

**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

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

JANUARY 18, 2018

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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 thirty-seven reports and three 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.

1.4 As described in certain of the Prior Reports, and most recently in the Thirty-Fifth Report of the Monitor (the “**Thirty-Fifth Report**”, attached hereto as Appendix B (without appendices)):

- (a) on June 2, 2016, the Court granted the Sanction and Vesting Order, which among other things, ordered and/or declared that the Second Amended and Restated Joint Plan of Compromise and Arrangement dated May 19, 2016 (the “**Second Amended Plan**” or the “**Plan**”) was sanctioned and approved pursuant to Section 6 of the CCAA. A copy of the Second Amended Plan is available on the Monitor’s website;
- (b) on June 28, 2016 (the “**Plan Implementation Date**”), the Monitor received written notice from the Target Canada Entities and the Plan Sponsor that the conditions precedent to implementation of the Second Amended Plan as set out in section 8.3 thereof had been fulfilled or waived. As such, in accordance with the Second Amended Plan and the Sanction and Vesting Order, the Monitor: (i) delivered the Monitor’s Plan Implementation Date Certificate to the Target Canada Entities; (ii) filed the Monitor’s Plan Implementation Date Certificate with the Court; and (iii) posted a copy of same to the Monitor’s website. The Monitor also provided a copy to the Service List;
- (c) in accordance with the Second Amended Plan and the Sanction and Vesting Order, on the Plan Implementation Date: (i) TCC and PropCo funded, in trust, approximately \$793.0 million and \$77.0 million, respectively, into several “cash pool” and “reserve accounts”; (ii) Target Corporation, as Plan Sponsor, funded, in trust, approximately \$25.5 million into the Landlord Guarantee Enhancement

Cash Pool Account and \$7.5 million into the Landlord Non-Guarantee Creditor Equalization Cash Pool Account; and (iii) \$34.1 million was transferred from PropCo to the Landlord Guarantee Enhancement Cash Pool Account;

- (d) on June 29 and 30, 2016, TCC issued cheques and wire payments totalling approximately \$672.5 million to Unaffected Creditors, Affected Creditors with Proven Claims, and Landlord Entities entitled to distributions from the Landlord Guarantee Enhancement Cash Pool Account and the Landlord Non-Guarantee Creditor Equalization Cash Pool Account (collectively, the “**Initial Distributions**”). The Initial Distributions to Affected Creditors represented interim distributions of approximately 55.34% of such Affected Creditors’ Proven Claims. Subsequent interim distributions totaling approximately \$830,000 were also made prior to September 30, 2016 to five claimants whose Claims were resolved in accordance with the Claims Procedure Order subsequent to the Plan Implementation Date; and
- (e) on or about October 18, 2016, TCC issued cheques and wire payments totalling approximately \$87.5 million to Affected Creditors with Proven Claims (the “**Second Interim Distributions**”) and Target Canada Property LLC issued a payment of approximately \$3.0 million to the Plan Sponsor.¹ The Second Interim Distributions represented further distributions of 12.65% of such Affected Creditors’ Proven Claims, and when combined with the Initial Distributions, equate to aggregate interim distributions to Affected Creditors to date of approximately 67.99% of such Affected Creditors’ Proven Claims.

¹ This payment was made in accordance with section 5.6(b)(ii) of the Plan, and is in respect of the Plan Sponsor’s pro-rata share of proceeds relating to the Plan Sponsor Recovery Limit Reserve.

1.5 The purpose of this Thirty-Eighth Report of the Monitor (the “**Thirty-Eighth Report**”) is to provide this Court and stakeholders with information regarding the following:

- (a) an update on the cash balances held in the “cash pool” and “reserve” accounts that were established in accordance with the Second Amended Plan and the third interim distribution that was made to creditors in mid-October, 2017;
- (b) the current status of the Claims Process; and
- (c) the Applicants’ motion for an order substantially in the form attached to the Applicants’ Motion Record dated January 18, 2018 seeking an order extending the Stay Period to May 15, 2018 (the “**Stay Extension Order**”).

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this Thirty-Eighth 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 Unless otherwise indicated, capitalized terms not otherwise defined in this Thirty-Eighth Report are as defined in the Prior Reports, the Second Amended Plan and the Initial Order.

2.4 Unless otherwise stated, all monetary amounts contained in this Thirty-Eighth Report are expressed in Canadian dollars.

3.0 UPDATE ON THE “CASH POOL” AND “RESERVE” ACCOUNTS

3.1 On or about October 10, 2017, TCC issued cheques and wire payments totalling approximately \$64.1 million to Affected Creditors with Proven Claims (the “**Third Interim Distributions**”) and Target Canada Property LLC issued a payment of approximately \$2.1 million to the Plan Sponsor.² The Third Interim Distributions represented further distributions of 9.05% of such Affected Creditors’ Proven Claims, and when combined with the Initial Distributions and the Second Interim Distributions, equate to aggregate interim distributions to Affected Creditors to-date of approximately 77.04% of such Affected Creditors’ Proven Claims. The various “cash pool” and “reserve” accounts as at the Plan Implementation Date, and after the Initial Distributions, Second Interim Distributions, Third Interim Distributions and other administrative disbursements, are summarized below (with the “August 19, 2017” column being the balances as at the date of the Thirty-Fifth Report):

² This payment was made in accordance with section 5.6(b)(ii) of the Plan, and is in respect of the Plan Sponsor’s pro-rata share of proceeds relating to the Plan Sponsor Recovery Limit Reserve.

(\$ in 000's CAD)	Balance on PID	Initial Distribution	Receipts/ Subsequent Distributions/ Administrative Disbursements	Balance September 15, 2016	Transfers Prior to		Receipts/ Subsequent/ Distributions/ Administrative Disbursements	Balance January 16, 2017
					Second Interim Distribution	Second Interim Distribution		
Target Canada Co.								
TCC Cash Pool Account	441,220	(441,039)	700	881	88,056	(87,469)	42,759	44,227
TCC Disputed Claims Reserve Account	197,907	-	(828)	197,079	(88,056)	-	(61,741)	47,283
Administrative Reserve Account [1]	12,900	(177)	(1,869)	10,854	-	-	(2,636)	8,218
Landlord Guarantee Creditor Base Claim Cash Pool Account	140,745	(140,745)	-	-	-	-	-	-
Landlord Guarantee Enhancement Cash Pool Account	59,532	(59,532)	-	-	-	-	-	-
Landlord Non-Guarantee Creditor Equalization Cash Pool Account	7,521	(7,521)	-	-	-	-	-	-
Target Canada Co. Balance	859,825	(649,013)	(1,996)	208,815	-	(87,469)	(21,618)	99,728
Target Canada Property LLC								
PropCo Cash Pool Account	10,548	(10,533)	-	15	-	-	-	15
PropCo Disputed Claims Reserve Account	8,895	-	-	8,895	-	-	-	8,895
Plan Sponsor Recovery Limit Reserve Account	23,427	(12,966)	-	10,461	-	(2,964)	-	7,498
Target Canada Property LLC Balance	42,870	(23,499)	-	19,371	-	(2,964)	-	16,408
TOTAL	902,695	(672,512)	(1,996)	228,186	-	(90,433)	(21,618)	116,136

(\$ in 000's CAD)	Balance January 16, 2017	Receipts/ Subsequent Distributions/ Administrative Disbursements	Balance April 12, 2017	Receipts/ Subsequent Distributions/ Administrative Disbursements	Balance August 19, 2017	Transfers Prior to Third Interim Distribution		Receipts/ Subsequent Distributions/ Administrative Disbursements	Balance January 8, 2018
						Third Interim Distribution			
Target Canada Co.									
TCC Cash Pool Account	44,227	2,664	46,891	16,508	63,399	1,500	(64,091)	2,030	2,838
TCC Disputed Claims Reserve Account	47,283	(35)	47,248	(10,420)	36,827	(1,500)	-	(4,995)	30,332
Administrative Reserve Account [1]	8,218	(1,287)	6,931	(1,173)	5,758	-	-	(1,230)	4,528
Landlord Guarantee Creditor Base Claim Cash Pool Account	-	-	-	-	-	-	-	-	-
Landlord Guarantee Enhancement Cash Pool Account	-	-	-	-	-	-	-	-	-
Landlord Non-Guarantee Creditor Equalization Cash Pool Account	-	-	-	-	-	-	-	-	-
Target Canada Co. Balance	99,728	1,342	101,070	4,915	105,984	-	(64,091)	(4,194)	37,699
Target Canada Property LLC									
PropCo Cash Pool Account	15	-	15	-	15	-	-	-	15
PropCo Disputed Claims Reserve Account	8,895	-	8,895	-	8,895	-	-	-	8,895
Plan Sponsor Recovery Limit Reserve Account	7,498	-	7,498	-	7,498	-	(2,120)	-	5,378
Target Canada Property LLC Balance	16,408	-	16,408	-	16,408	-	(2,120)	-	14,288
TOTAL	116,136	1,342	117,478	4,915	122,393	-	(66,211)	(4,194)	51,987

Notes:

[1] The Administrative Reserve Account balance includes approximately \$798,000 related to the 10% holdback on Pharmacy Claims.

