

**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 (the "Applicants")**

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

**(Monitor's Intercompany Claims Report)**

**AUGUST 31, 2015**

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## 1.0 INTRODUCTION

### CCAA Proceedings

- 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**”).
- 1.2 Pursuant to an Order of the 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**”.
- 1.3 On February 11, 2015, the Court issued the Amended and Restated Initial Order (the “**Initial Order**”), which incorporates certain changes to the Order granted January 15, 2015 that are described in the Second Report of the Monitor dated February 9, 2015.
- 1.4 As described more fully below, on June 11, 2015, the Court issued an Order (the “**Claims Procedure Order**”), prescribing (among other things) the procedure and terms for filing of claims in the CCAA Proceedings.
- 1.5 In connection with the CCAA Proceedings, the Monitor has previously provided to the Court nineteen reports and one supplementary report (the “**Supplementary Report**”, and, collectively, the “**Monitor’s Reports**”). A&M also provided to the Court the Pre-

Filing Report of the Proposed Monitor dated January 14, 2015 (together with the Monitor's Reports, the "**Prior Reports**").

- 1.6 The Prior Reports, the Initial Order, the Claims Procedure Order and other Court-filed documents and notices in these CCAA Proceedings are available on the Monitor's website at [www.alvarezandmarsal.com/targetcanada](http://www.alvarezandmarsal.com/targetcanada).
- 1.7 Unless otherwise stated, all monetary amounts contained in this Report are expressed in Canadian dollars.
- 1.8 Capitalized terms used but not defined in this Report shall have the meanings ascribed to them in the Prior Reports.

### **Purpose of this Report**

- 1.9 This Twentieth Report of the Monitor (the "**Monitor's Intercompany Claims Report**" or this "**Report**") constitutes the report required by the Claims Procedure Order, discussed more fully below. It provides the Monitor's review of certain claims referred to as "Intercompany Claims," as defined by the Claims Procedure Order:<sup>1</sup>

**"Intercompany Claim"** means any Claim filed by any of the Target Canada Entities, or any of their affiliated companies, partnerships, or other corporate entities, including Target Corporation or any of its subsidiary or affiliated companies, partnerships, or other corporate entities in accordance with the terms of this Order, but excluding any Claim arising through subrogation or assignment.

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<sup>1</sup> Paragraph 3(s).

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

2.1 In preparing the Monitor's Intercompany Claims Report, the Monitor has been provided with, and has relied upon, certain documents, unaudited financial information, books and records and financial information prepared by the Target Canada Entities and/or Target Corporation, all as more fully discussed below, and discussions with management and representatives of the Target Canada Entities and/or Target Corporation (collectively, the "**Information**").

2.2 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. Some of the information referred to in this Report may include forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

## **3.0 OVERVIEW OF THE INTERCOMPANY CLAIMS**

3.1 The Intercompany Claims and the Monitor's review of such claims are discussed in later sections of this Report and a number of the Appendices. This Section 3.0 briefly summarizes the Intercompany Claims filed and the Monitor's review process.



## The Intercompany Claims

3.2 Thirteen Proofs of Claim in respect of 29 Intercompany Claims were filed by the Intercompany Claims Bar Date of 5:00 p.m. on July 31, 2015. Each Proof of Claim included all Intercompany Claims of a single claimant.

3.3 Table A below sets out a list of the Intercompany Claims filed:<sup>2</sup>

<b>TABLE A</b>			
<b>Claim Reference No.</b>	<b>Claimant</b>	<b>Debtor</b>	<b>Amount<sup>3</sup></b>
1.	Nicollet Enterprise 1 S.à.r.l	Target Canada Co.	\$3,068,729,437.68
2.A.	Target Brands, Inc.	Target Canada Co.	US\$23,573,541.52
2.B.	Target Brands, Inc.	Target Canada Co.	US\$37,502,539 (post-filing)
3.	Target Corporate Services, Inc.	Target Canada Co.	US\$2,778,278.27
4.A.	Target Corporation	Target Canada Property LLC	US\$89,079,106.65
4.B.	Target Corporation	Target Canada Co.	US\$541,403.68
4.C.	Target Corporation	Target Canada Co.	US\$559,373
5.A.	Target Canada Property LP	Target Canada Property LLC	\$1,449,577,927
5.B.	Target Canada Property LP	Target Canada Co.	\$87,748,817
5.C.	Target Canada Property LP	Target Canada Property LLC	Contingent [no quantum specified]
5.D.	Target Canada Property LP	Target Canada Co.	Contingent [no quantum specified]
6.A.	Target Canada Property LLC	Target Canada Co.	\$27,254,109.34
6.B.	Target Canada Property LLC	Target Canada Co.	\$1,911,494,242
6.C.	Target Canada Property LLC	Target Canada Co.	\$37,347,551.50 (post-filing)
7.A.	Target Canada Co.	Target Canada Property LLC	\$19,619,511.06 + contingent [no quantum specified]

<sup>2</sup> The “Claim Reference No.” for each Intercompany Claim is the claim identifier assigned to each Intercompany Claim by the Monitor.

<sup>3</sup> Claim amounts expressed throughout the balance of this Report are rounded to the nearest dollar.

<b>TABLE A</b>			
<b>Claim Reference No.</b>	<b>Claimant</b>	<b>Debtor</b>	<b>Amount<sup>3</sup></b>
7.B.	Target Canada Co.	Target Canada Property LLC	\$6,303,621.31 (post-filing) + contingent [no quantum specified]
7.C.	Target Canada Co.	Target Canada Property LP	\$528,730 + contingent [no quantum specified]
7.D.	Target Canada Co.	Target Canada Pharmacy Franchising LP	\$12,346,347.73 + contingent [no quantum specified]
7.E.	Target Canada Co.	Target Canada Pharmacy (Ontario) Corp.	\$621,363.54 + contingent [no quantum specified]
7.F.	Target Canada Co.	Target Canada Pharmacy (BC) Corp.	\$61,378.51 + contingent [no quantum specified]
7.G.	Target Canada Co.	Target Canada Pharmacy Corp.	Contingent [no quantum specified]
7.H.	Target Canada Co.	Target Canada Pharmacy (SK) Canada Corp.	Contingent [no quantum specified]
7.I.	Target Canada Co.	Target Canada Mobile LP	\$50,728.14 + contingent [no quantum specified]
8.	Target Canada Pharmacy Franchising LP	Target Canada Co.	\$2,451,401.01 + contingent [no quantum specified]
9.	Target Canada Pharmacy (Ontario) Corp.	Target Canada Co.	\$324,255.04 + contingent [no quantum specified]
10.	Target Canada Pharmacy (BC) Corp.	Target Canada Co.	\$52,280.64 + contingent [no quantum specified]
11.	Target Canada Pharmacy Corp.	Target Canada Co.	Contingent [no quantum specified]
12.	Target Canada Pharmacy (SK) Canada Corp.	Target Canada Co.	Contingent [no quantum specified]
13.	Target Canada Mobile LP	Target Canada Co.	Contingent [no quantum specified]

- 3.4 Attached as **Appendix B** is an organizational chart provided by Target Corporation of the Target corporate structure, highlighting the intercompany claimants and the Target Canada Entities.
- 3.5 The 29 Intercompany Claims can be categorized in terms of subject matter as claims on account of one or more of:
- (a) indebtedness by reason of a credit facility or other borrowing;
  - (b) amounts owed in respect of real property leasing arrangements among the Target Canada Entities;
  - (c) amounts owed on account of unpaid fees for services provided; and
  - (d) amounts owed on a reconciliation of intercompany accounts recording treasury functions performed by an affiliate and/or payments made to or received from third parties on behalf of an affiliate.
- 3.6 There are two types of Intercompany Claims in terms of the nature of the claimant:
- (a) Intercompany Claims asserted against one or more Target Canada Entities by the parent Target Corporation and other entities affiliated with Target Corporation other than Target Canada Entities. For purposes hereof, Target Corporation, together with other companies, partnerships and other corporate entities affiliated with it (other than Target Canada Entities) are referred to as the “**Target Group**” (and each, a “**Target Group Entity**”). A “**Target Entity**” shall refer to either a Target Canada Entity or a Target Group Entity; and

- (b) Intercompany Claims asserted against one or more Target Canada Entities by claimants which are themselves Target Canada Entities (collectively, “**Intracompany Claims**” and each an “**Intracompany Claim**”).

3.7 Of the 29 Intercompany Claims, 22 are Intracompany Claims.

3.8 With respect to the 22 Intracompany Claims:

- (a) where two Target Canada Entities (other than Target Canada Property LP and Target Canada Property LLC) each claimed against the other:
  - (i) the Target Canada Entity whose claim was the smaller of the two filed its claim on a gross basis; and
  - (ii) the Target Canada Entity whose claim was the larger of the two (and, accordingly, would be owed the net amount of the two Intracompany Claims) filed its claim on a net basis (noting the gross amount and then netting, against that, the Intracompany Claim of the debtor it claims against);
- (b) each Intracompany Claim (other than 5.A, 5.B, 6.A, 6.B and 6.C) includes a contingent claim of an unknown amount in respect of claims that may be asserted by one or more persons against the claimant; and
- (c) on a net basis as filed and disregarding contingent claims, the Intracompany Claims represent, in aggregate, claims of:
  - (i) \$87,220,087 by Target Canada Property LP against TCC;

- (ii) \$1,950,172,770 by Target Canada Property LLC against TCC;
- (iii) \$1,449,577,927 by Target Canada Property LP against Target Canada Property LLC; and
- (iv) \$13,079,818 by TCC against a number of Target Canada Entities (other than Target Canada Property LP and Target Canada Property LLC).

3.9 The seven Intercompany Claims filed by the Target Group include one claim in the amount of \$3,068,729,438 (which the Target Group has agreed to subordinate) and six other claims totalling US\$154,034,242.

3.10 Three of the 29 Intercompany Claims are post-filing claims (for full payment), including one claim filed by the Target Group in the amount of US\$37,502,539 and two Intracompany Claims in the amount of US\$37,347,552 and \$5,470,262.

#### **4.0 BACKGROUND TO THE INTERCOMPANY CLAIMS REVIEW**

##### **Claims Procedure Order**

4.1 On March 5, 2015, the Court stated in an endorsement that “when the intercompany claims are submitted in the claims process to be approved by the Court, the Monitor will prepare a report thereon and make it available to the Court and all creditors.”

4.2 On May 12, 2015, the Court ordered that the Monitor’s motion seeking approval of a comprehensive claims process by way of a claims procedure order would be heard on June 11, 2015 and that the claims process would include, among other things, the

preparation of and service by the Monitor of a report on all Intercompany Claims submitted in accordance with the claims procedures.

4.3 On June 11, 2015, the Court issued the Claims Procedure Order. The Claims Procedure Order sets out, among other things, the procedure and terms for the identification and quantification of claims against the Target Canada Entities and the current and former directors and officers of the Target Canada Entities. As contemplated by the May 12, 2015 order, the Claims Procedure Order requires the Monitor to serve and file the Monitor's Intercompany Claims Report, detailing the Monitor's review of the Intercompany Claims and assessing in detail the validity and quantum of the Intercompany Claims.

4.4 The Claims Procedure Order<sup>4</sup> provides that:

- (a) all Intercompany Claims are to be filed, by way of Proof of Claim, by the Intercompany Claims Bar Date, being 5:00 p.m. on July 31, 2015;
- (b) if an Intercompany Claim is not filed so as to be received on or before the Intercompany Claims Bar Date (or such later date as the Court directs):
  - (i) such claim is forever barred and extinguished;
  - (ii) the claimant has no vote on account of such claim;
  - (iii) the claimant may not participate in any distribution under any Plan, on account of such claim; and

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<sup>4</sup> Paragraphs 8, 20 and 21.

- (c) the Monitor's authority to waive strict compliance with the terms of the Claims Procedure Order does not extend to Intercompany Claims.

4.5 The Claims Procedure Order<sup>5</sup> further provides that:

- (a) the Monitor may seek such assistance from Target Entities as may be reasonably required to carry out its duties and obligations pursuant to the Order; and
- (b) the Target Canada Entities, and their current and former shareholders, officers, directors, employees, agents and representatives, are required to fully cooperate with the Monitor in its role under the Claims Procedure Order.

4.6 As provided in the Claims Procedure Order,<sup>6</sup> the Monitor's assessment is subject to further review and adjustments in respect of claims that may be pursued by the Monitor in accordance with section 36.1 of the CCAA (i.e., void and/or reviewable transactions). Accordingly, in undertaking the review of the Intercompany Claims, the Monitor has not yet considered the potential application of section 36.1 of the CCAA (nor sections 95 to 101 of the *Bankruptcy and Insolvency Act* (Canada) referenced therein). The Monitor has also not yet considered the potential application of the *Fraudulent Conveyances Act* (Ontario) or the *Assignments and Preferences Act* (Ontario).

4.7 The Monitor's review did not include a consideration of the potential application of other statutory remedies, or equitable remedies (such as equitable subordination) that might affect or alter the effect of contractual arrangements, or the characterization of indebtedness.

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<sup>5</sup> Paragraphs 11 and 12.

<sup>6</sup> Paragraph 35.

4.8 The Claims Procedure Order<sup>7</sup> provides that nothing in the Monitor's Intercompany Claims Report binds the Court with respect to its determination of the Intercompany Claims as the Court sees fit, including the validity, priority or quantum of such claim.

### **Consultative Committee**

4.9 The Monitor has convened four meetings of the Consultative Committee, a committee of counsel to certain stakeholders contemplated by the Order of the Court made May 12, 2015. The Monitor discussed certain aspects of its approach to its review of the Intercompany Claims with the Consultative Committee, including the challenges resulting from the compressed timeframe involved, the complexity of the Intercompany Claims and the volume of underlying transactions. The Monitor also provided a high level overview of the claims soon after they were filed, and of its progress and preliminary findings prior to the completion of this Report.

## **5.0 REVIEW OF INTERCOMPANY CLAIMS**

### **Compliance with Filing Requirements**

5.1 The Claims Process is being conducted in accordance with the Claims Procedure Order. Each of the 29 Intercompany Claims was filed on a timely basis by way of Proof of Claim (with, as noted above, all claims filed by a particular claimant being included in a single Proof of Claim, as specified in the Proof of Claim Instruction Letter provided for by the Claims Procedure Order).

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<sup>7</sup> Paragraph 35.



5.2 The Proofs of Claim for the Intercompany Claims included supporting information as applicable, including:

- (a) copies of agreements pursuant to which the obligation(s) relevant to the Intercompany Claim were claimed to have arisen (the “**Supporting Agreements**”);
- (b) excerpts from the general ledgers, treasury modules and journal entries from the relevant entity’s accounting system (together with, where appropriate, electronic files extracting, sorting and tabulating relevant information from the books and records of the relevant entity) (the “**Supporting Financial Information**”);<sup>8</sup>
- (c) schedules and summaries prepared by the relevant Target Entity to support its claim(s);
- (d) copies of invoices supporting expenditures associated with the obligation(s) relevant to the Intercompany Claim; and
- (e) copies of bank statements evidencing the movement of funds pertinent to the Intercompany Claim.

### **The Review Process**

5.3 The Monitor carried out its mandate as set out in the Claims Procedure Order and discussed above. In doing so, the Monitor considered each of the Intercompany Claims filed with a view to:

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<sup>8</sup> Target Entities use a 4-4-5 accounting calendar, resulting in the non-alignment of reporting periods and calendar periods.

- (a) understanding the basis for the Intercompany Claim;
- (b) assessing the quantum of the amount claimed;
- (c) assessing the claimant's entitlement to the amount claimed; and
- (d) identifying issues or concerns surrounding the validity or quantum of the Intercompany Claim.

5.4 In general terms, in the course of its review of each of the Intercompany Claims the Monitor, with the assistance of its legal counsel, undertook the following as appropriate:

- (a) considered the historical context and rationale for the arrangements and agreements underlying the Intercompany Claim;
- (b) reviewed the narrative descriptions of the Intercompany Claim accompanying the Proof of Claim to understand its basis;
- (c) reviewed the Supporting Agreements to ascertain whether the claimant's contractual entitlement substantiated, and was consistent with, the Intercompany Claim. Monitor's counsel is qualified to practice law in the Province of Ontario and has interpreted the agreements based on Ontario and Canadian law. However, some of the agreements are not governed by Ontario or Canadian law. It was not practical in the circumstances, given the compressed timeframe for this review and consideration of costs, for the Monitor to consult with counsel in other jurisdictions. The Monitor will do so as necessary and appropriate and report if warranted;

- (d) performed its own calculations to verify certain mathematical computations supporting the Intercompany Claim;
- (e) reviewed the Supporting Financial Information to confirm that components of the Intercompany Claim were accurately and sufficiently supported (this process being hereinafter referred to as “**tying out**”);
- (f) identified the nature and source of funding of the Target Canada Entities (but without tracing the nature and source of that funding beyond the sourcing of funds by way of an equity investment in an entity);
- (g) communicated with representatives of the claimants (where necessary) to understand the nature and purpose of the Supporting Financial Information, to clarify certain aspects of the Intercompany Claim and to request additional information in support of the Intercompany Claim;
- (h) reviewed whether the amounts claimed accurately corresponded to contractual obligations of the debtor (or obligations of reimbursement on the part of the debtor);
- (i) in the case of amounts claimed on account of fees or costs for premises, financing, services or rights provided to the debtor, assessed whether the relevant funds, services and rights were provided in the manner, to the extent (or in the amount) and for the period claimed;

- (j) in the case of amounts claimed on account of expenditures made on behalf of or for the benefit of the debtor, reviewed whether the expenditures were properly for the account of the debtor and that payments of those expenditures were made;
- (k) in the case of amounts claimed on account of sums received by the debtor on behalf of the claimant, reviewed whether the amounts were properly for the account of the claimant and were received;
- (l) engaged the Monitor's counsel to review the contractual documentation provided in respect of each Intercompany Claim; and
- (m) in the case of certain claims, obtained expert independent advice from Dr. Timothy Reichert, President, Economics Partners, LLC ("EP", as described below), with respect to whether the pricing underlying the amounts claimed was within the range that would be negotiated between parties dealing at arm's length, and whether the allocation methodology used to allocate services to a Target Canada Entity was reasonable.

5.5 The claimants responded cooperatively to the Monitor's requests for additional information and documentation to assist in the Monitor's review.

5.6 Descriptions of the Monitor's activities in reviewing each Intercompany Claim are included in the discussion of the claim.

5.7 Given the volume and complexity of the underlying transactions for Intercompany Claims, cost considerations in connection with the review process, and the time constraints for the review, the Monitor exercised judgment when determining the extent

of work required to assess the validity and quantum of the claim on a claim-by-claim basis. As some Intercompany Claims involved thousands of transactions, it was not practical to validate each individual transaction to form a judgment concerning a particular Intercompany Claim. Where necessary and appropriate, the Monitor utilized various techniques, including the application of a materiality threshold to the review exercise, as well as a “sampling” and/or “testing” approach in respect of applicable claim components to assess the accuracy and occurrence of select transactions forming part of the overall claim. This approach, where implemented, is set out in more detail in the analysis of each of the Intercompany Claims below.<sup>9</sup>

### **Economics Partners, LLC**

- 5.8 As referenced above, the Monitor, through its legal counsel, engaged an independent expert for an opinion as to whether certain transactions underlying certain Intercompany Claims were priced in a manner consistent with the arm’s length principle (as discussed below).
- 5.9 The Monitor retained Dr. Reichert, a professional economist and President of EP. Dr. Reichert is a recognized transfer pricing expert and has specialized in transfer pricing for over 20 years in a wide array of industries. Dr. Reichert’s report is attached as **Appendix C** (the “**EP Report**”).<sup>10</sup>

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<sup>9</sup> There is no guidance or governing process or methodology for the exercise engaged in by the Monitor, including a sampling or testing methodology. In each case, the Monitor exercised its judgment as to a level of materiality and testing or sampling that would provide a reasonable basis for assessing the validity and quantum of an Intercompany Claim.

<sup>10</sup> Transfer pricing is the act of assigning a monetary value, or price, to “controlled transactions,” i.e., transactions that occur between entities or segments within a corporate group, discussed in greater detail in the EP Report.

- 5.10 The Monitor considered such a pricing analysis to be appropriate given the non-arm's length nature of the underlying transactions and, in some cases, an express contractual reference to arm's length pricing. In the case of the allocation of services for which a fee was charged, the Monitor also sought Dr. Reichert's expert view on whether the allocation methodology implemented by the relevant entities was reasonable.
- 5.11 Transfer pricing expertise is relevant to the review because the central regulatory principle governing transfer pricing is the "arm's length principle" that necessitates that intercompany transactions be priced in a manner consistent with the way in which similarly situated uncontrolled parties bargaining at arm's length would price the transactions – i.e., within an "arm's length range".
- 5.12 The Monitor is satisfied that Dr. Reichert is qualified to conduct the analysis for which he was engaged by the Monitor.
- 5.13 Accordingly, in particular, the Monitor sought EP's assessment with respect to:
- (a) certain interest rates charged;
  - (b) the mark-up charged for certain services;
  - (c) the early Termination Payment referred to and defined below;
  - (d) the methodology used to allocate certain shared expenses among a number of entities; and
  - (e) the royalty rate charged for certain license rights.

5.14 Dr. Reichert's conclusions with respect to particular Intercompany Claims are described in the discussion of the applicable Intercompany Claim below.

### **Framework for Discussion**

5.15 The discussion of the Intercompany Claims below is provided on a claim-by-claim basis. To assist, the claims are considered under the following headings:

- (a) Intercompany Claims filed by the Target Group;
- (b) Intercompany Claims filed by Target Canada Entities in respect of the Leasehold Arrangements (defined below), and sometimes referred to as the "**Leasehold Arrangement Claims**"; and
- (c) Intracompany Claims (other than the Leasehold Arrangement Claims).

## **6.0 INTERCOMPANY CLAIMS FILED BY THE TARGET GROUP: CLAIM-BY-CLAIM REVIEW**

6.1 Each of the Intercompany Claims is discussed below, using the claim reference numbers referred to in Table A above. The Proofs of Claim and explanatory notes to the filed claims are attached as appendices to this Report. Supporting Agreements are also attached as appendices. Supporting Financial Information and other documents included with the Proofs of Claim will be posted in due course to the Monitor's website. Redactions to supporting documents are being made by the claimants for confidentiality and privacy concerns.

**Claim 1 – Nicollet Enterprise 1 S.à.r.l claim against Target Canada Co. - \$3,068,729,438**

6.2 Nicollet Enterprise 1 S.à.r.l (“**Nicollet**”) has asserted a claim against TCC, which has been subordinated by agreement, as described below.<sup>11</sup> A summary of this Claim is set out in the table below.<sup>12</sup>

<b>Claim #1</b> <b>Claimant: Nicollet Enterprise 1 S.à.r.l</b> <b>Debtor: Target Canada Co.</b> <b>Type: Pre-filing</b> <b>\$3,068,729,438</b> <b>Currency: CAD</b>				
	Description of Transaction	Claim	Ref #	Set-off (By) /Against
	Loan balance as at Jan 14, 2015	\$ 3,068,729,438	1	
	<b>Total claim</b>	<b>\$ 3,068,729,438</b>		

6.3 Under a Loan Facility Agreement, dated May 18, 2011, Nicollet extended a loan facility of \$3 billion to TCC.<sup>13</sup> Amounts borrowed thereunder were repayable on the 10 year anniversary of the facility (i.e., May 18, 2021) and, if repaid earlier, were subject to a make-whole prepayment penalty. Amounts borrowed thereunder bore interest at the Canadian Dollar Offered Rate (“**CDOR**”) swap rate as at the time of each draw plus 2.75% payable annually.

6.4 Nothing in the Loan Facility Agreement constrained the use of funds advanced thereunder.

<sup>11</sup> This Proof of Claim and explanatory notes to the filed claim are attached hereto as **Appendix D**.

<sup>12</sup> The “Ref #” column in each Claim summary table refers to work performed with respect to that item as shown in the Monitor’s review table for each Claim.

<sup>13</sup> The Loan Facility Agreement and the amendments thereto (as described below) are attached hereto as **Appendix E**.



- 6.5 By Amendment dated March 28, 2014, the facility limit was increased to \$4 billion to accommodate the funding needs of TCC, the ability to prepay the facility was removed and a prepayment of interest for the period ending August 31, 2014 was provided for.
- 6.6 TCC borrowed under the facility to make the prepayment of interest contemplated by the Amendment dated March 28, 2014.
- 6.7 By Second Amendment dated October 30, 2014 (with retroactive effect to September 1, 2014), the accrual of interest on amounts outstanding under the loan facility was terminated and an immaterial underpayment of accrued interest to August 31, 2014 was waived. The claimant has indicated that this amendment was made because TCC would have been required to borrow to make any further interest payment.
- 6.8 By Third Amendment dated January 2, 2015, the Loan Facility Agreement was amended to remove all events of default other than a failure to perform an obligation thereunder which continues for a period of 30 business days. The claimant has indicated that the Loan Facility Agreement was so amended to avoid cross defaults because any CCAA proceeding or other act of insolvency/ceasing to carry on business on the part of TCC would otherwise lead to an acceleration of the debt under the Loan Facility Agreement and trigger cross defaults within the Target Group, particularly with respect to certain indenture arrangements between Target Corporation and Bank of New York Mellon Trust Company, National Association.
- 6.9 This Claim states that the loan facility balance as at January 14, 2015 was \$3,068,729,438, including all accrued (but unpaid) interest thereon.

