

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS  
ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS  
AMENDED AND IN THE MATTER OF A PLAN OF  
COMPROMISE OR ARRANGEMENT OF TARGET  
CANADA CO., TARGET CANADA HEALTH CO.,  
TARGET CANADA MOBILE GP CO., TARGET  
CANADA PHARMACY (BC) CORP., TARGET  
CANADA PHARMACY (ONTARIO) CORP., TARGET  
CANADA PHARMACY CORP., TARGET CANADA  
PHARMACY (SK) CORP., AND TARGET CANADA  
PROPERTY LLC**

**SUPPLEMENTAL REPORT TO THE TWENTY-SEVENTH REPORT  
OF THE MONITOR  
ALVAREZ & MARSAL CANADA INC.**

**MAY 24, 2016**

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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, Alvarez & Marsal Canada Inc. (“**A&M**”) was appointed Monitor of the Target Canada Entities in the CCAA proceedings (the “**Monitor**”). The proceedings commenced by the Applicants under the CCAA are referred to herein as the “**CCAA Proceedings**”.
- 1.2 On February 11, 2015, this Court issued the “**Amended and Restated Initial Order**” (hereinafter, unless the context otherwise requires, the “**Initial Order**”), which incorporates certain changes to the Initial Order granted January 15, 2015 that were described in the Second Report of the Monitor dated February 9, 2015.
- 1.3 In connection with the CCAA Proceedings, the Monitor has provided to this Court twenty-seven reports and two supplementary reports (collectively, the “**Monitor’s Reports**”). A&M has also provided to this Court the Pre-Filing Report of the Proposed Monitor (the “**Pre-Filing Report**”) dated January 14, 2015 (together with the Monitor’s Reports, the “**Prior Reports**”). The Prior Reports, the 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](http://www.alvarezandmarsal.com/targetcanada).

1.4 The purpose of this Supplemental Report to the Twenty-Seventh Report of the Monitor (the “**Supplemental Twenty-Seventh Report**”) is to provide this Court and stakeholders, prior to the Creditors’ Meeting to be held on May 25, 2016, with an update on the status of the Government Claims, in particular Canada Revenue Agency (“**CRA**”) Claims, and tax considerations.

## **2.0 TERMS OF REFERENCE AND DISCLAIMER**

2.1 In preparing this Supplemental Twenty-Seventh 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**”).

2.2 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.

2.3 This Supplemental Twenty-Seventh Report should be read in conjunction with Twenty-Seventh Report of the Monitor.

2.4 Unless otherwise indicated, capitalized terms not otherwise defined in this Supplemental Twenty-Seventh Report are as defined in the Prior Reports and the Initial Order, as applicable.

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

### 3.0 INFORMATION REGARDING GOVERNMENT CLAIMS FILED IN THE CLAIMS PROCESS

#### Background – Twenty-Fourth Report

3.1 A summary and status of the Claims filed by CRA and other government taxation agencies was provided in the Twenty-Fourth Report. The chart below has been updated from the version included in the Twenty-Fourth Report. As at the date of this Supplemental Twenty-Seventh Report, a summary of the Claims is as follows:

#### GOVERNMENT CLAIMS

| Canada Revenue Agency ("CRA") and Other Taxation Agencies |                |                |                                  |                                     |                            |
|---|----------------|----------------|----------------------------------|-------------------------------------|----------------------------|
| Claim Ref. No.  | Filed Amount   | NRDA Stage     | NOD Stage                        | Entity Against Which Claim is Filed |                            |
| <b>Income/Withholding Taxes</b>                           |                |                |                                  |                                     |                            |
| 1. 1624 (RC001)   | Unknown*       | \$0            |                                  | Unknown**                           | Target Canada Co.          |
| 2. 1625 (RP001)   | \$543.89*      | \$543.89       |                                  | Unknown**                           | Target Canada Co.          |
| 3. 1626 (RP0002)  | \$1769.14*     | \$1,769.14     |                                  | Unknown**                           | Target Canada Co.          |
| 4. 1627 (RP0003)  | \$101.87*      | \$101.87       |                                  | Unknown**                           | Target Canada Co.          |
| 5. 1628 (RP0004)  | \$1984.82*     | \$1,984.82     |                                  | Unknown**                           | Target Canada Co.          |
| 6. 1631 (RC0001)  | Unknown*       | \$0            |                                  | Unknown**                           | Target Canada Property LLC |
| <b>Other Taxes</b>  |                |                |                                  |                                     |                            |
| 7. 186 Manitoba   | \$6,783.83     | Allowed        |                                  | N/A                                 | Target Canada Co.          |
| 8. 1266 Quebec  | \$4,956,042.45 | \$3,209,903.09 |                                  | Allowed                             | Target Canada Co.          |
| 9. 1365 British Columbia                                  | \$2,858,967.92 | \$180,497.16   |                                  | Allowed                             | Target Canada Co.          |
| 10. 1612 CRA/HST  | Unknown*       | \$0            |                                  | Unknown**                           | Target Canada Co.          |
| 11. 1630 CRA/HST  | Unknown*       | \$0            |                                  | Unknown**                           | Target Canada Property LP  |
| 12. 1629 (RT0001)   | Unknown*       | \$0            | No NOD filed (Deemed Disallowed) |                                     | Target Canada Property LLC |
| 13. 1535 Minister of National Revenue                     | \$148,529.61   | Allowed        |                                  | N/A                                 | Target Canada Co.          |