3.2 The changes to the above table relative to the similar table included in the Thirty-Fifth Report are:

- (a) TCC Cash Pool Account: The cash balance decreased by approximately \$60.6 million due primarily to TCC issuing the Third Interim Distributions in the amount of \$64.1 million. The decrease was partially offset by increases to the account for: (i) the resolution and payment of distributions of approximately \$1.7 million of previously Disputed Claims and the corresponding transfer in of approximately \$3.2 million from the TCC Disputed Claims Reserve Account to the TCC Cash Pool Account (representing the excess of amounts reserved for previously Unresolved Claims relative to the amount at which such Claims were

ultimately resolved); and (ii) the receipt of approximately \$400,000 in miscellaneous refunds.

- (b) TCC Disputed Claims Reserve Account: The cash balance decreased by approximately \$6.5 million related to: (i) the resolution and payment of distributions of approximately \$1.7 million on previously Disputed Claims (claimants with subsequently resolved Claims have received their Initial, Second and Third Interim Distributions totalling approximately 77.04%, with the balance being transferred to the TCC Cash Pool Account); (ii) the corresponding transfer out of approximately \$3.2 million to the TTC Cash Pool Account; and (iii) in accordance with the Fee Motion Order described below, a payment of approximately \$926,000 to Strosberg Sasso Sutts LLP, in its capacity as Court-appointed representative counsel for pharmacist franchisees (“**Pharmacist Representative Counsel**”), in connection with TCC’s agreed contribution for fees, disbursements and taxes incurred by pharmacist franchisees represented by Pharmacist Representative Counsel.³
- (c) Administrative Reserve Account: The cash balance decreased by approximately \$1.2 million related primarily to administrative disbursements of \$1.4 million for professional fees and Shared Services. This decrease was partially offset by a \$200,000 transfer into the account in connection with a 10% holdback in respect of fees of Pharmacist Representative Counsel that was withheld from certain pharmacy claimants on the issuance of their Third Interim Distributions.

³ Referred to as the “TCC Contribution” in the Monitor’s Thirty-Seventh Report dated September 27, 2017 relating to the Fee Motion.

3.3 The Monitor has prepared an updated illustrative range of estimated recoveries under the Second Amended Plan, which is summarized in the table below and is based on information available as at January 8, 2018 (the “**Illustrative Recoveries Analysis**”). The Illustrative Recoveries Analysis has been prepared based on the terms of the Second Amended Plan and the current status of Claims filed in the Claims Process. The Monitor cautions that the Illustrative Recoveries Analysis may change (which change could be material) as: (a) Unresolved Claims continue to be reviewed and assessed, including “marker claims” that have been filed for unliquidated or unknown amounts; and (b) the Claims Process continues to advance, including the resolution of Disputed Claims, in accordance with the Claims Procedure Order.

	Illustrative Scenario #1 - LOW	Illustrative Scenario #2 - HIGH
(\$ in 000's CAD)		
PROPCO		
ESTIMATED CASH AVAILABLE FOR DISTRIBUTION		
Propco Cash	\$ 76,950	\$ 76,950
PROCEEDS AVAILABLE FOR DISTRIBUTION	<u>76,950</u>	<u>76,950</u>
CLAIMS FILED AGAINST PROPCO/PROPERTY LP		
Total Third Party Claims Against Propco and Property LP	13,112	10,533
PropCo Intercompany Claims (recontributed into Landlord Guarantee Settlement Amount)	34,081	34,081
Estimated Payments under Plan Sponsor Propco Recovery Reserve Limit	19,405	19,625
ESTIMATED NET PROCEEDS AVAILABLE FOR TCC AFTER DISTRIBUTIONS	<u>10,352</u>	<u>12,712</u>
TARGET CANADA CO		
ESTIMATED CASH AVAILABLE FOR DISTRIBUTION		
Target Canada Co. Cash	780,000	783,500
CRA and RQ Tax Refunds Received	9,182	9,182
Other Receipts	466	466
Propco Cash (from above)	10,352	12,712
ESTIMATED PROCEEDS AVAILABLE FOR DISTRIBUTION	<u>800,000</u>	<u>805,860</u>
ESTIMATED SECURED, UNAFFECTED AND CONVENIENCE CLASS CREDITORS		
Secured Claims and Unaffected Creditor Claims	60,242	60,242
Convenience Class Claims - < \$25,000	5,993	5,993
Convenience Class Opt-In - Claim Value < \$35,000	1,550	1,550
TOTAL ESTIMATED SECURED, UNAFFECTED AND CONVENIENCE CLASS CREDITOR CLAIMS	<u>67,785</u>	<u>67,785</u>
ESTIMATED NET PROCEEDS AVAILABLE FOR DISTRIBUTION AFTER SECURED, UNAFFECTED AND CONVENIENCE CLASS CLAIMS	<u>732,215</u>	<u>738,075</u>
LANDLORD GUARANTEE CREDITOR SETTLEMENT AMOUNTS		
Landlord Guarantee Creditor Base Claim Amounts (Pre-filing and Restructuring)	140,745	140,745
Landlord Guarantee Enhancement Amounts	59,532	59,532
Total Distribution to Landlord Guarantee Creditors	200,276	200,276
Less:		
Plan Sponsor Contribution to the Landlord Guarantee Enhancement Cash Pool	(25,451)	(25,451)
Plan Sponsor Contribution from the PropCo Intercompany Claims (from above)	(34,081)	(34,081)
NET DISTRIBUTION TO LANDLORD GUARANTEE CREDITORS AFTER PLAN SPONSOR CONTRIBUTIONS	<u>140,745</u>	<u>140,745</u>
ESTIMATED NET PROCEEDS AVAILABLE FOR DISTRIBUTION AFTER SECURED, UNAFFECTED, CONVENIENCE CLASS AND LANDLORD GUARANTEE CREDITOR CLAIMS	(A) <u>591,471</u>	<u>597,330</u>
ESTIMATED ALLOWABLE CLAIMS		
Landlord Non-Guarantee Creditor Claim Amounts (Pre-Filing, Restructuring and Other)	190,035	190,035
Other Affected Creditor Claims	415,583	414,583
Total Affected Creditor Claims	605,618	604,618
Total Intercompany Claims	108,464	108,464
ESTIMATED ALLOWABLE TOTAL CLAIMS EXCLUDING SECURED, UNAFFECTED, CONVENIENCE CLASS AND LANDLORD GUARANTEE CREDITOR CLAIMS	(B) <u>714,082</u>	<u>713,082</u>
RECOVERY % (A/B)	82.8%	83.8%

3.4 Based on the Illustrative Recoveries Analysis (and subject to the important qualifications noted in paragraph 3.3 above), the Monitor now estimates that Affected Creditors with Proven Claims will ultimately receive aggregate distributions under the Second Amended

Plan in the range of approximately 82.8% to 83.8%⁴ of such Affected Creditors' Proven Claims.

4.0 CLAIMS PROCESS UPDATE

4.1 The Monitor has provided an update on the status of the Claims Process in a number of the Prior Reports, including most recently in the Thirty-Fifth Report.

