

**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

**THIRTIETH REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.**

JULY 18, 2016

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1.0 INTRODUCTION

- 1.1 On January 15, 2015, Target Canada Co. (“**TCC**”) and those companies listed in Appendix A (collectively, the “**Applicants**”), together with the Partnerships also listed in Appendix A (the “**Partnerships**”, and collectively with the Applicants, the “**Target Canada Entities**”), applied for and were granted protection by the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). Pursuant to an Order of this Court dated January 15, 2015, Alvarez & Marsal Canada Inc. (“**A&M**”) was appointed Monitor of the Target Canada Entities in the CCAA proceedings (the “**Monitor**”). The proceedings commenced by the Applicants under the CCAA are referred to herein as the “**CCAA Proceedings**”.
- 1.2 On February 11, 2015, this Court issued the “**Amended and Restated Initial Order**” (hereinafter, unless the context otherwise requires, the “**Initial Order**”), which incorporates certain changes to the Initial Order granted January 15, 2015 that were described in the Second Report of the Monitor dated February 9, 2015.
- 1.3 In connection with the CCAA Proceedings, the Monitor has provided to this Court twenty-nine reports and three supplementary reports (the “**Supplementary Reports**”, 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 Pursuant to paragraphs 52 and 53 of the Initial Order, the Monitor and its legal counsel are entitled to be paid their reasonable fees at their standard rates and charges, and are required to pass their accounts from time to time.

1.5 The purpose of this Thirtieth Report of the Monitor (the “**Thirtieth Report**”) is to provide this Court and Creditors with information regarding the Monitor’s fees and disbursements incurred throughout these CCAA Proceedings, including the fees and disbursements of the Monitor’s legal counsel, Goodmans LLP, up to July 2, 2016 and June 30, 2016, respectively (collectively, the “**Monitor’s Fees and Disbursements**”). This Thirtieth Report should be read in conjunction with the affidavit of Douglas R. McIntosh and the affidavit of Melaney J. Wagner, both sworn July 18, 2016 in connection with the Monitor’s motion for an order approving the Monitor’s Fees and Disbursements, to be heard July 26, 2016 (collectively, the “**Fee Affidavits**”).

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this Thirtieth 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.

2.2 Unless otherwise indicated, capitalized terms not otherwise defined in this Thirtieth Report are as defined in the Prior Reports, the Second Amended Plan and the Initial Order.

2.3 Unless otherwise stated, all monetary amounts contained in this Thirtieth Report are expressed in Canadian dollars.

3.0 OVERVIEW OF MONITOR'S ROLE IN THE CCAA PROCEEDINGS

Background

3.1 The Monitor has undertaken an expansive mandate throughout these CCAA Proceedings, as reflected in the numerous Court orders issued throughout the proceedings requiring the Monitor to assume a broader role. The Monitor has been extensively involved in all significant aspects of this matter since the outset, including substantial assistance and/or oversight in the stabilization of TCC's supply chain, the inventory liquidation and FF&E sale processes, the Real Property Portfolio Sales Process, negotiations of numerous complex transactions, reviewing and reporting on intercompany claims, conducting the Claims Process, assisting the Target Canada Entities in the development and negotiation of the consensual resolution and Second Amended Plan that preserved the subordination of significant intercompany claims and resulted in significant recoveries to Affected Creditors, chairing the Creditors' Meeting at which Affected Creditors voted unanimously in favour of the Second Amended Plan, and implementation of the Second Amended Plan.¹

3.2 The need for an expanded role of the Monitor was principally required as: (i) most of the management services and functions that supported TCC were provided by Target

¹ A&M Canada was also appointed Administrator of the Employee Trust pursuant to the Employee Trust Agreement and as approved by this Court. Following the rendering of the first invoice of Monitor's counsel, all fees and disbursements relating to the administration of the Employee Trust, including those of the trustee and the Administrator and their respective counsel, were accounted for separately as a cost of the Employee Trust and therefore are not the subject of the passing of accounts in the estate of the Target Canada Entities.