6.10 On January 12, 2015, Nicollet and TCC entered into a Subordination and Postponement Agreement<sup>14</sup> pursuant to which Nicollet agreed to postpone and subordinate all amounts owed to it under the Loan Facility Agreement to the payment in full of all arm's length and non-arm's length claims against TCC for voting and distribution purposes in connection with any CCAA proceedings (it being acknowledged and agreed that all amounts owed to Nicollet under the Loan Facility Agreement would not be subordinated or postponed to, and would have priority over, any and all equity claims against TCC).

Monitor's Review

6.11 A description of the Monitor's activities in reviewing this Claim is set out in the table below.

<b>Monitor's Review:</b>		<b>Claim #1 (CAD)</b>	
Ref #	AMOUNT		WORK PERFORMED
1.	\$ 3,068,729,438	(i)	Tied loan balance in claim to general ledger to ensure amount claimed is consistent with company records.
		(ii)	Traced the source of TCC's funding to contributions by its direct parent, Nicollet Enterprise 1 S.à.r.l, by tracing all contributions to receipt in TCC bank statements.
		(iii)	Calculated exchange rates used (where funds advanced to TCC in USD were converted to CAD) and compared those rates to the Bank of Canada noon spot rate, ensuring reasonability.
		(iv)	Requested samples of the Drawdown Notices contemplated and required by the loan documents to be prepared prior to each funding request.
		(v)	Reviewed interest continuity schedule for mathematical accuracy and to ensure consistency with the interest rate and terms as outlined in the loan documents.
<b>Total</b>	<b>\$ 3,068,729,438</b>		

<sup>14</sup> The Subordination and Postponement Agreement is attached hereto as **Appendix F**.

EP Assessment

- 6.12 Dr. Reichert conducted an economic analysis to assess the credit rating of the borrower and to benchmark the arm's length range of interest rates given the credit rating and the economically important features of the Loan Facility Agreement. Dr. Reichert's discussion is set out in Section VI of the EP Report at **Appendix C**.
- 6.13 Dr. Reichert concluded that the interest rate on the Loan Facility Agreement is consistent with the arm's length range, based on comparable third party debt instruments.

Monitor's Findings

- 6.14 The Monitor notes that the Loan Facility Agreement, as amended, required Drawdown Notices to be provided in respect of each advance of funds. The claimant indicated that Drawdown Notices were not prepared due to the volume and frequency of loan advances. The Monitor is not concerned by the absence of Drawdown Notices, given that it is satisfied (based on its review) that the funds were advanced to TCC.
- 6.15 The Monitor's review of this Claim raised no significant issues.
- 6.16 On balance, based on its review as described, the Monitor considers that Claim 1 constitutes a valid claim for the quantum claimed.

**Claim 2.A - Target Brands, Inc. claim against Target Canada Co. - US\$23,573,542**

6.17 Target Brands, Inc. (“**Brands**”) has asserted a claim against TCC.<sup>15</sup> A summary of this Claim is set out in the table below.

Claim #2A				
Claimant: Target Brands, Inc.				
Debtor: Target Canada Co.				
Type: Pre-filing				
\$23,573,542				
Currency: USD				
Description of Transaction	Claim	Ref #	Set-off (By) /Against	
Shared services charge (Dec 1, 2014 - Jan 14, 2015):				
US payroll & benefits	\$ 10,265,126	1		
Technology charge	6,808,120	2		
Contractors	5,072,349	3		
Other	338,295	4		
Transfer pricing mark-up	1,089,652	5		
Prepaid royalty set-off	-	6		
<b>Total claim</b>	<b>\$ 23,573,542</b>			

*Shared Services Master Agreement*

6.18 Under a Master Agreement dated February 3, 2013 (the “**Shared Services Master Agreement**”)<sup>16</sup> and having a term of five years, Brands provided certain services to TCC including:

- (a) retail support services (i.e., retail training);
- (b) administrative and business services (i.e., accounting, cash management, tax compliance, human resources, public relations, legal, risk management and IT);
- (c) marketing consulting services;
- (d) merchandising consulting services; and

<sup>15</sup> This Proof of Claim and explanatory notes to the filed claim are attached hereto as **Appendix G**.

<sup>16</sup> The Shared Services Master Agreement and the amendments thereto are attached hereto as **Appendix H**.

(e) strategy and management consulting services.

6.19 These services were provided by Brands and its employees in consideration for an arm's length fee (the "**Services Fee**") to be agreed upon by the parties from time to time in accordance with the terms of the Shared Services Master Agreement.

6.20 The materials provided in support of this Claim indicated that a mark-up was applied to certain expenses incurred in providing the services contemplated by the Shared Services Master Agreement in order to ensure arm's length pricing.

6.21 This Claim relates to the Services Fee exigible (but not yet paid) in relation to services provided in December 2014 (US\$18,592,081) and from January 1 to 14, 2015 (US\$4,981,461).

6.22 The expenses claimed are categorized as follows:

(a) payroll expenses associated with employees fully dedicated to the Canadian operations and, where there are employees supporting both the Canadian and U.S. operations, to the extent allocated to Canada (US\$10,265,126 and US\$338,295);

(b) depreciation expenses associated with information technology assets purchased for use by the Canadian operations only (US\$6,808,120); and

(c) payments to information technology contractors providing services for the benefit of the Canadian operations and, where there are contractors supporting both the Canadian and U.S. operations, to the extent allocated to Canada (US\$5,072,349).

A total transfer pricing mark-up of US\$1,089,652 was applied to certain of these services/expenses.

- 6.23 Additionally, under the Shared Services Master Agreement, Brands granted to TCC a revocable, exclusive, sublicensable, royalty-bearing license to exploit certain intellectual property owned or licensed by Brands for a royalty fee (the “**Royalty Fee**”) of 1.5% of TCC’s net revenues.
- 6.24 The Shared Services Master Agreement contemplated that Brands and TCC could agree to prepay the Royalty Fee based on an estimate of TCC’s net revenues (with an adjustment to actual net revenues at year end). On January 30, 2014, TCC prepaid a US\$41,250,525 Royalty Fee to Brands based on forecast net revenues for TCC of US\$2,750,035,000 for the fiscal year ended January 31, 2015.
- 6.25 By Side Letter, dated January 14, 2015, the Shared Services Master Agreement was terminated with effect from and after April 14, 2015 in accordance with its provisions (which permitted termination upon three months’ prior written notice).
- 6.26 Brands and TCC entered into an Intellectual Property Licence Agreement, dated January 14, 2015 and effective as of April 14, 2015, pursuant to which Brands granted to TCC a limited and temporary exclusive, non-sublicensable, royalty-free license in Canada to exploit certain intellectual property owned or licensed by Brands in connection with TCC’s wind-down and the liquidation of its retail operations.
- 6.27 The claimant indicated that TCC’s net revenue was as follows for the period indicated:
- (a) from February 2, 2014 to January 14, 2015, US\$1,903,673,960;

(b) from January 15, 2015 to January 31, 2015, US\$96,794,798; and

(c) from February 1, 2015 to April 12, 2015, US\$430,468,046.

Monitor’s Review

6.28 A description of the Monitor’s activities in reviewing this Claim is set out in the table below.

<b>Monitor’s Review:</b>		<b>Claim # 2.A (USD)</b>	
<b>Ref #</b>	<b>AMOUNT</b>	<b>WORK PERFORMED</b>	
1.	\$ 10,265,126	US payroll & benefits:	
		(i)	Tied claim amount to support provided and extracts from the company’s books and records, where applicable.
		(ii)	Tied payroll register by dedicated employee to claim amount. On a sample basis, performed testing of payments to employees to ensure existence of payment.
		(iii)	For allocable headcount where payroll detail was not provided, assessed the reasonableness of charge by comparing to December 2013 and January 2014 prior year payments.
		(iv)	Recalculated benefit rates and compared to historical averages.
		(v)	Reviewed components of the compensation amount to ensure charges were reimbursable under the Shared Services Master Agreement.
		(vi)	Assessed appropriateness of bonus accrual amount relative to total bonus paid for the period. On a sample basis, performed testing of bonus payments to employees to ensure existence of payment.
2.	6,808,120	Technology charge:	
		(i)	Reviewed depreciation calculation for mathematical accuracy and tied amounts to depreciation schedule provided.
		(ii)	Reviewed technology assets depreciation charge on account of TCC assets.
3.	5,072,349	Contractors:	
		(i)	Tied claim amount to support provided and extracts from the company’s books and records, where applicable.
		(ii)	On a sample basis, tied transactions to third party invoices and payment detail.
		(iii)	Verified the mathematical accuracy of the allocation of contractor invoices allocated between TCC and Target Corporation.
		(iv)	On a sample basis, verified that the invoices fully charged to TCC were identified to be on account of work performed for TCC.
4.	338,295	Other:	
		(i)	Tied claim amount to support provided and extracts from the

		company's books and records, where applicable.
5.	1,089,652	Transfer pricing mark-up of 10% on certain services/expenses: (i) Verified the mathematical accuracy of the mark-up charged.
6.		Royalty Fee adjustment: (i) Verified the mathematical accuracy of the Royalty Fee calculation and that the charges were consistent with the Shared Services Master Agreement. (ii) Tied the 2014/2015 sales figures used as the basis for the Royalty Fee calculation to financial statement detail for the relevant period.
<b>Total</b>	<b>\$</b>	<b>23,573,542</b>

### EP Assessment

- 6.29 Dr. Reichert carried out an analysis as to whether the transfer pricing mark-up that was applied to certain of the services provided by Brands to TCC was consistent with the arm's length standard. He also assessed the reasonableness of the methodology used to allocate charges for services to TCC.
- 6.30 Dr. Reichert's discussion of the transfer pricing mark-up is set out in Section VII of the EP Report at **Appendix C**. He benchmarked the arm's length profitability associated with the provision of similar services by comparable service providers in the same geographic market as Brands.
- 6.31 Dr. Reichert concluded that the mark-up is consistent with the arm's length standard.
- 6.32 Dr. Reichert reviewed the methodology by which Brands allocated the costs of services to TCC. He concluded that the approach taken by Brands was reasonable and consistent with the arm's length principle.
- 6.33 Dr. Reichert also conducted an analysis as to whether the royalty rate (1.5% of net revenues) for the royalties payable by TCC to Brands under the Shared Services Master



Agreement was consistent with the arm's length standard. Dr. Reichert's discussion is set out in Section VIII of the EP Report at **Appendix C**. Dr. Reichert conducted an economic analysis to assess the ability of TCC to pay the royalty rate on an *ex ante* basis and to benchmark the arm's length royalty rate. He concluded that TCC expected to have the ability to pay a royalty rate of 1.5% of net revenues, and that the rate is consistent with the arm's length standard.

#### Monitor's Findings

- 6.34 Under the Shared Services Master Agreement, Brands agreed to provide services through its own resources or through authorized third parties pursuant to duly executed sublicense agreements. While the Monitor was unable to verify whether the information technology contractors to whom payments were made were authorized third parties, the Monitor has found nothing to suggest they were not.
- 6.35 The Monitor did not validate the accuracy of the allocation between the Canadian and U.S. operations because such validation would have required, among other things, extensive factual investigations such as interviews with employees and third parties, and was not practical in the circumstances. In the case of allocable payroll expenses, however, the Monitor found the payroll expenses of a prior period were comparable to the expenses charged in this period.
- 6.36 Of the amount of US\$10,265,126 claimed on account of payroll expenses for employees supporting the Canadian operations, US\$1,196,000 represents bonuses paid. Bonuses paid to seconded employees should properly have been charged to TCC under the Secondment Agreement (defined below in Claim 4.B) by Target Corporation (not

Brands). However, given that both Target Corporation and Brands are not Applicants, the Monitor is of the view, on balance, that this portion of the Claim by Brands against TCC may be treated as a valid claim.

6.37 This Claim includes an amount of US\$338,295 allocated to the Canadian operations for payroll expenses of employees providing services to the Canadian operations but not included in the dedicated or allocated headcount of the Shared Services Master Agreement. While the Monitor did not validate this specific expense because such validation would have required extensive factual investigations (including interviews with employees) and was not practical in the circumstances, it appeared reasonable and consistent with comparable expenses and there was nothing in the Monitor's review to suggest it was not properly reimbursable.

6.38 The Monitor confirmed that:

- (a) the Royalty Fee properly exigible in respect of TCC's net revenue for the period from February 2, 2014 to January 14, 2015 was US\$28,555,109; and
- (b) the Royalty Fee properly exigible in respect of TCC's net revenue for the period from January 15, 2015 to April 12, 2015 was US\$7,908,943.

Accordingly, the total Royalty Fee properly payable by TCC to Brands under the Shared Services Master Agreement for the period from February 2, 2014 to April 12, 2015 was US\$36,464,052. Based on these calculations, the Monitor has concluded that TCC overpaid Brands by US\$4,786,473 on account of the Royalty Fee and is entitled to repayment of such amount through a corresponding adjustment to this Claim.

6.39 On balance, based on its review as described, the Monitor considers that Claim 2.A constitutes a valid claim, the quantum of which is subject to reduction as set out in the table below.

<b>Claim #2A</b> <b>Claimant: Target Brands, Inc.</b> <b>Debtor: Target Canada Co.</b> <b>Type: Pre-filing</b> <b>\$23,573,542</b> <b>Currency: USD</b>				
Description of Transaction	Claim	Proposed Adjustment	Recalculated Claim	
Shared services charge (Dec 1, 2014 - Jan 14, 2015):				
US payroll & benefits	\$ 10,265,126	\$ -	\$ 10,265,126	
Technology charge	6,808,120	-	6,808,120	
Contractors	5,072,349	-	5,072,349	
Other	338,295	-	338,295	
Transfer pricing mark-up	1,089,652	-	1,089,652	
Prepaid royalty set-off	-	(4,786,473)	(4,786,473)	
<b>Total claim</b>	<b>\$ 23,573,542</b>	<b>\$ (4,786,473)</b>	<b>\$ 18,787,069</b>	

**Claim 2.B – Target Brands, Inc. claim against Target Canada Co. - US\$37,502,539 (post-filing claim)**

6.40 Brands has asserted a post-filing claim against TCC.<sup>17</sup> A summary of this Claim is set out in the table below.

<b>Claim #2B</b>				
<b>Claimant: Target Brands, Inc.</b>				
<b>Debtor: Target Canada Co.</b>				
<b>Type: Post-filing</b>				
<b>\$37,502,539</b>				
<b>Currency: USD</b>				
<b>Description of Transaction</b>	<b>Claim</b>	<b>Ref #</b>	<b>Set-off (By) /Against</b>	
Shared services in excess of SSM and AS agreements (Jan 15 - Jun 30, 2015):				
Severance	\$ 17,911,316	1		
Payroll & benefits	10,345,291	2		
Expats	8,017,205	3		
Other	1,228,727	4		
<b>Total claim</b>	<b>\$ 37,502,539</b>			

6.41 This Claim relates to Service Fees exigible in respect of services provided under the Shared Services Master Agreement and the Administrative Services Agreement (defined below), as applicable, between January 15, 2015 and June 30, 2015.

*Shared Services Master Agreement and the Administrative Services Agreement*

6.42 The relevant provisions of the Shared Services Master Agreement are discussed in Claim 2.A.

6.43 By Side Letter dated January 14, 2015,<sup>18</sup> the Shared Services Master Agreement was terminated with effect from and after April 14, 2015 in accordance with its provisions (which permitted termination upon three months' prior written notice). The parties agreed

<sup>17</sup> The explanatory notes filed with this claim are attached hereto as **Appendix I**.

<sup>18</sup> The Side Letter is attached hereto as **Appendix J**.

that the Services Fee would reduce generally over time to reflect the reduction in level of support and services required by TCC as operations were wound down and real estate was sold or disclaimed. The Side Letter included a schedule setting out estimated reduced fees over the three months' notice period. The parties further agreed to review the fee schedule and services provided from time to time and make any necessary adjustments mutually agreed in consultation with the Monitor.

6.44 Brands and TCC also entered into an Administrative Services Agreement, dated January 14, 2015 (the “**Administrative Services Agreement**”),<sup>19</sup> pursuant to which Brands agreed, from and after April 14, 2015, to provide certain administrative and business services (including accounting, cash management, tax, human resources, public relations, legal, risk management and IT) to TCC for a fee (the “**Administrative Services Fee**” and, together with the Services Fee, the “**Fee**”) to be agreed upon by the parties from time to time. Similar to the Side Letter, the parties anticipated that the Administrative Services Fee would be adjusted from time to time, in consultation with the Monitor, to reflect the reduction in the level of support and services required by TCC. The Administrative Services Agreement appended a schedule setting out estimated reduced fees for the period from April 14, 2015 to January 30, 2016. The parties further agreed to review the fee schedule and services provided from time to time and make any necessary adjustments mutually agreed in consultation with the Monitor.

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<sup>19</sup> The Administrative Service Agreement is attached hereto as **Appendix K**.

6.45 The claimant has indicated that:

- (a) under the Shared Services Master Agreement, TCC is obligated to reimburse Brands for the expenses and actual costs incurred by Brands in providing the services contemplated by the agreement pursuant to a transfer pricing process; and
- (b) under the Administrative Services Agreement, TCC is obligated to reimburse Brands for its actual costs and expenses in providing the services contemplated by the agreement.

6.46 The Claim relates to the balance of actual costs and expenses incurred (but not reimbursed through a monthly invoice process) in relation to services provided from January 15, 2015 to April 14, 2015 (under the Shared Services Master Agreement) and from April 15, 2015 to June 30, 2015 (under the Administrative Services Agreement) for a total claim of US\$37,502,539.

Monitor's Review

6.47 A description of the Monitor's activities in reviewing this Claim is set out in the table below.

Monitor's Review:		Claim #2.B (USD)
Ref #	AMOUNT	WORK PERFORMED
1.	\$ 17,911,316	Severance: (i) Tied claim amount to support provided and extracts from the company's books and records, where applicable. (ii) Ensured amounts were not included in post-filing shared services invoices. (iii) Reviewed nature of expenses claimed to determine whether reimbursable based on agreement between the parties.
2.	10,345,291	Payroll & benefits: See Ref #1 for work performed.
3.	8,017,205	Expats: See Ref #1 for work performed.
4.	1,228,727	Other: See Ref #1 for work performed.
<b>Total</b>	<b>\$ 37,502,539</b>	

Monitor's Findings

6.48 The Shared Services Master Agreement, as modified by the Side Letter, and the Administrative Services Agreement, provide for arm's length fees as agreed between the parties from time to time, with schedules appended of estimated reduced fees over time to reflect the reduction in level of support and services required by TCC with respect to the wind-down of TCC's operations. The parties also agreed to review the schedules of estimated fees and the level of services from time to time and make any necessary adjustments as they mutually agree in consultation with the Monitor.

6.49 Following the Filing Date, in January 2015, representatives of Brands, Target Corporation, TCC and the Monitor met to discuss the reduction in the Fee and necessary adjustments going forward. At that meeting, all parties agreed that TCC would reimburse Brands through a monthly invoice process for: (a) Brands' payroll costs for resources

dedicated to support TCC operations; (b) Brands’ benefits costs for resources dedicated to support TCC operations charged based on total payroll multiplied by a 20% benefits rate determined based on medical, dental and 401K benefits; (c) costs of independent information technology contractors in providing services required by TCC based on actual timesheets recorded; and (d) an agreed technology charge for TCC’s use of shared technology systems (clauses (a) to (d) collectively, the “**Agreed Post-Filing Reimbursable Costs**”). Monthly amounts have been reviewed, negotiated and settled on this basis since the Filing Date.

6.50 Although this Claim of US\$37,502,539 is for actual costs and expenses incurred by Brands, including for services necessary to the wind-down of TCC’s operations from the Filing Date to June 2015, it is the Monitor’s view that these expenses are outside the scope of the Agreed Post-Filing Reimbursable Costs.

6.51 On balance, based on its review as described, the Monitor considers that Claim 2.B does not constitute a valid claim.

Claim #2B				
Claimant: Target Brands, Inc.				
Debtor: Target Canada Co.				
Type: Post-filing				
\$37,502,539				
Currency: USD				
Description of Transaction	Claim	Proposed Adjustment	Recalculated Claim	
Shared services in excess of SSM and AS agreements (Jan 15 - Jun 30, 2015):				
Severance	\$ 17,911,316	\$ (17,911,316)	\$	-
Payroll & benefits	10,345,291	(10,345,291)		-
Expats	8,017,205	(8,017,205)		-
Other	1,228,727	(1,228,727)		-
<b>Total claim</b>	<b>\$ 37,502,539</b>	<b>\$ (37,502,539)</b>	<b>\$</b>	<b>-</b>



**Claim 3 – Target Corporate Services, Inc. claim against Target Canada Co. - US\$2,778,278**

6.52 Target Corporate Services Inc. (“TCSI”) has asserted a claim against TCC.<sup>20</sup> A summary of this Claim is set out in the table below.

<b>Claim #3</b> <b>Claimant: Target Corporate Services, Inc.</b> <b>Debtor: Target Canada Co.</b> <b>Type: Pre-filing</b> <b>\$2,778,278</b> <b>Currency: USD</b>				
Description of Transaction	Claim	Ref #	Set-off (By) /Against	
Amounts paid by TCSI on TCC's behalf	\$ 2,164,409	1		
Corporate charges - shared resource costs	613,869	2		
<b>Total claim</b>	<b>\$ 2,778,278</b>			

6.53 This Claim is made on account of an intercompany balance of US\$2,778,278 comprised of:

- (a) US\$2,164,409 in respect of invoice payments made by TCSI on behalf of TCC (the “**Reimbursement Claim**”); and
- (b) US\$613,869 in respect of corporate charges related to capitalized payroll expenses originally incurred by Brands in the performance of its services under the Shared Services Master Agreement (the “**Corporate Charges Claim**”).

Monitor’s Review

6.54 A description of the Monitor’s activities in reviewing this Claim is set out in the table below.

<sup>20</sup> This Proof of Claim and explanatory notes to the filed claim are attached hereto as **Appendix L**.

Monitor's Review:		Claim #3 (USD)	
Ref #	AMOUNT	WORK PERFORMED	
1.	\$ 2,164,409	Amounts paid by TCSI on TCC's behalf:	
		(i)	Tied claim amount to support provided and extracts from the company's books and records, where applicable.
		(ii)	On a sample basis, tied transactions to third party invoices and payment detail.
		(iii)	In the case of contractor invoices allocated between TCC and TCSI, verified the mathematical accuracy of the allocation.
		(iv)	On a sample basis, verified that the invoices fully charged to TCC were identified to be on account of work performed for TCC.
2.	613,869	Corporate charges – shared resource costs:	
		(i)	Tied claim amount to support provided and extracts from the company's books and records, where applicable.
		(ii)	On a sample basis, reviewed capitalized labour amounts to ensure amounts were not double counted in the shared services employee charge.
<b>Total</b>	<b>\$ 2,778,278</b>		

Monitor's Findings

- 6.55 The explanatory notes to this Claim suggest that it is made in respect of services provided under a secondment agreement. However, the Monitor has concluded that the secondment agreement is not relevant to this Claim.
- 6.56 Reference is made to paragraph 6.35 with respect to the allocation of costs between the Canadian and U.S. operations.
- 6.57 The Monitor, on the advice of counsel, has concluded that, on balance, the Reimbursement Claim is valid given the parties' past course of conduct as evidenced by the materials provided in support of the Intercompany Claims.
- 6.58 The Monitor is satisfied that the Corporate Charges Claim was deducted from amounts that would otherwise have been invoiced to TCC by Brands under the Shared Services Master Agreement and was transferred from Brands to TCSI. The amount was deducted

before invoicing and, accordingly, the Monitor was unable to verify the underlying expense. Further, the Monitor was unable to verify the legal basis upon which TCSI would be entitled to reimbursement of this amount. Accordingly, based on its review as described, the Monitor considers that the Corporate Charges Claim does not constitute a valid claim.

6.59 On balance, based on its review as described, the Monitor considers that Claim 3 constitutes a valid claim, the quantum of which is subject to reduction as set out in the table below.

<b>Claim #3</b>			
<b>Claimant: Target Corporate Services, Inc.</b>			
<b>Debtor: Target Canada Co.</b>			
<b>Type: Pre-filing</b>			
<b>\$2,778,278</b>			
<b>Currency: USD</b>			
<b>Description of Transaction</b>	<b>Claim</b>	<b>Proposed Adjustment</b>	<b>Recalculated Claim</b>
Amounts paid by TCSI on TCC's behalf	\$ 2,164,409	\$ -	\$ 2,164,409
Corporate charges - shared resource costs	613,869	(613,869)	-
<b>Total claim</b>	<b>\$ 2,778,278</b>	<b>\$ (613,869)</b>	<b>\$ 2,164,409</b>

**Claim 4.A – Target Corporation claim against Target Canada Property LLC - US\$89,079,107**

6.60 Target Corporation has asserted a claim against Target Canada Property LLC (“**Prop LLC**”).<sup>21</sup> A summary of this Claim is set out at the table below.

