims according to whether they are asserted and proven against: (1) Target Canada or its subsidiaries (on a consolidated basis), (2) Propco, or (3) Property LP. After claims against Propco and Property LP are paid or provided for in accordance with the Plan, any remaining cash at Propco will be contributed to Target Canada for payment to the unsecured creditors under the Plan from a single pool of cash resulting from the liquidation and asset realizations previously achieved.
8. As part of the global resolution of claims, the Target Canada Entities, Target Corporation, Zellers Inc., Hudson's Bay Company and certain other entities will receive releases, including a release of all landlord guarantee claims. The releases

of Target Corporation are to be delivered in consideration for Target Corporation's significant and critical economic contributions to Target Canada's estate – both in the Plan and throughout these CCAA proceedings,² including the extensive subordination of recovery by Target Corporation as provided by the Plan – and are rationally related to the Plan.

9. If the creditors vote to approve the Plan at the creditors' meeting, the Target Canada Entities expect to apply to the Court on January 20, 2016, seeking an order sanctioning the Plan. Paragraph 19A of the Initial Order states that landlord guarantee claims are to be dealt with outside of our CCAA proceedings. The Target Canada Entities will ask the Court to amend the Initial Order to remove paragraph 19A of the Initial Order, in order to facilitate the global resolution of claims contemplated by the Plan. Following Plan sanction, the Target Canada Entities hope to make the initial distribution to creditors as quickly as possible.
10. Target Canada is presenting this Plan to creditors in the belief that the recoveries contemplated therein are far superior to what would result from a bankruptcy of the Target Canada Entities. The significant creditor recoveries under the Plan are made possible in large part by Target Corporation's agreement to subordinate the vast majority of its remaining intercompany claims. We understand that Target Corporation's offer to subordinate these intercompany claims would not be available in bankruptcy proceedings.

1. Background to the Plan

We have worked exhaustively over the course of these CCAA proceedings on an expedited basis to maximize the value of our assets through comprehensive processes to sell our Inventory and Real Property Portfolio.

By July 2015, these sale processes were substantially concluded and a claims process was undertaken by the Monitor. We moved from the realization phase of these CCAA proceedings to negotiating and developing the terms of a plan that would resolve all claims against the Target Canada Entities.

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 covered 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 the Target Canada Entities to facilitate the orderly wind down of the businesses, for which Target Corporation will not be fully compensated.

A major issue for the estate in developing our Plan is that Target Corporation is a significant stakeholder in the proceedings, controlling massive intercompany claims that have the potential to swamp the recoveries of all other creditors unless Target Corporation was prepared to subordinate the vast majority of these claims. In an effort to maximize recoveries for all creditors, Target Canada entered into a series of vigorous negotiations over the course of months with Target Corporation. Target Corporation maintained throughout that it would only subordinate these claims as part of a global resolution of all claims, including the settlement and release of all landlord guarantee claims against Target Corporation (and the resulting elimination of subrogated claims for the benefit of the estate).

During the past few months, we proposed a global resolution for consideration by the Monitor and met with the Consultative Committee of creditors. Through this process, we were able to refine and amend the terms and structure of our Plan in an effort to achieve a balanced and equitable plan for our stakeholders.

Throughout November, counsel for the Target Canada Entities met with representatives of a range of our creditors in order to obtain feedback and to garner support for the timely, consensual resolution to our CCAA proceedings.

We are very pleased to present our Plan with the significant recoveries contemplated thereunder. We firmly believe that our Plan maximizes creditor recovery and will facilitate the controlled and orderly wind down of the Target Canada Entities in a timely manner and on a global basis without protracted litigation and delay which could detrimentally impact the recovery from the estate.

Target Corporation's agreement to subordinate, or to permit the subordination of, the vast majority of the intercompany claims provides a Plan in which all persons with an economic interest in the Target Canada Entities will derive a greater benefit from the implementation of the Plan from the estates of the Target Canada Entities than would result from a bankruptcy.

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) **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 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.

(b) **Creditors of Target Canada and its Subsidiaries**

All other creditors of Target Canada and its subsidiaries³ are expected to be paid aggregate distributions in the range of 75% to 85% of their proven claims. 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 ultimately proven claims.

³ These subsidiaries include 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.

(c) **Landlords**

Restructuring period claims for landlords arising from disclaimers of leases will be valued in accordance with the formula set out in the Plan.⁴ Landlords, like other creditors of Target Canada, are expected to recover a range of 75% to 85% of their proven formula and other claims. Payments will begin on the initial distribution date and continue until the final distribution date.