Corporation and its subsidiary, Target Brands, Inc. (“**Target Brands**”), through shared services based in Target Corporation’s head office in Minneapolis, Minnesota, with only a very small management team in Canada in place for the CCAA Proceedings; (ii) the relationship between the Target Canada Entities and Target Corporation and its other subsidiaries was highly integrated as certain of the other non-Target Canada Entities were the providers of shared services and the largest creditors of TCC (on a combined basis) through substantial intercompany claims; and (iii) from the outset of the CCAA Proceedings, creditors expressed the view that the Monitor should have enhanced powers and responsibilities given the highly integrated relationship between the Target Canada Entities and Target Corporation and its other subsidiaries.

- 3.3 Immediately prior to and throughout the CCAA Proceedings, the Monitor engaged in extensive discussions and negotiations with Target Corporation on numerous matters, including those relating to: (i) the Orderly Wind-down and CCAA Proceedings, including the provision of shared services and reductions to those services and the costs related to same as the Orderly Wind-down progressed; (ii) the creation and establishment (including the analyses to determine the amount) of the Employee Trust, which was fully funded by Target Corporation to benefit the Target Canada Entities’ employees and to preserve value in the Target Canada Entities’ estates; and (iii) the subordination of significant intercompany claims and the preservation of such subordination in the Joint Plan of Compromise and Arrangement (the “**Plan**”) (and ultimately in the Second Amended Joint Plan of Compromise and Arrangement (the “**Second Amended Plan**”)) for the benefit of all stakeholders.

Shared Services

- 3.4 As described in the Pre-Filing Report of the Monitor, certain aspects of the Target Canada Entities' business and operations were highly dependent on functions and services provided by Target Corporation and its subsidiary, Target Brands. These functions and services were integral to Target Canada's operations (including the ongoing maintenance of its books and records), and were provided through a Master Agreement between Target Canada Co. ("TCC") and Target Brands dated February 3, 2013 (the "**Master Agreement**").
- 3.5 Pursuant to the Master Agreement, Target Brands provided the following primary services to TCC (collectively, the "**Shared Services**"):
- (i) administrative and business services – included accounting, finance, financial reporting, treasury and cash management, human resources, payroll, legal, office administration, risk management, tax compliance and information systems;
 - (ii) strategy and management consulting services – included developing operating manuals and policies, developing financial metrics and strategies, advising on financial performance, advising on store locations, assisting with logistical and distribution strategies, leadership development, human resources management, retail information management system support, business intelligence and supply chain management;
 - (iii) marketing and consulting services – included developing and implementing marketing and promotional strategies and advertising campaigns;

- (iv) retail support services – included training to all store and distribution centre employees and other consulting services requested by TCC; and
- (v) merchandising consulting services – included merchandise planning and managing vendor relationships.

3.6 Target Brands performed the above services using its own resources and personnel or through its contractual relationships with other affiliates or third parties. Approximately 600 employees of Target Corporation, located at Target Corporation’s headquarters in Minneapolis, Minnesota, and approximately 200 non-TCC employees based in India, were involved in providing Shared Services as at the Filing Date, many on a dedicated basis.

3.7 The Shared Services were able to continue during the CCAA Proceedings pursuant to an Administrative Services Agreement dated January 14, 2015 and effective April 14, 2015 (the date the three month termination period under the Master Agreement expired) (as amended and extended, the “**Administrative Services Agreement**”). The Administrative Services Agreement provided for the reduction in services and corresponding reduction in fees over time. The number of employees involved in providing the Shared Services decreased significantly as the Orderly Wind-down of TCC’s business and operations advanced, particularly during the early months of the CCAA Proceedings and following the closure of TCC’s stores, the last of which closed to the public on April 12, 2015.