Status of Claims Review and Assessment

4.2 As at January 9, 2018, 1,758 Claims have been filed with the Monitor, totalling approximately \$2.6 billion, excluding Intercompany Claims and withdrawn claims, and including those claims filed with the Monitor in connection with the Late Claims Motion and subsequent to the Late Claims Order (as described and defined below). As summarized in the tables below:⁵

- (a) 1,748 Claims have been reviewed, reconciled, resolved and allowed (or deemed allowed or disallowed as the case may be), as the time for a Claimant to respond to a Notice of Revision or Disallowance (“**NRDA**”) issued by the Monitor has expired) (collectively, the “**Resolved Claims**”); and
- (b) 10 Claims are subject to a Notice of Dispute (“**NOD**”) where a NOD has been received by the Monitor from the Claimant in response to a NRDA issued by the Monitor, which NOD is under review by the Monitor or remains unresolved (the

⁴ Reflecting the Court’s direction to accept the Bell Amended Claims for review and consideration and the full and final amount of the Amended Claims as referenced in paragraph 4.11 below.

⁵ The tables include late-filed claims that were the subject of the Late Claims Motion and those that have been permitted by the Court to be filed with the Monitor subsequent to the Late Claims Order.

“**NOD Stage**”), including one pharmacist franchisee claim (collectively, the “**Unresolved Claims**”).

- 4.3 In connection with the Monitor’s November 2016 motion for advice and directions regarding late claims (the “**Late Claims Motion**”), on March 1, 2017, the Court issued an order, among other things: (i) permitting certain identified late claims to be filed with the Monitor; and (ii) establishing the procedure for the filing of claims at this stage in the proceedings (the “**Late Claims Order**”). In accordance with the Late Claims Order, five claimants identified therein as the “Identified Claimants” were permitted to file proofs of claim for determination in the Claims Process. Two additional claimants were instructed to submit additional evidence to the Court for a determination as to whether their claims are to be permitted to be filed with the Monitor.
- 4.4 Since the issuance of the Late Claims Order, additional evidence was submitted by one of the two identified claimants, and three new late claimants seeking to file claims each provided an evidentiary record to the Monitor for consideration by the Court. After considering each respective claimants’ evidence submitted in accordance with the Late Claims Order, by endorsement dated April 12, 2017, the Court permitted these additional late claimants to file claims for determination in the Claims Process.
- 4.5 As at January 9, 2018, a summary of the Resolved Claims and Unresolved Claims is as follows:

RESOLVED CLAIMS

Category	Filed Amount		Allowed			Deemed Disallowed			Total	
	#	\$	#	Filed	Allowed	#	Filed	Allowed	#	\$
				\$	\$		\$	\$		
Landlord	(a) 96	1,855,279,112	86	1,855,279,100	338,293,548	10	12	-	96	338,293,548
Vendor	1420	549,434,363	1395	545,660,366	449,683,061	25	3,773,997	-	1,420	449,683,061
Pharmacist	94	155,559,889	94	155,559,889	26,251,889	-	-	-	94	26,251,889
Government	5	7,922,787	4	7,922,786	7,870,409	1	1	-	5	7,870,409
Litigation	69	9,835,332	59	8,755,267	617,333	10	1,080,066	-	69	617,333
Employee	62	869,677	18	536,484	381,286	44	333,193	-	62	381,286
Other	2	2	-	-	-	2	2	-	2	-
Total	1748	2,578,901,163	1656	2,573,713,892	823,097,526 (b)	92	5,187,271	-	1,748	823,097,526

UNRESOLVED CLAIMS

Category	Filed Amount		Monitor Review		NRDA Stage			NOD Stage			
	#	\$	#	Filed	#	Filed	Allowed	#	Filed	Allowed	NOD
				\$		\$	\$		\$	\$	\$
Landlord	-	-	-	-	-	-	-	-	-	-	-
Vendor	-	-	-	-	-	-	-	-	-	-	-
Pharmacist	1	4,374,229	-	-	-	-	-	1	4,374,229	173,878	4,374,229
Government	8	4,408	-	-	-	-	-	8	4,408	-	2,579,290
Litigation	-	-	-	-	-	-	-	-	-	-	-
Employee	1	1	-	-	-	-	-	1	1	-	1
Other	-	-	-	-	-	-	-	-	-	-	-
Total	10	4,378,638	-	-	-	-	-	10	4,378,638	173,878	6,953,520 (c)
Grand Total	1758	2,583,279,800									

Notes:

- (a) The Allowed amounts of Landlord Claims in the Resolved Claims table reflect the Claim amounts under the settlement agreements reached with Landlords.
- (b) Allowed amounts do not take into account reduced amounts for claimants who have elected into the Convenience Class.
- (c) Total NOD Amount is unknown as certain Claims cannot yet be quantified as information is still pending at this time.

4.6 In addition to the Claims set out above, 40 Claims totaling approximately \$61.4 million were filed and subsequently withdrawn by those Claimants.

4.7 The Monitor will continue to administer any further late claims in accordance with the Late Claims Order, including seeking evidence relating to late filing and obtaining the Court’s required determination on whether the late filed claim may be accepted to be filed in the Claims Process based on such evidence. The Monitor has not received any evidence in support of additional late claims since the date of the Thirty-Fifth Report.

Unresolved Claims

4.8 As at the date of this report, 10 NODs have been received from Claimants which remain unresolved, disputing an aggregate total of approximately \$7.0 million (plus “marker

claims” that have been filed for unliquidated or unspecified amounts), as compared to the total amount of approximately \$174,000 allowed by the Monitor in the corresponding NRDA. The significant remaining unresolved NODs relate to:

- (a) Government Claims: Information with respect to Government Claims was provided in certain Prior Reports, including the Twenty-Sixth and Twenty-Seventh Reports. At the time of the Thirty-Fifth Report, the Monitor, in consultation with the Target Canada Entities was in the process of reviewing eight revised NODs that had been filed by the Department of Justice Canada on behalf of the CRA on June 27, 2016. This process continues. None of the revised NODs is expected to have a significant impact on potential recoveries to Affected Creditors described in paragraph 3.3 above. The overall resolution of matters with CRA will also necessarily address any issues that may arise for periods after June 27, 2016, including from the Target Canada Entities’ 2016 and 2017 tax filings (for the financial year-end January 28, 2017 and February 3, 2018).

Since the time of the Thirty-Fifth Report, the Monitor and the Target Canada Entities have continued to engage in regular discussions with CRA representatives with a view to reaching a final resolution of all issues related to CRA’s claims, including any issues for periods after June 27, 2016. The CRA has advised that they have not concluded certain audits of the Target Canada Entities and are continuing their work in this regard.

- (b) Pharmacist Claims: An update on the status and procedural history of the claims of the former pharmacist franchisees has been provided in Prior Reports, including the Thirty-Fifth Report. At the time of Thirty-Fifth Report:
- (i) A litigation schedule for the claims appeal relating to the five remaining unresolved pharmacist franchisee claims (from the 93 claims filed by pharmacist franchisees) had been set, culminating in a February 23, 2017 appeal hearing before the Court.
 - (ii) On May 19, 2017, the Court issued an endorsement with its ruling on the appeal filed by the five unresolved pharmacist franchisee claimants. In the endorsement, the Court dismissed the appeals.
 - (iii) Subsequent to the ruling issued by the Court, the Monitor reassessed the Claims of the five remaining pharmacist franchisee claimants and issued revised NRDA's in respect of such Claims that were consistent with the principles underlying the Monitor's methodology for assessing the Pharmacist Franchisees' claims and were reflective of the rulings of the Claims Officer. Except for T Pharmacy, all remaining pharmacist franchisee claimants accepted their revised respective NRDA.
 - (iv) On July 27, 2017, the Monitor was notified that T Pharmacy had sold its claim to D. Daniel Dimovski, on behalf of Pharmacy Franchisee of Canada Association (PFAC) in the capacity of PFAC President (the "**T Pharmacy Claimant**"). Mr. Dimovski continues to self-represent the T Pharmacy claim and has not agreed to the Monitor's determination that was reflective of the rulings of the Claims Officer.

- (v) The Monitor was seeking the assistance of the Court to address matters relating to the T Pharmacy claim, the last remaining unresolved pharmacist franchisee claim (the “**Unresolved Pharmacist Franchisee Claim**” or the “**T Pharmacy Claim**”).