<b>Claim #4A</b>				
<b>Claimant: Target Corporation</b>				
<b>Debtor: Target Canada Property LLC</b>				
<b>Type: Pre-filing</b>				
<b>\$89,079,107</b>				
<b>Currency: USD</b>				
	<b>Description of Transaction</b>	<b>Claim</b>	<b>Ref #</b>	<b>Set-off (By) /Against</b>
	Demand Promissory Note balance	\$ 88,521,525	1	
	Interest owing on Demand Promissory Note	557,582	2	
	<b>Total claim*</b>	<b>\$ 89,079,107</b>		

\*Including advances of \$157 million in respect of funding provided by Target Corporation to Target Canada Prop LP (on behalf of Prop LLC). See Claim #5A.

6.61 Under a Revolving Line of Credit Agreement, dated February 13, 2014,<sup>22</sup> Target Corporation established a revolving line of credit in favour of Prop LLC in a maximum amount of US\$300 million and bearing interest at a monthly rate equal to the product of (A) Internal Revenue Service’s short term 100% annual compounding Applicable Federal Rate (“**AFR**”) rate and (B) 2, plus 0.15%.

6.62 The amount outstanding under the revolving line of credit as of January 9, 2015 was converted to a Demand Promissory Note<sup>23</sup> of the same date and bearing interest at the same rate as the revolving line of credit. The revolving line of credit was terminated by Termination Agreement dated January 12, 2015.<sup>24</sup>

<sup>21</sup> This Proof of Claim and explanatory notes to the filed claim are attached hereto as **Appendix M**.

<sup>22</sup> The Revolving Line of Credit Agreement is attached hereto as **Appendix N**.

<sup>23</sup> The Demand Promissory Note is attached hereto as **Appendix O**.

<sup>24</sup> The Termination Agreement is attached hereto as **Appendix P**.

- 6.63 As of January 14, 2015, the outstanding balance of the Demand Promissory Note was US\$89,079,107, comprised of US\$88,521,525 in principal and US\$557,582 in accrued interest.<sup>25</sup>
- 6.64 Of the advances made from time to time, US\$141,195,484 (C\$157 million) represents a transfer of funds by Target Corporation (on behalf of Prop LLC) to Target Canada Property LP (“**Prop LP**”) to allow Prop LP to make payments (on behalf of Prop LLC) at a time when Prop LLC did not have a bank account. Upon the transfer of funds, Prop LP correspondingly reduced Prop LLC’s indebtedness by \$157 million. Reference is made to Claim 5.A.
- 6.65 Neither the Revolving Line of Credit Agreement nor the Demand Promissory Note constrained the use of funds advanced thereunder. Under the revolving line of credit, Prop LLC was entitled to request advances deemed appropriate to maintain sufficient liquidity for ongoing operational needs.

Monitor’s Review

- 6.66 A description of the Monitor’s activities in reviewing this Claim is set out in the table below.

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<sup>25</sup> The principal amount of the Demand Promissory Note of January 9, 2015 is US\$89,080,838. The explanatory note accompanying this Claim indicates this amount incorrectly includes an amount of approximately US\$1,732 (noted as US\$1,713 in the explanatory notes to this claim) on account of an error in the calculation of accrued interest under the Revolving Line of Credit Agreement as of January 9, 2015.

Monitor's Review:		Claim #4.A (USD)	
Ref #	AMOUNT		WORK PERFORMED
1.	\$ 88,521,525	(i)	Tied loan balance in claim to general ledger to ensure consistent with company records.
		(ii)	Traced transactions identified in the loan continuity schedule to respective entity bank statements, confirming the flow of funds as presented in the continuity schedule.
		(iii)	US\$141,195,484 (C\$157 million), in aggregate, was transferred to Prop LP to permit Prop LP to make certain payments on behalf of Prop LLC prior to Prop LLC having its own bank accounts. In the case of these advances, ensured that amounts claimed to have been advanced corresponded to a reduction in the outstanding balance owed to Prop LP by Prop LLC (see claim #5.A, Ref#8).
2.	557,582	(i)	Tied interest balance in claim to general ledger to ensure consistent with company records. A minor difference was noted between interest amount claimed and interest amount stated in Termination Agreement.
		(ii)	Reviewed interest continuity schedule for mathematical accuracy and to ensure consistency with the interest rate and terms as outlined in the term loan.
<b>Total</b>	<b>\$ 89,079,107</b>		

EP Assessment

6.67 Dr. Reichert conducted an economic analysis, including a “Comparable Uncontrolled Price” analysis, to assess the interest rate charged under the Revolving Line of Credit Agreement (and subsequent Demand Promissory Note). His discussion is set out in Section IV of the EP Report at **Appendix C**.

6.68 Dr. Reichert concluded that the interest rate charged did not exceed an arm’s length rate.

Monitor’s Findings

6.69 The Monitor, based on its review as described, is satisfied that this Claim represents the net balance of funds advanced to Prop LLC under the Revolving Line of Credit Agreement.

6.70 On balance, based on its review as described, the Monitor considers that Claim 4.A constitutes a valid claim for the quantum claimed.

**Claim 4.B – Target Corporation claim against Target Canada Co. - US\$541,404**

6.71 Target Corporation has asserted a claim against TCC.<sup>26</sup> A summary of this Claim is set out in the table below.

<b>Claim #4B</b>				
<b>Claimant: Target Corporation</b>				
<b>Debtor: Target Canada Co.</b>				
<b>Type: Pre-filing</b>				
<b>\$541,404</b>				
<b>Currency: USD</b>				
<b>Description of Transaction</b>	<b>Claim</b>	<b>Ref #</b>	<b>Set-off (By) /Against</b>	
Payments made by Target Corporation on TCC's behalf	\$ 2,414,280	1		
Corporate charges (capitalized interest)	36,585	2		
Expats & hypothetical tax payable	(1,909,461)	3		
<b>Total claim</b>	<b>\$ 541,404</b>			

6.72 Target Corporation has indicated that it made certain payments on behalf of TCC in the amount of US\$2,414,280 to vendors for services provided to TCC. Target Corporation has also claimed capitalized interest on these payments in the amount of US\$36,585.

6.73 Under the Secondment Agreement, dated May 27, 2011, among Target Corporation, Target Enterprise, Inc., TCSI, Target Food, Inc., Target General Merchandise, Inc. and TCC, as amended by Amendment No. 1 to the Secondment Agreement (the “**Secondment Agreement**”),<sup>27</sup> Target Corporation agreed to provide the services of certain personnel to TCC as seconded employees, and TCC was obligated to reimburse Target Corporation for their remuneration (including salary and benefits) and out-of-pocket expenses. Target Corporation is claiming reimbursement of US\$1,591,560 in unpaid salaries, benefits and expenses of seconded employees as of January 15, 2015. However, TCC is owed reimbursements of: (i) US\$3,233,159 on account of taxes

<sup>26</sup> The explanatory notes filed with this claim are attached hereto as **Appendix Q**.

<sup>27</sup> The Secondment Agreement and amendment thereto are attached hereto as **Appendix R**.



remitted in respect of seconded employees (which were subject to refund to Target Corporation) and (ii) US\$267,863 in respect of the payment made by TCC (on behalf of Target Corporation) of an invoice rendered by a real estate advisor, resulting in a net aggregate deduction to this Claim of US\$1,909,461 (the “**Deducted Amount**”).

Monitor’s Review

6.74 A description of the Monitor’s activities in reviewing this Claim is set out in the table below.

<b>Monitor’s Review:</b>		<b>Claim #4.B (USD)</b>
<b>Ref #</b>	<b>AMOUNT</b>	<b>WORK PERFORMED</b>
1.	\$2,414,280	Payments made by Target Corporation on TCC’s behalf: (i) Tied claim amount to support provided and extracts from the company’s books and records, where applicable. (ii) On a sample basis, tied transactions to third party invoices and payment detail. (iii) In the case of contractor invoices allocated between TCC and Target Corporation, verified the mathematical accuracy of the allocation. (iv) On a sample basis, verified that the invoices fully charged to TCC were identified to be on account of work performed for TCC.
2.	36,585	Corporate charges: (i) Tied claim amount to support provided and extracts from the company’s books and records, where applicable.
3.	(1,909,461)	Expats & hypothetical tax payable (net amount owing from Target Corporation to TCC): (i) Tied claim amount to support provided and extracts from the company’s books and records, where applicable. (ii) With reference to \$1,591,560 of expat salary and expenses: (a) tied payroll detail by employee to claim amount. On a sample basis, performed testing of payments to employees to ensure existence of payment; (b) recalculated benefits rates and compared to historical averages; (c) reviewed components of the expenses to confirm reimbursable under the Secondment Agreement. (iii) With reference to (\$3,233,159) of hypothetical tax expense, discussed true-ups with accounting group and assessed for reasonableness. Reconciled the true-up to the general ledgers of the relevant entities. (iv) With reference to the payment of (\$267,863), tied the transaction to third party invoice and payment detail.
<b>Total</b>	<b>\$ 541,404</b>	

Monitor's Findings

- 6.75 Reference is made to paragraph 6.35 with respect to the allocation of costs between the Canadian and U.S. operations.
- 6.76 Target Corporation has claimed capitalized interest of US\$36,585 in respect of the intercompany receivable of US\$2,414,280 arising in connection with payments made by Target Corporation on behalf of TCC. However, following a review of the materials provided in support of this Claim, the Monitor has been unable to verify Target Corporation's entitlement to reimbursement of this amount.
- 6.77 The Monitor notes that the amount of US\$3,233,159 in respect of reimbursement of taxes remitted by TCC and forming part of the Deducted Amount could only be verified by reconciling the amount to the intercompany general ledgers of TCC and each employer of the seconded employees. It was not practical in the circumstances to verify the entitlements to reimbursement of remitted tax on an individual basis. The Monitor has no reason to believe this amount is not valid.
- 6.78 The explanatory notes to this Claim suggest that the claim for reimbursement of US\$267,863 on account of the payment of an invoice by TCC on behalf of Target Corporation is claimed under the Secondment Agreement. While, on the advice of counsel, the Monitor has concluded that the Secondment Agreement is not relevant to the claim, on balance, the Monitor has concluded that the claim is valid given the parties' past course of conduct as evidenced by the materials provided in support of the Intercompany Claims.

6.79 On balance, based on its review as described, the Monitor considers that Claim 4.B constitutes a valid claim, the quantum of which is subject to reduction as set out in the table below.

<b>Claim #4B</b>				
<b>Claimant: Target Corporation</b>				
<b>Debtor: Target Canada Co.</b>				
<b>Type: Pre-filing</b>				
<b>\$541,404</b>				
<b>Currency: USD</b>				
<b>Description of Transaction</b>	<b>Claim</b>	<b>Proposed Adjustment</b>	<b>Recalculated Claim</b>	
Payments made by Target Corporation on TCC's behalf	\$ 2,414,280	\$ -	\$ 2,414,280	
Corporate charges (capitalized interest)	36,585	(36,585)	-	
Expats & hypothetical tax payable	(1,909,461)	-	(1,909,461)	
<b>Total claim</b>	<b>\$ 541,404</b>	<b>\$ (36,585)</b>	<b>\$ 504,818</b>	

**Claim 4.C – Target Corporation claim against Target Canada Co. - US\$559,373**

6.80 Target Corporation has asserted a claim against TCC.<sup>28</sup> A summary of this Claim is set out in the table below.

<b>Claim #4C</b> <b>Claimant: Target Corporation</b> <b>Debtor: Target Canada Co.</b> <b>Type: Restructuring</b> <b>\$559,373</b> <b>Currency: USD</b>				
Description of Transaction	Claim	Ref #	Set-off (By) /Against	
Termination payment to Accenture on account of TCC termination	\$ 559,373	1		
<b>Total claim</b>	<b>\$ 559,373</b>			

6.81 Target Corporation and Accenture LLP (“**Accenture**”) are parties to:

- (a) a Master Services Agreement dated October 30, 2009 (the “**Accenture Services Agreement**”)<sup>29</sup> setting forth the terms and conditions pursuant to which Accenture provides professional services to Target Corporation; and
- (b) the Target Canada Run Support Statement of Work (the “**SOW**”), pursuant to which Accenture provided technology services in respect of TCC’s retail operations.

6.82 Target Corporation and Accenture executed Contract Change Order #5 effective February 1, 2015 (the “**SOW Termination**”) pursuant to which, among other things:

- (a) Target Corporation terminated the SOW, giving rise to a termination payment under the terms of the SOW (which reference Termination Charges specified in Exhibit 6 thereto); and

<sup>28</sup> The explanatory notes filed with this claim are attached hereto as **Appendix S**.

<sup>29</sup> The Accenture Services Agreement is subject to confidentiality requirements which have not been waived.

(b) Target Corporation and Accenture agreed that regardless of anything contrary in Exhibit 6 of the SOW, the Termination Charge would be US\$600,000 in favour of Accenture and no Partial Termination Charge would apply.

6.83 On May 27, 2015, Accenture issued an invoice to Target Corporation in the amount of US\$559,373 in respect of the Termination Charge described above net of certain adjustments. Target Corporation has asserted that TCC is obligated to reimburse Target Corporation for this amount under the terms of the SOW.

Monitor's Review

6.84 A description of the Monitor's activities in reviewing this Claim is set out in the table below.

<b>Monitor's Review:</b>		<b>Claim #4.C (USD)</b>	
<b>Ref #</b>	<b>AMOUNT</b>	<b>WORK PERFORMED</b>	
1.	\$ 559,373	(i) Tied claim amount to: (a) invoice from Accenture to Target Corporation; and (b) Contract Change Order #5, effective February 1, 2015.	
<b>Total</b>	<b>\$ 559,373</b>		

Monitor's Findings

6.85 TCC is not a party to the Accenture Services Agreement and SOW.

6.86 Historically, Target Corporation paid the fees related to the services provided under the SOW in respect of TCC's operations, and TCC reimbursed Target Corporation for those expenses. Also, as described in Claim 2.B, the Agreed Post-Filing Reimbursable Costs included costs of independent information technology contractors in providing services

required by TCC based on actual timesheets recorded, which information technology contractors included Accenture.

6.87 However, on balance, the Monitor views the claim for the Termination Charge of US\$559,373 as not valid given:

- (a) TCC is not a party to any of the Accenture Services Agreement and SOW;
- (b) the claim is not for reimbursement of fees for services under the SOW in respect of TCC's retail operations but rather for a Termination Charge under the terms of the SOW and the SOW Termination, neither of which TCC is a party to; and
- (c) the Monitor was not provided with any documentation or evidence supporting an agreement by TCC to reimburse Target Corporation for a Termination Charge under the SOW.

6.88 On balance, based on its review as described, the Monitor considers that Claim 4.C does not constitute a valid claim as set out in the table below.

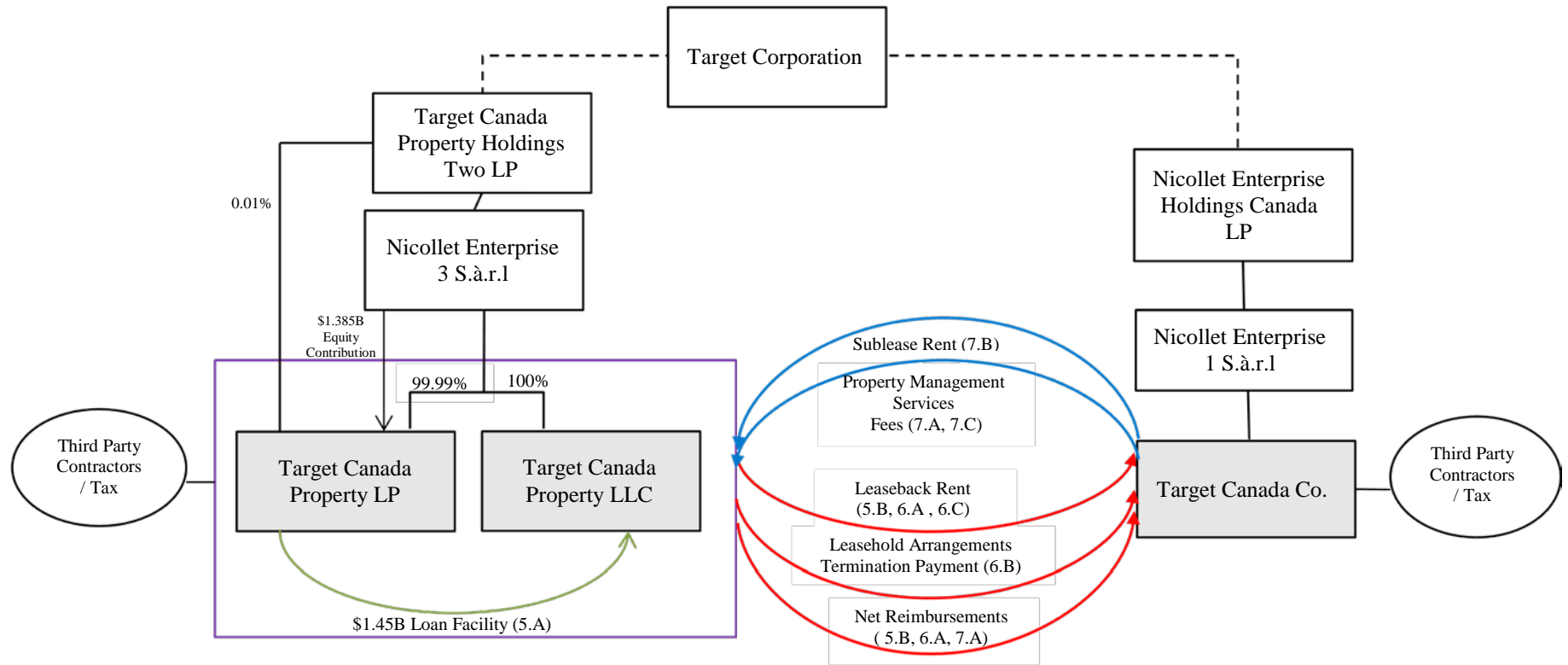
<b>Claim #4C</b> <b>Claimant: Target Corporation</b> <b>Debtor: Target Canada Co.</b> <b>Type: Restructuring</b> <b>\$559,373</b> <b>Currency: USD</b>			
Description of Transaction	Claim	Proposed Adjustment	Recalculated Claim
Termination payment to Accenture on account of TCC termination	\$ 559,373	\$ (559,373)	\$ -
<b>Total claim</b>	<b>\$ 559,373</b>	<b>\$ (559,373)</b>	<b>\$ -</b>

## **7.0 LEASEHOLD ARRANGEMENTS CLAIMS: CLAIM-BY-CLAIM REVIEW**

### **Overview of Propco Arrangement**

7.1 A schematic diagram of the Leasehold Arrangements (defined below) is set out below.

**Overview of Leasehold Arrangements Claims and Structure\***



- = Direct Ownership
- - - = Indirect Ownership
- = Target Canada Entity
- ▭ = Target Canada Property LP (“Prop LP”) became a party to the Leasehold Arrangements (and responsible for the real property improvements) on February 4, 2013. Prop LP transferred the Leasehold Arrangements to Target Canada Property LLC (“Prop LLC”) on January 9, 2014
- = Claims against
- \* This chart only includes relevant entities to the Leasehold Arrangements.

LEASEHOLD ARRANGEMENTS CLAIMS*	
Claim 5A:	\$1.45B - loan facility representing funding provided by Prop LP to Prop LLC for purchase price of Leasehold Arrangements; payments made by Prop LP on behalf of Prop LLC; cash transfers; accrued interest
Claim 5B:	\$87.7M - accrued Leaseback rent for period ended January 8, 2014; reimbursements of real property improvement costs; tax compliance amounts
Claim 6A:	\$27.3M - accrued Leaseback rent (January 9, 2014 – January 14, 2015); tax compliance amounts
Claim 6B:	\$1.9B – Leasehold Arrangements Termination Payment
Claim 6C:	\$37.4M – accrued Leaseback rent (January 15 – February 29, 2015)
Claim 7A:	\$19.6M – accrued property management services fees (January 9, 2014 – January 14, 2015); tax compliance amounts; reimbursements of real property improvement costs [netted in Claim 6.A]
Claim 7B:	\$6.3M – accrued Sublease rent (January 15 – February 25, 2015) [netted in Claim 6.C]
Claim 7C:	\$529K – accrued property management services fees for period ended January 8, 2014 [netted in Claim 5.B]

*\*This is a summary description of the Leasehold Arrangements Claims and should not be relied upon. Kindly refer to the description of Leasehold Arrangements Claims which follows.*



Background

- 7.2 The following is based on the supporting information provided by the claimants in their Claims with respect to the Leasehold Arrangements.
- 7.3 Beginning in 2011, TCC acquired three retail premises and entered into leases with third party landlords (each, a “**Master Lease**”) in respect of 137 additional retail premises (TCC’s 140 retail premises hereinafter referred to as the “**Retail Premises**”).
- 7.4 Each Retail Premises required improvements prior to launching the store that operated from that Retail Premises. Initially, TCC undertook the task and cost of engaging contractors and suppliers to complete the required improvements. From February 4, 2013, Prop LP assumed the task and cost associated with the real property improvements.
- 7.5 Prop LP used equity funding provided by Nicollet Enterprise 3 S.à.r.l, an indirect subsidiary of Target Corporation, to fund the real property improvements. Nicollet Enterprise 3 S.à.r.l received its funding through: (a) a series of equity contributions and debt advances from TCC Corporation S.à.r.l, another indirect subsidiary of Target Corporation, which held cash available to provide in excess of \$1 billion of the funding for the real property improvements; and (b) other funds provided by Target Corporation.
- 7.6 To efficiently use cash held by TCC Corporation S.à.r.l, and provide the funding necessary for the real property improvements associated with the stores in a tax efficient manner, certain leasehold arrangements were implemented as follows:
- (a) on or after February 4, 2013, TCC subleased 132 of the Retail Premises and leased two owned Retail Premises to Prop LP pursuant to individual subleases or

ground leases (collectively, the “**Subleases**”). Prop LP assumed the tasks and costs associated with the real property improvements (each Retail Premises so subleased, a “**Subleased Retail Premises**”);

- (b) when the real property improvements for a store were completed, Prop LP subleased the store back to TCC in order for the store to launch and retail operations to begin (each such sublease, a “**Leaseback**”);
- (c) on January 9, 2014, Prop LP assigned its interest<sup>30</sup> in the Leasehold Arrangements to Prop LLC such that Prop LLC stepped into the shoes of Prop LP in respect of the Leasehold Arrangements (assuming the tasks and costs associated with the real property improvements of the Subleased Retail Premises); and
- (d) TCC provided certain property management, administrative and business services to Prop LP and, following assignment, to Prop LLC

(collectively, the “**Leasehold Arrangements**”).

7.7 Representatives of the Target Group have indicated to the Monitor that:

- (a) a component of the rent payable by TCC to Prop LP under the Leasebacks was designed to repay the funding provided for the real property improvement costs;

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<sup>30</sup> Subsequent to the assignment of the Leasehold Arrangements from Prop LP to Prop LLC, Prop LLC entered into Subleases with an effective date of January 9, 2014 with respect to one additional leased Retail Premises and one additional owned Retail Premises, such that 133 leased premises and three owned premises formed part of the Leasehold Arrangements. Real property improvements for the balance of the Retail Premises remained the responsibility of TCC and did not form part of the Leasehold Arrangements.

- (b) the Leasehold Arrangements were viewed as offering the added benefit of separating legal liability associated with the real property improvements from the retail operations of TCC; and
- (c) the assignment from Prop LP to Prop LLC was made in response to changes to certain Canadian tax rules that reduced the tax efficiencies of the Leasehold Arrangements.

#### Summary of Agreements

7.8 The agreements relevant to the Leasehold Arrangements are summarized below. A fuller discussion of certain provisions of the agreements is provided in the discussion of each Claim as necessary.

#### *The Leasehold Arrangements Master Agreement*

7.9 On February 4, 2013, TCC and Prop LP entered into a Master Agreement (the “**Leasehold Arrangements Master Agreement**”)<sup>31</sup> pursuant to which:

- (a) Prop LP agreed to complete the necessary real property improvements for the Subleased Retail Premises;
- (b) TCC agreed to reimburse Prop LP for any costs incurred by it unrelated to real property improvements for the Subleased Retail Premises and further agreed to pay to Prop LP any amount received by a third party landlord on account of repairs or refurbishment of the Subleased Retail Premises;

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<sup>31</sup> The Leasehold Arrangements Master Agreement is attached hereto as **Appendix T**.

