

**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**

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

NOVEMBER 27, 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-two 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 alvarezandmarsal.com/targetcanada.

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

- (i) information regarding the following:
 - (a) the Joint Plan of Compromise and Arrangement dated November 27, 2015 (the “**Plan**”);
 - (b) the Claims Process;
 - (c) an illustrative range of estimated creditor recoveries based on the Plan;
 - (d) the Applicants’ motion for an order substantially in the form attached to the Applicants’ Motion Record dated November 27, 2015 (the “**Meeting Order**”), among other things:
 - (1) accepting the filing of the Plan;
 - (2) authorizing the Target Canada Entities to establish one class of Affected Creditors for the purpose of considering and voting on the Plan (the “**Unsecured Creditors’ Class**”);
 - (3) authorizing the Target Canada Entities to call, hold and conduct a meeting of the Affected Creditors (the “**Creditors’ Meeting**”) to consider and vote on a resolution to approve the Plan, and approving the procedures to be followed with respect to the Creditors’ Meeting;

- (4) setting the date for the hearing of the Target Canada Entities' motion seeking sanction of the Plan should the Plan be approved by the required majority of Affected Creditors at the Creditors' Meeting; and
- (5) extending the Stay Period to January 22, 2016;
- (e) the receipts and disbursements of the Target Canada Entities for the period October 18, 2015 to November 21, 2015; and
- (ii) the Monitor's conclusions and recommendations in connection with the foregoing.

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this 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 Twenty-Third Report should be read in conjunction with 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 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 Twenty-Third Report are expressed in Canadian dollars.

3.0 JOINT PLAN OF COMPROMISE AND ARRANGEMENT

Background

- 3.1 As described in the Wong Affidavit – Meeting Order, the Target Canada Entities have been working to develop a plan of compromise and arrangement to present to their creditors.
- 3.2 The Monitor was presented with a draft term sheet by representatives of the Target Canada Entities and Target Corporation on September 11, 2015 and subsequently provided feedback on the draft term sheet to those parties.
- 3.3 On September 22, 2015, representatives of the Target Canada Entities attended a meeting with the Monitor, Target Corporation and the Consultative Committee to discuss

proposed indicative terms for a plan of compromise or arrangement to be put forward by the Target Canada Entities, with the support of Target Corporation as Plan Sponsor, and to seek feedback on issues related to a potential consensual resolution. Following that meeting, the Monitor held further meetings with the Consultative Committee as a whole and, given the divergent interests represented by the committee members, with individual Consultative Committee members. The Monitor has periodically continued these discussions through to the date of this Twenty-Third Report.

- 3.4 On November 27, 2015, the Target Canada Entities, with the support of Target Corporation as Plan Sponsor, served materials in support of a motion to be heard by this Court on December 8, 2015, seeking, among other things, authorization to call, hold and conduct a Creditors' Meeting. A copy of the Plan is attached as Exhibit "A" to the Wong Affidavit – Meeting Order.

Overview of the Plan

- 3.5 Capitalized terms utilized in this section of the Twenty-Third Report not otherwise defined herein have the meaning given to them in the Plan. Readers are cautioned that the commentary below is an overview only, and, as such, interested parties should review the Plan in its entirety. In addition, as set out below, on or before January 7, 2016, the Monitor will provide to the Service List a Report regarding the Plan and the Monitor's analysis of same. Key elements of the Plan are described below.
- 3.6 Target Corporation will act as Plan Sponsor and provide support through, among other things: (i) permitting the subordination of certain Intercompany Claims, including the Propco Intercompany Claim which was filed pursuant to the Claims Procedure Order

against TCC in an amount of \$1,911,494,242 (and proposed to be adjusted downwards by the Monitor in the Intercompany Claims Report to an amount of \$1,356,756,051); and (ii) the contribution of funds necessary to pay Landlord Guarantee Creditor Top-Up Amounts (described below) in order to facilitate enhanced and accelerated payments to Landlord Guarantee Creditors¹ on the Initial Distribution Date.

- 3.7 The Plan provides for a single class of Affected Creditors that will consider and vote on the Plan at the Creditors' Meeting to be held at the Toronto Board of Trade in Toronto, Ontario on January 15, 2016.
- 3.8 The Plan separates Claims according to whether they are asserted and proven against: (i) TCC or its subsidiaries (on a consolidated basis); (ii) Propco; or (iii) Property LP. After claims against Propco and Property LP are paid or provided for in accordance with the Plan, any remaining cash at Propco will be contributed to the TCC Cash Pool Account for the benefit of Affected Creditors of the Target Canada Entities.
- 3.9 If approved, sanctioned and implemented, the Plan is intended to:
- (i) complete the controlled and orderly wind down of certain of the Target Canada Entities in a timely manner without potentially costly and lengthy litigation and delay;
 - (ii) effect a compromise, settlement and payment of all Proven Claims in the near term; and

¹ As a result of the publicly disclosed settlement agreement between Target Corporation and RioCan Real Estate Investment Trust, "Landlord Guarantee Creditors" does not include RioCan.

- (iii) grant third party releases of the Target Canada Entities and Target Corporation, among others.