Since the date of the Thirty-Fifth Report:

- (vi) A hearing was held before the Court on October 11, 2017 relating to the Unresolved Pharmacist Franchisee Claim. On December 5, 2017, the Court issued an order and endorsement (the “**Unresolved Pharmacist Franchisee Order**”) declaring that the T Pharmacy Claim has been fully and finally resolved save for the amount to be deducted on account of mitigation efforts in accordance with Paragraph 78 of the Claims Officer’s October 25, 2016 Ruling (the “**Mitigation Amount**”). The Court directed that the Mitigation Amount be determined on an expedited basis and, should the T Pharmacy Claimant dispute the Monitor’s assessment of the Mitigation Amount as set out in the NRDA the Monitor issued on June 29, 2017, the T Pharmacy Claimant was to file full details of the basis of objection by January 15, 2018, with a hearing date to be scheduled thereafter. On January 15, 2018, the T Pharmacy Claimant filed their objection with the Monitor and on January 17, 2018, the T Pharmacy Claimant, the Monitor and counsel attended a scheduling call with the Court pursuant to which the hearing in respect of the Mitigation Amount has been scheduled for March 22, 2018.

- (vii) On December 27, 2017, the T Pharmacy Claimant provided the Monitor with a Notice of Motion of Leave to Appeal the Unresolved Pharmacist Franchisee Order to the Court of Appeal (the “**T Pharmacy Appeal**”). The Monitor understands that the T Pharmacy Claimant is in the process of filing the T Pharmacy Appeal with the Court of Appeal. A timeline has not yet been established with respect to such motion for leave to appeal.
- (viii) On September 27, 2017, the Thirty-Seventh Report of the Monitor (the “**Thirty-Seventh Report**”) was filed in connection with the motion brought by Pharmacist Representative Counsel for approval of its fees and disbursements (the “**Fee Motion**”) and in connection with the Endorsement of the Court dated September 13, 2017. The Fee Motion was heard on October 11, 2017 (adjourned from September 13, 2017).
- (ix) On December 5, 2017, the Court issued an order and endorsement with respect to the Fee Motion (the “**Fee Motion Order**”). The Court approved the fees, disbursements and taxes of Pharmacist Representative Counsel, and directed the Monitor to effect payment to Pharmacist Representative Counsel on the basis set out in the Fee Motion Order.
- (x) The Monitor completed a reconciliation of the fees, disbursements and taxes owing to Pharmacist Representative Counsel in accordance with the process described in the Thirty-Seventh Report and the Fee Motion Order. On December 12, 2017, payment was made by TCC to Pharmacist Representative Counsel.

- (xi) As previously indicated, on or about October 10, 2017, the Applicants made the Third Interim Distributions. Because of the timing of the hearing of the Fee Motion (heard October 11, 2017), a reserve was held back from the Third Interim Distributions to Pharmacist Franchisees pending a decision on the Fee Motion or, in the case of the Appeal Group, the Third Interim Distributions were not made as to do so would not allow a sufficient reserve regarding Pharmacist Representative Counsel's fees and disbursements.

- (xii) As described in the Thirty-Seventh Report, as soon as practicable following the granting of the Fee Motion Order, the Monitor would provide each Pharmacist Franchisee with a Reconciliation Statement together with the payment, if any, to such Pharmacist Franchisee of any reconciliation amount shown thereon. Prior to completing such reconciliation and effecting payment, the Monitor waited for the appeal period to expire in order to ensure that the Fee Motion Order was a final order and not subject to appeal. On January 15, 2018, the Monitor received confirmation from the T Pharmacy Claimant that the Fee Motion Order was not part of the T Pharmacy Appeal and as such, reconciliation and payment to applicable pharmacist franchises is anticipated to be completed on or about mid-February.

- (c) Employee Claims: One remaining marker claim filed against the estate on behalf of the directors and officers is expected to be withdrawn once certain other claims are resolved.

Bell's Amended Claims

- 4.9 As described in the Monitor's Thirty-Sixth Report (the "**Thirty-Sixth Report**") and in connection with the Monitor's motion for advice and directions heard on September 13, 2017, Bell Canada ("**Bell Canada**") and BCE Nexxia Corporation ("**Nexxia**") (together, "**Bell**") had filed amended claims (the "**Bell Amended Claims**") requesting a significant increase on their claims that had previously been resolved and become Proven Claims in accordance with the Claims Procedure Order (the "**Original Claims**").
- 4.10 Bell had advised that it discovered errors in the method in which Bell Canada and Nexxia quantified their Original Claims, and sought to file the Bell Amended Claims to address such errors. Bell had claimed an additional amount of approximately \$4,100,000 in the proposed amended claims, almost double the Original Claims, as summarized below.

Claim #	Entity Name	Allowed Claim Amount	Bell Proposed Revised Claim Amount	Bell Proposed Increase in Claim Value
1667	Bell Canada	\$ 4,019,455.12	\$ 7,286,040.00	\$ 3,266,584.88
1356	BCE Nexxia Corporation	693,264.82	1,495,985.24	802,720.42
TOTAL	Bell Claims	\$ 4,712,719.94	\$ 8,782,025.24	\$ 4,069,305.30

- 4.11 On November 10, 2017, the Court issued an endorsement directing the Monitor to accept the Bell Amended Claims for review and consideration. The endorsement also directed Bell to cover the reasonable costs of the Monitor, Monitor's counsel and Target Canada incurred as a result of Bell's errors. The Monitor, in conjunction with representatives from Bell, worked towards resolving the Bell Amended Claims in a timely fashion. On December 22, 2017, the Monitor and Bell entered into a settlement and release agreement (the "**Bell Settlement Agreement**") fully and finally settling the Bell Amended Claims as summarized below:

Claim #	Entity Name	Original Allowed Claim Amount	Amended Claim Amount	Increase in Claim Value
1667	Bell Canada	4,019,455.12	6,925,000.00	2,905,544.88
1356	BCE Nexxia Corporation	693,264.82	1,495,985.24	802,720.42
TOTAL	Bell Claims	4,712,719.94	8,420,985.24	3,708,265.30

4.12 In addition to fully and finally settling the amount of the Bell Amended Claims (such that they are final and binding for all purposes and not subject to any further dispute, appeal, revision or amendment), Bell and the Monitor came to an agreement on the reasonable costs arising from Bell's errors to be paid by Bell (the "**Bell Cost Payment**"). Accordingly, an interim distribution was issued to Bell on December 28, 2017, after deducting the Bell Cost Payment therefrom, to account for the increase in their claim value. Bell has received the equivalent of all interim distributions issued to date.

4.13 The Monitor will provide updates to the Court as the Claims Process continues to advance.

Director & Officer Claims

4.14 A summary of the D&O Claims received by the Monitor is provided below:

- (a) eleven D&O Claims were filed, asserting a total of approximately \$567,000;
- (b) nine of the eleven D&O Claims were filed as "marker claims" for unspecified, unliquidated amounts; and
- (c) of the eleven D&O Claims filed, six were subsequently withdrawn by the Claimants.

- 4.15 The Monitor, in consultation with the Target Canada Entities and legal counsel to the Directors and Officers, reviewed the remaining five filed D&O Claims and issued NRDA's to each of the Claimants disallowing the claims in full.
- 4.16 With respect to the five D&O Claims disallowed in full: (i) two claimants did not respond to the NRDA and the claims have been deemed disallowed pursuant to the Claims Procedure Order; (ii) two claimants responded with a NOD, but have subsequently withdrawn their claims; and (iii) one claimant responded with an NOD filed as a "marker claim" for unspecified, unliquidated amounts relating to TCC's STIP, which claim has been resolved and dismissed by the Claims Officer.
- 4.17 All D&O Claims filed in these proceedings have now been resolved.


5.0 EXTENSION OF THE STAY PERIOD


- 5.1 Pursuant to the Order dated September 13, 2017 (Extending the Stay Period and Discharging Employee Representative Counsel), the Stay Period is set to expire on January 26, 2018.
- 5.2 The Monitor supports the Applicants' motion to extend the Stay Period to May 15, 2018 for the following reasons:
- (a) the extension will provide the Monitor, in consultation with the Applicants, with the time required to: (i) continue to advance the Claims Process in accordance with the Claims Procedure Order; and (ii) facilitate further distributions to Affected Creditors with Proven Claims as Unresolved Claims are resolved;
 - (b) the Applicants have sufficient liquidity through May 15, 2018;

- (c) the Applicants continue to act in good faith and with due diligence in the implementation of the Plan; and
- (d) the Monitor, the Applicants, and Target Corporation are continuing the process of discussing the steps required for completion of these CCAA Proceedings.

All of which is respectfully submitted to this Court this 18th day of January, 2018.