3.8 The primary accounting, finance, vendor management and operational personnel that supported TCC’s business, and that were required to support the CCAA process in a

number of areas including supply chain, inventory, real estate, FF&E and accounts payable/claims, were based in Minneapolis. Accordingly, the Monitor deployed both Canadian and U.S. based personnel of A&M Canada and Alvarez & Marsal North America, LLC (“**A&M U.S.**”, and together with A&M Canada, “**A&M**”), respectively, at each of TCC’s headquarters in Mississauga, Ontario and Target Corporation’s headquarters in Minneapolis, in order to fulfil A&M Canada’s mandate pursuant to the Initial Order and to assist the Target Canada Entities with certain components of the Orderly Wind-down. Canadian personnel were deployed at the outset and throughout the CCAA Proceedings in connection with all aspects of the process. The assistance of A&M U.S. personnel was primarily required in the initial stages of the CCAA Proceedings relating to the stabilization of the international supply chain, inventory liquidation, FF&E sales and certain aspects of the Real Property Portfolio Sales Process, with such assistance being significantly reduced as soon as practicable within approximately four months of the initiation of the proceedings consistent with the: (i) closing of the retail stores and finalizing the accounting and compensation for the liquidation agent; and (ii) substantial conclusion of the Real Property Portfolio Sales Process.

- 3.9 In order to properly account for and manage each of the above A&M Canada and A&M U.S. teams, the hours incurred by each were invoiced separately, with the services of both A&M Canada and A&M U.S. personnel being invoiced at their normal hourly rates.

Activities of the Monitor

3.10 The efforts and activities of the Monitor are described in the twenty-nine prior Reports and three Supplementary Reports that the Monitor has filed with the Court to date in these CCAA Proceedings. The primary activities of the Monitor are summarized below:

- (i) assisting the Applicants with communications with employees, the Pharmacy Franchisee Association of Canada, pharmacy franchisees, suppliers and other parties;
- (ii) assisting the Applicants in implementing an appropriate accounting cut-off to ensure proper determination of pre and post-filing obligations and liabilities;
- (iii) assisting TCC in stabilizing its supply chain in connection with the Orderly Wind-down (there were in excess of 400 containers of goods-in-transit being shipped to TCC's distribution centres as at the Filing Date), including extensive communications with the third-party operator of TCC's distribution centres, vendors, freight forwarders and consolidators, ocean freight carriers and other transportation companies, and TCC's customs broker, with a view to minimizing supply disruption and continuing the movement of owned goods-in-transit to the distribution centres and stores, all with the goal of maximizing recoveries in the least amount of time;
- (iv) discussions and meetings with landlords, the Applicants, Lazard Frères & Co. LLC ("**Lazard**") and counsel in respect of the CCAA Proceedings, the proposed

inventory liquidation and real property portfolio sales processes in order to resolve the concerns of stakeholders prior to the comeback hearing;

- (v) assisting the Applicants in assessing and implementing certain components of the Orderly Wind-down, including the cancellation of open purchase orders, closure of the in-store Starbucks cafes and Glentel kiosks, disclaimer of contracts and agreements (in excess of 500 contracts/agreements were disclaimed during the CCAA Proceedings), employee reductions and other matters;
- (vi) conducting a detailed analysis of inventory that had been received by TCC during the 30-day period immediately prior to the Filing Date and reporting to the Court on same in the Monitor's Fourth Report;
- (vii) assisting the Applicants in:
 - (i) implementing the liquidation agent solicitation process in respect of the liquidation of the inventory, furniture, fixtures and equipment ("FF&E") located in TCC's stores, distribution centres, offices and warehouses, including provision and analysis of detailed inventory data to assist in the development and assessment of bids;
 - (ii) conducting the auction for selection of the inventory liquidation agent and negotiating the Agency Agreement;
 - (iii) monitoring the conduct and results of the store liquidation sales;
 - (iv) monitoring the timing of store closures, sale and removal of FF&E, and disclaiming of store leases;
 - (v) addressing landlord concerns as stores were vacated, in particular with respect to the removal of FF&E;
 - (vi) reconciling sales and other data utilized in the calculation of the agent's weekly invoices and final reconciliation of proceeds due to TCC and the agent pursuant to the terms of the

Agency Agreement and resolving any disputed items, with approximately \$386 million of net proceeds to TCC generated from the Inventory Liquidation Process and all of TCC's 133 stores that were in operation as at the Filing Date being closed to the public on or before April 12, 2015, well in advance of the outside date for terminating the liquidation sales in the stores of May 15, 2015 provided for in the Agency Agreement (and in just over two months from the commencement of the liquidation sales in the stores on February 5, 2015);

