

**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-THIRD REPORT
OF THE MONITOR ALVAREZ & MARSAL CANADA INC.**

DECEMBER 30, 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, 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-three reports and one supplementary report (the “**Supplementary Report**”, and 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.

- 1.4 On June 11, 2015, this Court granted the Claims Procedure Order (as amended, the “**Claims Procedure Order**”) with respect to the filing and determination of claims against the Target Canada Entities and their directors and officers, which provided for a general claims bar date of August 31, 2015.
- 1.5 On November 27, 2015, the Applicants served their motion for an Order, among other things, accepting the filing of the Joint Plan of Compromise and Arrangement in respect of the Target Canada Entities dated November 27, 2015 (the “**Plan**”) and authorizing the Target Canada Entities to call, hold and conduct a meeting of the Affected Creditors to vote on the Plan (the “**Meeting Order Motion**”).
- 1.6 The Court heard the Meeting Order Motion on December 21 and 22, 2015. The Court reserved its decision on the Meeting Order Motion and directed: (a) that the status quo be maintained with respect to landlord claims while the decision is pending; and (b) the Monitor to prepare a supplemental report providing additional general information regarding claims filed by and on behalf of landlords in the Claims Process, as well as additional aggregate information relating to claims filed by RioCan Holdings Inc. and its affiliates and subsidiaries (collectively, “**RioCan**”)¹ in respect of leases disclaimed by TCC and guaranteed by Target Corporation, which disclaimed leases were the subject of a settlement agreement (the “**RioCan Settlement**”) between RioCan and Target Corporation (the “**Guaranteed RioCan Disclaimed Leases**”) as disclosed in the press release RioCan issued on November 23, 2015 (the “**RioCan Press Release**”).

¹ Claims were filed by RioCan Holdings Inc., RK (Burlington Mall) Inc., RioKim Holdings (PEI) Inc., RioKim Holdings (Quebec II) Inc., 151516 Canada Inc., RioCan Holdings (Five Points) Inc., RioCan PS Inc., RioKim Holdings (Ontario II) Inc., RioCan Holdings Inc. & Canada Mortgage and Housing Co., Mill Woods Centre Inc., 2076031 Ontario Limited, 1388688 Ontario Limited, RioTrin Properties (Brampton) Inc., RioTrin Properties (Weston) Inc. and 2176905 Ontario Limited.

1.7 On December 24, 2015, the Monitor was advised by Target Corporation that certain affiliates and subsidiaries of the Bentall Kennedy Group (collectively, “**Bentall Kennedy**”) entered into a settlement agreement on such date with Target Corporation in respect of eight leases disclaimed by TCC (the “**Bentall Settlement**”). The Monitor was provided with a copy of the Bentall Settlement on a confidential basis; however, according to its terms, the Monitor may disclose certain information as set out below (the “**Bentall Settlement Information**”).

1.8 The purpose of this Supplemental Report to the Twenty-Third Report of the Monitor (the “**Supplemental Twenty-Third Report**”) is to provide this Court and stakeholders with:

- (i) general information regarding landlord claims in the Claims Process;
- (ii) information relating to the aggregate quantum of claims filed by RioCan in respect of the Guaranteed RioCan Disclaimed Leases and the aggregate quantum allowed in respect of such RioCan claims in the Claims Process; and
- (iii) the Bentall Settlement Information.

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this Supplemental Twenty-Third 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-Third Report should be read in conjunction with Twenty-Third report of the Monitor and the Affidavit of Mark J. Wong, General Counsel and Assistant Secretary of TCC in support of the Meeting Order, sworn on November 27, 2015 (the “**Wong Affidavit – Meeting Order**”).

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

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

3.0 INFORMATION REGARDING LANDLORD CLAIMS FILED IN THE CLAIMS PROCESS

3.1 As the Monitor has indicated to stakeholders and this Court, and as discussed with the Consultative Committee, confidentiality of claims has been a matter of critical importance throughout the CCAA process, with landlords being particularly sensitive to

this given confidential and commercially sensitive information in their claims relating to properties, rents and financial position. In addition, creditors filed claims with the Monitor on the basis that they would be kept confidential. Paragraph 30 of the Claims Procedure Order provides a limited exception to the confidentiality of claims within the Claims Process, whereby the Monitor is to consult with the Consultative Committee regarding claims the Monitor proposes to allow in excess of \$5 million. In accordance with this provision of the Claims Procedure Order and subject to the confidentiality provisions in the Consultative Committee Protocol approved by this Court on November 18, 2015, the Monitor convened a meeting of the Consultative Committee on December 14, 2015 and December 18, 2015 to discuss claims proposed to be allowed in excess of \$5 million.

- 3.2 The Monitor has been very careful throughout these CCAA Proceedings to respect and maintain the confidentiality of claims. Accordingly, the Court has directed and the information below is necessarily provided on a general and aggregate basis to preserve and maintain such confidentiality.