**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

APPENDIX B
THIRTY-FIFTH REPORT OF THE MONITOR

(see attached)

**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

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

SEPTEMBER 1, 2017

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APPENDIX B THIRTY-FOURTH REPORT OF THE MONITOR

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 thirty-four reports and three 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.

1.4 As described in certain of the Prior Reports, and most recently in the Thirty-Fourth Report of the Monitor (the “**Thirty-Fourth Report**”, attached hereto as Appendix B (without appendices)):

- (a) on June 2, 2016, the Court granted the Sanction and Vesting Order, which among other things, ordered and/or declared that the Second Amended and Restated Joint Plan of Compromise and Arrangement dated May 19, 2016 (the “**Second Amended Plan**” or the “**Plan**”) was sanctioned and approved pursuant to Section 6 of the CCAA. A copy of the Second Amended Plan is available on the Monitor’s website;
- (b) on June 28, 2016 (the “**Plan Implementation Date**”), the Monitor received written notice from the Target Canada Entities and the Plan Sponsor that the conditions precedent to implementation of the Second Amended Plan as set out in section 8.3 thereof had been fulfilled or waived. As such, in accordance with the Second Amended Plan and the Sanction and Vesting Order, the Monitor: (i) delivered the Monitor’s Plan Implementation Date Certificate to the Target Canada Entities; (ii) filed the Monitor’s Plan Implementation Date Certificate with the Court; and (iii) posted a copy of same to the Monitor’s website. The Monitor also provided a copy to the Service List;
- (c) in accordance with the Second Amended Plan and the Sanction and Vesting Order, on the Plan Implementation Date: (i) TCC and PropCo funded, in trust, approximately \$793 million and \$77.0 million, respectively, into several “cash pool” and “reserve accounts”; (ii) Target Corporation, as Plan Sponsor, funded, in trust, approximately \$25.5 million into the Landlord Guarantee Enhancement

Cash Pool Account and \$7.5 million into the Landlord Non-Guarantee Creditor Equalization Cash Pool Account; and (iii) \$34.1 million was transferred from PropCo to the Landlord Guarantee Enhancement Cash Pool Account; and

- (d) on June 29 and 30, 2016, TCC issued cheques and wire payments totalling approximately \$672.5 million to Unaffected Creditors, Affected Creditors with Proven Claims, and Landlord Entities entitled to distributions from the Landlord Guarantee Enhancement Cash Pool Account and the Landlord Non-Guarantee Creditor Equalization Cash Pool Account (collectively, the “**Initial Distributions**”). The Initial Distributions to Affected Creditors represented interim distributions of approximately 55.3% of such Affected Creditors’ Proven Claims. Subsequent interim distributions totaling approximately \$830,000 were also made prior to September 30, 2016 to five claimants whose Claims were resolved in accordance with the Claims Procedure Order subsequent to the Plan Implementation Date. All distributions were made in Canadian Dollars.

1.5 The purpose of this Thirty-Fifth Report of the Monitor (the “**Thirty-Fifth Report**”) is to provide this Court and stakeholders with information regarding the following:

- (a) an update on the cash balances held in the “cash pool” and “reserve” accounts that were established in accordance with the Second Amended Plan and the anticipated timing for a third interim distribution to creditors;
- (b) the current status of the Claims Process;
- (c) an update on corporate dissolution matters;

- (d) the Employee Trust;
- (e) the Applicants' motion to seek approval for the discharge of Employee Representative Counsel and the Employee Representatives; and
- (f) the Applicants' motion for an order substantially in the form attached to the Applicants' Motion Record dated September 1, 2017 seeking an order extending the Stay Period to January 26, 2018 (the "**Stay Extension Order**").

2.0 TERMS OF REFERENCE AND DISCLAIMER

- 2.1 In preparing this Thirty-Fifth 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 Unless otherwise indicated, capitalized terms not otherwise defined in this Thirty-Fifth Report are as defined in the Prior Reports, the Second Amended Plan and the Initial Order.

2.4 Unless otherwise stated, all monetary amounts contained in this Thirty-Fifth Report are expressed in Canadian dollars.

3.0 UPDATE ON THE “CASH POOL” AND “RESERVE” ACCOUNTS

3.1 On or about October 18, 2016, TCC issued cheques and wire payments totalling approximately \$87.5 million to Affected Creditors with Proven Claims (the “**Second Interim Distributions**”) and Target Canada Property LLC issued a payment of approximately \$3.0 million to the Plan Sponsor.¹ The Second Interim Distributions represented further distributions of 12.65% of such Affected Creditors’ Proven Claims, and when combined with the Initial Distributions, equate to aggregate interim distributions to Affected Creditors to-date of approximately 67.99% of such Affected Creditors’ Proven Claims. The various “cash pool” and “reserve” accounts as at the Plan Implementation Date, and after the Initial Distributions and Second Interim Distributions and other administrative disbursements, are summarized below (with the “April 12, 2017” column being the balances as at the date of the Thirty-Fourth Report):

¹ This payment was made in accordance with section 5.6(b)(ii) of the Plan, and is in respect of the Plan Sponsor’s pro-rata share of proceeds relating to the Plan Sponsor Recovery Limit Reserve.

(\$ in 000's CAD)	Receipts/ Subsequent Distributions/ Administrative Disbursements			Balance September 15, 2016	Transfers		Receipts/ Subsequent Distributions/ Administrative Disbursements	Balance January 16, 2017	Receipts/ Subsequent Distributions/ Administrative Disbursements	Balance April 12, 2017	Receipts/ Subsequent Distributions/ Administrative Disbursements	
	Balance on PID	Initial Distribution			Prior to Second Distribution	Second Distribution						Balance August 19, 2017
Target Canada Co.												
TCC Cash Pool Account	441,220	(441,039)	700	881	88,056	(87,469)	42,759	44,227	2,664	46,891	16,508	63,399
TCC Disputed Claims Reserve Account	197,907	-	(828)	197,079	(88,056)	-	(61,741)	47,283	(35)	47,248	(10,420)	36,827
Administrative Reserve Account [1]	12,900	(177)	(1,869)	10,854	-	-	(2,636)	8,218	(1,287)	6,931	(1,173)	5,758
Landlord Guarantee Creditor Base Claim Cash Pool Account	140,745	(140,745)	-	-	-	-	-	-	-	-	-	-
Landlord Guarantee Enhancement Cash Pool Account	59,532	(59,532)	-	-	-	-	-	-	-	-	-	-
Landlord Non-Guarantee Creditor Equalization Cash Pool Account	7,521	(7,521)	-	-	-	-	-	-	-	-	-	-
Target Canada Co. Balance	859,825	(649,013)	(1,996)	208,815	-	(87,469)	(21,618)	99,728	1,342	101,070	4,915	105,984
Target Canada Property LLC												
PropCo Cash Pool Account	10,548	(10,533)	-	15	-	-	-	15	-	15	-	15
PropCo Disputed Claims Reserve Account	8,895	-	-	8,895	-	-	-	8,895	-	8,895	-	8,895
Plan Sponsor Recovery Limit Reserve Account	23,427	(12,966)	-	10,461	-	(2,964)	-	7,498	-	7,498	-	7,498
Target Canada Property LLC Balance	42,870	(23,499)	-	19,371	-	(2,964)	-	16,408	-	16,408	-	16,408
TOTAL	902,695	(672,512)	(1,996)	228,186	-	(90,433)	(21,618)	116,136	1,342	117,478	4,915	122,393

Notes:

[1] The Administrative Reserve Account balance includes approximately \$599,000 related to the 10% holdback on Pharmacy Claims.

3.2 The changes to the above table relative to the similar table included in the Thirty-Fourth Report are:

- (a) TCC Cash Pool Account: The cash balance increased by approximately \$16.5 million due primarily to: (i) the resolution and payment of distributions of approximately \$313,000 on previously Disputed Claims and the corresponding transfer in of approximately \$10.1 million from the TCC Disputed Claims Reserve Account (representing the excess of amounts reserved for previously Unresolved Claims relative to the amount at which such Claims were ultimately resolved); (ii) the receipt of approximately \$6.1 million from Revenu Québec on account of QST refunds related to the post-CCAA filing period; and (iii) the receipt of \$860,000 related to an insurance settlement with one of TCC's insurers. These increases were partially offset by approximately \$530,000 in interim distributions made to claimants whose claims were filed in accordance with the Late Claims Order (defined below), in respect of which Initial and Second Interim Distributions totalling approximately 67.99% were made on their Proven Claims.
- (b) TCC Disputed Claims Reserve Account: The cash balance decreased by approximately \$10.4 million related to the resolution and payment of distributions

of approximately \$313,000 on previously Disputed Claims and the corresponding transfer out of approximately \$10.1 million to the TTC Cash Pool Account. Claimants with subsequently resolved Claims have received their Initial and Second Interim Distributions totalling approximately 67.99%, with the balance being transferred to the TCC Cash Pool Account.