Notes:

\* The Proof of Claim indicated the amount was also "subject to Audit review of assessed amounts".

\*\* Under the caption "Reason for Dispute" in the respective NOD, the CRA stated that "this claim cannot yet be quantified as information is still pending from Target Canada Entities".

3.2 Please refer to the Twenty-Fourth Report for an overview of the CRA “marker” claims and other Government Claims filed. As described in the Twenty-Fourth Report, as well as the Monitor’s Twenty-Sixth Report dated April 7, 2016, the Target Canada Entities and their legal counsel and the Monitor and its legal counsel, and representatives of the CRA and the Department of Justice Canada on behalf of the CRA, continued to work diligently and cooperatively (both with each other and with TCC’s affiliates as part of the Shared Services) to obtain and provide the CRA with information to satisfy outstanding information requests and assist with the quantification of the marker claims.

**Background – Twenty-Seventh Report**

3.3 As described in the Twenty-Seventh Report (dated May 11, 2016):

- (i) as part of the ongoing information exchange and discussions with CRA, the Monitor sought guidance from the CRA on the possible maximum amount of their marker claims given the anticipated timing of the Twenty-Seventh Report, the Creditors’ Meeting and Sanction Motion, and to facilitate implementation of the Amended Plan, including distributions to Affected Creditors thereunder;
- (ii) on May 6, 2016, CRA sent letters to the Target Canada Entities: (a) providing a maximum amount of their marker claims, subject to CRA’s assessment of the 2015 tax returns to be filed by the Target Canada Entities; and (b) indicating that certain additional information was to be provided to CRA to assist in CRA’s assessment; and

- (iii) the Monitor had been advised by counsel to the Target Canada Entities that it expects that the actual amount of CRA's claims will be significantly reduced from the maximum amounts CRA provided in its letters.

### **Update**

- 3.4 Following the issuance of the Twenty-Seventh Report, the Monitor and the Target Canada Entities continued discussions with the CRA and Department of Justice and further information was exchanged, including provision of a draft 2015 tax return for one of the Target Canada Entities.
- 3.5 On May 20, 2016, CRA sent further letters to the Target Canada Entities to summarize and describe proposed adjustments to certain of the Target Canada Entities' corporate income tax returns that have been filed since 2012 (2012 being the first year that the Target Canada Entities were required to file tax returns in Canada) and additional proposed assessments resulting from CRA's audits of those years. On May 24, 2016, CRA also provided its preliminary views on certain aspects of the draft 2015 tax return. CRA has not yet issued revised Proofs of Claim<sup>1</sup> with respect to the income tax returns filed since 2012<sup>2</sup> and has not yet received and reviewed final (not draft) 2015 and 2016 tax returns of the applicable Target Canada Entities. However, the Target Canada Entities and the Monitor, in consultation with their respective legal and tax advisors, are

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<sup>1</sup> Based on the guidance provided, it is understood that CRA will release TCC from specific derivative liabilities it may have had in respect of tax of affiliates that are not Target Canada Entities when the applicable taxes are paid or acceptable security is posted by or on behalf of the affiliates. Target Corporation has indicated to the Target Canada Entities and the Monitor that it will pay, cause to be paid, post security or cause security to be posted in respect of these specific derivative liabilities.


<sup>2</sup> Certain Notices of Assessment have been issued in relation to specific withholding tax matters.




of the view that the guidance provided in the most recent CRA letters and correspondence (based on current information), indicates that CRA's claims will not have a materially negative impact on the Illustrative Recoveries Analysis included in the Twenty-Seventh Report.

All of which is respectfully submitted to this Court this 24<sup>th</sup> day of May, 2016.

**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”**

### **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

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

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

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Proceeding commenced at Toronto

**SUPPLEMENTAL REPORT TO THE  
TWENTY-SEVENTH REPORT OF THE  
MONITOR**

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