Landlord Claims Generally

- 3.3 As set out in the Monitor's Twenty-Third Report, 102 landlord claims were filed with the Monitor in accordance with the Claims Procedure Order claiming an aggregate amount of \$1,920,356,107.² There were 78 claims filed in respect of disclaimed leases totalling \$1,808,766,570, one contingent claim filed in respect of a disclaimed lease in the amount

² All amounts converted to CAD using the exchange rate described in the Claims Procedure Order (\$1.1932 CAD/\$1.00 USD).

of \$5,646,937 and 23 claims filed in respect of assigned leases totalling \$105,942,600.³

A summary of the claims filed in respect of disclaimed leases is provided below:

Disclaimed Leases	# of Locations	Pre-Filing Arrears	Restructuring (Gross Rent)	Redemising Costs/ Contingent/ Other	Total Claims Filed
With Parent Guarantees ("PGs")*	54	\$9,699,273	\$606,065,420	\$731,979,891	\$1,347,744,584
W/O PGs (incl. offices and warehouses)	35	797,451	301,269,176	158,955,359	461,021,986
Total	89	\$10,496,724	\$907,334,596	\$890,935,250	\$1,808,766,570

*Includes 18 Guaranteed RioCan Disclaimed Leases and nine HBC Indemnity Leases

3.4 In assessing amounts to be allowed in respect of landlord claims, the Monitor treated landlord claims consistently depending on the nature of the Proof of Claim received:

- (i) All Proofs of Claim relating to leases that had been assigned during the Real Property Portfolio Sales Process and were filed on a contingent basis (relating to a speculative future default of the assignee) were uniformly disallowed by the Monitor on the basis that such claims remained contingent.
- (ii) With respect to Proofs of Claim filed in respect of leases disclaimed by TCC in these CCAA Proceedings, the Monitor treated all Landlord Period Restructuring Claims the same⁴ by applying the Landlord Formula Amount to determine the respective Landlord Restructuring Period Claim in each case. All Notices of Revision or Disallowance issued by the Monitor contained near identical language. Notices of Revision or Disallowance issued by the Monitor regarding

³ There were 23 claims with respect to leases assigned by Target to Wal-Mart Canada Corp., Lowe's Companies Canada, ULC and/or Canadian Tire Real Estate Limited (each an "Assignee"). These claims are contingent on an Assignee default. In certain cases the landlords chose to file a marker claim for \$1 with respect to these claims and in other cases landlords filed the claim for the full amount of the remaining gross rent under the lease.

⁴ Other than one disclaimed lease where Target Canada Property LP ("Prop LP") had a contractual obligation, and valid claims against Prop LP are not to be compromised pursuant to the terms of the Plan.

Landlord Period Restructuring Claims also enclosed a schedule setting out the Monitor's calculation of the Landlord Formula Amount in respect of such claim. In addition, certain landlord claims also asserted amounts in respect of pre-filing arrears. These amounts were allowed or partially allowed to the extent reflected in the books and records of TCC and agreed to/reconciled with landlords, and such pre-filing amounts were added to the Landlord Restructuring Period Claim amount to calculate the total allowed claim set out in the respective Notice of Revision or Disallowance.

Information Regarding Guaranteed RioCan Disclaimed Lease Claims

- 3.5 In accordance with this Court's direction, this section provides additional aggregate information regarding claims filed by RioCan with respect to the Guaranteed RioCan Disclaimed Leases.
- 3.6 RioCan filed Proofs of Claim in respect of 19 leases disclaimed by TCC, 18 of which were Guaranteed RioCan Disclaimed Leases.⁵ RioCan also filed contingent claims with respect to nine assigned leases, all of which were disallowed, consistent with the treatment of all assigned leases where claims were filed on a contingent basis, as set out above.
- 3.7 RioCan filed Proofs of Claim with respect to Guaranteed RioCan Disclaimed Leases in an aggregate amount of \$544,200,003.00. These claims were partially allowed by the Monitor in the aggregate amount of \$77,039,051.79, comprised of \$3,203,512.90 in

⁵ The remaining one property is not subject to a guarantee from Target Corporation but may result in a claim-over against Target Corporation.

respect of pre-filing amounts and \$73,835,538.89 in respect of Landlord Restructuring Period Claims calculated by applying the Landlord Formula Amount.

3.8 The RioCan Press Release indicates that the RioCan Settlement results in a net payment of \$132 million to RioCan,⁶ of which approximately \$92 million will be retained by RioCan, with the remainder to be distributed to various co-owners.