Creditor Claims

3.10 Pursuant to the terms of the Plan:

Claims Against Propco and Property LP

- (a) Propco Unaffected Creditors and Property LP Unaffected Creditors with proven Claims against Propco and Property LP, respectively, will receive 100% of their proven Claims from the Propco Cash Pool Account. All remaining cash in the Propco Cash Pool Account, subject to any funds transferred and held in the Propco Disputed Claims Reserve Account and the Plan Sponsor Propco Recovery Limit Account, will be transferred to the TCC Cash Pool Account;
- (b) the Plan Sponsor Propco Recovery Limit Reserve shall be established and distributions to the Plan Sponsor on the Plan Sponsor (Propco) Intercompany Claim shall not exceed the amount in such reserve;

Claims Against TCC

- (c) Unaffected Creditors (including creditors with: (i) Proven Claims secured by any of the CCAA Charges; (ii) Proven Claims enumerated in sections 5.1(2) and 19(2) of the CCAA; (iii) Cash Management Lender Claims; and (iv) proven TCC Secured Construction Lien Claims against a lease assigned in the Real Property Portfolio Sales Process) will not be compromised under the Plan;

- (d) Convenience Class Creditors will receive the lesser of: (a) 100% of their Proven Claims; and (b) \$25,000;

- (e) Landlord Guarantee Creditors (i.e. Landlords with rights, remedies and claims against the Plan Sponsor pursuant to a Plan Sponsor Guarantee) will receive 100% of their Landlord Restructuring Period Claims that are Proven Claims (valued in accordance with the Landlord Formula Amount) on the Initial Distribution Date. This will be accomplished by Landlord Guarantee Creditors:
 - (i) receiving their Pro Rata Share of the initial distribution on their Landlord Restructuring Period Claim valued in accordance with the Landlord Formula Amount; and
 - (ii) Target Corporation funding the Landlord Guarantee Creditor Top-Up Amounts; and

- (f) all Affected Creditors with Proven Claims (including Landlords with Landlord Restructuring Period Claims that are Proven Claims valued in accordance with the Landlord Formula Amount) will receive their respective Pro Rata Share of the remaining cash in the TCC Cash Pool Account, subject to any funds transferred and held in the Administrative Reserve Account and the TCC Disputed Claims Reserve Account, and with Landlord Guarantee Creditors being deemed under the Plan to irrevocably direct the Target Canada Entities to, following the Initial Distribution Date, deliver any further distributions under the Plan otherwise payable to them in respect of Landlord Restructuring Period Claims to Target Corporation, as Plan Sponsor (as reimbursement for funds advanced by Target Corporation with respect to same on the Initial Distribution Date).

3.11 The Plan provides that all Landlord Restructuring Period Claims will be calculated using the Landlord Formula Amount, which is derived from the formula in section 65.2(4) of the *Bankruptcy and Insolvency Act* (the “**BIA Formula**”) but, as described below, has been enhanced to provide in effect a claim for an additional year of rent beyond the BIA Formula.

3.12 In accordance with the Plan, the Landlord Formula Amount will be an amount equal to the lesser of:

(i) the aggregate of:

(a) the Landlord Formula Rent² for the two years following the date on which the disclaimer or resiliation of the relevant real property lease between TCC and the Landlord became effective, and

(b) 15% of the Landlord Formula Rent for the remainder of the term of the real property lease after those two years, and

(ii) four years’ Landlord Formula Rent;

plus an amount equal to the GST/HST applicable to such amount as if such amount had been paid as rent by TCC to the relevant Landlord; for greater certainty, the Landlord Formula Amount does not include any amount on account of periods after expiry of the

² The BIA Formula provides for an amount equal to the lesser of: (i) the aggregate of (a) rent provided for in the first year of the lease following the date of disclaimer, and (b) 15% of the rent for the remainder of the term of the lease after that year; and (ii) three years’ rent. The BIA Formula does not contain a definition of “rent”. The Plan provides a definition of Landlord Formula Rent.

then current term of the lease (without any extensions or renewals or any similar provisions).

3.13 Landlord Formula Rent under the Plan is defined as:

- (i) fixed base rent at the rate payable as at January 15, 2015; plus
- (ii) common area maintenance charges and realty taxes at the rates payable for the 2014 calendar year,

in each case payable by TCC to a Landlord under a real property lease between TCC and such Landlord, excluding any GST/HST and any other additional rent, percentage rent, accelerated rent, penalties, fees, damage claims, co-tenancy claims or other charges arising as a result of the insolvency of the Target Canada Entities or the making of the Initial Order.

3.14 Subject to the Meeting Order being granted, the Monitor will deliver to each Landlord with a Landlord Restructuring Period Claim a notice setting out a calculation of such Landlord's Landlord Formula Amount based on the books and records of the Target Canada Entities. The Meeting Order includes a process to be followed in the event that a Landlord disputes this calculation.

3.15 Target Corporation will contribute funds necessary to pay the Landlord Guarantee Creditor Top-Up Amounts in order to facilitate the enhanced and accelerated payments to Landlord Guarantee Creditors on the Initial Distribution Date. The Monitor estimates that as of the Final Distribution Date the ultimate aggregate net amount of the Landlord

Guarantee Creditor Top-Up Amounts will be in the range of \$19 million to \$33 million (after distributions to Target Corporation on account of advances with respect to the Landlord Guarantee Creditor Top-Up Amounts).