- (c) Administrative Reserve Account: The cash balance decreased by approximately \$1.2 million related primarily to administrative disbursements for professional fees and Shared Services.

3.3 The Monitor has prepared an updated illustrative range of estimated recoveries under the Second Amended Plan, which is summarized in the table below and is based on information available as at August 24, 2017 (the “**Illustrative Recoveries Analysis**”). The Illustrative Recoveries Analysis has been prepared based on the terms of the Second Amended Plan and the current status of Claims filed in the Claims Process. The Monitor cautions that the Illustrative Recoveries Analysis may change (which change could be material) as: (a) Unresolved Claims continue to be reviewed and assessed, including “marker claims” that have been filed for unliquidated or unknown amounts; and (b) the Claims Process continues to advance, including the resolution of Disputed Claims, in accordance with the Claims Procedure Order.

	Illustrative Scenario #1 - LOW	Illustrative Scenario #2 - HIGH
(\$ in 000's CAD)		
PROPCO		
ESTIMATED CASH AVAILABLE FOR DISTRIBUTION		
Propco Cash	\$ 76,950	\$ 76,950
PROCEEDS AVAILABLE FOR DISTRIBUTION	<u>76,950</u>	<u>76,950</u>
CLAIMS FILED AGAINST PROPCO/PROPERTY LP		
Total Third Party Claims Against Propco and Property LP	13,112	10,533
PropCo Intercompany Claims (recontributed into Landlord Guarantee Settlement Amount)	34,081	34,081
Estimated Payments under Plan Sponsor Propco Recovery Reserve Limit	19,381	19,757
ESTIMATED NET PROCEEDS AVAILABLE FOR TCC AFTER DISTRIBUTIONS	<u>10,376</u>	<u>12,579</u>
TARGET CANADA CO		
ESTIMATED CASH AVAILABLE FOR DISTRIBUTION		
Target Canada Co. Cash	780,000	785,000
CRA and RQ Tax Refunds Received	9,182	9,182
Propco Cash (from above)	10,376	12,579
ESTIMATED PROCEEDS AVAILABLE FOR DISTRIBUTION	<u>799,558</u>	<u>806,761</u>
ESTIMATED SECURED, UNAFFECTED AND CONVENIENCE CLASS CREDITORS		
Secured Claims and Unaffected Creditor Claims	60,242	60,242
Convenience Class Claims - < \$25,000	5,993	5,993
Convenience Class Opt-In - Claim Value < \$35,000	1,550	1,550
TOTAL ESTIMATED SECURED, UNAFFECTED AND CONVENIENCE CLASS CREDITOR CLAIMS	<u>67,785</u>	<u>67,785</u>
ESTIMATED NET PROCEEDS AVAILABLE FOR DISTRIBUTION AFTER SECURED, UNAFFECTED AND CONVENIENCE CLASS CLAIMS	<u>731,773</u>	<u>738,976</u>
LANDLORD GUARANTEE CREDITOR SETTLEMENT AMOUNTS		
Landlord Guarantee Creditor Base Claim Amounts (Pre-filing and Restructuring)	140,745	140,745
Landlord Guarantee Enhancement Amounts	59,532	59,532
Total Distribution to Landlord Guarantee Creditors	200,276	200,276
Less:		
Plan Sponsor Contribution to the Landlord Guarantee Enhancement Cash Pool	(25,451)	(25,451)
Plan Sponsor Contribution from the PropCo Intercompany Claims (from above)	(34,081)	(34,081)
NET DISTRIBUTION TO LANDLORD GUARANTEE CREDITORS AFTER PLAN SPONSOR CONTRIBUTIONS	<u>140,745</u>	<u>140,745</u>
ESTIMATED NET PROCEEDS AVAILABLE FOR DISTRIBUTION AFTER SECURED, UNAFFECTED, CONVENIENCE CLASS AND LANDLORD GUARANTEE CREDITOR CLAIMS	(A) <u>591,028</u>	<u>598,231</u>
ESTIMATED ALLOWABLE CLAIMS		
Landlord Non-Guarantee Creditor Claim Amounts (Pre-Filing, Restructuring and Other)	190,035	190,035
Other Affected Creditor Claims	415,930	410,861
Total Affected Creditor Claims	605,965	600,896
Total Intercompany Claims	108,464	108,464
ESTIMATED ALLOWABLE TOTAL CLAIMS EXCLUDING SECURED, UNAFFECTED, CONVENIENCE CLASS AND LANDLORD GUARANTEE CREDITOR CLAIMS	(B) <u>714,429</u>	<u>709,360</u>
RECOVERY % (A/B)	82.7%	84.3%

3.4 Based on the Illustrative Recoveries Analysis (and subject to the important qualifications noted in paragraph 3.3 above), the Monitor now estimates that Affected Creditors with Proven Claims will ultimately receive aggregate distributions under the Second Amended

Plan in the range of approximately 82.7%² to 84.3% of such Affected Creditors' Proven Claims.

- 3.5 As described in the Thirty-Fourth Report, the Applicants advised that they would make a third interim distribution at such time as the government and/or pharmacist Unresolved Claims categories were resolved. As described in paragraph 4.8(b) below, all but one of the pharmacist claims have been resolved. The Applicants have advised that, in consultation with the Monitor, they intend to make a third interim distribution in early October totalling approximately \$63.3 million (the amount in the TCC Cash Pool Account) to Affected Creditors with Proven Claims. This third distribution represents a recovery of approximately 8.95% of such Affected Creditors' Proven Claims, which would bring interim distributions to approximately 76.94% of such Affected Creditors' Proven Claims.

4.0 CLAIMS PROCESS UPDATE

- 4.1 The Monitor has provided an update on the status of the Claims Process in a number of the Prior Reports, including most recently in the Thirty-Fourth Report.

Status of Claims Review and Assessment

- 4.2 As at August 24, 2017, 1,758 Claims have been filed with the Monitor, totalling approximately \$2.6 billion, excluding Intercompany Claims and withdrawn claims, and including those claims filed with the Monitor in connection with the Late Claims Motion

² For illustrative purposes, this is calculated using the full amount of Bell's Proposed Amended Claims, which are the subject of an advice and directions motion as described in paragraphs 4.9 to 4.11.

and subsequent to the Late Claims Order (as described and defined below). As summarized in the tables below:³

- (a) 1,748 Claims have been reviewed, reconciled, resolved and allowed (or deemed allowed or disallowed as the case may be), as the time for a Claimant to respond to a Notice of Revision or Disallowance (“**NRDA**”) issued by the Monitor has expired) (collectively, the “**Resolved Claims**”); and
- (b) 10 Claims are subject to a Notice of Dispute (“**NOD**”) where a NOD has been received by the Monitor from the Claimant in response to a NRDA issued by the Monitor, which NOD is under review by the Monitor or remains unresolved (the “**NOD Stage**”), including one pharmacist franchisee claim (collectively, the “**Unresolved Claims**”).

4.3 In connection with the Monitor’s November 2016 motion for advice and directions regarding late claims (the “**Late Claims Motion**”), on March 1, 2017, the Court issued an order, among other things: (i) permitting certain identified late claims to be filed with the Monitor; and (ii) establishing the procedure for the filing of claims at this stage in the proceedings (the “**Late Claims Order**”). In accordance with the Late Claims Order, five claimants identified therein as the “**Identified Claimants**” were permitted to file proofs of claim for determination in the Claims Process. Two additional claimants were instructed to submit additional evidence to the Court for a determination as to whether their claims are to be permitted to be filed with the Monitor.

³ The tables include late-filed claims that were the subject of the Late Claims Motion and those that have been permitted by the Court to be filed with the Monitor subsequent to the Late Claims Order.