3.9 The Monitor further notes the following in respect of the RioCan Settlement and/or calculated RioCan Landlord Restructuring Period Claims:

- (i) the Monitor: (a) is not a party to the RioCan Settlement and was not involved in any discussions relating to the RioCan Settlement; (b) has requested a copy of the RioCan Settlement from Target Corporation but has not been provided with one due to the confidentiality provisions in the RioCan Settlement; and (c) other than the public disclosure, is not aware of the terms of the RioCan Settlement;⁷
- (ii) parties are cautioned about making any extrapolations or drawing any conclusions with respect to the above aggregate amounts and the settlement amount indicated in the RioCan Press Release as these would be speculative given, among other things, the Monitor does not know to what extent or how the settlement amount was allocated among the Guaranteed RioCan Disclaimed Leases and the Monitor is aware that there is one Guaranteed RioCan Disclaimed Lease that is a

⁶ Target Corporation has confirmed that the \$132 million figure is net of HST.

⁷ In addition to the statements made in the Wong Affidavit – Meeting Order, the Monitor is further advised by TCC that TCC: (a) is also not a party to the RioCan Settlement and was not involved in any discussions relating to the RioCan Settlement; (b) has requested a copy of the RioCan Settlement from Target Corporation but has not been provided with one due to confidentiality provisions in the RioCan Settlement; and (c) other than the public disclosure is not aware of the terms of the RioCan Settlement.

significant outlier relative to the rest of TCC's store lease portfolio that would make any comparative assessment of the RioCan Settlement potentially misleading, being the Stockyards property that: (a) was a new build at market rent, as compared to many of TCC's store properties and disclaimed store leases that were older properties and at rents significantly below current market rents; (b) had a gross leasable area of approximately 153,000 square feet and was the largest store property in TCC's lease portfolio (approximately 35% greater than the average of approximately 113,000 square feet across TCC's disclaimed store leases); and (c) had approximately 30 years remaining on the firm term of the lease, more than twice as long as the next longest term of any disclaimed store lease and approximately four times the average remaining term of TCC's disclaimed lease portfolio; and

- (iii) in respect of the Guaranteed RioCan Disclaimed Leases, the estimated gross rents remaining under the term of the store leases using the inputs to the Landlord Formula Amount⁸ is an aggregate amount of approximately \$257.1 million.⁹ As set out above, the application of the Landlord Formula Amount to the Guaranteed RioCan Disclaimed Leases resulted in an aggregate allowed Landlord Restructuring Period Claim in the amount of approximately \$73.8 million.

⁸ Not including any options to renew.

⁹ Fixed rent at the rate payable as at January 15, 2015, plus common area maintenance charges and realty taxes at the rates payable for the 2014 calendar year, plus GST/HST. The \$257.1 million amount referred to above does not take into consideration any increases that may be applicable in rents, common area maintenance charges, or realty taxes during the firm term of the leases.

Bentall Settlement Information

- 3.10 On December 24, 2015, the Monitor was advised by Target Corporation that it had entered into the Bentall Settlement in respect of eight leases disclaimed by TCC in these CCAA Proceedings, five of which are subject to guarantees from Target Corporation, and one subject to an HBC indemnity.
- 3.11 The terms of the Bentall Settlement provide that the settlement agreement may be provided to the Monitor on a confidential basis; however, in accordance with its terms, the Monitor may disclose that the settlement provides for upfront compensation by Target Corporation to Bentall Kennedy in an amount not greater than its potential distribution under the Plan or an amended Plan, and the assignment of all Bentall Kennedy claims to Target Corporation for distribution purposes under the Plan at a later date. However, the Bentall Settlement is not contingent upon the proposed Plan or any amended Plan being sanctioned. Target Corporation and HBC were released under the terms of the Bentall Settlement upon making the payment to Bentall Kennedy on December 24, 2015.
- 3.12 In effect, the Bentall Settlement provides for an upfront payment by Target Corporation to Bentall Kennedy equal to the amount Bentall Kennedy would receive under the Landlord Formula Amount and further provides that if the Plan formula amount is increased, Bentall Kennedy will receive the increased amount.¹⁰

Notices of Dispute With Respect to Claims under Disclaimed Leases

- 3.13 As set out above, the Court directed that the status quo be maintained with respect to landlord claims while its decision on the Meeting Order Motion is pending.


¹⁰ If the Plan formula amount is not subsequently increased, Bentall Kennedy will not receive such an increased payment.

3.14 Accordingly, the Monitor advised the Service List on December 23, 2015 that: (a) it was extending the date for the filing of Notices of Dispute of Revision or Disallowance with respect to landlord claims only pending the release of the Court's decision; and (b) all other creditors wanting to file Notices of Dispute of Revision or Disallowance are required to do so in the timeframe set out in the Claims Procedure Order.


3.15 To the extent necessary, the Monitor will provide further guidance as to the timing for filing of Notices of Dispute that are the subject of the above limited extension following the issuance of the Court's decision.

All of which is respectfully submitted to this Court this 30th day of December, 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”

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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SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

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

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