Intercompany Claims

3.16 In addition to the prior subordination of the \$3.1 billion NE1 Intercompany Claim that Target Corporation has already agreed to subordinate in these CCAA Proceedings, on the Plan Implementation Date, Target Corporation:

- (i) will cause Property LP to subordinate the Property LP (Propco) Intercompany Claim, which was filed by Property LP pursuant to the Claims Procedure Order against Propco in an amount of \$1,449,577,927 (and not adjusted by the Monitor in the Intercompany Claims Report);³ and
- (ii) will limit its recovery under the Plan Sponsor (Propco) Intercompany Claim, which was filed by Target Corporation pursuant to the Claims Procedure Order against Propco in the amount of US\$89,079,107 (and not adjusted by the Monitor in the Intercompany Claims Report), to a maximum of approximately \$23.4 million (through the establishment of the Plan Sponsor Propco Recovery Limit Reserve from the Propco Cash Pool Account).

3.17 Propco will concurrently subordinate the Propco Intercompany Claim which was filed pursuant to the Claims Procedure Order against TCC in an amount of \$1,911,494,242

³ A small portion of the Property LP (Propco) Intercompany Claim will not be subordinated, but only to the extent necessary to facilitate payments to the Property LP Unaffected Creditors (the “**Contributed Claim Amount**”).

(and proposed to be adjusted downwards by the Monitor in the Intercompany Claims Report to an amount of \$1,356,756,051).

3.18 Target Corporation will direct Property LP to deliver all of the distributions that it would otherwise have received from the Propco Cash Pool Account to the TCC Cash Pool Account.

3.19 As a result of the foregoing, only the following Intercompany Claims will remain as claims against Propco, Property LP and TCC:

(i) Property LP claim against Propco in the amount of the Contributed Claim Amount to facilitate payments to the Property LP Unaffected Creditors;

(ii) Property LP claim against TCC in the amount of \$82,861,821 (proposed to be adjusted downwards from \$87,748,817 by the Monitor in the Intercompany Claims Report);⁴

(iii) Target Brands Inc. claim against TCC in the amount of \$22,416,730 (US\$18,787,069 converted to Canadian dollars; proposed to be adjusted downwards from US\$23,562,542 by the Monitor in the Intercompany Claims Report);

(iv) Target Corporate Services Inc. claim against TCC in the amount of \$2,582,256 (US\$2,164,409 converted to Canadian dollars; proposed to be adjusted

⁴ The Monitor understands that for purposes of the Plan, Target Corporation will accept the downward adjustments proposed by the Monitor.

downwards from US\$2,778,278 by the Monitor in the Intercompany Claims Report);

- (v) Target Corporation claim against TCC in the amount of \$602,350 (US\$504,819 converted to Canadian dollars; proposed to be adjusted downwards from US\$541,404 by the Monitor in the Intercompany Claims Report);
- (vi) TCC pre-filing claim against Propco in the amount of \$11,620,369 (proposed to be adjusted downwards from \$19,619,511 by the Monitor in the Intercompany Claims Report), with payment thereunder to be deposited into the TCC Cash Pool Account for the benefit of Affected Creditors of the Target Canada Entities; and
- (vii) TCC post-filing claim against Propco in the amount of \$6,966,363 (proposed to be adjusted upwards from \$6,303,621 by the Monitor in the Intercompany Claims Report), with payment thereunder to be deposited into the TCC Cash Pool Account for the benefit of Affected Creditors of the Target Canada Entities.

Releases

3.20 The Plan provides for certain full and final releases in favour of:

- (i) the Target Canada Released Parties (which include the Target Canada Entities, NE1, their respective directors, officers, counsel and advisors);
- (ii) the Third Party Released Parties (which include the Monitor, A&M, their respective directors, officers, counsel and advisors and Pharmacists' Representative Counsel and advisors);

- (iii) the Plan Sponsor Released Parties (which include Target Corporation, its subsidiaries other than the Target Canada Entities, the HBC Entities and their respective directors, officers, counsel and advisors), including in respect of all Landlord Guarantee Claims; and
- (iv) the Employee Trust Released Parties (which include the Employee Trust Administrator and its respective directors and officers and the Employee Trust Trustee, Employee Representative Counsel, Employee Representatives and all of their respective counsel and advisors).

Other

- 3.21 In connection with the filing of the Plan, the Target Canada Entities have drafted a letter to be sent to the Affected Creditors (the “**Letter to Creditors**”) as part of the Meeting Materials. The Letter to Creditors highlights information from the Plan to help Affected Creditors understand the Plan. A copy of the Letter to Creditors is attached as Exhibit “B” to the Wong Affidavit – Meeting Order.
- 3.22 The Monitor will issue a report on the Plan on or before January 7, 2016 in advance of the proposed Creditors’ Meeting to be held on January 15, 2016.

4.0 CLAIMS PROCESS

- 4.1 On June 11, 2015, this Court issued the claims procedure order (the “**Claims Procedure Order**”) approving the claims process (the “**Claims Process**”) to identify and determine claims of creditors (“**Claims**”) of the Target Canada Entities. The Claims Procedure Order was summarized in the Fifteenth Report of the Monitor, and an update on the

completion of the notification requirements of the Claims Procedure Order was provided in the Eighteenth Report.

4.2 As described in the Twenty-First Report, the Claims Procedure Order provided for the following Claims bar dates:

- (i) Intercompany Claims - July 31, 2015 (the “**Intercompany Claims Bar Date**”);
- (ii) Prefiling Claims – August 31, 2015 (the “**Claims Bar Date**”);
- (iii) D&O Claims – August 31, 2015; and
- (iv) Restructuring Period Claims - the later of: (i) 45 days after the date on which the Monitor sends a Claims Package with respect to a Restructuring Period Claim; and (ii) the Claims Bar Date.