- (c) Prop LP agreed to reimburse TCC for any costs incurred by it related to real property improvements for the Subleased Retail Premises; and
- (d) TCC agreed to provide certain property management, procurement and administrative and business services, which included financial reporting, finance services, and tax compliance services, to Prop LP for a fee equal to the costs incurred by TCC to provide the services (which fees could accrue and be charged throughout TCC's fiscal year (and be reconciled within 30 days of fiscal year end) or accrue and be charged at TCC's fiscal year end).

7.10 As consideration for entering into the Subleases, Prop LP agreed to pay TCC a lump sum amount (the “**Initial Real Property Improvement Spend Reimbursement**”) equal to the costs of the real property improvements undertaken by TCC prior to February 4, 2013, being \$618,736,158 in respect of 133<sup>32</sup> of the 134 Subleased Retail Premises forming part of the Leasehold Arrangements at that time.

7.11 The Leasehold Arrangements Master Agreement expressly stated that amounts payable by Prop LP (and, following assignment, Prop LLC) to TCC pursuant to the Leasehold Arrangements Master Agreement did not include any value-added, sales, use, consumption, multi-stated, *ad valorem*, personal property, customs, excise, stamp, transfer or similar taxes, duties or charges (“**Sales Taxes**”) and all Sales Taxes were the responsibility of Prop LP (and, following assignment, Prop LLC). The Leasehold Arrangements Master Agreement was silent on whether amounts payable by TCC to Prop

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<sup>32</sup> Premises 3768 had no real property improvement spend associated with it as at February 4, 2013 and there was no reimbursement in respect thereof at the time of the Leasehold Arrangements Master Agreement.

LP (and, following assignment, Prop LLC) pursuant to the Leasehold Arrangements Master Agreement include Sales Taxes.

*The Subleases*

7.12 Each Sublease granted by TCC to Prop LP was on substantially the same terms (subject to certain immaterial exceptions):<sup>33</sup>

- (a) the term ended on the earlier of: (i) one day prior to the termination date of the Master Lease to which the Sublease relates; and (ii) 25 years following the effective date of the Sublease (sometimes hereinafter also referred to as the **“outside date”**);
- (b) the rent payable to TCC was the monthly base rent, maintenance and similar costs and other additional rent payable under the related Master Lease (and, in the case of the owned Subleased Retail Premises, a fixed amount per annum plus all common area maintenance and similar costs and all real property taxes) (the **“Base Rent”**); and
- (c) all terms, covenants, conditions, agreements, requirements, restrictions and provisions of the related Master Lease were incorporated by reference.

7.13 Prop LP was expressly permitted to undertake real property improvements and to further sublease the Subleased Retail Premises.

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<sup>33</sup> The Monitor requested copies of all 136 Subleases, of which 133 were produced and reviewed. While three Subleases were not produced, the related Subleased Retail Premises were consistently referenced in all documents and records relating to the Leasehold Arrangements and, accordingly, the Monitor was not concerned by their absence.

7.14 The Subleases expressly stated that amounts payable by Prop LP (and, following assignment, Prop LLC) to TCC thereunder did not include Sales Taxes.

*The Leasebacks*

7.15 Each Leaseback granted by Prop LP to TCC was on substantially the same terms (subject to certain immaterial exceptions):<sup>34</sup>

- (a) the term ended on the earlier of: (i) one day prior to the termination date of the Sublease to which the Leaseback relates; and (ii) 20 years following its effective date;
- (b) the monthly rent payable to Prop LP was the sum of: (i) the Base Rent payable under the related Sublease; and (ii) additional rent equal to the product of (x) the total cost of real property improvements for the premises and (y) 12.5%, divided by 12 (clause (ii) being the “**Leaseback Mark-Up Rent**”);
- (c) if the Leaseback terminated prior to the outside date established for the related Sublease, TCC was obliged to pay additional rent (in an amount to be agreed upon by the parties) for unpaid rent and real property improvement costs not recovered (the “**Excess Rent**”); and
- (d) all terms, covenants, conditions, agreements, requirements, restrictions and provisions of the related Sublease were incorporated by reference.

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<sup>34</sup> The Monitor notes that three of the 136 Subleased Retail Premises were not the subject of Leasebacks as of the Filing Date. The Monitor requested copies of all 133 Leasebacks, of which 123 were produced and reviewed. While 10 Leasebacks were not produced, the related Subleased Retail Premises were consistently referenced in all documents and records relating to the Leasehold Arrangements and, accordingly, the Monitor was not concerned by their absence.

- 7.16 The Monitor requested that the claimant explain why the term of the Leasebacks was different from the term of the Subleases. The claimant indicated that the term of each Leaseback was established to be shorter than that of the related Sublease to minimize taxes exigible in respect of the transactions. The outside date for each Leaseback was therefore generally established to be 20 years following the effective date of the Leaseback (while the outside date for the related Sublease was generally established to be 25 years). However, to the extent the term of a Leaseback ended prior to that of the related Sublease, TCC was required by the provisions of the Leaseback to pay Excess Rent, if any.
- 7.17 The Leasebacks expressly stated that amounts payable by Prop LP (and, following assignment, Prop LLC) to TCC thereunder did not include Sales Taxes. Given that all payments contemplated by the Leasebacks were payments made by TCC to Prop LP (and, following assignment, Prop LLC), it could be assumed that the payor and payee were inadvertently inversed in this provision.

*Prop LLC*

- 7.18 The claimant has advised the Monitor that certain Canadian tax rules were amended for taxation years commencing in 2014. These changes would have had the effect of reducing the tax efficiencies offered by the Leasehold Arrangements. To defer the application of these new tax rules to the Leasehold Arrangements, Prop LP assigned its interest in the Leasehold Arrangements (and, accordingly, ownership of all real property improvements associated with the Subleased Retail Premises) to Prop LLC on January 9,

2014 pursuant to Assignment and Assumption Agreements of that date.<sup>35</sup> As a result, Prop LLC stepped into the shoes of Prop LP in respect of the Leasehold Arrangements, assuming the tasks and costs associated with the real property improvements of the Subleased Retail Premises.

7.19 The Claims in respect of the Leasehold Arrangements are comprised of:

- (a) Claim 5.A and 5.B – claims by Target Canada Property LP against Target Canada Property LLC and TCC, respectively;
- (b) Claim 6.A, 6.B and 6.C – claims by Target Canada Property LLC against TCC;
- (c) Claim 7.A and 7.B – claims by TCC against Target Canada Property LLC; and
- (d) Claim 7.C – claim by TCC against Target Canada Property LP.

7.20 The Proofs of Claim and explanatory notes accompanying these filed claims are attached hereto as **Appendices V, X, Y, Z, CC, EE, FF and GG**, respectively.

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<sup>35</sup> The Assignment and Assumption Agreements are attached as **Appendix U**.



**Claim 5.A – Target Canada Property LP claim against Target Canada Property LLC - \$1,449,577,927**

7.21 Prop LP has asserted a claim against Prop LLC.<sup>36</sup> A summary of this Claim is set out in the table below.

Claim #5A				
Claimant: Target Canada Property LP				
Debtor: Target Canada Property LLC				
Type: Pre-filing				
\$1,449,577,927				
Currency: CAD				
Description of Transaction	Claim	Ref #	Set-off (By) /Against	
Loan balance:				
Purchase price for asset transfer (as at Jan 9, 2014)	A \$ 1,331,556,150	1		
Sales taxes on asset transfer	145,439,561	2		
Adjustment for land included in asset transfer	A (14,475,023)	3	Incl. in #5B	
Fixed asset payments Prop LP made on Prop LLC's behalf	41,786,915	4		
Rent payments made by Prop LP on Prop LLC's behalf (Jan 9 - Feb 28, 2014)	B 13,149,477	5		
Net cash transfers from Prop LP to Prop LLC	B 8,534,590	6		
Assumption of retainage liability (10% contractor holdback)	B (16,206,544)	7		
Funding received from TCC on Prop LLC's behalf	(157,000,000)	8	Incl. in #4A	
Accrued interest on loan balance	96,792,801	9		
<b>Total claim</b>	<b>\$ 1,449,577,927</b>			

\*Note: Sum of A's = \$1,317,081,127 and sum of B's = \$5,477,253 per Exhibit A of claim as filed.

7.22 To fund the purchase price payable upon the assignment of the Leasehold Arrangements, Prop LP extended Prop LLC financing under a loan facility agreement dated January 9, 2014 (the “**Loan Facility Agreement**”).<sup>37</sup>

7.23 The Loan Facility Agreement provided:

- (a) interest would accrue on the outstanding balance at a fixed rate of 7% per annum and would be calculated based on the actual number of days elapsed (and a 365 day year);

<sup>36</sup> This Proof of Claim and explanatory notes accompanying the filed claim are attached hereto as **Appendix V**.

<sup>37</sup> The Loan Facility Agreement and the amendments thereto are attached hereto as **Appendix W**.

- (b) interest accrued as of November 30 of each year would be payable on the next succeeding January 31;
- (c) the principal balance would be repayable on its maturity date (January 9, 2034);
- (d) upon an event of default, Prop LP was entitled to accelerate the repayment of the loan facility; and
- (e) early repayment of the principal balance was permitted upon payment of a make whole amount.

7.24 The Loan Facility Agreement was amended by an amending agreement dated January 2, 2015 to: (i) capitalize interest accrued to the date of the amending agreement; (ii) remove the requirement for annual payment of interest accrued; and (iii) remove insolvency from the events of default prescribed by the Loan Facility Agreement (so as to avoid the application of cross default provisions).

7.25 The final balance of the loan facility of \$1,449,577,927 results from the following transactions (as outlined in the above table):

- (a) \$1,331,556,150 - a drawdown under the loan facility made on account of the purchase price payable upon the assignment of the Leasehold Arrangements;
- (b) plus \$145,439,561 - Prop LP, on behalf of Prop LLC, paid Sales Taxes exigible in respect of the purchase price payable upon the assignment of the Leasehold Arrangements;

- (c) minus \$14,475,023 - an adjustment made to reimburse the sum paid by Prop LLC for the interest in land of two owned Subleased Retail Premises (as part of the purchase price payable upon the assignment of the Leasehold Arrangements), which interest was not actually transferred to Prop LLC;
- (d) plus \$41,786,915 - Prop LP, on behalf of Prop LLC, paid real property improvement costs associated with the Subleased Retail Premises following the assignment of the Leasehold Arrangements to Prop LLC;
- (e) plus \$13,149,477 - Prop LP, on behalf of Prop LLC, made payments to TCC of Base Rent under the Subleases following the assignment of the Leasehold Arrangements to Prop LLC;
- (f) plus \$8,534,590 - net further cash advances under the loan facility;
- (g) minus \$16,206,544 - the assumption of Prop LP's retainage liability (i.e., 10% contractor holdbacks) associated with the real property improvements for the Subleased Retail Premises (the "**Retainage Liability Adjustment**");
- (h) minus \$157 million - an adjustment made to reflect the reimbursement received from Target Corporation by Prop LP on behalf of Prop LLC (as further described in Claim 4.A); and
- (i) plus \$96,792,801 - accrued interest.

Monitor's Review

7.26 A description of the Monitor's activities in reviewing this Claim is set out in the table below.

Monitor's Review:		Claim #5.A (CAD)	
Ref #	AMOUNT		WORK PERFORMED
1.	\$ 1,331,556,150	(i)	Tied purchase price to: (a) Target intercompany invoice from Prop LP to Prop LLC, including schedule of costs of fixed assets transferred; and (b) Loan Facility Agreement.
		(ii)	Verified that Prop LP disbursed in excess of \$1.3 billion to third party contractors and TCC by tracing to Prop LP's bank statements. See Monitor's review of Claim #6.B for testing performed in respect of these disbursements to validate real property improvement spend.
		(iii)	Calculated exchange rates used (where funds disbursed in USD were converted to CAD) and compared those rates to the Bank of Canada noon spot rate ensuring reasonability.
			* Traced the original source of Prop LP's funding to equity contributions by its direct parent, Nicollet Enterprise 3 S.à.r.l ("NE3"), by tracing to Prop LP's bank statements and to NE3's corporate minutes.
2.	145,439,561	(i)	Tied Sales Tax amounts to: (a) Target intercompany invoice from Prop LP to Prop LLC; and (b) the Sales Tax returns filed by Prop LP and remittance of such taxes to Prop LP's bank statements.
3.	(14,475,023)	(i)	Verified that owned land was inadvertently included in purchase price (above) and verified value of land by tracing payments made by TCC for land to bank statements.
4.	41,786,915	(i)	Verified the additional disbursement of funds by Prop LP to third party contractors after the initial asset transfer by tracing to Prop LP's bank statements. See Monitor's review of Claim #6.B for testing performed in respect of these disbursements to validate real property improvement spend.
5.	13,149,477	(i)	Tied monthly Sublease rent expense to general ledger entries and verified funds disbursed by Prop LP by tracing to Prop LP's bank statements.
		(ii)	Reviewed mathematical accuracy of supporting schedules, including allocation of Sublease rent expense among Prop LP and Prop LLC before and after January 9, 2014.
6.	8,534,590	(i)	Confirmed flow of funds by tracing to Prop LP's bank statements which showed that amounts had been disbursed to/from Prop LLC and from/to Prop LP with the exception of \$8 million that was traced to a disbursement from NE3's bank statement to Prop LLC directly.
		(ii)	Confirmed that the disbursement of \$8 million from NE3 to Prop LLC was in fact an equity contribution by NE3 to Prop LP by reviewing NE3's board minutes approving the equity contribution. Prop LP directed the equity contribution to be paid directly to Prop

Monitor's Review:		Claim #5.A (CAD)	
Ref #	AMOUNT		WORK PERFORMED
			LLC with a corresponding (and accurate) increase to Prop LLC's loan from Prop LP.
7.	(16,206,544)	(i)	Discussed explanation and rationale for adjustment to loan balance with representatives of the claimant to assess reasonableness.
		(ii)	Reviewed <i>pro forma</i> Prop LP and Prop LLC trial balances as at January 31, 2014 used to support the claim amount for mathematical accuracy and reasonableness.
8.	(157,000,000)	(i)	Verified reduction in loan balance by: (a) tracing to bank statements the flow of funds from Target Corporation, on Prop LLC's behalf, to Prop LP; and (b) confirming a corresponding increase in the intercompany loan balance between Target Corporation and Prop LLC (see Claim #4.A, Ref#1 (ii)).
9.	96,792,801	(i)	Reviewed interest continuity schedule for mathematical accuracy and to ensure consistency with the terms and interest rate as outlined in the Term Loan.
<b>Total</b>	<u>\$ 1,449,577,927</u>		

### EP Assessment

7.27 Dr. Reichert conducted an economic analysis to assess the credit rating of the borrower and to benchmark the arm's length interest rate given the credit rating and the economically important features of the Loan Facility Agreement. His discussion is set out in Section V of the EP Report at **Appendix C**.

7.28 Dr. Reichert concluded that the interest rate under the Loan Facility Agreement did not exceed an arm's length rate.

### Monitor's Findings

7.29 The language of the Assignment and Assumption Agreements assigning the Subleases presents certain challenges. The materials provided in support of this Claim indicate that the Assignment and Assumption Agreements serve to assign all of the Subleases and Leasebacks entered into by Prop LP prior to the date of the assignment. However, Prop

LP only assigned all of its right, title, interest and obligations as “Sublessor”. Accordingly, on a strict reading of the words of the agreements, only the Leasebacks were assigned. However, on balance, the Monitor has concluded that these are simply drafting errors given:

- (a) the claimant’s stated intention;
- (b) the rationale for the assignment of the Leasehold Arrangements;
- (c) the conduct of the parties following the assignment (as evidenced by the information provided by the claimant in support of this Claim); and
- (d) that Prop LLC could not have served as lessor under the Leasebacks without possessing the benefit of the tenancy afforded by the Subleases.

7.30 When the Leasehold Arrangements were assigned to Prop LLC, the purchase price did not reflect a downward adjustment for Prop LLC’s assumption of the retainage liability in the amount of \$16,206,544, which would have otherwise led to a corresponding reduction in the balance of the loan facility from Prop LP to Prop LLC. The Retainage Liability Adjustment serves to reduce the amount of the indebtedness owed by Prop LLC. Because Prop LP and Prop LLC shared the same general ledger company code, the Monitor was only able to assess the amount of the Retainage Liability Adjustment based on the explanation and supporting information provided. The Monitor found nothing to suggest the Retainage Liability Adjustment is not valid.

7.31 Reference is made to the discussion of the Monitor’s findings in relation to Claim 6.B for an understanding of the issues arising in relation to the validation of the real property

improvements spend and associated cash flows relevant to a number of components of this Claim.

7.32 On balance, based on its review as described, the Monitor considers that Claim 5.A constitutes a valid claim for the quantum claimed.

**Claim 5.B – Target Canada Property LP claim against Target Canada Co. - \$87,748,817**

7.33 Prop LP has asserted a claim against TCC.<sup>38</sup> A summary of this Claim is set out in the table below.

<b>Claim #5B</b>				
<b>Claimant: Target Canada Property LP</b>				
<b>Debtor: Target Canada Co.</b>				
<b>Type: Pre-filing</b>				
<b>\$87,748,817</b>				
<b>Currency: CAD</b>				
Description of Transaction	Claim	Ref #	Set-off (By) /Against	
Prop LP overpayments to TCC for:				
Retainage	\$ 32,068,768	1		
Land	14,475,023	2	Incl. in #5A	
Contractors	13,863,834	3		
Non Prop LLC Sites	5,308,262	4		
Leaseback rent owing (Feb 4, 2013 - Jan 8, 2014)	15,239,732	5		
Sales tax refunds received by TCC on Prop LP's behalf	7,321,927	6		
Prop LP admin fee due to TCC (Jan 1 - 8, 2014)	(210,802)	7	#7C	
Prop LP admin fee true-up due to TCC (Feb 4, 2013 - Jan 8, 2014)	(317,928)	8	#7C	
<b>Total claim</b>	<b>\$ 87,748,817</b>			

*The Leasehold Arrangements Master Agreement, Subleases and Leasebacks*

7.34 The relevant provisions of the Leasehold Arrangements Master Agreement, Subleases and Leasebacks are discussed in Claim 5.A.

*Overpayments*

7.35 Prop LP has claimed reimbursement of \$65,715,887 from TCC on account of overpayments (collectively, “**Overpayments**”) as follows:

- (a) payment of \$32,068,768 to TCC as part of the Initial Real Property Improvement Spend Reimbursement representing TCC’s contractor retainage liability (which was subsequently paid to the contractors by Prop LP or reimbursed to TCC by Prop LP), resulting in Prop LP paying the same amount twice;

<sup>38</sup> The explanatory notes filed with this claim are attached hereto as **Appendix X**.



- (b) payment of \$14,475,023 to TCC as part of the Initial Real Property Improvement Spend Reimbursement for the interest in land of two owned Subleased Retail Premises, which interest was not actually transferred to Prop LP;
- (c) payments to TCC exceeding the actual real property improvement costs relating to the Subleased Retail Premises paid by TCC to contractors by \$13,863,834; and
- (d) payment of \$5,308,262 to TCC on account of real property improvement costs incurred for the benefit of a Retail Premises at a time that the premises was not a Subleased Retail Premises and did not form part of the Leasehold Arrangements.

*Accrued but Unpaid Leaseback Rent*

7.36 There are three periods of rent claimed against TCC under the Leasebacks: (a) this claim by Prop LP relating to the period before the assignment to Prop LLC; (b) Claim 6.A by Prop LLC relating to the period from the assignment to Prop LLC to January 14, 2015; and (c) Claim 6.C by Prop LLC relating to the period from January 15, 2015 to the date of termination of the Leasehold Arrangements (being February 25, 2015).

<b>Leaseback Rent Accrued</b>			
<b>Claim #</b>	<b>Entities</b>	<b>Time Period</b>	<b>Amount</b>
5B	TCC to Prop LP (pre-filing)	February 4, 2013 to January 8, 2014	\$ 15,239,732
6A	TCC to Prop LLC (pre-filing)	January 9, 2014 to January 14, 2015	46,712,017
6C	TCC to Prop LLC (post-filing)	January 15, 2015 to February 25, 2015	33,565,859
<b>Total Leaseback Rent</b>			<b>\$ 95,517,608</b>

7.37 Prop LP has claimed that:

- (a) for the period from February 4, 2013 to January 8, 2014:

- (i) the total amount of rent payable under all of the Leasebacks was \$153,190,638;
  - (ii) payments of \$137,950,906 were made by TCC; and
- (b) the difference of \$15,239,732 is accrued and unpaid.

*Sales Tax Refunds*

7.38 Prop LP has claimed \$7,321,927 against TCC in respect of Sales Tax refunds received by TCC on Prop LP’s behalf relating to the period from September to December 2013, but which were not reimbursed prior to January 14, 2015.

Monitor’s Review

7.39 A description of the Monitor’s activities in reviewing this Claim is set out in the table below.

Monitor’s Review:		Claim #5B (CAD)	
Ref #	AMOUNT		WORK PERFORMED
1.	\$ 32,068,768	(i)	Reviewed rationale and support provided to evaluate reasonableness of payments made to TCC/contractors for retainage.
		(ii)	Reviewed general ledger detail supporting the amount.
		(iii)	Traced total amount per general ledger detail to Prop LP bank statements showing payments to contractors.
2.	14,475,023	(i)	See Monitor’s review performed in Claim #5.A.
3.	13,863,834	(i)	Reviewed reconciliation for mathematical accuracy and reasonableness.
		(ii)	Confirmed that Prop LP disbursed funds to third party contractors and/or TCC in excess of the costs of the fixed assets transferred. Prop LP disbursements on account of its fixed assets were tested (see Claim #5.A, Ref #1ii).
4.	5,308,262	(i)	Reviewed reconciliation for mathematical accuracy and reasonableness.
		(ii)	Confirmed that Prop LP should not have incurred costs related to site 7012 at time of the asset transfer by confirming that site 7012 was not part of the Leaseback Arrangement as at January 9, 2014.

Monitor's Review:		Claim #5B (CAD)	
Ref #	AMOUNT		WORK PERFORMED
		(iii)	Confirmed that Prop LP disbursed funds to third party contractors and/or TCC on account of 7012. Prop LP disbursements on account of its fixed assets were tested (see Claim #5.A, Ref #1ii).
5.	15,239,732	(i)	Reviewed schedules supporting accrued Leaseback rent owing for mathematical accuracy, including allocation of January 2014 rent between Prop LP and Prop LLC.
		(ii)	Reviewed schedules supporting Leaseback Base Rent charged to ensure that: (a) Base Rent was not charged until month of Leaseback effective date; (b) Leaseback effective dates were consistent with underlying agreements; and (c) Base Rent charged was consistent with rent paid by TCC to third party landlord (on a sample basis, tied monthly Base Rent per an individual site to TCC general ledger entry showing rent paid).
		(iii)	Reviewed schedules supporting Leaseback Mark-Up Rent charged to ensure that: (a) real property improvement spend (referred to as current investment projection in schedule) used to calculate Leaseback Mark-Up Rent was consistent with real property improvement spend (see Monitor's review of Claim #6.B for testing performed in respect of real property improvements spend); (b) Leaseback effective dates are consistent with underlying agreements; and (c) Leaseback Mark-Up Rent was not charged until month of Leaseback effective date.
		(iv)	Traced payment made by TCC to Prop LP on account of Leaseback rent for the period to Prop LP bank statement.
6.	7,321,927	(i)	Reviewed Prop LP Sales Tax returns to ensure refund amounts owed by CRA were on Prop LP's account.
		(ii)	Tied refund amounts received by TCC on Prop LP's behalf to TCC's bank statements.
		(iii)	Reviewed adjusting journal entry which served to reduce amount claimed on account of Sales Tax refunds for reasonableness.
7.	(210,802)	(i)	See Monitor's review performed in Claim #7.C.
8.	(317,928)	(i)	See Monitor's review performed in Claim #7.C.
<b>Total</b>	<b>\$ 87,748,817</b>		

Monitor's Findings

7.40 Reference is made to the discussion of the Monitor's findings in Claim 6.B in relation to the validation of real property improvement spend and associated cash flows relevant to the calculation of the amount claimed on account of accrued Leaseback rent and the calculation of a number of the Overpayments claimed.