- (viii) developing and updating, on a daily basis, the "Daily Management Dashboard" to assist the Applicants in managing the Orderly Wind-down;
- (ix) supervising the Real Property Portfolio Sales Process, including: (i) numerous discussions with the Applicants, Lazard and Northwest Atlantic with respect to the process; (ii) assisting with the negotiation and closing of the Oxford/Ivanhoe Cambridge Lease Transaction; (iii) reviewing the LOIs and bids received in each of Phase 1 and Phase 2 of the process and meeting with, among others, the Target Canada Entities and Lazard regarding same; (iv) maintaining the Monitor's trust bank account for administering deposits and proceeds in connection with the process; (v) reviewing other draft letters and agreements with respect to the process, including termination and release agreements described in the Monitor's Eighth Report; (vi) providing updates on the Real Property Portfolio Sales Process in the Monitor's Sixth, Eighth and Tenth Reports, and comprehensive updates in the Monitor's Eleventh and Eighteenth Reports; (vii) attending the auction process held on May 5, 6 and 7, 2015 at Osler's offices in Toronto; (viii) assisting in the negotiation of final transaction and related agreements in

respect of the three distribution centres, three owned stores and 64 store leases;

(ix) preparing the Monitor's Twelfth and Thirteenth Reports, which provided details of and recommendations in respect of a series of real property transactions;

(x) assisting with the Rona transaction agreement and backup bids; and

(xi) assisting the parties in the closings of the various real property transactions, with approximately \$548 million of net proceeds to TCC generated from the Real Property Portfolio Sales Process, after net aggregate closing adjustments and cure costs of approximately \$24 million;

(x) numerous discussions with the Target Canada Entities related to the Asset Purchase Agreement between TCC, Target Corporation and Target Brands with respect to the sale of various assets using or displaying intellectual property proprietary to Target Brands, and preparing the Monitor's Seventh Report related thereto;

(xi) bringing the Monitor's motion seeking the advice and directions of the Court with respect to a proposed framework for a claims process to be administered by the Monitor and preparing the Monitor's Ninth Report related thereto;

(xii) reviewing agreements, consulting with the Target Canada Entities, and preparing the Monitor's Fourteenth Report with respect to the Zellers/HBC Transaction Agreement;

(xiii) coordinating the formation of the Consultative Committee, and, in conjunction with the Consultative Committee, developing a protocol to assist in the calling and conduct of meetings of the Consultative Committee; convening several

meetings with the Consultative Committee as the CCAA Proceedings advanced, including with respect to the development of the Plan and the Amended Plan, and regarding material claims proposed to be allowed in excess of \$5 million;

- (xiv) developing the Claims Process and the Claims Procedure Order and discussing or consulting with the Consultative Committee, the Target Canada Entities, Target Corporation, Employee Representative Counsel, and other stakeholders that provided comments to the Monitor or its counsel prior to the date of the Monitor's motion; preparing the Monitor's Fifteenth Report to describe the Claims Process; completing the noticing aspects of the Claims Process; creating a process for reviewing and reporting on the Claims Process; with the assistance of the Applicants, reviewing claims and corresponding with claimants and potential claimants to reconcile claim amounts and respond to questions, with in excess of 1,700 claims being filed and administered in the Claims Process;
- (xv) assisting in coordinating the sale of certain equipment at the Calgary distribution centre, and preparing the Monitor's Sixteenth Report to describe the Asset Purchase Agreement and related Access Agreement;
- (xvi) conducting an extensive review of intercompany claims and reporting on same in the Monitor's Twentieth Report;
- (xvii) assisting the Target Canada Entities in the analyses of potential landlord claims under a number of recovery formula scenarios;