Intercompany Claims

4.3 As required by the Claims Procedure Order, the Monitor provided a comprehensive report on its review of the Intercompany Claims in the Twentieth Report of the Monitor (the “**Intercompany Claims Report**”) dated August 31, 2015.

4.4 The Claims Procedure Order provided that after the service of the Monitor’s Intercompany Claims Report, any Claimant may file objections, which may include, but are not limited to, any argument asserted for the subordination of outstanding intercompany debts of any of the Target Canada Entities, any relief in connection with claims to priority, any claim asserted for substantive consolidation, and the validity and quantum of Intercompany Claims and any claim relating to debt re-characterization, by

filing a Notice of Objection with the Monitor, not later than the Notice of Objection Bar Date of September 30, 2015.

- 4.5 On September 21, 2015, this Court issued the Order (Amending the Claims Procedure Order) (the “**Claims Procedure Amending Order**”), which amended the definition of the “Notice of Objection Bar Date” in the Claims Procedure Order to extend such date to October 30, 2015, or such later date as may be agreed to by the Monitor and the Consultative Committee.
- 4.6 On October 20, 2015, in accordance with the Claims Procedure Amending Order and with the agreement of the Consultative Committee, the Monitor notified the service list that the Notice of Objection Bar Date had been further extended to November 30, 2015. Notice of the extension was posted to the Monitor’s website and served on the service list.
- 4.7 On November 12, 2015, in accordance with the Claims Procedure Amending Order and with the agreement of the Consultative Committee, the Monitor notified the service list that the Notice of Objection Bar Date had been further extended to December 31, 2015. Notice of the extension was posted to the Monitor’s website and served on the service list. At an appearance before the Court on November 18, 2015, the Court advised the Monitor that any further extension of the Notice of Objection Bar Date would require Court approval.

Prefiling Claims and Restructuring Period Claims

4.8 The Monitor has caused 36 Claims Packages to be delivered to potential Claimants subsequent to July 15, 2015 allowing for the filing of Restructuring Period Claims to be submitted by such Claimants after the Claims Bar Date. To date, the Monitor has received four Restructuring Period Claims related to these Claims Packages, and nine Claimants are still within their 45 day time period to file Restructuring Period Claims.

4.9 A summary of the Prefiling Claims and Restructuring Period Claims received by the Monitor, including those claims received after the above Claims Bar Date and excluding any Intercompany Claims filed,⁵ is provided below:

Target Canada Co., et al		
Summary of Claims as Filed Against the Target Canada Entities by Claim Type		
Total Claimants		1,710
Summary of Net Filed Claims (net of withdrawn claims) (1)		
Claim Type	Claims Filed	Amount (2)
Landlords	102	\$ 1,920,356,017
Suppliers/Vendors	1,371	537,720,374
Pharmacy Franchisees	92	152,838,174
Government Agencies	13	10,725,103
Litigation	60	7,897,160
Employees	70	1,192,809
Other	2	2
Total Claims	1,710	\$ 2,630,729,640

Notes:
(1) The above summary does not include the potential impact of "marker claims" or Restructuring Period Claims that have yet to be filed.
(2) All amounts converted to CAD using the exchange rate prescribed in the Claims Procedure Order (\$1.1932 CAD/\$1.00 USD).

⁵ For information regarding Intercompany Claims, please refer to the Intercompany Claims Report, available on the Monitor's website.

4.10 Overview commentary with respect to the above is as follows:

- (i) 1,710 Claimants have filed Claims against the Target Canada Entities totalling approximately \$2.63 billion;
- (ii) 49 of the filed Claims include provisions for unquantified, unliquidated damages and have been filed as “marker claims”; and
- (iii) in addition to the Claims reflected above, 20 Claims totalling approximately \$8.2 million were filed and subsequently withdrawn by the Claimants.

4.11 As compared to the claims summary reported in the Twenty-First Report, 42 revised or additional claims have been filed in the claims process with a net increase in aggregate claims value of \$18.2 million. The resultant changes are summarized below:

- (i) the total landlord Claims increased by \$19.6 million as certain landlords submitted revised Claims with increases to certain amounts originally claimed;
- (ii) the Supplier/Vendor category increased by one late filed claim and one Restructuring Period Claim in the combined amount of approximately \$1.3 million, however, this increase was offset by a number of claimants having submitted revised Claims (as a result of ongoing reconciliation efforts with TCC) at amounts lower than originally filed, such that the total value of Claims in this category decreased by approximately \$2.0 million;
- (iii) five litigation claimants filed late-filed claims totalling approximately \$155,000; and

(iv) 36 Employee Claims with claims totalling approximately \$439,000 were transferred from the Employee Trust Dispute Claims Process to the Claims Process.

4.12 Pursuant to paragraphs 23 and 27 of the Claims Procedure Order, Claims not filed and received by the Monitor by the respective Claims Bar Dates, or such later date as the Monitor may agree in writing or the Court may otherwise direct, will be forever barred, estopped and extinguished. As at the date of this Twenty-Third Report, the Monitor has received 28 late-filed claims totalling approximately \$4.3 million. The Monitor is considering the circumstances of each of the late-filed claims to determine whether to admit such claims. The Monitor may, depending on the circumstances, seek advice and directions from the Court in this regard.