- 7.41 Prop LP identified the amounts of \$13,863,834 and \$5,308,262 as excess reimbursements to TCC following reconciliation of Prop LP's real property improvement expenditures to the fixed assets transferred. Having determined that the expenditure exceeded the fixed assets, Prop LP indicated that the difference was attributable to excess reimbursements to TCC (including in respect of a Retail Premises that was not a Subleased Retail Premises at the time of the reimbursement). By reason of the nature of these adjustments, it was not possible for the Monitor to validate the amounts by reference to third party evidence. The Monitor was only able to assess the amounts based on the explanation and supporting information provided. The Monitor found nothing to suggest the claim for reimbursement of this amount is not valid.
- 7.42 The Monitor, on the advice of counsel, has concluded that, on balance, the claim for reimbursement of Overpayments and Sales Tax refunds is valid given the Leasehold Arrangements and the parties' past course of conduct as evidenced by the materials provided in support of the Intercompany Claims.
- 7.43 With reference to the claim for accrued (but unpaid) Leaseback rent for the period from February 4, 2013 to January 8, 2014, representatives of the claimant explained to the Monitor that the amount represents an adjustment to the Leaseback rent payable for the period by reason of revising the calculation of Leaseback Mark-Up Rent to reflect the actual real property improvement spend (rather than estimates historically used). A recalculation of Leaseback Mark-Up Rent on this basis for the period appears to be appropriate and presents no issues to the Monitor.
- 7.44 However, in recalculating the accrued Leaseback rent payable for the period from February 4, 2013 to January 8, 2014, the Monitor noted that:

- (a) the Duplicative Entry Adjustment to the real property improvement spend (discussed below in Claim 6.B) impacts the claim for accrued (but unpaid) Leaseback rent for the period,<sup>39</sup> resulting in a reduction of \$11,903;
- (b) errors were made in determining Base Rent liability under certain Leasebacks. After reviewing supporting schedules, the Monitor concluded that \$4,154,674 of Base Rent was incorrectly included in the calculation of accrued Leaseback rent payable for the period from February 4, 2013 to January 8, 2014, and this Claim should be correspondingly reduced (the “**Leaseback Base Rent Adjustment**”); and
- (c) the Sublease Base Rent Adjustment discussed below in Claim 6.B (together with Leaseback Base Rent Adjustment, the “**Base Rent Error Adjustment**”) should serve to adjust this Claim by \$720,419 because Prop LP was required to, but did not, pay Base Rent under the relevant Sublease of that amount for the period from the effective date of the Sublease (February 4, 2013) to the effective date of the Leaseback (September 17, 2013).

The total adjustment to the amount claimed for accrued (but unpaid) Leaseback rent for the period from February 4, 2013 to January 8, 2014 as a consequence of these reductions is \$4,886,996.

7.45 In its review of the Leasehold Arrangements documentation, the Monitor noted the following:

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<sup>39</sup> The Leaseback effective date for the relevant Subleased Retail Premises is January 23, 2014.

- (a) payment of rent under a limited number of Leasebacks began on the date on which the relevant store was launched rather than the effective date of its Leaseback (which was generally a month earlier). Based on its review, the Monitor observed that the parties in such instances, without exception, gave effect to the Leaseback on a store launch date (rather than the effective date of the Leaseback itself). Given the parties' past course of conduct, the Monitor concluded no adjustment to the claim for accrued (but unpaid) Leaseback rent was required;<sup>40</sup> and
  
- (b) while the Subleases (i.e., ground leases) entered into with respect to the owned Subleased Retail Premises contemplated a monthly payment of rent, Base Rent was not in fact paid under either the Subleases or the Leasebacks. Given these amounts would net against each other, the Monitor has concluded there is no financial impact.

7.46 Reference is made to the discussion of Claim 7.C with respect to the set-off claimed.

7.47 On balance, based on its review as described, the Monitor considers that Claim 5.B constitutes a valid claim, the quantum of which is subject to reduction as set out in the table below.

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<sup>40</sup> The Monitor notes, however, that the calculation of the Termination Payment discussed in Claim 6.B assumes rent has been paid under all of the Leasebacks since their effective date. Although the Monitor has not yet had an opportunity to seek Dr. Reichert's views with respect to the potential financial impact on the Termination Payment calculation had it been calculated with reference to the date the relevant stores were launched (and TCC commenced to pay Leaseback Mark-Up Rent), no material difference is anticipated by the Monitor.

<b>Claim #5B</b>			
<b>Claimant: Target Canada Property LP</b>			
<b>Debtor: Target Canada Co.</b>			
<b>Type: Pre-filing</b>			
<b>\$87,748,817</b>			
<b>Currency: CAD</b>			
<b>Description of Transaction</b>	<b>Claim</b>	<b>Proposed Adjustment</b>	<b>Recalculated Claim</b>
Prop LP overpayments to TCC for:			
Retainage	\$ 32,068,768	\$ -	\$ 32,068,768
Land	14,475,023	-	14,475,023
Contractors	13,863,834	-	13,863,834
Non Prop LLC Sites	5,308,262	-	5,308,262
Leaseback rent owing (Feb 4, 2013 - Jan 8, 2014)*	15,239,732	(4,886,996)	10,352,736
Sales tax refunds received by TCC on Prop LP's behalf	7,321,927	-	7,321,927
Prop LP admin fee due to TCC (Jan 1 - 8, 2014)	(210,802)	-	(210,802)
Prop LP admin fee true-up due to TCC (Feb 4, 2013 - Jan 8, 2014)	(317,928)	-	(317,928)
<b>Total claim</b>	<b>\$ 87,748,817</b>	<b>\$ (4,886,996)</b>	<b>\$ 82,861,821</b>

\*On account of adjustments for: i) the Leaseback Base Rent Adjustment of \$4,154,674; (ii) the Sublease Base Rent Adjustment of \$720,419; and (iii) the Duplicative Entry Adjustment of \$11,903.

**Claim 6.A – Target Canada Property LLC claim against Target Canada Co. - \$27,254,109**

7.48 Prop LLC has asserted a claim against TCC in relation to the Leasehold Arrangements.<sup>41</sup>

A summary of this Claim is set out in the table below.

<b>Claim #6A</b>				
<b>Claimant: Target Canada Property LLC</b>				
<b>Debtor: Target Canada Co.</b>				
<b>Type: Pre-filing</b>				
<b>\$27,254,109</b>				
<b>Currency: CAD</b>				
Description of Transaction	Claim	Ref #	Set-off (By) /Against	
Leaseback rent (Jan 9, 2014 - Jan 14, 2015)	\$ 46,712,017	1		
Sales tax refunds received by TCC on Prop LLC's behalf	161,603	2		
Sales taxes paid by TCC on Prop LLC's behalf	(1,016,395)	3	#7A	
Admin fees owing by Prop LLC to TCC (Jan 9, 2014 - Jan 14, 2015)	(6,418,606)	4	#7A	
RPI paid for by TCC on Prop LLC's behalf	(12,184,510)	5	#7A	
Applicable Sales Taxes	Not specified			
<b>Total claim</b>	<b>\$ 27,254,109</b>			

*The Leasehold Arrangements Master Agreement and Leasebacks*

7.49 The relevant provisions of the Leasehold Arrangements Master Agreement and Leasebacks are discussed in Claim 5.A.

*Accrued but Unpaid Leaseback Rent*

7.50 For a summary of the three periods of rent claimed against TCC under the Leasebacks, see paragraph 7.36 in Claim 5.B. This Claim by Prop LLC relates to the period after the assignment to Prop LLC to January 14, 2015.

7.51 Prop LLC has claimed that:

- (a) for the period from January 9, 2014 to January 14, 2015:

<sup>41</sup> This Proof of Claim and explanatory notes accompanying the filed claim are attached hereto as **Appendix Y**.



- (i) the total amount of rent payable under all of the Leasebacks was \$270,837,454;
  - (ii) payments of \$224,125,437 were made by TCC; and
- (b) the difference of \$46,712,017 (exclusive of applicable Sales Tax) is accrued and unpaid.

*Sales Tax Refund*

7.52 On May 28, 2014, TCC filed a Quebec Sales Tax return on behalf of Prop LLC for the April 2014 period. In that return, a refund of \$161,597 was claimed.

7.53 The refund of \$161,597 (together with interest) was received by TCC, but the claimant has indicated that it has not received reimbursement of the refund.

Monitor's Review

7.54 A description of the Monitor's activities in reviewing this Claim is set out in the table below.

<b>Monitor's Review:</b>		<b>Claim #6.A (CAD)</b>	
<b>Ref #</b>	<b>AMOUNT</b>		<b>WORK PERFORMED</b>
1.	\$ 46,712,017	(i)	Reviewed schedules supporting accrued Leaseback rent owing for mathematical accuracy, including allocation of January 2015 rent between Claim #6.A (pre-filing) and Claim #6.C (post-filing).
		(ii)	Reviewed schedules supporting Leaseback Base Rent charged to ensure that: (a) Base Rent was not charged until month of Leaseback effective date; (b) Leaseback effective dates were consistent with underlying agreements; and (c) Leaseback rent charged was consistent with Leaseback rent paid by TCC to third party landlord (on a sample basis, tied monthly Base Rent per an individual site to TCC general ledger entry showing rent paid).
		(iii)	Reviewed schedules supporting Leaseback Mark-Up Rent charged to ensure that: (a) current investment projection used to calculate Leaseback Mark-Up Rent was consistent with real property improvement spend (see Monitor's review of Claim #6.B for testing performed in respect of real property improvement spend); (b) Leaseback effective dates were consistent with underlying agreements; and (c) Leaseback Mark-Up Rent was not charged until month of Leaseback effective date.
		(iv)	Assessed reasonableness of using December 2014 Base Rent and Leaseback Mark-Up Rent as a proxy for January 2015. See work performed in Claim #6.C, Ref #1 and #2.
		(v)	Traced payments made by TCC to Prop LP on account of Leaseback Rent for the period to Prop LP bank statement.
2.	161,603	(i)	Reviewed Prop LLC Sales Tax return to ensure refund amount owed by RQ was on Prop LLC's account.
		(ii)	Tied refund amount received by TCC on Prop LLC's behalf to TCC's bank statements.
3.	(1,016,395)	(i)	See Monitor's review performed in Claim #7.A.
4.	(6,418,606)	(i)	See Monitor's review performed in Claim #7.A.
5.	(12,184,510)	(i)	See Monitor's review performed in Claim #7.A.
<b>Total</b>	<b>\$ 27,254,109</b>		

Monitor's Findings

7.55 Reference is made to the discussion of the Monitor's findings in Claim 6.B in relation to the validation of the real property improvements spend and associated cash flows relevant both to the calculation of the amount claimed on account of accrued Leaseback rent and amounts set-off in this Claim.

- 7.56 The Monitor notes that the Duplicative Entry Adjustment to the real property improvement spend (discussed below in Claim 6.B) impacts the claim for accrued (but unpaid) Leaseback rent for the period from January 9, 2014 to January 14, 2015, resulting in a reduction of \$1,020,724.
- 7.57 The Monitor, on the advice of counsel, has concluded that, on balance, the claim for reimbursement of the Sales Tax refund is valid given the Leasehold Arrangements Master Agreement and the parties' past course of conduct as evidenced by the materials provided in support of the Intercompany Claims.
- 7.58 In this Claim, and in Claims 6.B, 6.C, 7.A, 7.B and 7.C, claims have been made for Sales Taxes exigible in respect of rent, fees and the Termination Payment payable under the Leasehold Arrangements. The Monitor considers that, on balance, these claims for Sales Taxes are valid (except as otherwise noted), given:
- (a) the historically consistent practice of the parties to remit Sales Taxes in respect of such payments, as confirmed by the Monitor's review of the supporting materials;
  - (b) the fact that the recipients of such payments are statutorily obligated to collect and remit Sales Taxes in respect thereof; and
  - (c) the parties from whom the Sales Taxes are claimed would be entitled to a credit in respect thereof such that the payment of the Sales Taxes is neutral.
- 7.59 Reference is made to the discussion of Claim 7.A with respect to the amounts set-off in this Claim and, in particular, the impact of the Duplicative Entry Adjustment.

7.60 On balance, based on its review as described, the Monitor considers that Claim 6.A constitutes a valid claim, the quantum of which is subject to adjustment as set out in the table below.

<b>Claim #6A</b> <b>Claimant: Target Canada Property LLC</b> <b>Debtor: Target Canada Co.</b> <b>Type: Pre-filing</b> <b>\$27,254,109</b> <b>Currency: CAD</b>				
Description of Transaction	Claim	Proposed Adjustment	Recalculated Claim	
Leaseback rent (Jan 9, 2014 - Jan 14, 2015)	\$ 46,712,017	\$ (1,020,724)	\$ 45,691,293	
Sales tax refunds received by TCC on Prop LLC's behalf	161,603	-	161,603	
Sales taxes paid by TCC on Prop LLC's behalf	(1,016,395)	-	(1,016,395)	
Admin fees owing by Prop LLC to TCC (Jan 9, 2014 - Jan 14, 2015)	(6,418,606)	-	(6,418,606)	
RPI paid for by TCC on Prop LLC's behalf	(12,184,510)	7,999,142	(4,185,368)	
Applicable Sales Taxes	Not specified	-	Not specified	
<b>Total claim</b>	<b>\$ 27,254,109</b>	<b>\$ 6,978,418</b>	<b>\$ 34,232,528</b>	

**Claim 6.B – Target Canada Property LLC claim against Target Canada Co. - \$1,911,494,242**

7.61 Prop LLC has asserted a claim against TCC.<sup>42</sup> A summary of this Claim is set out in the table below.

<b>Claim #6B</b>				
<b>Claimant: Target Canada Property LLC</b>				
<b>Debtor: Target Canada Co.</b>				
<b>Type: Restructuring</b>				
<b>\$1,911,494,242</b>				
<b>Currency: CAD</b>				
<b>Description of Transaction</b>		<b>Claim</b>	<b>Ref #</b>	<b>Set-off (By) /Against</b>
Early termination payment (Feb 25, 2015)		\$ 1,911,494,242	1	
Applicable Sales Taxes		Not specified		
<b>Total claim</b>		<b>\$ 1,911,494,242</b>		

7.62 Under the terms of a Mutual Termination Agreement dated as of February 25, 2015 (the “MTA”)<sup>43</sup> and with the consent of the Monitor, the Leasehold Arrangements (and, more specifically, the Subleases, the Leasebacks and the Leasehold Arrangements Master Agreement), were terminated.

7.63 This Claim is made by Prop LLC against TCC for the termination payment contemplated by the Leasehold Arrangements Master Agreement and the Leasebacks (the “Termination Payment”) in the amount of \$1,911,494,242 plus applicable Sales Taxes. The Termination Payment is premised upon an aggregate real property improvement spend associated with all Subleased Retail Premises of \$1,482,343,219.

<sup>42</sup> The explanatory notes filed with this claim are attached hereto as **Appendix Z**.

<sup>43</sup> The MTA is attached hereto as **Appendix AA**.

*Background*

- 7.64 In the Endorsement – Lease Transaction Agreement, dated March 5, 2015, the Court acknowledged the assertion of the Applicants that the Leasehold Arrangements had been terminated in accordance with their terms and that the termination had given rise to a termination payment. The Court, however, expressly stated that the Monitor’s consent to the termination of the Leasehold Arrangements and the filing of the Third Report of the Monitor, dated February 27, 2015, did not constitute the Monitor’s approval of the validity, ranking or quantum of any claim made in respect of the Termination Payment. Any such claim would be the subject of a Monitor’s report thereon for purposes of the claims process.
- 7.65 In materials provided in support of this Claim as well as information provided to the Monitor by the claimant and its representatives upon the request of the Monitor for clarification, the claimant has indicated that Sections 2.7 and 2.8 of the Leasehold Arrangements Master Agreement, together with Section 3 of the Leasebacks, were intended to require TCC to pay Prop LLC, upon the termination of a Leaseback, an amount equal to the sum of: (i) the net present value (using a 7% discount rate) of the Leaseback Mark-Up Rent payable for the balance of the term of the Leaseback (measured with reference to the date of the termination of the Leaseback and the latest date prescribed by the Leaseback for its termination); and (ii) where the Leaseback is terminated without a corresponding termination of the Sublease, an amount equal to the obligations of Prop LLC to make payments of “Rent” under the Sublease for its remaining term.
- 7.66 Provisions of the supporting agreements relevant to this Claim are set out below.

*Leasehold Arrangements Master Agreement*

7.67 Section 2.8 of the Leasehold Arrangements Master Agreement provides:

If the Term of a Sublease ends before the date specified in Section 2(ii) thereof (for example, because a Master Lease is not extended or renewed) and a new Sublease is not renegotiated within 90 days in accordance with Section 2.7 of *[the Leasehold Arrangements Master Agreement]*, this shall also constitute an Early Termination and a Termination Payment as defined in Section 2.7 *[of the Leasehold Arrangements Master Agreement]* shall be due within 60 days of such Early Termination.

7.68 Section 2.7 of the Leasehold Arrangements Master Agreement contemplates the termination of a Sublease (at the option of TCC) upon a failure to renegotiate the terms of the Sublease following a written request by TCC for additional real property improvements. The provision requires TCC to make a Termination Payment to Prop LP (and, following assignment, Prop LLC). A “Termination Payment” is defined to be:

...a payment...calculated as an amount equal to the present value (using a 7% discount rate) of the total remaining payments of Rent, as defined in Section 3(ii) of the Sublease, which were to be paid for the remainder of the Term as defined in 2(ii) of the Sublease plus the anticipated value of the remaining Sublease term to Can Prop Co. *[Prop LP and, following assignment, Prop LLC]*.

7.69 The preambles of the Leasehold Arrangements Master Agreement provide that a Sublease and Leaseback shall be referred to therein, individually, as a “Sublease” and, collectively, as the “Subleases”. The claimant has indicated that the term “Sublease” was intended to refer to either a Sublease or a Leaseback. Another possible interpretation of this definitional phrase is that the term “Sublease” was to refer to the combination of a Sublease and a Leaseback in respect of a particular Subleased Retail Premises and the

term “Subleases” was intended to refer to the combination of a Sublease and a Leaseback in respect of all Subleased Retail Premises.

7.70 Section 2(ii) of each Sublease and each Leaseback sets out the latest date on which the term of the Sublease or Leaseback will end. Generally, for each Sublease, that date would be 25 years following its effective date and, for each Leaseback, that date would be 20 years following its effective date.

7.71 “Rent” (as defined in Section 3(ii) of each Sublease) means the monthly base rent, maintenance and similar costs and other additional rent payable under the related Master Lease.

7.72 Section 3(ii) of each Leaseback provides for the Leaseback Mark-Up Rent.

7.73 The final sentence of Section 3 of each Leaseback further provides that TCC shall pay Prop LP (and, following assignment, Prop LLC) additional rent in an amount agreed to in writing by them for unpaid rent and real property improvement costs not recovered if the Leaseback ends before a stipulated date. In each case, that date corresponds to the last date on which the term of the related Sublease will end.

#### *Mutual Termination Agreement*

7.74 Under the MTA, each of the parties agreed that:

- (a) the Subleases, Leasebacks and Leasehold Arrangements Master Agreement, and all of their rights and obligations thereunder, were mutually terminated and of no further force and effect;



- (b) all of its rights, title and interests in and to the Subleases, Leasebacks and Leasehold Arrangements Master Agreement were surrendered and released; and
- (c) notwithstanding anything to the contrary in the MTA, the obligation to pay accrued rent under the Subleases and under the Leasebacks as well as accrued fees under the Leasehold Arrangements Master Agreement would survive the termination of those agreements.

7.75 Finally, TCC acknowledged that the termination of the Leasebacks under the MTA each constituted an “Early Termination” for purposes of Section 2.8 of the Leasehold Arrangements Master Agreement and, accordingly, the “Termination Payment” as defined and computed pursuant to Section 2.7 of the Leasehold Arrangements Master Agreement was crystallized. Under the MTA, the anticipated quantum of the Termination Payment was \$1,911,494,242 and the parties agreed that Section 3 of the Leasebacks did not give rise to further Termination Payment obligations on the part of TCC.

#### *Sales Taxes*

7.76 Ernst & Young obtained a ruling (the “**Sales Tax Ruling**”)<sup>44</sup> from the Canada Revenue Agency (“**CRA**”) confirming that subsection 182(1) of the *Excise Tax Act* (Canada) will apply and Sales Taxes will be deemed to have been paid by TCC, and collected by Prop LLC, in an amount calculated in accordance with the formula prescribed by subsection 182(1) of the *Excise Tax Act* (Canada) with reference to the proportion of the Termination Payment ultimately paid at the time of payment.

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<sup>44</sup> The Sales Tax Ruling is attached hereto as **Appendix BB**.

Monitor’s Review

7.77 A description of the Monitor’s activities in reviewing this Claim is set out in the table below.

Monitor’s Review:		Claim #6.B (CAD)	
Ref #	AMOUNT		WORK PERFORMED
1.	\$ 1,911,494,242	(i)	Reviewed early Termination Payment calculation for mathematical accuracy and alignment with the Leasehold Arrangements Master Agreement.
		(ii)	Traced inputs used in present value calculation to underlying agreements: (a) 12.5% - tied to Leasebacks; (b) total Leaseback term - tied to Leasebacks; (c) Leaseback effective date - tied to Leasebacks; (d) Leaseback early termination date - confirmed that early termination date of February 25, 2015 was consistently applied; and (e) 7% discount rate - tied to Leasehold Arrangements Master Agreement.
		(iii)	On a sample basis, performed the following: (a) traced real property improvement spend for an individual site from the early termination calculation schedule to fixed asset detail of that site; (b) reviewed fixed asset detail that supported the fixed asset balance; (c) selected a further sample of transactions per the fixed asset detail to trace to an invoice to ensure that expense was incurred on account of real property improvement spend; and (d) traced invoices selected through to proof of payment.
<b>Total</b>	<b>\$ 1,911,494,242</b>		

7.78 In addition, the Monitor made enquiries of the claimant and its representatives as to the rationale for the Leasehold Arrangements.

EP Assessment

7.79 Dr. Reichert conducted an economic analysis to determine the range of termination payments that would provide a return to Prop LLC consistent with the arm’s length principle. His discussion is set out in Section III of the EP Report at **Appendix C**.

7.80 Dr. Reichert concluded that this range is \$1.32 billion to \$1.39 billion (in rounded numbers), which would result in a downward adjustment of the claimed Termination Payment of between \$518 million and \$588 million.

Monitor's Findings

*Contractual Entitlement to Termination Payment*

7.81 The Monitor considered the rationale provided by the claimant for the Leasehold Arrangements. While the Monitor did not validate the tax efficiencies that arose from the implementation of the Leasehold Arrangements, it noted that similar leasing arrangements are used as legitimate structures for providing funding, and that tax efficiencies are often one of the factors that motivate such structures. In its review, the Monitor found nothing inconsistent with the claimant's assertion that the Leasehold Arrangements were designed to provide the Canadian operations with the funding necessary for the real property improvement costs associated with the Subleased Retail Premises in a tax efficient manner.

7.82 On balance, it is the Monitor's view that it is reasonable for the claimant to be compensated for the early termination of the Leasehold Arrangements given that:

- (a) an early termination payment was expressly provided for in the Leasehold Arrangements Master Agreement;
- (b) the Leaseback Mark-Up Rent was designed to repay the funding indirectly provided by TCC Corporation S.à.r.l for the real property improvement costs associated with the Subleased Retail Premises;

- (c) as an economic matter, had the requisite funding for the real property improvements spend instead been advanced to TCC by way of third party term loan, it would have been reasonable to expect:
  - (i) the advance to bear interest at a commercial rate; and
  - (ii) the terms of the loan to contemplate an acceleration of the indebtedness.

*Validation of Real Property Improvement Spend*

7.83 The Monitor has undertaken significant procedures both to verify the quantum of the real property improvement spend serving as the basis for the calculation of Leaseback Mark-Up Rent (and, accordingly, the Termination Payment) and to confirm that the expenditures were on account of real property improvements associated with the Subleased Retail Premises. The procedures are generally described as follows:

- (a) of the real property improvement spend, approximately one-third represents payments made by Prop LP (and, following assignment, Prop LLC) directly to contractors. Each of these payments were verified by reference to bank statements of Prop LP and Prop LLC, as the case may be;
- (b) the balance represents reimbursements made by Prop LP (and following assignment, Prop LLC) to TCC of real property improvement costs incurred by TCC in respect of the Subleased Retail Premises (including the Initial Real Property Improvement Spend Reimbursement). Each of these payments was verified by reference to bank statements of Prop LP and Prop LLC, as the case may be;

(c) the Monitor concluded it was necessary to perform additional testing to verify the quantum and nature of the expenditures forming part of the real property improvement spend because a significant amount of the spend was comprised of payments made by Prop LP (and, following assignment, Prop LLC) to TCC (who paid the contractors directly). Given the volume of the transactions involved, the Monitor tested transactions on a sample basis with respect to 14 Subleased Retail Premises (or approximately 10% of the Subleased Retail Premises).

7.84 The materials provided by the claimant to facilitate the sample testing have been sufficient for purposes of the testing. The Monitor notes that Prop LP, Prop LLC and TCC relied upon an electronic data interchange (an “**EDI**”) for certain payments made on account of real property improvement spend associated with the Subleased Retail Premises. Accordingly, in these instances, traditional invoices were not available for purposes of validating the real property improvement spend or payment reconciliation. General ledger screenshots were provided to the Monitor in lieu of invoices. The absence of traditional invoices is not cause for concern to the Monitor.

7.85 The Monitor has substantially completed the sample testing of the real property improvement spend. A relatively small amount of information required to verify the real property improvement spend has not yet been received. Once received, the Monitor will address any concerns that may arise, if and as appropriate. In its sample testing to date, with the one exception noted below, the Monitor has noted only immaterial variances.