4.4 Since the issuance of the Late Claims Order, additional evidence was submitted by one of the two identified claimants, and three new late claimants seeking to file claims each provided an evidentiary record to the Monitor for consideration by the Court. After considering each respective claimants' evidence submitted in accordance with the Late Claims Order, by endorsement dated April 12, 2017, the Court permitted these additional late claimants to file claims for determination in the Claims Process.

4.5 As at August 24, 2017, a summary of the Resolved Claims and Unresolved Claims is as follows:

RESOLVED CLAIMS

Category	Filed Amount		Allowed			Deemed Disallowed			Total	
	#	\$	#	\$	\$	#	\$	\$	#	\$
Landlord	(a) 96	1,855,279,112	86	1,855,279,100	338,293,548	10	12	-	96	338,293,548
Vendor	(b) 1420	545,861,466	1395	542,087,469	445,960,728	25	3,773,997	-	1,420	445,960,728
Pharmacist	94	155,559,889	94	155,559,889	26,251,889	-	-	-	94	26,251,889
Government	5	7,922,787	4	7,922,786	7,870,409	1	1	-	5	7,870,409
Litigation	69	9,835,332	59	8,755,267	617,333	10	1,080,066	-	69	617,333
Employee	62	869,677	18	536,484	381,286	44	333,193	-	62	381,286
Other	2	2	-	-	-	2	2	-	2	-
Total	1748	2,575,328,266	1656	2,570,140,995	819,375,193 (c)	92	5,187,271	-	1,748	819,375,193

UNRESOLVED CLAIMS

Category	Filed Amount		Monitor Review		NRDA Stage			NOD Stage			
	#	\$	#	\$	#	\$	\$	#	\$	\$	NOD
Landlord	-	-	-	-	-	-	-	-	-	-	-
Vendor	-	-	-	-	-	-	-	-	-	-	-
Pharmacist	1	4,374,229	-	-	-	-	-	1	4,374,229	173,878	4,374,229
Government	8	4,408	-	-	-	-	-	8	4,408	-	2,579,290
Litigation	-	-	-	-	-	-	-	-	-	-	-
Employee	1	1	-	-	-	-	-	1	1	-	1
Other	-	-	-	-	-	-	-	-	-	-	-
Total	10	4,378,638	-	-	-	-	-	10	4,378,638	173,878	6,953,520 (d)
Grand Total	1758	2,579,706,903									

Notes:

(a) The Allowed amounts of Landlord Claims in the Resolved Claims table reflect the Claim amounts under the settlement agreements reached with Landlords.

(b) The Allowed amounts of Vendor Claims in the Resolved Claims table includes the Bell Claims at their Original Allowed Claim Amounts of approximately \$4.7 million. As described in paragraph 4.10 below, these claims are the subject of an advice and direction motion seeking the Court's determination as to whether the Monitor should allow amendments to a previously resolved claim for review and consideration in the Claims Process.

(c) Allowed amounts do not take into account reduced amounts for claimants who have elected into the Convenience Class.

(d) Total NOD Amount is unknown as certain Claims cannot yet be quantified as information is still pending at this time.

- 4.6 In addition to the Claims set out above, 40 Claims totaling approximately \$61.4 million were filed and subsequently withdrawn by the Claimants.
- 4.7 The Monitor will continue to administer any further late claims in accordance with the Late Claims Order, including seeking evidence relating to late filing and obtaining the Court's required determination on whether the late filed claim may be accepted to be filed in the Claims Process based on such evidence. The Monitor has not received any evidence in support of additional late claims since the date of the Thirty-Fourth Report.

Unresolved Claims

- 4.8 As at the date of this report, 10 NODs have been received from Claimants which remain unresolved, disputing an aggregate total of approximately \$7.0 million (plus "marker claims" that have been filed for unliquidated or unspecified amounts), as compared to the total amount of approximately \$174,000 allowed by the Monitor in the corresponding NRDA's. The significant remaining unresolved NODs relate to:

- (a) Government Claims: Information with respect to Government Claims was provided in certain Prior Reports, including the Twenty-Sixth and Twenty-Seventh Reports. At the time of the Thirty-Third Report, the Monitor, in consultation with the Target Canada Entities was in the process of reviewing eight revised NODs that had been filed by the Department of Justice Canada on behalf of the CRA on June 27, 2016. This process continues. None of the revised NODs is expected to have a significant impact on potential recoveries to Affected Creditors described in paragraph 3.3 above. The overall resolution of matters with CRA will also necessarily address any issues that may arise for periods after

June 27, 2016, including from the Target Canada Entities' 2016 tax filings (for the financial year-end January 28, 2017).

Since the time of the Thirty-Fourth Report, the Monitor and the Target Canada Entities have continued to engage in regular discussions with CRA representatives with a view to reaching a final resolution of all issues related to CRA's claims, including any issues for periods after June 27, 2016.

- (b) Pharmacist Claims: An update on the status and procedural history of the claims of the former pharmacist franchisees was provided in the Thirty-Third Report. In brief, at the time of the Thirty-Fourth Report:
- (i) of the 93 pharmacist franchisees who filed claims in the claims process at that time, five claims remained unresolved, the remainder having either accepted the Monitor's determination of their claims, or entered into binding settlement agreements that were consistent with the principles underlying the Monitor's methodology for assessing the Pharmacist Franchisees' claims and were reflective of the rulings of the Claims Officer;
 - (ii) following extensive claims adjudication proceedings, the Claims Officer had issued three rulings addressing all of the Common Issues submitted for adjudication;
 - (iii) the five unresolved pharmacist franchisee claimants had appealed the Claims Officer's rulings to the Court in accordance with the Claims Procedure Order;

- (iv) a litigation schedule for the claims appeal had been set culminating in a February 23, 2017 appeal hearing before the Court, and the decision of the Court had been pending; and
- (v) in addition to the five pharmacist franchisee claimants whose claims were subject to adjudication proceedings in accordance with the Claims Procedure Order, one additional pharmacist franchisee claim was filed in accordance with the Late Claims Order, and remained subject to determination by the Monitor.

Since the time of the Thirty-Fourth Report:

- (i) on May 19, 2017, the Court issued an endorsement with its ruling on the appeal filed by the five unresolved pharmacist franchisee claimants. In the endorsement, the Court dismissed the appeals and stated:

“In the result, the appeals brought by the five remaining unsettled Pharmacist Franchisees claimants do not establish any palpable and overriding error of fact, nor a clear error of law. There is no basis to interfere with the Claims Officer’s Ruling. Accordingly, the appeals are dismissed.”;
- (ii) subsequent to the ruling issued by the Court, the Monitor reassessed the Claims of the five remaining pharmacist franchisee claimants and the one pharmacist who had filed a claim in accordance with the Late Claims Order and issued revised NRDA’s in respect of such Claims that were consistent with the principles underlying the Monitor’s methodology for assessing the Pharmacist Franchisees’ claims and were reflective of the rulings of the Claims Officer. Five of the remaining six pharmacist franchisee claimants accepted their revised respective NRDA.

One remaining pharmacist franchisee claimant has not agreed to the Monitor's determination that was reflective of the rulings of the Claims Officer, which rulings are final and binding following the Court's dismissal of the appeal and the expiry of any further appeal period. At an upcoming chambers appointment, the Monitor is seeking the assistance of the Court to address these matters and a schedule for Court determination of this last remaining unresolved pharmacist franchisee claim.

- (c) Employee Claims: The last aspects of an omnibus claim for bonuses under the Short Term Incentive Plan (“**STIP**”) filed by the Employee Representative Counsel have now been resolved and dismissed by the Claims Officer, subject to certain procedural matters outstanding which are expected to be resolved by the time the Applicants' motion is heard. There are no other Employee claims outstanding (other than a marker claim filed against the estate on behalf of the directors and officers, which is expected to be withdrawn once certain other claims are resolved).

Bell's Proposed Amended Claims

- 4.9 The Monitor intends to file shortly a Thirty-Sixth Report (the “**Thirty-Sixth Report**”) in connection with the Monitor's motion for advice and directions scheduled to be heard September 13, 2017, to provide this Court and Creditors with information regarding a request by Bell Canada (“**Bell Canada**”) and BCE Nexxia Corporation (“**Nexxia**”) (together, “**Bell**”) to amend certain claims that have previously been resolved and become Proven Claims in accordance with the Claims Procedure Order (the “**Original Claims**”).