4.13 The Monitor, in consultation with the Target Canada Entities, is in the process of reviewing and adjudicating the Claims as filed. Where necessary, the Monitor, with the assistance of the Target Canada Entities, has been corresponding with Claimants with the intention of reconciling Claims before a Notice of Revision or Disallowance is required to be sent. As a result of these reconciliation efforts, to date, approximately 390 Claims have been revised (in almost all cases, downwards) and refiled by the Claimants.

4.14 As at the date of this Twenty-Third Report, the Monitor has determined that 1,029 Claims, totaling approximately \$133.0 million, will be admitted as filed. The Monitor, in consultation with the Target Canada Entities, is in the process of reviewing and adjudicating the remaining Claims to issue Notices of Revision or Disallowance as

applicable in accordance with the December 15 deadline and will provide updates to the Court as the Claims Process continues to advance.

Director & Officer Claims

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

- (i) Eight D&O Claims have been filed totalling approximately \$385,000;
- (ii) Six of the Eight D&O Claims are “marker claims” for an unspecified, unliquidated amount; and
- (iii) in addition to the above D&O Claims, three D&O marker claims that were filed were subsequently withdrawn by the Claimants.

4.16 The Monitor, in consultation with the Target Canada Entities and legal counsel to the Directors and Officers, is in the process of reviewing and adjudicating the filed D&O Claims to issue any applicable Notices of Revision or Disallowance in accordance with the December 15 deadline and will provide updates to the Court as the Claims Process continues to advance.

5.0 ILLUSTRATIVE RANGE OF ESTIMATED CREDITOR RECOVERIES

5.1 The Monitor has prepared a preliminary illustrative range of estimated recoveries under the Plan which is summarized in the table below (the “**Illustrative Recoveries Analysis**”). The Illustrative Recoveries Analysis has been prepared based on the terms of the Plan (including the application of the Landlord Formula Amount) and a preliminary estimate of the assessment of Claims filed. The Monitor cautions that the Illustrative

Recoveries Analysis is preliminary at this stage and expected to change (which change could be material) as: (a) filed Claims continue to be reviewed and assessed, including “marker claims” that have been filed for an unliquidated or unknown amount (such as certain Claims filed by the Canada Revenue Agency); and (b) the Claims Process continues to advance, including the resolution of any potential Disputed Claims, in accordance with the Claims Procedure Order.

	Notes	Illustrative Scenario #1 - LOW	Illustrative Scenario #2 - HIGH
(\$ in 000's CAD)			
PROPCO			
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		11,678	11,678
Estimated Payments under Plan Sponsor Propco Recovery Limit Reserve		17,637	19,979
ESTIMATED NET PROCEEDS AVAILABLE FOR TCC AFTER CREDITOR DISTRIBUTIONS		<u>47,634</u>	<u>45,293</u>
TARGET CANADA CO.			
ESTIMATED CASH AVAILABLE FOR DISTRIBUTION			
Target Canada Co. Cash		775,000	785,000
Propco Cash (from above)		47,634	45,293
ESTIMATED PROCEEDS AVAILABLE FOR DISTRIBUTION		<u>822,634</u>	<u>830,293</u>
ESTIMATED SECURED, UNAFFECTED AND CONVENIENCE CLASS CREDITORS			
Secured Claims and Unaffected Creditor Claims		60,157	60,157
Convenience Class Claims - < \$25,000		6,500	6,500
Convenience Class Opt-In - Claims Value		2,838	2,838
TOTAL ESTIMATED SECURED, UNAFFECTED AND CONVENIENCE CLASS CREDITOR CLAIMS		<u>69,495</u>	<u>69,495</u>
ESTIMATED NET PROCEEDS AVAILABLE FOR DISTRIBUTION AFTER SECURED, UNAFFECTED AND CONVENIENCE CLASS CLAIMS	(A)	<u>753,139</u>	<u>760,798</u>
ESTIMATED ALLOWABLE CLAIMS			
Total Affected Creditor Claims (including Landlord Formula Amounts)		891,918	783,669
Total Intercompany Claims		108,463	108,463
ESTIMATED ALLOWABLE TOTAL CLAIMS EXCLUDING SECURED, UNAFFECTED AND CONVENIENCE CLASS CREDITOR CLAIMS	(B)	<u>1,000,381</u>	<u>892,132</u>
ESTIMATED RECOVERY % (A/B)		75.3%	85.3%

5.2 Based on the above Illustrative Recoveries Analysis (and subject to the important qualifications noted in paragraph 5.1 above), the Monitor estimates that the Affected Creditors with Proven Claims will receive distributions under the Plan in the range of

approximately 75% to 85% of such Affected Creditors' Proven Claims. In addition, as described in Section 3.0 of this report, the Monitor estimates that as of the Final Distribution Date the ultimate aggregate net amount that Landlord Guarantee Creditors will have received through the Landlord Guarantee Top-Up Amounts will be in the range of \$19 million to \$33 million.

6.0 MEETING ORDER

- 6.1 The Target Canada Entities, in consultation with the Monitor, have prepared a proposed procedure for a meeting of creditors, and are seeking the Court's approval of this procedure and certain related relief in the form of an Order substantially in the form contained in the Target Canada Entities' motion record returnable on December 8, 2015 (the "**Meeting Order**"). Capitalized terms used but not defined in this section of this Twenty-Third Report have the meanings ascribed to them in the Meeting Order.
- 6.2 The Meeting Order contemplates a meeting of a single class of Affected Creditors, the Unsecured Creditors' Class, to consider and vote on the Plan (the "**Creditors' Meeting**"). Subject to the Meeting Order being approved, the Creditors' Meeting will be held on January 15, 2016 at the Toronto Board of Trade, 77 Adelaide Street West, Toronto, Ontario, starting at 10:00 a.m., subject to adjournment or modification in accordance with the terms of the Meeting Order or further order of this Court. The Creditors' Meeting will be chaired by the Monitor or its representative.