7.86 In the sample testing of the real property improvement spend associated with one Subleased Retail Premises, the Monitor noted that a payment to the landlord from Prop LLC on account of its share of certain real property improvement costs (in the amount of

\$7,999,142) was recorded twice. The effect was to increase the real property improvement spend associated with the Subleased Retail Premises by \$7,999,142 in error. It is the Monitor's view that the real property improvement spend should therefore be reduced by that amount (the "**Duplicative Entry Adjustment**") and the Termination Payment should be reduced by the present value of that amount over the term of the relevant Leaseback (\$10,524,709).

7.87 Although the Monitor considers the circumstances of the duplicative entry to be unusual and not systemic,<sup>45</sup> the Monitor has commenced sample testing in respect of three additional Subleased Retail Premises. Once completed, the Monitor will address any concerns that may arise, if and as appropriate.

7.88 The Duplicative Entry Adjustment impacts the calculation of accrued Leaseback rent in Claims 5.B, 6.A and 6.C. It also impacts TCC's claim for reimbursement of real property improvement costs found in Claim 7.A.

7.89 At this time, on balance, the Monitor is satisfied that real property improvement costs of \$1,474,344,077 (\$1,482,343,219 net of the Duplicative Entry Adjustment) were incurred by TCC, Prop LP and Prop LLC in respect of the Subleased Retail Premises.

#### *Termination Payment Calculation*

7.90 The calculation of the Termination Payment includes the real property improvement spend of one Subleased Retail Premises that had been leased back to TCC at the time the

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<sup>45</sup> The Monitor is familiar with the circumstances of the duplicative entry as a result of prior discussions with the landlord. The payment was made to the landlord by cheque, which was not cashed. The landlord requested a replacement payment, which was made by wire. While an entry was made to record the wire payment, the entry to record the cheque payment was not reversed.

Leasehold Arrangements were terminated, but had not yet been turned over as the related store had not been launched. Consistent with the Monitor's observations noted in paragraph 7.45, Leaseback rent was not paid pending the launch of the store. However, for the purposes of the Termination Payment calculation, the claimant assumed a Leaseback effective date of January 29, 2015. While the Monitor recognizes that the funds were advanced for the real property improvements associated with the Subleased Retail Premises, on the advice of counsel it is the Monitor's view that the claimant is not entitled to receive a Termination Payment in respect of these premises having regard to the parties' prior course of conduct (giving effect to the Leaseback only at the time of store launch). The Termination Payment should be correspondingly reduced in the amount of \$8,197,135 (the "**Excluded Premises Adjustment**" and, together with the Duplicative Entry Adjustment, the "**RPI Adjustment**").

7.91 In reviewing the calculation of the Termination Payment, the Monitor also noted two potential adjustments that could increase the Termination Payment:

- (a) an error in the determination of the remaining Leaseback term for one Subleased Retail Premises.<sup>46</sup> A term of 11 years was used in the calculation instead of the actual term of 20 years, resulting in an understatement in the Termination Payment of \$5,444,549 (the "**Term Calculation Error Adjustment**"); and
- (b) the calculation of the Termination Payment is based upon the real property improvement spend recorded as of November 30, 2014 and determined with reference to the schedule of fixed asset costs on that date. As at January 31, 2015,

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<sup>46</sup> Premises 3729.

the schedule of fixed asset costs reflected an increase of approximately \$6 million from November 30, 2014.<sup>47</sup> Had the increased real property improvement spend been used in the calculation of the Termination Payment and the calculation of accrued Leaseback rent for the period from January 1, 2015 to February 25, 2015, the amounts claimed would be expected to be higher (the “**Fixed Asset Increase**”).

7.92 The calculation of the Termination Payment includes the real property improvement spend of one Subleased Retail Premises which the claimant originally indicated had not been leased back to TCC at the time the Leasehold Arrangements were terminated. Accordingly, for purposes of the Termination Payment calculation, the claimant assumed a Leaseback effective date of January 31, 2015. By reason of the Monitor’s review of the Leasebacks, however, it was discovered that the Subleased Retail Premises had been leased back effective September 17, 2013. Representatives of the claimant indicated to the Monitor that the Subleased Retail Premises had been incorrectly recorded as a Retail Premises not forming part of the Leasehold Arrangements. Accordingly, neither Base Rent under its Sublease, nor Leaseback rent, had been charged. In verifying the calculation of the Termination Payment, the error was discovered. The Termination Payment payable in respect of the Subleased Retail Premises was, accordingly, computed with reference to the full term of the Leaseback (to reflect that Leaseback Mark-Up Rent had not been previously paid). The Monitor considered the claimant’s approach to be reasonable in the circumstances.<sup>48</sup> However, it should be noted that as a result of this

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<sup>47</sup> The Monitor has not had the opportunity to verify this increase in the costs of fixed assets prior to the issuance of this Report.

<sup>48</sup> An alternative approach would be to treat the Leaseback rent as if it were charged from September 17, 2013 onward, resulting in accrued rent payable owing from TCC to Prop LLC (and, relating to the period up to



error, Base Rent under the Sublease for the period from the Sublease effective date (February 4, 2013) to the Leaseback effective date was not paid by Prop LP to TCC,<sup>49</sup> and it is the Monitor's view that an adjustment to Claim 5.B in the amount of \$720,419 should be made (the "**Sublease Base Rent Adjustment**").

7.93 The Monitor further noted that the net present value of the Leaseback Mark-Up Rent payable for the balance of the term of each Leaseback was calculated on the assumption that the Leaseback Mark-Up Rent was to have been paid monthly in advance. In practice, the Leaseback Mark-Up Rent was paid quarterly in arrears. The provisions of the Leasebacks generally contemplate a monthly payment of rent, but are silent on whether the payment is to be made in advance or in arrears. The Monitor has concluded the approach taken in the net present value calculation of the Termination Payment is reasonable and not precluded by the provisions of the Leasebacks (particularly having regard to the fact that rent is commonly paid in advance).

### *Conclusions*

7.94 Reference is made to paragraph 7.58 in Claim 6.A with respect to the claim for reimbursement of Sales Tax. It is the Monitor's view that the claim for Sales Taxes constitutes a valid claim.

7.95 The claimant advised the Monitor that it consulted with independent third party experts when establishing the terms of the Leasehold Arrangements and that it received

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January 8, 2014, to Prop LP) along with a corresponding reduction in the amount owing under the Termination Payment. Although the Monitor has not yet had an opportunity to seek Dr. Reichert's views with respect to the potential financial impact on the Termination Payment calculation of the two approaches, no material difference is anticipated by the Monitor.

<sup>49</sup> Base Rent payable under the Sublease and Base Rent under the Leaseback following its effective date would have netted against each other, with no financial impact.

contemporaneous written advice with respect to the Leasehold Arrangements which supported that the terms thereof are consistent with terms that would have been established had the parties been dealing at arm's length.

7.96 While the Monitor recognizes that views and opinions may differ among experts, the Monitor is relying on the report of its expert, Dr. Reichert.

7.97 On balance, based on the opinion of its expert and the Monitor's review as described, the Monitor considers that Claim 6.B constitutes a valid claim, the quantum of which is subject to reduction.

7.98 Because of the compressed timeframe, the Monitor has not had an opportunity to seek a further analysis from Dr. Reichert with respect to the effect of the adjustments indicated by the Monitor's review. Therefore, the table below sets out the adjustment indicated by the EP Report. The Monitor, however, notes that the adjustments resulting from its review could be expected to affect Dr. Reichert's downward adjustment.<sup>50</sup>

<b>Claim #6B</b>			
<b>Claimant: Target Canada Property LLC</b>			
<b>Debtor: Target Canada Co.</b>			
<b>Type: Restructuring</b>			
<b>\$1,911,494,242</b>			
<b>Currency: CAD</b>			
<b>Description of Transaction</b>	<b>Claim</b>	<b>Proposed Adjustment</b>	<b>Recalculated Claim</b>
Early termination payment (Feb 25, 2015)	\$ 1,911,494,242	\$ (554,738,191)	\$ 1,356,756,051
Applicable Sales Taxes	Not specified		Not specified
<b>Total claim</b>	<b>\$ 1,911,494,242</b>	<b>\$ (554,738,191)</b>	<b>\$ 1,356,756,051</b>

**Note:** The proposed adjustment above is based on the "Median Cost of Capital". The adjustment using the "Upper Quartile Cost of Capital" would be \$517,553,439 and \$587,790,865 using the "Lower Quartile Cost of Capital".

<sup>50</sup> The RPI Adjustment would reduce the real property improvement spend upon which his analysis is based, reducing the Recalculated Claim indicated above. The Term Calculation Error Adjustment would affect the remaining term imputed in his analysis, increasing the Recalculated Claim above. The Fixed Asset Increase, to the extent determined, would affect the real property improvement spend, also increasing the Recalculated Claim above.

**Claim 6.C – Target Canada Property LLC claim against Target Canada Co. - \$37,347,552  
(post-filing claim)**

7.99 Prop LLC has asserted a post-filing claim against TCC.<sup>51</sup> A summary of this Claim is set out in the table below.

<b>Claim #6C</b>				
<b>Claimant: Target Canada Property LLC</b>				
<b>Debtor: Target Canada Co.</b>				
<b>Type: Post-filing</b>				
<b>\$37,347,552</b>				
<b>Currency: CAD</b>				
<b>Description of Transaction</b>	<b>Claim</b>	<b>Ref #</b>	<b>Set-off (By) /Against</b>	
Leaseback Base Rent (Jan 15 - Feb 25, 2015)	\$ 10,737,732	1		
Leaseback Mark-Up Rent (Jan 15 - Feb 25, 2015)	22,828,127	2		
GST/HST on leaseback rent	8,636,587	3		
QST owing on leaseback rent	1,448,728	4		
Sublease Base Rent (Jan 15 - Feb 25, 2015)	(5,470,262)	5	#7B	
GST/HST owing on sublease rent	(683,509)	6	#7B	
QST owing on sublease rent	(149,850)	7	#7B	
Applicable Sales Taxes	Not specified			
<b>Total claim</b>	<b>\$ 37,347,552</b>			

*The Leasehold Arrangements Master Agreement and Leasebacks*

7.100 The relevant provisions of the Leasehold Arrangements Master Agreement are discussed in Claim 5.A.

*Accrued but Unpaid Leaseback Rent*

7.101 For a summary of the three periods of rent claimed against TCC under the Leasebacks, see paragraph 7.36 above in Claim 5.B. This claim by Prop LLC relates to the period from January 15, 2015 to February 25, 2015.

<sup>51</sup> The explanatory notes filed with this claim are attached hereto as **Appendix CC**.

7.102 In this Claim, Prop LLC has asserted that the total amount of rent payable under all of the Leasebacks for the period from January 15, 2015 to February 25, 2015 (the date of the MTA) was \$33,565,859 (exclusive of applicable Sales Taxes) comprised of:

- (a) \$10,737,732 in accrued Base Rent; and
- (b) \$22,828,127 in accrued Leaseback Mark-Up Rent.

7.103 The claimant has indicated that no payment has been made on account of accrued rent under the Leasebacks for the period from January 15, 2015 to February 25, 2015. Accordingly, the full amount (of \$33,565,859 plus applicable Sales Taxes) is claimed by Prop LLC against TCC in this Claim as a post-filing accounts receivable.

*Sales Taxes Remittances*

7.104 Prop LLC has asserted that Sales Taxes became exigible, and were paid by it on March 30, 2015 (but not collected from TCC), in respect of:

- (a) \$22,377,239 aggregate rent payable under the Leasebacks for December 2014, in the amounts of \$1,977,872 to CRA and \$428,245 to Revenu Québec (“**RQ**”);
- (b) \$8,791,058 aggregate rent payable under the Leasebacks for the period from January 1, 2015 to January 14, 2015, in the amounts of \$777,021 to CRA and \$168,239 to RQ;
- (c) \$13,586,181 aggregate rent payable under the Leasebacks for the period from January 15, 2015 to January 31, 2015, in the amounts of \$1,200,851 to CRA and \$260,006 to RQ;

- (d) \$19,979,678 aggregate rent payable under the Leasebacks for the period from February 1, 2015 through February 25, 2015 in the amount of \$1,765,957 to CRA and \$382,361 to RQ;
- (e) a “true up” of Sales Taxes exigible in respect of rent payable under the Leasebacks for the 2013 fiscal year and the period ended November 30, 2014, in the amounts of \$1,628,567 and \$1,286,320, respectively, to CRA; and
- (f) a “true up” of Sales Taxes exigible in respect of rent payable under the Leasebacks for the 2013 fiscal year and the period ended November 30, 2014, in the amounts of \$142,289 and \$67,588, respectively, to RQ.<sup>52</sup>

7.105 While the total Sales Taxes exigible in favour of CRA were equal to \$8,636,589, Prop LLC only remitted \$7,953,077 on account of an input tax credit of \$683,509 claimed by it for the period February 1, 2015 to February 25, 2015.

7.106 While the total Sales Taxes exigible in favour of RQ were equal to \$1,488,728, Prop LLC only remitted \$1,298,878 on account of an input tax credit of \$149,850 claimed by it for the period February 1, 2015 to February 25, 2015.

#### Monitor’s Review

7.107 A description of the Monitor’s activities in reviewing this Claim is set out in the table below.

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<sup>52</sup> The Monitor notes that the amounts claimed are consistent with the supporting information. The narrative in the Proof of Claim is in error in respect of the amounts in relation to which the various Sales Taxes are exigible.

<b>Monitor's Review:</b>		<b>Claim #6.C (CAD)</b>	
<b>Ref #</b>	<b>AMOUNT</b>		<b>WORK PERFORMED</b>
1.	\$ 10,737,732	(i)	Reviewed schedules supporting accrued Leaseback Base Rent owing for mathematical accuracy, including allocation of January 2015 rent between Claim #6.A (pre-filing) and Claim #6.C (post-filing).
		(ii)	Reviewed supporting schedules provided to assess reasonableness of using December 2014 Base Rent as a proxy for January and February 2015.
2.	22,828,127	(i)	Reviewed schedules supporting accrued Leaseback Mark-Up Rent owing for mathematical accuracy, including allocation of January 2015 rent between Claim #6A (pre-filing) and Claim #6.C (post-filing).
		(ii)	Reviewed supporting schedules provided and assessed reasonableness of using December 2014 Leaseback Mark-Up Rent as a proxy for January and February 2015.
3.	8,636,587	(i)	Agreed amount to Sales Tax return filed with CRA by Prop LLC.
		(ii)	Tied amount remitted to CRA by Prop LLC to bank payment confirmation.
4.	1,448,728	(i)	Agreed amount to Sales Tax return filed with RQ by Prop LLC.
		(ii)	Tied amount remitted to RQ by Prop LLC to bank payment confirmation.
5.	(5,470,262)	(i)	See Monitor's review performed in Claim #7.B.
6.	(683,509)	(i)	See Monitor's review performed in Claim #7.B.
7.	(149,850)	(i)	See Monitor's review performed in Claim #7.B.
<b>Total</b>	<b>\$ 37,347,552</b>		

Monitor's Findings

7.108 Reference is made to the discussion of the Monitor's findings in Claim 6.B in relation to the validation of the real property improvements spend and associated cash flows relevant to the calculation of the amount claimed on account of accrued Leaseback rent.

7.109 The Monitor notes that the Duplicative Entry Adjustment to the real property improvement spend (discussed in Claim 6.B) impacts the claim for accrued (but unpaid) Leaseback rent for the period from January 15, 2015 to February 25, 2015, resulting in a reduction of \$124,987.

7.110 Prop LLC explained to the Monitor that, for purposes of the MTA, the accrued rent payable under the Leasebacks in respect of the period from January 1, 2015 to February 25, 2015 had been estimated on the basis of rent actually accrued under the Leasebacks for the month of December 2014. The estimate was predicated upon the assumption that the aggregate rent payable under the Master Leases related to the Subleased Retail Premises and the real property improvement spend associated with the Subleased Retail Premises would not have materially changed in January/February 2015 (and, accordingly, the calculation of Base Rent and Leaseback Mark-Up Rent under the Leasebacks for the period from January 1, 2015 to February 25, 2015 would be comparable to the same calculation for December 2014). Prop LLC confirmed that the aggregate rent payable under the related Master Leases and the real property improvement spend associated with the Subleased Retail Premises had not materially changed in January/February 2015 and, accordingly, the estimate of accrued rent payable under the Leasebacks in respect of the period from January 1, 2015 to February 25, 2015 was not updated. While the Monitor considers this approach reasonable, it notes that Leaseback Mark-Up Rent for the month of December 2014 is based upon the real property improvement spend recorded as at November 30, 2014 and determined with reference to the schedule of fixed asset costs on that date. As at January 31, 2015, the schedule of fixed asset costs reflected an increase of approximately \$6 million from November 30, 2014. This difference would result in an increase to the calculation of accrued Leaseback Mark-Up Rent for the period of January 1, 2015 to February 25, 2015. No additional amount has been claimed in respect of such increase.

7.111 The Monitor considers the amounts claimed on account of Base Rent and Mark-Up Rent as valid post-filing accounts receivable given paragraph 13 of the Initial Order, requiring the Target Canada Entities to pay “all amounts constituting rent or payable as rent under real property leases (including ... any other amounts payable to the landlord under its lease)” subject to certain exclusions. Base Rent and Mark-Up Rent are payable under the Leasebacks. The Monitor has been advised by counsel that the Leasebacks are real property leases and Base Rent and Mark-Up Rent are not excluded from the provisions of paragraph 13.

7.112 Reference is made to paragraph 7.58 in Claim 6.A with respect to the claim for reimbursement of Sales Tax. It is the Monitor’s view that the amounts claimed in this Claim for reimbursement of Sales Tax remittances (\$8,636,587 and \$1,448,728) are valid. The claim made for Sales Taxes applicable to accrued Leaseback rent is duplicative thereof, and is not valid.

7.113 Reference is made to the discussion of Claim 7.B with respect to the amounts set-off in this Claim.

7.114 On balance, based on its review as described, the Monitor considers that Claim 6.C constitutes a valid claim,<sup>53</sup> the quantum of which is subject to reduction as set out in the table below.

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<sup>53</sup> Other than to the extent of the claim for Sales Taxes applicable on accrued Leaseback rent (which is duplicative and should not be reflected).



<b>Claim #6C</b>			
<b>Claimant: Target Canada Property LLC</b>			
<b>Debtor: Target Canada Co.</b>			
<b>Type: Post-filing</b>			
<b>\$37,347,552</b>			
<b>Currency: CAD</b>			
<b>Description of Transaction</b>	<b>Claim</b>	<b>Proposed Adjustment</b>	<b>Recalculated Claim</b>
Leaseback Base Rent (Jan 15 - Feb 25, 2015)	\$ 10,737,732	\$ -	\$ 10,737,732
Leaseback Mark-Up Rent (Jan 15 - Feb 25, 2015)	22,828,127	(124,987)	22,703,140
GST/HST on leaseback rent	8,636,587	-	8,636,587
QST owing on leaseback rent	1,448,728	-	1,448,728
Sublease Base Rent (Jan 15 - Feb 25, 2015)	(5,470,262)	(662,742)	(6,133,004)
GST/HST owing on sublease rent	(683,509)	-	(683,509)
QST owing on sublease rent	(149,850)	-	(149,850)
Applicable Sales Taxes	Not specified	Not specified	-
<b>Total claim</b>	<b>\$ 37,347,552</b>	<b>\$ (787,729)</b>	<b>\$ 36,559,823</b>

**Claim 7.A – Target Canada Co. claim against Target Canada Property LLC - \$19,619,511**

7.115 TCC has asserted a claim against Prop LLC in respect of amounts paid by TCC on Prop LLC's behalf and administrative fees.<sup>54</sup> A summary of this Claim is set out in the table below.

<b>Claim #7A</b>				
<b>Claimant: Target Canada Co.</b>				
<b>Debtor: Target Canada Property LLC</b>				
<b>Type: Pre-filing</b>				
<b>\$19,619,511</b>				
<b>Currency: CAD</b>				
<b>Description of Transaction</b>	<b>Claim</b>	<b>Ref #</b>	<b>Set-off (By) /Against</b>	
Sales taxes paid by TCC on Prop LLC's behalf	\$ 1,016,395	1	#6A	
Admin fees owing by Prop LLC to TCC (Jan 9, 2014 - Jan 14, 2015)	6,418,606	2	#6A	
RPI paid for by TCC on Prop LLC's behalf	12,184,510	3	#6A	
Applicable Sales Taxes	Not specified			
<b>Total claim</b>	<b>\$ 19,619,511</b>			

*Leasehold Arrangements Master Agreement*

7.116 The relevant provisions of the Leasehold Arrangements Master Agreement are discussed in Claim 5.A.

*Fees*

7.117 There are two periods of fees claimed by TCC against Prop LP and Prop LLC under the Leasehold Arrangements Master Agreement, including this Claim by TCC relating to the period from January 9, 2014 to January 14, 2015, and Claim 7.C relating to the prior period of February 4, 2013 to January 8, 2014.

<sup>54</sup> TCC's Proof of Claim against the Target Canada Entities is attached hereto as **Appendix DD**. The explanatory notes filed with this Claim 7.A are attached hereto as **Appendix EE**.

<b>Admin Fees</b>		
<b>Claim # Entities</b>	<b>Time Period</b>	<b>Amount</b>
5B/7C Prop LP to TCC (pre-filing)	February 4, 2013 to January 8, 2014	\$ 317,928
	January 1, 2014 to January 8, 2014	210,802
<b>Total Prop LP to TCC (pre-filing)</b>		<b>528,730</b>
6A/7A Prop LLC to TCC (pre-filing)	January 9, 2014 to January 14, 2015	6,418,606
<b>Total Admin Fees</b>		<b>\$ 6,947,336</b>

7.118 The claimant indicated that fees charged under the Leasehold Arrangements Master Agreement represent Prop LLC's (and, before assignment, Prop LP's) share of the expenses charged to TCC by Target Corporation in the build out of the Retail Premises. Prop LLC (and, before assignment, Prop LP) were responsible for the build out of the Subleased Retail Premises and, accordingly, assumed such expenses associated with that build out.

7.119 TCC has claimed that:

- (a) costs of \$7,131,784 were incurred by it in the build out of the Retail Premises during the period from January 9, 2014 to January 14, 2015;
- (b) of that amount, 90% (or \$6,418,606 exclusive of Sales Taxes) is properly payable by Prop LLC as a fee.

7.120 The costs are categorized as payroll expenses and non-payroll expenses (including office supplies, travel and transportation, meals and entertainment, telecommunication, equipment and data network expenses). Certain payroll and non-payroll expenses represent employees, assets or resources fully dedicated to the Canadian build out of Retail Premises, while others represent employees, assets or resources dedicated to

Target Corporation and its affiliates generally and only a portion of which are allocated to the build out of Retail Premises in Canada.

7.121 In calculating the build out of expenses incurred for the period of January 9 to 31, 2014, the full month's expenses were allocated on a *pro rata* basis with reference to days elapsed.

7.122 The claimant has not claimed in respect of any fees accrued under the Leasehold Arrangements Master Agreement for the period from January 15, 2015 to February 25, 2015.

#### *Sales Tax Remittance*

7.123 TCC remitted \$1,016,395 to RQ on account of Sales Taxes payable by Prop LLC. TCC has indicated that Prop LLC has not reimbursed the amount.

#### *Real Property Improvement Costs*

7.124 TCC has asserted that it incurred real property improvement costs associated with the Subleased Retail Premises of \$12,184,510 which had not been reimbursed by Prop LLC.

7.125 As discussed above, the Leasehold Arrangements Master Agreement requires Prop LLC to reimburse TCC for any costs incurred by it related to real property improvements for the Subleased Retail Premises.

7.126 Accordingly, TCC has claimed a reimbursement of \$12,184,510 on account of real property improvements spend.

Monitor's Review

7.127 A description of the Monitor's activities in reviewing this Claim is set out in the table below.

<b>Monitor's Review:</b>		<b>Claim #7.A (CAD)</b>	
<b>Ref #</b>	<b>AMOUNT</b>		<b>WORK PERFORMED</b>
1.	\$ 1,016,395	(i)	Reviewed Prop LLC Sales Tax return to ensure payment owed to RQ was on Prop LLC's account.
		(ii)	Tied amount remitted by TCC on Prop LLC's behalf to TCC's bank statement.
2.	6,418,606	(i)	Tied claim amount to support provided and to the company's books and records, where applicable.
		(ii)	Calculated exchange rate used (where expense charged in USD was converted to CAD) and compared rate to the Bank of Canada noon spot rate ensuring reasonability.
3.	12,184,510	(i)	Reviewed real property improvement spend reconciliation provided for mathematical accuracy and reasonableness.
<b>Total</b>	<b>\$ 19,619,511</b>		

Monitor's Findings

7.128 The claimant has indicated the amount claimed in respect of fees should be increased by the amount of applicable Sales Taxes. Reference is made to paragraph 7.58 of Claim 6.A. The provisions of the Leasehold Arrangements Master Agreement clearly provide that Sales Taxes exigible in respect of any amount payable by Prop LLC to TCC thereunder shall be the responsibility of Prop LLC. Accordingly, the Monitor is of the view that the claim for Sales Taxes is valid.