4.10 Bell has advised that it subsequently discovered errors in the method in which Bell Canada and Nexxia quantified their Original Claims, and is seeking to file amended claims (“**Bell’s Proposed Amended Claims**”) to address the alleged errors. Bell is claiming an additional amount of approximately \$4,100,000 in the proposed amended claims, almost double the Original Claims, as summarized below.

Claim #	Entity Name	Allowed Claim Amount	Proposed Revised Claim Amount	Proposed Increase in Claim Value
1667	Bell Canada	\$ 4,019,455.12	\$ 7,286,040.00	\$ 3,266,584.88
1356	BCE Nexxia Corporation	693,264.82	1,495,985.24	802,720.42
TOTAL	Bell Claims	\$4,712,719.94	\$ 8,782,025.24	\$ 4,069,305.30

4.11 Additional information on the Monitor’s motion for advice and directions will be available in the Thirty-Sixth Report.

4.12 The Monitor will provide updates to the Court as the Claims Process continues to advance.

Director & Officer Claims

4.13 A summary of the D&O Claims received by the Monitor is provided below:

- (a) eleven D&O Claims were filed, asserting a total of approximately \$567,000;
- (b) nine of the eleven D&O Claims were filed as “marker claims” for unspecified, unliquidated amounts; and
- (c) of the eleven D&O Claims filed, six were subsequently withdrawn by the Claimants.

- 4.14 The Monitor, in consultation with the Target Canada Entities and legal counsel to the Directors and Officers, reviewed the remaining five filed D&O Claims and issued NRDA's to each of the Claimants disallowing the claims in full.
- 4.15 With respect to the five D&O Claims disallowed in full: (i) two claimants did not respond to the NRDA and the claims have been deemed disallowed pursuant to the Claims Procedure Order; (ii) two claimants responded with a NOD, but have subsequently withdrawn their claims; and (iii) one claimant responded with an NOD filed as a "marker claim" for unspecified, unliquidated amounts relating to TCC's STIP, which claim, as discussed in paragraph 4.8, has been resolved and dismissed by the Claims Officer, subject to certain procedural matters which are expected to be resolved by the time the Applicants' motion is heard.
- 4.16 All D&O Claims filed in these proceedings have now been resolved.

5.0 PLAN UPDATE – CORPORATE DISSOLUTION MATTERS

- 5.1 As described in the Twenty-Seventh Report, under the Amended Plan, prior to Plan completion and with the Target Canada Entities' and the Plan Sponsor's consent, steps shall be taken to dissolve any remaining Target Canada Entities in a tax efficient and orderly manner.
- 5.2 During the CCAA Proceedings, the Target Canada Entities have explored the interest of third parties in, and the feasibility of, any potential tax loss transactions. To date, no such transaction has materialized and no transaction is being contemplated.

5.3 The Applicants have advised the Monitor that following discussions with the Plan Sponsor, the Plan Sponsor does not want steps to be taken to dissolve certain Target Canada Entities at this time and, accordingly, has not to date provided its consent for such dissolution.

6.0 EMPLOYEE TRUST

6.1 As described in the First Report, the Initial Order approved the creation of the Employee Trust on substantially the terms and conditions set out in the Employee Trust Agreement, including without limitation, the appointments of Hon. John D. Ground as Trustee and the Monitor as Administrator. As at the date of this Thirty-Fifth Report, the Monitor, in its capacity as Administrator under the Employee Trust has, among other things:

- (i) in conjunction with the Trustee, jointly opened the Target Canada Employee Trust bank account at Royal Bank of Canada (the “**Employee Trust Account**”) and transferred a combined \$95 million of contributions received from Target Corp. in its capacity as Settlor to the Employee Trust Account;
- (ii) provided extensive assistance and review of TCC’s calculation of individual biweekly entitlement amounts for thousands of Eligible Employees and allocation of benefit amounts as between the Employee Trust and TCC;
- (iii) with the consent of Employee Representative Counsel and the Target Canada Entities, obtained an order (the “**Employee Trust Claims Procedure Order**”) approving a dispute process for any Trust Claimant who has properly delivered a Notice of Dispute; and administered Trust Disputes in accordance with the

Employee Trust Claims Procedure Order), all Trust Claims have now been resolved; and

- (iv) with the consent of the Trustee, made payments from the Employee Trust totaling approximately \$81.8 million for the benefit of more than 15,000 Eligible Employees (resulting in an over-contribution by Target Corp. of approximately \$13.2 million).

6.2 Once all Trust Claims were resolved, in accordance with the Plan, on December 21, 2016, Target Corp. delivered Confirmation of Termination of Employee Trust to the Monitor, indicating the agreement of Target Corp. to terminate the Employee Trust upon the delivery of the Employee Trust Termination Certificate by the Trustee to the Monitor. On December 31, 2016, the Trustee delivered the Employee Trust Termination Certificate to the Monitor and the Employee Trust was terminated. On May 15, 2017, the CRA issued a Clearance Certificate advising that no amounts were due or owing to the CRA from the Employee Trust.

6.3 In accordance with the Plan, on June 7, 2017, the Trustee and the Administrator delivered the Employee Trust Property Joint Direction to the Royal Bank of Canada to remit the balance of the Employee Trust Property to Target Corp. On June 7, 2017, approximately \$13.2 million was remitted to Target Corp on account of the over-contribution that had been made to the Employee Trust. Upon receipt of the funds, the Trustee and the Administrator were deemed to be fully and finally released and discharged from all of their respective obligations under the Employee Trust Agreement

7.0 DISCHARGE OF EMPLOYEE REPRESENTATIVE COUNSEL AND THE EMPLOYEE REPRESENTATIVES

7.1 Pursuant to the Initial Order, Koskie Minsky LLP was appointed as representative counsel for all employees other than officers and directors of the Target Canada Entities in these proceedings (the “**Employees**”), for any issues affecting the Employees in the CCAA Proceedings including, without limitation, with respect to the Employee Trust Agreement and the Claims Process.

7.2 Pursuant to the Employee Representative Order, dated February 11, 2015, Frederick Payette, Sylvie Gautier, Jennifer Lindsay, Catherine Bédard, Michael O’Neil, Alyssa Morin and Joshua Gordon (the “**Employee Representatives**”), were appointed as representatives of the Target Employees (excluding Opt-Out Individuals as defined in the Order of this Honourable Court dated February 11, 2015) in the CCAA Proceedings with respect to any issues affecting the Employees in the CCAA Proceedings and for the purpose of settling or compromising claims of the Employees in the CCAA Proceedings.

7.3 As described in paragraph 4.8(c) above, all claims filed by the Employees represented by Employee Representative Counsel have been resolved. As described in paragraph 6.3 above, all matters pertaining to the Employee Trust have been completed and the Employee Trust has been wound-up. As such, all issues affecting the Employees in these CCAA Proceedings have been resolved and the Applicants are seeking the discharge and release of Employee Representative Counsel and the Employee Representatives.

7.4 The Monitor supports the Applicants’ request to discharge and release Employee Representative Counsel and the Employee Representatives as all issues affecting the Employees in these CCAA Proceedings have been resolved and Employee

Representative Counsel and the Employee Representatives were each included as an Employee Trust Released Party under and in accordance with Section 7.1(d) of the Plan.

8.0 EXTENSION OF THE STAY PERIOD

8.1 Pursuant to the Order (Extending the Stay Period), the Stay Period is set to expire on September 29, 2017.

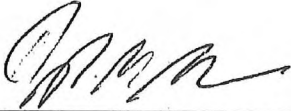
8.2 The Monitor supports the Applicants' motion to extend the Stay Period to January 26, 2018 for the following reasons:

- (a) the extension will provide the Monitor with the time required to: (i) continue to advance the Claims Process in accordance with the Claims Procedure Order; and (ii) facilitate further distributions to Affected Creditors with Proven Claims as Unresolved Claims are resolved;
- (b) the Applicants have sufficient liquidity through January 26, 2018;
- (c) the Applicants continue to act in good faith and with due diligence in the implementation of the Plan; and
- (d) the Monitor, the Applicants, and Target Corporation are continuing the process of discussing the steps required for completion of these CCAA Proceedings.

All of which is respectfully submitted to this Court this 1st day of September, 2017.

**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

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
Proceeding commenced at Toronto

**THIRTY-FIFTH REPORT OF THE
MONITOR**

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**THIRTY-EIGHTH REPORT OF THE
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