Notice of Creditors' Meeting

6.3 The Monitor shall send the following materials (collectively, the “**Meeting Materials**”) to each Affected Creditor to the address for such Affected Creditor set out in such Affected Creditor’s Proof of Claim or to such other address subsequently provided to the Monitor by such Affected Creditor:

- (i) the Notice of Creditors’ Meeting substantially in the form attached as Schedule “B” to the Meeting Order;
- (ii) the form of Proxy for use at the Creditors’ Meeting substantially in the form attached as Schedule “C” to the Meeting Order;
- (iii) the Convenience Class Claim Declaration substantially in the form attached as Schedule “D” to the Meeting Order;
- (iv) the Resolution to be voted on by Affected Creditors at the Creditors’ Meeting, substantially in the form attached as Schedule “E” to the Meeting Order;
- (v) a copy of the Plan;
- (vi) the Letter to Creditors, substantially in the form attached to the Wong Affidavit – Meeting Order; and
- (vii) a copy of the Meeting Order.

6.4 The Monitor will post the Meeting Materials to the Monitor’s website, and will serve a copy of the Meeting Materials on the service list.

- 6.5 Additionally, on or before December 22, 2015, the Monitor will cause the Notice of Creditors' Meeting to be published for a period of two (2) business days in *The Globe and Mail* (National Edition), *La Presse*, and *The Wall Street Journal*.
- 6.6 The Meeting Order further contemplates that the Monitor will serve a report with respect to the Plan on the service list by no later than January 7, 2016, which report will be filed with this Court and posted to the Monitor's website.

Amendments to the Plan

- 6.7 The Meeting Order provides that the Target Canada Entities, with the consent of the Plan Sponsor and the Monitor, may make and file modifications, restatements, amendments or supplements to the Plan (each, a "**Plan Modification**") prior to or at the Creditors' Meeting prior to a vote being taken. Any such Plan Modification shall be deemed to form part of and be incorporated into the Plan.
- 6.8 The Target Canada Entities may, with the consent of the Plan Sponsor and the Monitor, effect a Plan Modification after the Creditors' Meeting (i) pursuant to an Order of the Court, or (ii) where such Plan Modification is of an administrative nature required to better give effect to the implementation of the Plan and the Sanction and Vesting Order or to cure any errors, omissions or ambiguities, and in either event is not materially adverse to the financial or economic interests of the Affected Creditors.
- 6.9 Where a Plan Modification is made prior to the Creditors' Meeting, the Target Canada Entities shall provide notice to the service list. Where a Plan Modification is made prior to a vote at the Creditors' Meeting, the Target Canada Entities shall give notice to those

Affected Creditors present in person or by Proxy. The Monitor shall post notice of a Plan Modification to the Monitor's website forthwith in all cases.

Procedure for Creditors' Meeting

- 6.10 The Meeting Order provides that a representative of the Monitor, to be designated by the Monitor, will serve as the chair of the Creditors' Meeting and, subject to any further Order of the Court, will decide all matters relating to the conduct of the Creditors' Meeting. The Monitor may appoint scrutineers for the supervision and tabulation of attendance at, quorum at, and votes cast at the Creditors' Meeting, and a person designated by the Monitor will act as secretary at the Creditors' Meeting.
- 6.11 The only Persons entitled to attend and speak at the Creditors' Meeting are representatives of the Target Canada Entities and the Plan Sponsor and their respective legal counsel and advisors, the Monitor and its legal counsel and advisors, Pharmacists' Representative Counsel, Employee Representative Counsel, the Employee Trust Trustee and his legal counsel and all other Persons, including the holders of Proxies, entitled to vote at the Creditors' Meeting and their respective legal counsel and advisors. The Meeting Order also provides that the Chair may admit any other Person to the Creditors' Meeting by invitation.
- 6.12 The Chair is authorized to adjourn, postpone or otherwise reschedule the Creditors' Meeting from time to time as the Chair deems necessary or desirable. In the event of such adjournment, postponement, or rescheduling, none of the Chair, the Monitor, nor the Target Canada Entities will be required to deliver any notice of such adjournment of the Creditors' Meeting, provided that the Monitor will:

- (i) announce the adjournment of the Creditors' Meeting or adjourned Creditors' Meeting, as applicable;
- (ii) post notice of the adjournment at the originally designated time and location of the Creditors' Meeting;
- (iii) post notice of the adjournment on the Monitor's website; and
- (iv) provide notice of the adjournment forthwith to the service list.

6.13 The quorum for the Creditors' Meeting will be one (1) Affected Creditor with a Voting Claim present at such meeting in person or by Proxy.

Voting at Creditors' Meeting

6.14 The Meeting Order provides that the Chair will direct a vote on the Resolution to approve the Plan, with any amendments or modifications thereto made in accordance with the Plan, the Meeting Order, and any further Order of the Court.

6.15 Convenience Class Creditors will be deemed to have voted in favour of the Plan.

6.16 Each Affected Creditor with a Voting Claim will be entitled to one vote equal to the dollar value of its Affected Claim determined as a Voting Claim in accordance with the Claims Procedure Order and the Meeting Order.