7.129 The Monitor, on the advice of counsel, has concluded that, on balance, the claim for reimbursement of Sales Taxes remitted is valid given the Leasehold Arrangements and the parties' past course of conduct as evidenced by the materials provided in support of the Intercompany Claims.

- 7.130 Under the Leasehold Arrangements Master Agreement, the fee for administrative services provided by TCC to Prop LLC is expressed to be equal to 90% of the costs incurred for providing the services (\$6,418,606). It was not practical in the circumstances for the Monitor to perform testing to verify the quantum of the costs incurred by TCC for providing the administrative services from January 9, 2014 to January 14, 2015.
- 7.131 Reference is made to the discussion of the Monitor's findings in Claim 6.B in relation to the validation of the real property improvements spend and associated cash flows relevant to TCC's claim for reimbursement of real property improvement costs incurred by it.
- 7.132 Representatives of the claimant indicated to the Monitor that in the course of verifying the calculation of: (i) the Termination Payment payable upon the termination of the Leasehold Arrangements pursuant to the MTA for purposes of Claim 6.B.; and (ii) accrued (but unpaid) Leaseback Mark-Up Rent (for purposes of Claims 6.A. and 6.C.) and validating the real property improvements spend upon which both such calculations were based, TCC determined that the real property improvements spend associated with the Subleased Retail Premises exceeded Prop LP's (and, following assignment, Prop LLC's) cash expenditures by \$12,184,510. TCC indicated that the difference was attributable to an insufficient reimbursement by Prop LLC of real property improvement costs incurred by TCC. By reason of the nature of the adjustment giving rise to TCC's claim for reimbursement of real property improvements costs incurred by it, it was not possible for the Monitor to validate the amount by reference to third party evidence. The Monitor was only able to assess the amount based on the explanation and supporting information provided.

7.133 The Monitor notes that the Duplicative Entry Adjustment to the real property improvement spend (discussed above in Claim 6.B) impacts the claim for reimbursement for real property improvement costs incurred. The claim represents the amount by which the real property improvement spend (of \$1,482,343,219) exceeded Prop LP's (and, following assignment, Prop LLC's) cash expenditures. The Duplicative Entry Adjustment reduces the real property improvement spend to \$1,474,344,077, resulting in a corresponding reduction of \$7,999,142 to this Claim.

7.134 The Monitor, on the advice of counsel, has concluded that, on balance, the claim for reimbursement of real property improvement costs (as reduced) is valid given the Leasehold Arrangements and the parties' course of conduct.

7.135 On balance, based on its review as described, the Monitor considers that Claim 7.A constitutes a valid claim, the quantum of which is subject to reduction as set out in the table below.

<b>Claim #7A</b>			
<b>Claimant: Target Canada Co.</b>			
<b>Debtor: Target Canada Property LLC</b>			
<b>Type: Pre-filing</b>			
<b>\$19,619,511</b>			
<b>Currency: CAD</b>			
<b>Description of Transaction</b>	<b>Claim</b>	<b>Proposed Adjustment</b>	<b>Recalculated Claim</b>
Sales taxes paid by TCC on Prop LLC's behalf	\$ 1,016,395	\$ -	\$ 1,016,395
Admin fees owing by Prop LLC to TCC (Jan 9, 2014 - Jan 14, 2015)	6,418,606	-	6,418,606
RPI paid for by TCC on Prop LLC's behalf	12,184,510	(7,999,142)	4,185,368
Applicable Sales Taxes	Not specified		Not specified
<b>Total claim</b>	<b>\$ 19,619,511</b>	<b>\$ (7,999,142)</b>	<b>\$ 11,620,369</b>

7.136 The amounts claimed in this Claim are netted in Claim 6.A.

**Claim 7.B – Target Canada Co. claim against Target Canada Property LLC - \$6,303,621  
(post-filing claim)**

7.137 TCC has asserted a claim against Prop LLC in respect of the Leasehold Arrangements.<sup>55</sup>

A summary of this Claim is set out in the table below.

<b>Claim #7B</b>				
<b>Claimant: Target Canada Co.</b>				
<b>Debtor: Target Canada Property LLC</b>				
<b>Type: Post-filing</b>				
<b>\$6,303,621</b>				
<b>Currency: CAD</b>				
<b>Description of Transaction</b>	<b>Claim</b>	<b>Ref #</b>	<b>Set-off (By) /Against</b>	
Sublease Base Rent (Jan 15 - Feb 25, 2015)	\$ 5,470,262	1	#6C	
GST/HST owing on sublease rent	683,509	2	#6C	
QST owing on sublease rent	149,850	3	#6C	
Applicable Sales Taxes	Not specified			
<b>Total claim</b>	<b>\$ 6,303,621</b>			

*Subleases*

7.138 The relevant provisions of the Subleases are discussed in Claim 5.A.

*Accrued Base Rent*

7.139 In this Claim, TCC has asserted that:

- (a) the total amount of Base Rent payable under all the Subleases for the period from January 1, 2015 to January 14, 2015 was \$2,812,263;
- (b) the total amount of Base Rent payable under all the Subleases for the period from January 15, 2015 to January 31, 2015 was \$4,346,225; and

<sup>55</sup> The explanatory notes filed with this claim are attached hereto as **Appendix FF**.



(c) the total amount of Base Rent payable under all of the Subleases for the period from February 1, 2015 to February 25, 2015 was \$6,391,507.

7.140 TCC has indicated that, in December 2014, Prop LLC made a prepayment of \$8,079,733 on account of Base Rent payable under the Subleases in the month of January 2015. TCC has applied that prepayment, in sequential order, to: (i) the payment in full of accrued Base Rent under the Subleases for the period from January 1, 2015 to January 14, 2015, (ii) the payment in full of accrued Base Rent under the Subleases for the period from January 15, 2015 to January 31, 2015 and (iii) the partial payment (of \$921,245) of accrued Base Rent under the Subleases for the period from February 1, 2015 to February 25, 2015.

7.141 The claimant has indicated that no further payment has been made on account of accrued Base Rent under the Subleases for the period from January 1, 2015 to February 25, 2015. Accordingly, the amount of \$5,470,262 (plus applicable Sales Taxes) remaining unpaid in respect of accrued Base Rent under the Subleases for the period from January 15, 2015 to February 25, 2015 is claimed by TCC against Prop LLC in this Claim as a post-filing accounts receivable.

*Sales Tax Remittances*

7.142 The claimant has asserted that Sales Taxes became exigible, and were paid by it to the CRA on March 30, 2015 (but not collected from Prop LLC), in the amount of \$683,509 in respect of \$7,508,612 of Base Rent payable under the Subleases for the period from February 1 to February 25, 2015.

7.143 The claimant has asserted that Sales Taxes became exigible, and were paid by it to RQ on March 30, 2015 (but not collected from Prop LLC), in the amount of \$149,850 in respect of \$7,508,612 of Base Rent payable under the Subleases for the period from February 1 to February 25, 2015.

Monitor’s Review

7.144 A description of the Monitor’s activities in reviewing this Claim is set out in the table below.

<b>Monitor’s Review:</b>		<b>Claim #7.B (CAD)</b>	
Ref #	AMOUNT		WORK PERFORMED
1.	\$ 5,470,262	(i)	Reviewed schedule supporting accrued Sublease Base Rent owing for mathematical accuracy.
		(ii)	Traced amount paid by Prop LLC on account of Sublease Base Rent to Prop LLC’s bank statement.
		(iii)	Reviewed Sublease Base Rent charged for reasonableness.
2.	683,509	(i)	Sales Tax returns filed by TCC with CRA on account of this amount were provided, however, claim amounts could not be directly traced as return includes numerous non-related transactions. Agreed amount claimed to Sales Tax return filed with CRA by Prop LLC related to input tax credits (“ <b>ITC</b> ”) claimed.
		(ii)	Tied amount remitted (net of ITC’s) to CRA by Prop LLC to bank payment confirmation.
3.	149,850	(i)	Sales Tax returns filed by TCC with RQ on account of this amount were provided, however, amounts could not be directly traced as return includes numerous non-related transactions. Agreed amount claimed to Sales Tax return filed with RQ by Prop LLC related to input tax refunds (“ <b>ITR</b> ”) claimed.
		(ii)	Tied amount remitted (net of ITR’s) to RQ by Prop LLC to bank payment confirmation.
<b>Total</b>	<b>\$ 6,303,621</b>		

Monitor’s Findings

7.145 In the calculation of accrued Base Rent under the Subleases for the period from January 1, 2015 to February 25, 2015, TCC used the Base Rent accrued for the same period under

the Leasebacks (see Claims 6.A and 6.C) as the basis for the calculation. The Base Rent accruing under the Subleases was greater than the Base Rent accruing under the Leasebacks, on an aggregate basis, because three Leasebacks were not entered into. In December 2014, the difference between accrued Base Rent under the Subleases and accrued Base Rent under the Leasebacks was \$350,127 (the “**2015 Sublease Base Rent Adjustment**”). The Monitor is of the view that the amount of this Claim should be correspondingly increased by \$662,742 in respect of the period from January 1, 2015 to February 25, 2015.

7.146 Reference is made to paragraph 7.58 of Claim 6.A with respect to the claim for reimbursement of Sales Tax. It is the Monitor’s view that the amounts claimed in this Claim on account of Sales Tax remittances (\$683,509 and \$149,850) are valid. The claim made for Sales Taxes applicable to accrued Base Rent under the Subleases is duplicative thereof and is not valid.

7.147 On balance, based on its review as described, the Monitor considers that Claim 7.B constitutes a valid claim,<sup>56</sup> the quantum of which is subject to increase as set out in the table below.

<b>Claim #7B</b>				
<b>Claimant: Target Canada Co.</b>				
<b>Debtor: Target Canada Property LLC</b>				
<b>Type: Post-filing</b>				
<b>\$6,303,621</b>				
<b>Currency: CAD</b>				
Description of Transaction	Claim	Proposed Adjustment	Recalculated Claim	
Sublease Base Rent (Jan 15 - Feb 25, 2015)	\$ 5,470,262	\$ 662,742	\$ 6,133,004	
GST/HST owing on sublease rent	683,509	-	683,509	
QST owing on sublease rent	149,850	-	149,850	
Applicable Sales Taxes	Not specified	Not specified	-	
<b>Total claim</b>	<b>\$ 6,303,621</b>	<b>\$ 662,742</b>	<b>\$ 6,966,363</b>	

<sup>56</sup> Other than to the extent of the claim for Sales Taxes applicable on accrued Base Rent under the Subleases (which is duplicative and should not be reflected).

7.148 The amounts claimed in this Claim are netted in Claim 6.C.

**Claim 7.C – Target Canada Co. claim against Target Canada Property LP - \$528,730**

7.149 TCC has asserted a Claim against Prop LP.<sup>57</sup> A summary of this Claim is set out in the table below.

<b>Claim #7C</b> <b>Claimant: Target Canada Co.</b> <b>Debtor: Target Canada Property LP</b> <b>Type: Pre-filing</b> <b>\$528,730</b> <b>Currency: CAD</b>				
Description of Transaction	Claim	Ref #	Set-off (By) /Against	
Prop LP admin fee due to TCC (Jan 1 - 8, 2014)	\$ 210,802	1	#5B	
Prop LP admin fee true-up due to TCC (Feb 3, 2013 - Jan 8, 2014)	317,928	2	#5B	
Applicable Sales Taxes	Not specified			
<b>Total claim</b>	<b>\$ 528,730</b>			

*Leasehold Arrangements Master Agreement*

7.150 The relevant provisions of the Leasehold Arrangements Master Agreement are discussed in Claim 5.A.

*Fees*

7.151 For a summary of the two periods of fees claimed by TCC against Prop LP and Prop LLC under the Leasehold Arrangements Master Agreement, see paragraph 7.117 of Claim 7.A. This Claim against Prop LP relates to the period February 4, 2013 to January 8, 2014 before the assignment to Prop LLC.

7.152 Reference is made to the discussion in Claim 7.A of the fees charged under the Leasehold Arrangements Master Agreement.

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<sup>57</sup> The explanatory notes filed with this claim are attached hereto as **Appendix GG**.

7.153 TCC has claimed that:

- (a) costs of \$9,836,597 were incurred by it in the build out of the Retail Premises during the period from February 4, 2013 to January 8, 2014;
- (b) of that amount, 90% (or \$8,852,938) was properly payable by Prop LLC as a fee;
- (c) Prop LP made aggregate payments of \$8,324,208 on account of the fees properly payable by it under the Leasehold Arrangements Master Agreement,

leaving a deficiency of \$528,730 (exclusive of Sales Taxes). The claimant has indicated that \$210,802 of that amount represents the fees payable by Prop LP for the period from January 1, 2014 to January 8, 2014. The balance (of \$317,928) represents a reconciliation of fees owed by Prop LP to TCC under the Leasehold Arrangements Master Agreement for the period from February 4, 2013 to January 8, 2014.

7.154 In calculating the build out expenses incurred for the period of January 1 to 8, 2014, the full month's expenses were allocated on a *pro rata* basis with reference to days elapsed.

Monitor's Review

7.155 A description of the Monitor's activities in reviewing this Claim is set out in the table below.

Monitor's Review:		Claim #7.C (CAD)	
Ref #	AMOUNT		WORK PERFORMED
1.	\$ 210,802	(i)	Tied claim amount to support provided and to the company's books and records, where applicable.
		(ii)	Verified allocation between Prop LP and Prop LLC for mathematical accuracy.
		(iii)	Calculated exchange rate used (where expense charged in USD was converted to CAD) and compared rate to the Bank of Canada noon spot rate ensuring reasonability.
2.	317,928	(i)	Repeat (i) to (iii) in Ref #1 above.
		(ii)	Verified that amount originally booked to general ledger was lower than costs claimed to be incurred to substantiate need for "true-up" adjustment.
<b>Total</b>	<b>\$ 528,730</b>		

Monitor's Findings

7.156 Reference is made to the discussion of the Monitor's findings in Claim 7.A with respect to the administrative fees.

7.157 The claimant has indicated the amount claimed in respect of fees should be increased by the amount of applicable Sales Taxes. Reference is made to paragraph 7.58 of Claim 6.A. The Monitor is of the view that the claim for Sales Taxes is valid.

7.158 On balance, based on its review as described, the Monitor considers that Claim 7.C constitutes a valid claim for the quantum claimed.

7.159 The amounts claimed in this Intercompany Claim are netted in Claim 5.B.

**8.0 INTRACOMPANY CLAIMS – CLAIM-BY-CLAIM REVIEW**

**Claim 7.D – Target Canada Co. claim against Target Canada Pharmacy Franchising LP - \$12,346,348**

8.1 TCC has asserted a claim against Target Canada Health Co. (“**Health Co.**”) on behalf of Target Canada Pharmacy Franchising LP (“**Target Pharmacy**”).<sup>58</sup> A summary of this Claim is set out in the table below.

<b>Claim #7D</b>				
<b>Claimant: Target Canada Co.</b>				
<b>Debtor: Target Canada Health Co. on behalf of Target Canada Pharmacy Franchising</b>				
<b>Type: Pre-filing</b>				
<b>\$12,346,348</b>				
<b>Currency: CAD</b>				
<b>Description of Transaction</b>	<b>Claim</b>	<b>Ref #</b>	<b>Set-off (By) /Against</b>	
Amounts receivable pursuant to relevant agreements	\$ 14,797,749	1		
Amounts owing pursuant to Cash Management Agreement	(2,451,401)	2		#8
Applicable Sales Taxes	Not specified			
<b>Total claim</b>	<b>\$ 12,346,348</b>			

8.2 Target Pharmacy is an Ontario limited partnership, the limited partner of which is TCC, which owns 99.999% of Target Pharmacy, and the general partner of which is Health Co., a wholly-owned direct subsidiary of TCC. TCC has indicated that Target Pharmacy has no directors or officers, and all actions taken by Target Pharmacy are carried out on its behalf exclusively by Health Co.

8.3 TCC has indicated that, within the Canadian operations, Target Pharmacy has licensed to pharmacist franchisees the right to operate Target-branded retail pharmacies within TCC stores. Under the terms of the related franchise agreements, Target Pharmacy was entitled to receive from its franchisees various fees (including a franchisee fee, a licensed

<sup>58</sup> The explanatory notes filed with this claim are attached hereto as **Appendix HH**.



space fee and an advertising fee) and was required to make certain payments to its franchisees (including drug rebates where payable by drug manufacturers).

8.4 Under a Pharmacy Master Agreement effective March 8, 2012 (the “**Pharmacy Master Agreement**”)<sup>59</sup> between TCC and Target Pharmacy, TCC provided Target Pharmacy the right to sub-license floor space within TCC stores to franchisees for the purpose of operating retail pharmacies and also provide certain services to Target Pharmacy (including advertising support, rebate processing, franchisee training, administrative and business support, and operations-related goods and services), all in consideration for an arm’s length fee payable by Target Pharmacy to TCC.

8.5 In accordance with the provisions of a Cash Management Agreement effective as of May 1, 2012 (the “**Pharmacy CMA**”)<sup>60</sup> between TCC and Target Pharmacy, TCC managed the treasury operations and cash management functions of Target Pharmacy (with outstanding balances settled from time to time on demand by either party).

8.6 TCC has claimed an aggregate outstanding receivable, as at January 14, 2015, of \$14,797,749<sup>61</sup> (exclusive of applicable Sales Taxes). This amount is comprised of:

(a) a number of separate entries aggregating to \$4,292,331 which represented the transfer of the intercompany balance between TCC and Target Pharmacy from a

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<sup>59</sup> The Pharmacy Master Agreement is attached hereto as **Appendix II**.

<sup>60</sup> The Pharmacy CMA is attached hereto as **Appendix JJ**.

<sup>61</sup> The intercompany receivable owed to TCC by Target Pharmacy is recorded in the general ledger as \$15,413,674. However, \$615,926 has been deducted therefrom for the purposes of this Caim by TCC to exclude amounts recorded as payable (but not paid) by TCC on behalf of Target Pharmacy on January 13 and 14, 2015.

profit centre within TCC's company code to the Target Pharmacy company code upon the establishment of a discrete company code for Target Pharmacy;

- (b) \$2,892,351 manual adjusting entry resulting from the reconciliation of the cumulative change experienced over a number of periods in Target Pharmacy's net third party payables and receivables as a consequence of payments made, and amounts received, by TCC on Target Pharmacy's behalf (the "**Pharmacy Manual Adjusting Entry**");
- (c) \$931,155 in respect of fees payable by Target Pharmacy to TCC under the Pharmacy Master Agreement, exclusive of applicable Sales Taxes; and
- (d) the balance of \$6,681,912 primarily in respect of payments made by TCC on behalf of Target Pharmacy.

Monitor's Review

8.7 A description of the Monitor's activities in reviewing this Claim is set out in the table below.

Monitor's Review:		Claim #7.D (CAD)	
Ref #	AMOUNT	WORK PERFORMED	
1.	\$ 14,797,749	(i)	Tied claim amount to Target Pharmacy's general ledger detail for intercompany accounts payable to TCC (TCC receivable) and tied to Target Pharmacy's balance sheet as at January 14, 2015.
		(ii)	Reviewed material balances included in general ledger and where possible traced to further supporting documentation: Balance transfers - tied transfers of approximately \$4.3 million to Document Splitting Clearing Account, that was used to record intercompany transactions prior to Target Pharmacy being set-up under its own company code. On a sample basis, tied amount per document clearing to invoice and bank statement to ensure amounts were paid by TCC on behalf of Target Pharmacy; Pharmacy reconciliation - reviewed Pharmacy Franchisee Receivables reconciliation and corresponding general ledger entry for mathematical accuracy; Third party invoices - reviewed sample invoices included in the general ledger to ensure that amounts were paid by TCC on Target Pharmacy's behalf; and Fees - reviewed journal entry for mathematical accuracy and tied components of journal entry to support provided.
		(iii)	Reviewed general ledger balances as at August 2015 to confirm that no significant activity moved through the account after January 14, 2015.
2.	(2,451,401)	See Monitor's review performed in Claim #8.	
<b>Total</b>	<b>\$ 12,346,348</b>		

Monitor's Findings

8.8 The Pharmacy Manual Adjusting Entry is based upon payables and receivables balances as at November 29, 2014 and these balances will likely have changed in the period following the date of the reconciliation, but the Monitor expects those changes would be immaterial based on discussions with representatives of the claimant and review of historical monthly balances.

8.9 In reviewing this Claim, the Monitor made enquiries of the claimant to confirm the absence of activity in the Target Pharmacy accounts following January 14, 2015. An increase in the amount payable by Target Pharmacy to TCC of \$1,304,343 was noted.

TCC confirmed that little, if any, of this amount was paid as a result of the CCAA Proceedings. Accordingly, the Monitor is of the view that there should be no adjustment to the amount claimed.

8.10 Reference is made to the discussion of Claim 8 with respect to the amount set-off in this Claim.

8.11 On balance, based on its review as described, the Monitor considers that Claim 7.D constitutes a valid claim, the quantum of which is subject to reduction, as set out in the table below.

<b>Claim #7D</b>			
<b>Claimant: Target Canada Co.</b>			
<b>Debtor: Target Canada Health Co. on behalf of Target Canada Pharmacy Franchising</b>			
<b>Type: Pre-filing</b>			
<b>\$12,346,348</b>			
<b>Currency: CAD</b>			
<b>Description of Transaction</b>	<b>Claim</b>	<b>Proposed Adjustment</b>	<b>Recalculated Claim</b>
Amounts receivable pursuant to relevant agreements	\$ 14,797,749	\$ -	\$ 14,797,749
Amounts owing pursuant to Cash Management Agreement	(2,451,401)	(984,519)	(3,435,920)
Applicable Sales Taxes	Not specified		Not specified
<b>Total claim</b>	<b>\$ 12,346,348</b>	<b>\$ (984,519)</b>	<b>\$ 11,361,829</b>

The proposed adjustment would be a post-filing claim.

**Claim 7.E – Target Canada Co. claim against Target Canada Pharmacy (Ontario) Corp. - \$621,364**

8.12 TCC has asserted a claim against Target Canada Pharmacy (Ontario) Corp. (“**Ontario Corp.**”).<sup>62</sup> A summary of this Claim is set out in the table below.

<b>Claim #7E</b>				
<b>Claimant: Target Canada Co.</b>				
<b>Debtor: Target Canada Pharmacy (Ontario) Corp.</b>				
<b>Type: Pre-filing</b>				
<b>\$621,364</b>				
<b>Currency: CAD</b>				
<b>Description of Transaction</b>	<b>Claim</b>	<b>Ref #</b>	<b>Set-off (By) /Against</b>	
Amounts paid by TCC on Ontario Corp's behalf	\$ 945,619	1		
Amounts received by TCC on Ontario Corp's behalf	(324,255)	2		#9
<b>Total claim</b>	<b>\$ 621,364</b>			

8.13 TCC indicated that, while the vast majority of TCC’s pharmacy operations were carried out by third party pharmacist franchisees, Ontario Corp. was established for the purpose of operating Target-branded retail pharmacy stores in TCC Ontario stores where:

- (a) there was a delay in finding a pharmacist franchisee prior to the opening of the TCC store;
- (b) a pharmacist franchisee defaulted under its franchise agreement; or
- (c) a franchise agreement was terminated.

8.14 As of January 14, 2015, Ontario Corp. operated three pharmacies in three TCC stores in Ontario.

<sup>62</sup> The explanatory notes filed with this claim are attached hereto as **Appendix KK**.

- 8.15 Under a Cash Management Agreement effective as of October 28, 2013 (the “**Ontario Corp. CMA**”)<sup>63</sup> between TCC and Ontario Corp., TCC managed cash receipts and disbursements on behalf of Ontario Corp. (including funding Ontario Corp.’s normal-course disbursements from TCC’s master bank account (with outstanding balances settled on a regular basis as agreed between the parties). Outstanding balances were payable on demand, with interest accruing thereon.<sup>64</sup>
- 8.16 TCC has claimed an aggregate outstanding receivable, as at January 14, 2015, of \$945,618.<sup>65</sup> This amount is comprised of:
- (a) a number of separate entries aggregating to \$371,890 which represented the transfer of the intercompany balance between TCC and Ontario Corp. from a profit centre within TCC’s company code to the Ontario Corp. company code upon the establishment of a discrete company code for Ontario Corp.; and
  - (b) the balance of \$573,729 primarily in respect of payments made by TCC on behalf of Ontario Corp.

### Monitor’s Review

- 8.17 A description of the Monitor’s activities in reviewing this Claim is set out in the table below.

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<sup>63</sup> The Ontario Corp. CMA is attached hereto as **Appendix LL**.

<sup>64</sup> Under the terms of the Ontario Corp. CMA, interest accrues on settled but unpaid amounts at a monthly rate equal to 1/12 of the IRS published “short term 100% annual compounding” AFR rate published for such month.

<sup>65</sup> The intercompany receivable owed to TCC by Ontario Corp. is recorded in the general ledger as \$1,044,360. However, \$98,742 has been deducted therefrom for the purposes of this Claim to exclude amounts recorded as payable (but not paid) by TCC on behalf of Ontario Corp. on January 13 and 14, 2015.