In addition, Landlords with guarantees from Target Corporation will be paid an enhanced and accelerated payment on the initial distribution date (the “Top-Up”), with the result that they will receive 100% of their proven restructuring period claims (valued in accordance with the formula) on the initial distribution date.

The landlord formula in the Plan was derived from the formula in section 65.2(4) of the *Bankruptcy and Insolvency Act* (the “**BIA Formula**”). Based on feedback from landlord representatives and efforts by the Monitor and Target Canada to understand the extent and value of the landlord claims, and in an effort to achieve an appropriate balance between landlords and other creditors under the Plan, the landlord formula in the Plan has been enhanced to provide, in effect, claims for an additional full year of rent beyond the BIA Formula.

Using a uniform formula avoids the significant cost and delay that would necessarily be involved in valuing these claims on an individual lease-by-lease basis. Using a uniform formula will also overcome the uncertainty associated with valuing the aspects of these claims that relate to potential future events, including contingent claims and mitigation.

The Monitor will send each landlord with a restructuring period claim a notice with a calculation of the landlord’s claim under the formula based on the books and records of the Target Canada Entities. The Meeting Order sought by Target Canada prescribes a process in the event that a landlord disputes the quantum resulting from the application of the formula.

The “Top-Up” to landlords with guarantees will provide both an enhanced payment (it will result in these landlords being paid 100% of their formula amount, without any *pro rata* compromise) and a significant acceleration in the timing of the payment (these landlords will be paid the entire formula amount on the initial distribution date). This will result in an accelerated payment without the need for costly and lengthy litigation against Target

⁴ Landlord claims in respect of leases that were assigned in these CCAA proceedings will not have their claims valued using the formula.

Corporation. The unsecured creditors also benefit because this global resolution, including landlord guarantee claims and related subrogated claims, maximizes and accelerates recoveries for all creditors.

All landlords other than landlords with guarantees will continue to receive subsequent distributions in respect of their restructuring period claims until the final distribution date. The landlords with guarantees will not receive any of these subsequent distributions because they will already have received the Top-Up – that is, they will have received 100% of their restructuring period claims. As a result, any of the subsequent distributions that would otherwise have been payable to the landlords with guarantees will be paid to Target Corporation as partial repayment for funding the Top-Up.

(d) **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 from Propco, or, in the case of a disputed claim that becomes a proven claim against Propco or Property LP, by the final distribution date.

The Plan has been designed to isolate and address claims against Propco and Property LP, on one hand, and Target Canada (and the remaining Target Canada Entities), on the other. After the third party creditors of Propco and Property LP have been paid their proven claims from Propco, Target Canada will be paid its intercompany claims against Propco, so that those funds can be distributed to Target Canada's creditors. The Plan provides that a limited amount of the remaining cash in Propco will be paid to Target Corporation in respect of a valid intercompany claim held by Target Corporation against Propco. Although Target Corporation and Property LP have other valid claims to any remaining cash in Propco after that payment, Target Corporation will direct that any such cash be delivered to Target Canada for distribution to Target Canada's creditors.

(e) **Employees**

Target Canada and Target Corporation designed the Employee Trust to provide a measure of financial security during the orderly wind down by paying employees certain amounts, including 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 these employee claims have been eliminated from the Target Canada estate.

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) **Additional Information about Claims, Generally**

(i) *Currency*

All payments under the Plan will be made in Canadian dollars. For claims denominated in US dollars, the conversion rate is US\$1 : Cdn\$1.1932.

(ii) *Assignment of Claims*

A creditor (other than a Convenience Class Creditor) may 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 include 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 Target Canada Entities are asking the Court on **December 8, 2015** to order that a single class of their unsecured creditors be permitted to vote on the Plan at a meeting to be held on **January 15, 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. At the motion scheduled for December 8, 2015, the Target Canada Entities will ask the Court to grant an order (the "**Meeting Order**")

setting the date for the meeting and addressing other issues relating to the vote and the creditors' meeting.

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.

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:

Osler, Hoskin & Harcourt LLP
Box 50, 1 First Canadian Place
100 King Street West
Toronto, ON M5X 1B8

Attention: Tracy C. Sandler
Email: tsandler@osler.com

Alvarez & Marsal Canada Inc.
Box 22, Royal Bank Plaza, South Tower
200 Bay Street, Suite 2900
Toronto, ON M5J 2J1

Attention: Alan J. Hutchens
Email: ahutchens@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>. In addition to the Monitor's report dated November 27, 2015 in connection with the Meeting Order, the Monitor will be filing a report on the Plan that will be posted to the Monitor's website on or around January 7, 2016.

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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