6.17 The Meeting Order provides that the dollar value of a Landlord Restructuring Period Claim for voting and distribution purposes will be the Landlord Formula Amount.

- 6.18 Landlords with Landlord Restructuring Period Claims will vote in an amount calculated in accordance with the Landlord Formula Amount. This formula is based on the BIA Formula, but has been enhanced to provide in effect a claim for an additional year of rent beyond the BIA Formula. The Monitor believes that such an enhancement above the BIA Formula is appropriate in this case given that there are particular challenges with TCC's disclaimed real property lease portfolio.
- 6.19 The application of the Landlord Formula Amount to Landlord Restructuring Period Claims in these CCAA Proceedings avoids the complexity and uncertainty of calculating and resolving disputes over common law damage claims on a lease-by-lease basis across 95 disclaimed leases, which would include assessing obligations on the part of the Landlord to mitigate damages in each instance. The application of a formula to landlord claims follows established precedent in previous retail restructurings under the CCAA. Based on data and information the Monitor has gathered from various sources, on balance, the Monitor is of the view that the Landlord Formula Amount is within the range of reasonableness.
- 6.20 In accordance with the Claims Procedure Order and the Meeting Order, the Monitor will provide each Landlord with a Landlord Restructuring Period Claim with a Notice of Landlord Restructuring Period Claim setting out the calculation of such Landlord's Landlord Formula Amount based on the books and records of the Target Canada Entities and by application of the Landlord Formula Amount. Any Landlord disputing the calculation of its Landlord Formula Amount set out in the Notice of Landlord Restructuring Period Claim may submit a Notice of Dispute of Landlord Restructuring Period Claim Calculation to the Monitor by no later than January 8, 2016 (the "**Landlord**

Claim Calculation Dispute Deadline”). If the Monitor does not receive a Notice of Dispute of Landlord Restructuring Period Claim Calculation by the Landlord Claim Calculation Dispute Deadline, the Landlord will be deemed to accept the calculation of its Landlord Formula Amount for voting and distribution purposes set out in the Notice of Landlord Restructuring Period Claim. For greater certainty, a Landlord may accept the calculation of its Landlord Formula Amount for voting purposes and dispute the calculation of its Landlord Formula Amount for distribution purposes.

- 6.21 Where an Affected Creditor holds a Disputed Claim as of the Creditors’ Meeting (other than a Landlord Restructuring Period Claim and the Disputed Claims of the Canada Revenue Agency),⁶ the dollar value of such Disputed Claim for voting purposes shall be the amount set out in respect of the Affected Creditor’s Notice of Revision or Disallowance delivered by the Monitor in accordance with the Claims Procedure Order.
- 6.22 The Monitor and its designees appointed in accordance with the Meeting Order will keep separate records of votes cast by Affected Creditors holding Disputed Claims and will report to the Court with respect thereto.
- 6.23 Holders of Intercompany Claims will not be entitled to vote on the Plan. The Plan Sponsor will not be entitled to vote on the Plan in respect of its Plan Sponsor Subrogated Claims nor in respect of any amounts paid pursuant to the Landlord Guarantee Top-Up Amounts or any Cash Management Lender Claims held through assignment or

⁶ In accordance with the Meeting Order, Canada Revenue Agency shall have one vote in respect of its Disputed Claims, the dollar value of which shall be equal to \$1, without prejudice to the determination of the dollar value of such Disputed Claims.

subrogation (the latter being Unaffected Claims which are not entitled to vote in any event).

Assignment of Claims

6.24 An Affected Creditor, a Propco Unaffected Creditor or a Property LP Unaffected Creditor may transfer or assign the whole of its claim prior to the Creditors' Meeting by providing notice of such transfer or assignment, together with satisfactory evidence of such transfer or assignment to the Monitor in writing by no later than 5:00 p.m. on the date which is seven (7) days prior to the Creditors' Meeting. Where a Claim has been transferred or assigned in part, the transferor or assignor will retain the right to vote at the Creditors' Meeting in respect of the full amount of the Claim as determined for voting purposes in accordance with the Claims Procedure Order and the Meeting Order, and the transferee or assignee will have no voting rights at the Creditors' Meeting in respect of such claim.

6.25 An Affected Creditor (other than a Convenience Class Creditor), a Propco Unaffected Creditor or a Property LP Unaffected Creditor may transfer or assign the whole of its Claim after the Creditors' Meeting in the manner set out in the Meeting Order, as described above.

Voting by Proxy

6.26 Any Person entitled to vote at the Creditors' Meeting may do so in person or by proxy. The Meeting Order provides that the form of proxy for use at the Creditors' Meeting (including any adjourned, postponed or rescheduled Creditors' Meeting) is to be included

with the Meeting Materials (the “**Proxy**”) and sets out the timeline and procedure for submitting a proxy.

6.27 In the absence of specific instructions to vote for or against the approval of the Resolution in a duly signed and delivered Proxy, the Meeting Order provides that the Proxy shall be deemed to include the instruction to vote for the approval of the Resolution, provided that the Proxy-holder does not otherwise exercise its right to vote at the Creditors’ Meeting.

7.0 CASH FLOW RESULTS RELATIVE TO FORECAST

7.1 Receipts and disbursements for the period October 18, 2015 to November 21, 2015 (the “**Reporting Period**”, noting that cash flow results through October 17, 2015 were reported in the Twenty-First Report of the Monitor dated October 26, 2015 (the “**Twenty-First Report**”), as compared to the cash flow forecast that was attached as Appendix “C” to the Twenty-First Report (the “**Cash Flow Forecast**”), are summarized on the following page.