Monitor's Review:		Claim #7E (CAD)	
Ref #	AMOUNT	WORK PERFORMED	
1.	\$ 945,619	(i) Tied claim amount to Ontario Corp.'s general ledger detail for intercompany accounts payable to TCC (TCC receivable) and tied to Ontario Corp.'s balance sheet as at January 14, 2015. (ii) Reviewed material balances included in general ledger and where possible traced to further supporting documentation: Traced balance transfers representing \$371,890 to Document Splitting Clearing Account that was used to record intercompany transactions prior to Ontario Corp. being set-up under its own company code. On a sample basis, tied amount per document clearing to invoice and bank statement to ensure amounts were paid by TCC on behalf of Ontario Corp. Third party invoices - reviewed sample invoices included in the general ledger to ensure that amounts were paid by TCC on Ontario Corp.'s behalf. (iii) Reviewed general ledger balances as at August 2015 to confirm that no significant activity moved through the account after January 14, 2015.	
2.	(324,255)	See Monitor's review performed in Claim #9.	
<b>Total</b>	<b>\$ 621,364</b>		

Monitor's Findings

8.18 In reviewing this Claim, the Monitor made enquiries of the claimant to confirm the absence of activity in the Ontario Corp. accounts following January 14, 2015. An increase in the amount payable by Ontario Corp. to TCC of \$96,168 was noted. TCC confirmed that little, if any, of this amount was paid as a result of the CCAA Proceedings. Accordingly, the Monitor is of the view that there should be no adjustment to the amount claimed.

8.19 Reference is made to the discussion of Claim 9 with respect to the amounts set-off in this Claim.

8.20 On balance, based on its review as described, the Monitor considers that Claim 7.E constitutes a valid claim for the quantum claimed.

**Claim 7.F – Target Canada Co. claim against Target Canada Pharmacy (BC) Corp. - \$61,379**

8.21 TCC has asserted a claim against Target Canada Pharmacy (BC) Corp. (“**BC Corp.**”).<sup>66</sup>

A summary of this Claim is set out in the table below.

<b>Claim #7F</b>				
<b>Claimant: Target Canada Co.</b>				
<b>Debtor: Target Canada Pharmacy (BC) Corp.</b>				
<b>Type: Pre-filing</b>				
<b>\$61,379</b>				
<b>Currency: CAD</b>				
<b>Description of Transaction</b>	<b>Claim</b>	<b>Ref #</b>	<b>Set-off (By) /Against</b>	
Amounts paid by TCC on BC Corp's behalf	\$ 113,659	1		
Amounts received by TCC on BC Corp's behalf	(52,281)	2	#10	
<b>Total claim</b>	<b>\$ 61,379</b>			

8.22 TCC has indicated that BC Corp. was created to operate Target-branded pharmacies in TCC stores in British Columbia and Alberta, where:

- (a) there was a delay in finding a pharmacist franchisee prior to the opening of a TCC store;
- (b) a pharmacist franchisee defaulted under its franchise agreement; or
- (c) a franchise agreement with a pharmacist franchisee was terminated.

8.23 Under a Cash Management Agreement effective as of October 1, 2013 (the “**BC Corp. CMA**”)<sup>67</sup> between TCC and BC Corp., TCC managed cash receipts and disbursements on behalf of BC Corp. (including funding BC Corp.’s normal-course disbursements from TCC’s master bank account (with outstanding balances settled on a regular basis as

<sup>66</sup> The explanatory notes filed with this claim are attached hereto as **Appendix MM**.

<sup>67</sup> The BC Corp. CMA is attached hereto as **Appendix NN**.



agreed between the parties). Outstanding balances were payable on demand, with interest accruing thereon.<sup>68</sup>

8.24 TCC has claimed an aggregate outstanding receivable, as at January 14, 2015, of \$113,659. Upon the establishment of a discrete company code for BC Corp., the intercompany balance of \$113,659 between TCC and BC Corp. was transferred to the company code. The intercompany balance represented net payments made and received by TCC on behalf of BC Corp.

Monitor’s Review

8.25 A description of the Monitor’s activities in reviewing this Claim is set out in the table below.

<b>Monitor’s Review:</b>		<b>Claim #7F (CAD)</b>	
<b>Ref #</b>	<b>AMOUNT</b>	<b>WORK PERFORMED</b>	
1.	\$ 113,659	(i) Tied claim amount to BC Corp.’s general ledger detail for intercompany accounts payable to TCC (TCC receivable) and tied to BC Corp.’s balance sheet as at January 14, 2015. (ii) Reviewed material balances included in general ledger and where possible traced to further supporting documentation: Third party invoices – reviewed sample invoices included in the general ledger to ensure that amounts were paid by TCC on BC Corp.’s behalf. (iii) Requested and reviewed general ledger detail as at August 2015 to ensure no material amounts flowed through this account post filing that should have been accounted for.	
2.	(52,281)	See Monitor’s review performed in Claim #10.	
<b>Total</b>	<b>\$ 61,379</b>		

<sup>68</sup> Under the terms of the BC Corp. CMA, interest accrues on settled but unpaid amounts at a monthly rate equal to 1/12 of the IRS published “short term 100% annual compounding” AFR rate published for such month.

Monitor's Findings

- 8.26 Reference is made to the discussion of Claim 10 with respect to the amounts set-off in this Claim.
- 8.27 On balance, based on its review as described, the Monitor considers that Claim 7.F constitutes a valid claim for the quantum claimed.

**Claim 7.I – Target Canada Co. - Target Canada Mobile LP - \$50,728**

8.28 TCC has asserted a claim against Target Canada Mobile GP Co. (“**Mobile GP**”) on behalf of Target Canada Mobile LP (“**Target Mobile**”).<sup>69</sup> A summary of this Claim is set out in the table below.

<b>Claim #7I</b>				
<b>Claimant: Target Canada Co.</b>				
<b>Debtor: Target Canada Mobile GP Co. on behalf of Target Canada Mobile LP</b>				
<b>Type: Pre-filing</b>				
<b>\$50,728</b>				
<b>Currency: CAD</b>				
Description of Transaction	Claim	Ref #	Set-off (By) /Against	
Amounts owing pursuant to relevant agreements	\$ 50,728	1		
<b>Total claim</b>	<b>\$ 50,728</b>			

8.29 Target Mobile is an Ontario limited partnership, the limited partner of which is TCC, which owns 99.999% of Target Mobile, and the general partner of which is Mobile GP, a wholly-owned, direct subsidiary of TCC. TCC has indicated that Mobile LP has no officers or directors, and all corporate actions are taken on its behalf by Mobile GP.

8.30 TCC has indicated that Mobile LP facilitated the sale of mobile phone and accessories at Target-branded kiosks located in TCC’s stores in Canada (“**Mobile Kiosks**”). The Mobile Kiosks were operated by Glentel Inc. (“**Glentel**”) as a franchisee pursuant to a Licensed Business Agreement between Target Mobile and Glentel dated August 31, 2012 (the “**Glentel Agreement**”) contemplating payments between Target Mobile and Glentel.

8.31 Under a Cash Management Agreement dated June 1, 2012 (the “**Mobile CMA**”)<sup>70</sup> between TCC and Target Mobile, TCC managed cash receipts and disbursements on

<sup>69</sup> The explanatory notes filed with this claim are attached hereto as **Appendix OO**. The claimant has redacted certain commercially sensitive information in the publicly filed Proof of Claim attached to this Report.

<sup>70</sup> The Mobile CMA is attached hereto as **Appendix PP**.

behalf of Target Mobile (with outstanding balances settled on a regular basis as agreed between the parties).

8.32 TCC has claimed an aggregate outstanding receivable as at January 14, 2015 of \$50,728.

This amount is comprised of:

- (a) a number of separate entries aggregating to \$2,811 which represented the transfer of the intercompany balance between TCC and Target Mobile from a profit centre within TCC's company code to the Target Mobile company code upon the establishment of a discrete company code for Target Mobile;
- (b) \$46,832 in respect of a payment made by TCC, on behalf of Target Mobile, to the CRA for taxes exigible on the net payable owing under the Glentel Agreement on April 30, 2014; and
- (c) \$1,085 on account of bank service charges.

Monitor's Review

8.33 A description of the Monitor's activities in reviewing this Claim is set out in the table below.

<b>Monitor's Review:</b>		<b>Claim #7.I (CAD)</b>	
<b>Ref #</b>	<b>AMOUNT</b>	<b>WORK PERFORMED</b>	
1.	\$ 50,728	(i) Tied claim amount to Target Mobile's general ledger detail for intercompany accounts payable to TCC (TCC receivable) and tied to Target Mobile's balance sheet as January 14, 2015. (ii) Reviewed material balances included in general ledger and where possible traced to further supporting documentation. (iii) Requested and reviewed general ledger detail as at August 2015 to ensure no material amounts flowed through this account post filing that should have been accounted for.	
<b>Total</b>	<b>\$ 50,728</b>		

Monitor's Findings

8.34 On balance, based on its review as described, the Monitor considers that Claim 7.I constitutes a valid claim for the quantum claimed.

**Claim 8 – Target Canada Pharmacy Franchising LP claim against Target Canada Co. - \$2,451,401**

8.35 Health Co. asserts, on behalf of Target Pharmacy, a claim against TCC.<sup>71</sup> A summary of this Claim is set out in the table below.

<b>Claim #8</b>				
<b>Claimant: Target Canada Health Co. on behalf of Target Canada Pharmacy Franchising</b>				
<b>Debtor: Target Canada Co.</b>				
<b>Type: Pre-filing</b>				
<b>\$2,451,401</b>				
<b>Currency: CAD</b>				
<b>Description of Transaction</b>	<b>Claim</b>	<b>Ref #</b>	<b>Set-off (By) /Against</b>	
Amounts owing pursuant to Cash Management Agreement	\$ 2,451,401	1	#7D	
<b>Total claim</b>	<b>\$ 2,451,401</b>			

8.36 Health Co. has filed this Claim, on behalf of Target Pharmacy, in its capacity as general partner of Target Pharmacy, a partnership with no directors or officers.

8.37 Health Co. has claimed an aggregate outstanding receivable, as at January 14, 2015, of \$2,451,401. This amount is primarily on account of cash that was swept from Target Pharmacy's bank accounts pursuant to the Pharmacy CMA (and not subsequently settled) and other amounts received by TCC on behalf of Target Pharmacy.

Monitor's Review

8.38 A description of the Monitor's activities in reviewing this Claim is set out in the table below.

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<sup>71</sup> This Proof of Claim and explanatory notes accompanying the filed claim are attached hereto as **Appendix QQ**.

Monitor's Review:		Claim #8 (CAD)	
Ref #	AMOUNT	WORK PERFORMED	
1.	\$ 2,451,401	(i)	Tied claim amount to Target Pharmacy's general ledger detail for intercompany accounts receivable from TCC (TCC payable) and tied to entities balance sheet as at January 14, 2015.
		(ii)	Traced all general ledger entries in excess of \$100,000, which represent monthly entries to record daily cash sweeps by TCC from Target Pharmacy's bank account, to reconciliation schedule provided through to Target Pharmacy's bank statement.
		(iii)	Requested and reviewed general ledger detail as at August 2015 to ensure no material amounts flowed through this account post filing that should have been accounted for.
<b>Total</b>	<b>\$ 2,451,401</b>		

Monitor's Findings

8.39 In reviewing this Claim, the Monitor made enquiries of the claimant to confirm the absence of activity in the Target Pharmacy accounts following January 14, 2015. An increase in the amount receivable from TCC to Target Pharmacy of \$984,519 was noted. Based on discussions with representatives of the claimant, the Monitor understands this difference primarily relates to a Sales Tax refund that was received by TCC, on Target Pharmacy's behalf, in the period following January 14, 2015. It is the Monitor's view that Target Pharmacy is entitled to reimbursement of this amount on a post-filing basis (the **“Target Pharmacy Post-Filing Cash Adjustment”**).

8.40 While the Pharmacy CMA provides for interest on unsettled amounts, the claimant has indicated that no interest has been charged or is accruing on the amounts owing between TCC and Target Pharmacy under the Pharmacy CMA.

8.41 In reviewing this Claim, the Monitor noted that entries of \$3,823,183 had been made to the Target Pharmacy receivables ledger to offset “EBIT top-up” expenses that Target Pharmacy had previously charged back to TCC. Target Pharmacy indicates it introduced

a program in February 2014 designed to provide financial support to eligible franchisees based on an annualized earnings before interest and tax (“**EBIT**”) calculation. Initially, the EBIT top-up expenses were characterized as a liability of TCC and, accordingly, Target Pharmacy charged those expenses incurred to TCC (creating a receivable). On November 26, 2014, it was determined by the parties that this characterization was inappropriate given the contractual relationship was between Target Pharmacy and the franchisees. Offsetting entries were recorded to reverse the charges related to these expenses (and eliminate Target Pharmacy’s receivable). Upon reviewing documentation relating to the EBIT top-up program, these entries presented no issues for the Monitor.

8.42 On balance, the Monitor considers that Claim 8 constitutes a valid claim, the quantum of which is subject to increase as set out in the table below.

<b>Claim #8</b>				
<b>Claimant: Target Canada Health Co. on behalf of Target Canada Pharmacy Franchising</b>				
<b>Debtor: Target Canada Co.</b>				
<b>Type: Pre-filing</b>				
<b>\$2,451,401</b>				
<b>Currency: CAD</b>				
	Description of Transaction	Claim	Proposed Adjustment	Recalculated Claim
	Amounts owing pursuant to Cash Management Agreement	\$ 2,451,401	\$ 984,519	\$ 3,435,920
	<b>Total claim</b>	<b>\$ 2,451,401</b>	<b>\$ 984,519</b>	<b>\$ 3,435,920</b>

The proposed adjustment would be a post-filing claim.

8.43 The amount of this Claim is netted in Claim 7.D.



**Claim 9 – Target Canada Pharmacy (Ontario) Corp. claim against Target Canada Co. - \$324,255**

8.44 Ontario Corp. has asserted a claim against TCC.<sup>72</sup> A summary of this Claim is set out in the table below.

<b>Claim #9</b>				
<b>Claimant: Target Canada Pharmacy (Ontario) Corp.</b>				
<b>Debtor: Target Canada Co.</b>				
<b>Type: Pre-filing</b>				
<b>\$324,255</b>				
<b>Currency: CAD</b>				
<b>Description of Transaction</b>		<b>Claim</b>	<b>Ref #</b>	<b>Set-off (By) /Against</b>
Amounts received by TCC on Ontario Corp's behalf		\$ 324,255	1	#7E
<b>Total claim</b>		<b>\$ 324,255</b>		

8.45 Ontario Corp. has claimed an aggregate outstanding receivable as at January 14, 2015 of \$324,255. This amount is comprised of:

- (a) \$198,586 manual adjusting entry resulting from the reconciliation of the cumulative change experienced over a number of periods in Ontario Corp.'s net third party payables and receivables as a consequence of payments made, and amounts received, by TCC on Ontario Corp.'s behalf (the "**Ontario Corp. Manual Adjusting Entry**"); and
- (b) the balance of \$125,669 is primarily in respect of payments received by TCC on behalf of Ontario Corp.

<sup>72</sup> This Proof of Claim and explanatory notes accompanying the filed claim are attached hereto as **Appendix RR**.

Monitor's Review

8.46 A description of the Monitor's activities in reviewing this Claim is set out in the table below.

Monitor's Review:		Claim #9 (CAD)	
Ref #	AMOUNT	WORK PERFORMED	
1.	\$ 324,255	(i)	Tied claim amount to Ontario Corp.'s general ledger detail for intercompany accounts receivable from TCC (TCC payable) and tied to entities balance sheet as at January 14, 2015.
		(ii)	Reviewed material balances included in general ledger and where possible traced to further supporting documentation.
		(iii)	Requested and reviewed general ledger detail as at August 2015 to ensure no material amounts flowed through this account post filing that should have been accounted for, insignificant differences noted.
<b>Total</b>	<b>\$ 324,255</b>		

Monitor's Findings

8.47 The Ontario Corp. Manual Adjusting Entry is based upon payables and receivables balances as at November 29, 2014 and these balances will likely have changed in the period following the date of the reconciliation, but the Monitor expects those changes would be immaterial based on discussions with representatives of the claimant and review of historical monthly balances.

8.48 On balance, the Monitor considers that Claim 9 constitutes a valid claim for the quantum claimed.

8.49 The amount of this Claim is netted in Claim 7.E.

**Claim 10 – Target Canada Pharmacy (BC) Corp. claim against Target Canada Co. - \$52,281**

8.50 BC Corp. has asserted a claim against TCC.<sup>73</sup> A summary of this Claim is set out in the table below.

<b>Claim #10</b>				
<b>Claimant: Target Canada Pharmacy (BC) Corp.</b>				
<b>Debtor: Target Canada Co.</b>				
<b>Type: Pre-filing</b>				
<b>\$52,281</b>				
<b>Currency: CAD</b>				
<b>Description of Transaction</b>	<b>Claim</b>	<b>Ref #</b>	<b>Set-off (By) /Against</b>	
Amounts received by TCC on BC Corp's behalf	\$ 52,281	1	#7F	
<b>Total claim</b>	<b>\$ 52,281</b>			

8.51 BC Corp. has claimed an aggregate outstanding receivable as at January 14, 2015 of \$52,281. This amount is comprised of:

- (a) \$51,281 manual adjusting entry resulting from the reconciliation of the cumulative change experienced over a number of periods in BC Corp.'s net third party payables and receivables as a consequence of payments made, and amounts received, by TCC on BC Corp.'s behalf (the "**BC Corp. Manual Adjusting Entry**"); and
- (b) the balance of \$1,000 on account of the receivable established in connection with TCC's initial equity contribution to BC Corp.

<sup>73</sup> This Proof of Claim and explanatory notes accompanying the filed claim are attached hereto as **Appendix SS**.

Monitor's Review

8.52 A description of the Monitor's activities in reviewing this Claim is set out in the table below.

<b>Monitor's Review:</b>		<b>Claim #9 (CAD)</b>	
<b>Ref #</b>	<b>AMOUNT</b>	<b>WORK PERFORMED</b>	
1.	\$ 52,281	(i) Tied claim amount to BC Corp.'s general ledger detail for intercompany accounts receivable from TCC (TCC payable) and tied to entities balance sheet as at January 14, 2015.	
		(ii) Reviewed material balances included in general ledger and where possible traced to further supporting documentation.	
		(iii) Requested and reviewed general ledger detail as at August 2015 to ensure no material amounts flowed through this account post filing that should have been accounted for.	
<b>Total</b>	<b>\$ 52,281</b>		

Monitor's Findings

8.53 The BC Corp. Manual Adjusting Entry is based upon payables and receivables balances as at November 29, 2014 and these balances will likely have changed in the period following the date of the reconciliation, but the Monitor expects those changes would be immaterial based on discussions with representatives of TCC and review of historical monthly balances.

8.54 On balance, the Monitor considers that Claim 10 constitutes a valid claim for the quantum claimed.

8.55 The amount of this Claim is netted in Claim 7.F.

**Contingent Claims – Claims 5.C, 5.D, 7.G 7.H, 11, 12 and 13, and portions of Claims 7.A-F, 7.I, 8, 9, and 10**

8.56 These contingent claims are expressed as arising out of or relating to claims asserted by one or more Persons against one or more of the Target Canada Entities in an amount that is “Unknown.”<sup>74</sup> Contingent Intercompany Claims were contemplated by the Claims Procedure Order at paragraph 8. As contingent claims, these claims are valid. Their validity and quantum as claims for all purposes will be assessed if they become non-contingent.

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<sup>74</sup> These proofs of Claim and/or explanatory notes to the filed contingent claims are collectively attached hereto as **Appendix TT**.

## **9.0 SUMMARY OF RESULTS OF THE MONITOR'S REVIEW**

9.1 The Monitor has carried out its mandate as set out in the Claims Procedure Order, and discussed above. The Claims Procedure Order also provides that “nothing in the Monitor’s Intercompany Claims Report shall bind the Court with respect to its determination of the Intercompany Claims as the Court sees fit, including without limitation, the validity, priority or quantum of such Intercompany claim”. This Report, including the summary below, should be read in that context.

9.2 There were 29 Intercompany Claims filed. As summarized below and in the following table, the Monitor has concluded that:

- (a) nine claims constitute valid claims for the quantum claimed;
- (b) seven solely contingent claims are valid as contingent claims;
- (c) two claims did not constitute valid claims; and
- (d) adjustments should be made to the quantum of the remaining claims.

9.3 The Monitor’s review has identified downward adjustments to a number of claims, which broadly fall into the following categories:

- (a) those resulting from a legal analysis;
- (b) those resulting from two errors identified in the course of the Monitor’s review, being the Leaseback Base Rent Adjustment and the Duplicative Entry Adjustment, which adjustments, upon further review and reconciliation, the

claimants have acknowledged as valid and have indicated that they wish to amend their claims to reflect as such;

- (c) those resulting from other errors or differences; and
- (d) with respect to the Termination Payment, resulting from Dr. Reichert's analysis and the Monitor's review.

9.4 The Monitor's review also identified upward adjustments to certain Intercompany Claims among the Target Canada Entities, being:

- (a) the Term Calculation Error Adjustment;
- (b) the 2015 Sublease Base Rent Adjustment;
- (c) the Target Pharmacy Post-Filing Cash Adjustment; and
- (d) the Fixed Asset Increase.

9.5 As discussed in the Report, the Monitor has identified certain follow up matters and will report thereon or on any other relevant matters that are brought to its attention, if and as appropriate.

9.6 A summary of the Intercompany Claims and proposed adjustments is set out in the table below.

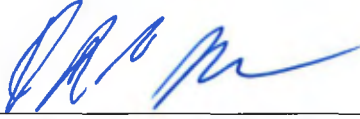
Claim #	Original Claimant	Debtor Company	Currency	Claim (\$)	Proposed Adjustment	Recalculated Claim	Contingent Claim
<b>Intercompany Claims</b>							
<b>Claim #1</b>	NE1	TCC	CAD	3,068,729,438	-	3,068,729,438	
<b>Claim #2</b>							
2A	TBI	TCC	USD	23,573,542	(4,786,473)	18,787,069	
2B	TBI	TCC	USD	37,502,539	(37,502,539)	-	
<b>Claim #3</b>	TCSI	TCC	USD	2,778,278	(613,869)	2,164,409	
<b>Claim #4</b>							
4A	TC	Prop LLC	USD	89,079,107	-	89,079,107	
4B	TC	TCC	USD	541,404	(36,585)	504,818	
4C	TC	TCC	USD	559,373	(559,373)	-	
<b>Leasehold Arrangements Claims</b>							
<b>Claim #5</b>							
5A	Prop LP	Prop LLC	CAD	1,449,577,927	-	1,449,577,927	
5B	Prop LP	TCC	CAD	87,748,817	(4,886,996)	82,861,821	
5C	Prop LP	Prop LLC					+ Contingent
5D	Prop LP	TCC					+ Contingent
<b>Claim #6</b>							
6A	Prop LLC	TCC	CAD	27,254,109	6,978,418	34,232,528	
6B	Prop LLC	TCC	CAD	1,911,494,242	(554,738,191)	1,356,756,051	
6C	Prop LLC	TCC	CAD	37,347,552	(787,729)	36,559,823	
<b>Claim #7</b>							
7A	TCC	Prop LLC	CAD	19,619,511	(7,999,142)	11,620,369	+ Contingent
7B	TCC	Prop LLC	CAD	6,303,621	662,742	6,966,363	+ Contingent
7C	TCC	Prop LP	CAD	528,730	-	528,730	+ Contingent
<b>Intracompany Claims</b>							
7D	TCC	Health Co. on behalf of Target Pharmacy	CAD	12,346,348	(984,519)	11,361,829	+ Contingent
7E	TCC	Ontario Corp.	CAD	621,364	-	621,364	+ Contingent
7F	TCC	BC Corp.	CAD	61,379	-	61,379	+ Contingent
7G	TCC	Pharmacy Corp.	CAD				+ Contingent
7H	TCC	SK Corp.	CAD				+ Contingent
7I	TCC	Mobile GP on behalf of Mobile LP	CAD	50,728	-	50,728	+ Contingent
<b>Claim #8</b>	Health Co. on behalf of Target Pharmacy	TCC	CAD	2,451,401	984,519	3,435,920	+ Contingent
<b>Claim #9</b>	Ontario Corp.	TCC	CAD	324,255	-	324,255	+ Contingent
<b>Claim #10</b>	BC Corp.	TCC	CAD	52,281	-	52,281	+ Contingent
<b>Claim #11</b>	Pharmacy Corp.	TCC					+ Contingent
<b>Claim #12</b>	SK Corp.	TCC					+ Contingent
<b>Claim #13</b>	Mobile GP on behalf of Mobile LP	TCC					+ Contingent



All of which is respectfully submitted to the Court this 31<sup>st</sup> day of August, 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

**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

**TWENTIETH REPORT OF THE MONITOR  
(Monitor's Intercompany Claims Report)**

**GOODMANS LLP**

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