- (xviii) assisting the Target Canada Entities, as required, in the development of the Plan, including preparing illustrative recoveries analyses, and reporting on the Plan in the Monitor's Twenty-Third Report;
- (xix) assisting counsel to the Target Canada Entities in numerous meetings with counsel to a number of landlords in order to attempt to resolve all disputes with respect to guaranteed and non-guaranteed disclaimed real property leases that culminated in the Landlord Guarantee Creditor Settlement Agreement (covering 37 disclaimed store leases) and the Landlord Non-Guarantee Creditor Consent and Support Agreements (covering 52 disclaimed leases – 38 store leases and 14 office and warehouse leases); providing extensive support in these discussions, including through the development of claims/recovery analyses under a number of scenarios;
- (xx) assisting the Target Canada Entities, as required, in the development of the Amended and Restated Joint Plan of Compromise and Arrangement (the "**Amended Plan**"), including preparing illustrative recoveries analyses under a number of scenarios; reporting on the Amended Plan in the Monitor's Twenty-Sixth and Twenty-Seventh Reports, approving minor Plan Modifications that were of a technical and administrative nature contained in the Second Amended Plan as described in the Monitor's Twenty-Eighth Report;
- (xxi) assisting the Target Canada Entities, as required, in working with the Canada Revenue Agency ("**CRA**") in order to deal with the CRA's claims as described in the Monitor's previous reports;

- (xxii) administering the sales process in connection with the sale of shares of Target Canada (Ontario) Pharmacy Corp., a “pre-54” charter company under applicable law, resulting in net proceeds to TCC of approximately \$478,000;
- (xxiii) chairing the Creditors’ Meeting held on May 25, 2016 and reporting on the voting results of the meeting in the Monitor’s Twenty-Eighth Report;
- (xxiv) coordinating all noticing requirements throughout the CCAA Proceedings, including notice of the Initial Order, the Claims Procedure Order and the Meeting Order, and all related creditor notices and meeting materials;
- (xxv) responding to a high volume of enquiries from stakeholders, including addressing questions and concerns of parties who contacted the Monitor on the toll-free number or email accounts established by the Monitor;
- (xxvi) posting non-confidential materials filed with the Court to the website established by the Monitor; and
- (xxvii) monitoring the receipts, disbursements, purchase commitments and arrangements for deposits with certain suppliers and creditors of the Applicants throughout the CCAA Proceedings.

3.11 On May 25, 2016, a Creditors’ Meeting was held in accordance with the Meeting Order granted by this Court on April 13, 2016. Creditors voting in person or by proxy at the Creditors’ Meeting unanimously voted in favour of the Second Amended Plan. The motion seeking Court approval of the Second Amended Plan was unopposed, and the Second Amended Plan was sanctioned by the Court by Order dated June 2, 2016. The

appeal periods having expired without any appeals being filed, and all conditions precedent having been satisfied, the Plan Implementation Date contemplated in the Second Amended Plan occurred on June 28, 2016. The Initial Distribution contemplated under the Second Amended Plan took place on June 29 and 30, 2016, with cheques or wire transfers (as the case may be) being sent on those days. Such initial distributions to Affected Creditors represented interim distributions of approximately 55.3% of such Affected Creditors' Proven Claims.

3.12 The Monitor currently estimates that Affected Creditors with Proven Claims will ultimately receive distributions under the Second Amended Plan in the range of approximately 75% to 81% of their Proven Claims².

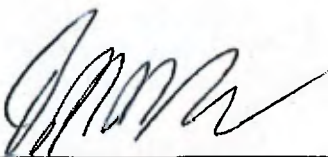
4.0 RELIEF REQUESTED


4.1 The Monitor is requesting approval of the Monitor's Fees and Disbursements and those of its legal counsel in respect of these CCAA proceedings up to July 2, 2016 and June 30, 2016, respectively, as more particularly described in the Fee Affidavits.

² See the Monitor's Twenty-Ninth Report and the important qualifications set out therein and in certain of the Prior Reports.

All of which is respectfully submitted to this Court this 18th day of July, 2016.

**Alvarez & Marsal Canada Inc., in its capacity
as Monitor of Target Canada Co., and
the other Applicants listed on Appendix A**

Per: 
Name: Douglas R. McIntosh
Title: President

Per: 
Name: Alan J. Hutchens
Title: Senior Vice-President

APPENDIX A
LIST OF THE APPLICANTS AND PARTNERSHIPS

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

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