(\$ in 000's CAD, unless otherwise noted)

<i>Period Ended</i>	Cumulative		
	Budget 21-Nov	Actual 21-Nov	Variance B / (W)
OPERATING RECEIPTS			
Sales Receipts	\$ -	\$ -	\$ -
Other Receipts	990	1,631	641
TOTAL RECEIPTS	990	1,631	641
OPERATING DISBURSEMENTS			
Employee Payments	964	57	907
Rent & Occupancy	467	190	277
DC / Logistics	-	20	(20)
Normal Course Taxes	-	8	(8)
Professional Fees	5,663	4,391	1,272
All Other	400	359	41
Current Operating Disbursements	7,494	5,024	2,470
OPERATING CASH FLOW	(6,504)	(3,393)	3,111
INTERCOMPANY DISBURSEMENTS			
Intercompany Services	848	-	848
DIP Interest	-	-	-
Intercompany Disbursements	848	-	848
NET CASH FLOW	\$ (7,352)	\$ (3,393)	\$ 3,959
WEEKLY LIQUIDITY			
Beginning Bank Cash Balance [1] [2]	\$ 807,390	\$ 807,390	\$ -
(+/-) Net Cash Flow	(7,352)	(3,393)	3,959
(+/-) Change in Cheque Float	-	(177)	(177)
(+/-) DIP Draws/(Repayments)	-	-	-
(+/-) FX Translation	-	(34)	(34)
Ending Bank Cash Balance [1]	800,037	803,785	3,748

[1] Actuals assume \$1.32 CAD/ \$1 USD

[2] Beginning Cash Balance was actualized in the cash flow forecast that was attached as Appendix "C" to the Twenty-First Report

7.2 During the Reporting Period, the Target Canada Entities' total receipts were approximately \$641,000 greater than as projected in the Cash Flow Forecast. The

variance was due primarily to an HST refund that was not reflected in the Cash Flow Forecast.

- 7.3 The Target Canada Entities' total disbursements during the Reporting Period were approximately \$2.5 million less than as projected in the Cash Flow Forecast. Management attributes most of this variance to timing differences in the payment of employee payroll taxes and professional fees.
- 7.4 During the week of November 13, 2015, the \$USD equivalent of approximately \$CDN 3.0 million was paid to Lazard Freres & Co. LLC ("**Lazard**"), as financial advisor to TCC with respect to the Real Property Portfolio Sales Process, in satisfaction of final fees due to Lazard pursuant to the terms of its engagement letter with TCC dated January 14, 2015.⁷ In aggregate, Lazard was paid total fees of approximately \$CDN 6.1 million under the terms of Lazard's engagement letter.
- 7.5 The closing cash balance as at November 21, 2015 was approximately \$803.8 million, as compared to the projected cash balance of \$800.0 million.
- 7.6 The Initial Order entitles the Target Canada Entities to continue to utilize their existing Cash Management System, as described in the Pre-Filing report. The Cash Management System of the Target Canada Entities continues to operate in the same manner as it had prior to the commencement of the CCAA Proceedings, with the exception that all 133 retail Stores were closed to the public on or before April 12, 2015.

⁷ For a summary of the key terms of the Lazard engagement letter, please refer to the Monitor's Pre-Filing Report.

8.0 EXTENSION OF THE STAY PERIOD

8.1 Pursuant to the endorsement of this Court dated October 30, 2015 (the “**October 30 Endorsement**”), the Stay Period is set to expire on December 11, 2015. The Applicants are seeking an extension of the Stay Period to January 22, 2016.

8.2 The Monitor supports the Applicants’ motion to extend the Stay Period to January 22, 2016 for the following reasons:

- (i) subject to this Court granting the Meeting Order, the extension will facilitate the holding of the Creditors’ Meeting on January 15, 2015;
- (ii) subject to the Plan being approved by the Required Majority, the extension will facilitate the Target Canada Entities’ bringing the Sanction Motion before this Court on January 20, 2016;
- (iii) the extension will provide the Monitor with the time required to continue to advance the Claims Process in accordance with the Claims Procedure Order;
- (iv) the Applicants have sufficient liquidity throughout the Forecast Period to accommodate the above dates; and
- (v) the Applicants continue to act in good faith and with due diligence and have made meaningful progress in these CCAA Proceedings in developing the Plan to present to their creditors.

9.0 MONITOR'S CONCLUSIONS AND RECOMMENDATION

9.1 For the reasons set out herein, the Monitor recommends that this Court grant the Meeting Order:

- (i) accepting the filing of the Plan;
- (ii) authorizing the Target Canada Entities to establish one class of Affected Creditors for the purpose of considering and voting on the Plan;
- (iii) authorizing the Target Canada Entities to call, hold and conduct the Creditors' Meeting on January 15, 2016 to consider and vote on a resolution to approve the Plan, and approving the procedures to be followed with respect to the Creditors' Meeting;
- (iv) setting the date of January 20, 2016 for the hearing of the Target Canada Entities' motion seeking sanction of the Plan should the Plan be approved by the Required Majority; and
- (v) extending the Stay Period to January 22, 2016.

All of which is respectfully submitted to this Court this 27th day of November, 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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
Proceeding commenced at Toronto

TWENTY-THIRD REPORT OF THE
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