

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS
AMENDED AND IN THE MATTER OF A PLAN OF
COMPROMISE OR ARRANGEMENT OF TARGET
CANADA CO., TARGET CANADA HEALTH CO.,
TARGET CANADA MOBILE GP CO., TARGET
CANADA PHARMACY (BC) CORP., TARGET
CANADA PHARMACY (ONTARIO) CORP., TARGET
CANADA PHARMACY CORP., TARGET CANADA
PHARMACY (SK) CORP., AND TARGET CANADA
PROPERTY LLC**

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

APRIL 7, 2016

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1.0 INTRODUCTION

- 1.1 On January 15, 2015, Target Canada Co. (“**TCC**”) and those companies listed in **Appendix “A”** (collectively, the “**Applicants**”), together with the Partnerships also listed in **Appendix “A”** (the “**Partnerships**”, and collectively with the Applicants, the “**Target Canada Entities**”), applied for and were granted protection by the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). Pursuant to an Order of this Court dated January 15, 2015, Alvarez & Marsal Canada Inc. (“**A&M**”) was appointed Monitor of the Target Canada Entities in the CCAA proceedings (the “**Monitor**”). The proceedings commenced by the Applicants under the CCAA are referred to herein as the “**CCAA Proceedings**”.
- 1.2 On February 11, 2015, this Court issued the “**Amended and Restated Initial Order**” (hereinafter, unless the context otherwise requires, the “**Initial Order**”), which incorporates certain changes to the Initial Order granted January 15, 2015 that were described in the Second Report of the Monitor dated February 9, 2015.
- 1.3 In connection with the CCAA Proceedings, the Monitor has provided to this Court twenty-five reports and two supplementary reports (the “**Supplementary Reports**”, and collectively, the “**Monitor’s Reports**”). A&M has also provided to this Court the Pre-Filing Report of the Proposed Monitor (the “**Pre-Filing Report**”) dated January 14, 2015 (together with the Monitor’s Reports, the “**Prior Reports**”). The Prior Reports, the Initial Order and other Court-filed documents and notices in these CCAA Proceedings are available on the Monitor’s website at alvarezandmarsal.com/targetcanada.

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

- (i) information regarding the following:
 - (a) agreements with Landlords;
 - (b) the Amended and Restated Joint Plan of Compromise and Arrangement dated April 6, 2016 (the “**Amended Plan**” or “**Plan**”);
 - (c) the Claims Process;
 - (d) an updated illustrative range of estimated creditor recoveries based on the Amended Plan;
 - (e) the Applicants’ motion for an order substantially in the form attached to the Applicants’ Motion Record dated April 6, 2016 (the “**Meeting Order**”), among other things:
 - (1) accepting the filing of the Amended Plan;
 - (2) authorizing the Target Canada Entities to establish one class of Affected Creditors for the purpose of considering and voting on the Amended Plan (the “**Unsecured Creditors’ Class**”);
 - (3) authorizing the Target Canada Entities to call, hold and conduct a meeting of the Affected Creditors (the “**Creditors’ Meeting**”) to consider and vote on a resolution to approve the Amended Plan,

and approving the procedures to be followed with respect to the Creditors' Meeting;

- (4) setting the date for the hearing of the Target Canada Entities' motion seeking sanction of the Amended Plan should the Plan be approved by the required majority of Affected Creditors at the Creditors' Meeting;
- (5) extending the Stay Period to June 6, 2016; and
- (6) extending the Notice of Objection Bar Date to 28 days following June 6, 2016 or such later date as this Court may Order;
- (f) the receipts and disbursements of the Target Canada Entities for the period March 6, 2016 to April 2, 2016; and
- (g) the updated and extended cash flow forecast of the Target Canada Entities for the period April 3, 2016 to June 11, 2016; and
- (ii) the Monitor's conclusions and recommendations in connection with the foregoing.

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this Twenty-Sixth Report, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by the Target Canada Entities and Target Corporation, and discussions with management of the Target Canada Entities and Target Corporation (collectively, the

“**Information**”). Except as otherwise described in this Twenty-Sixth Report in respect of the Target Canada Entities’ cash flow forecast:

- (i) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CASs**”) pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and
- (ii) some of the information referred to in this Twenty-Sixth Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Handbook*, has not been performed.

2.2 This Twenty-Sixth Report should be read in conjunction with the Affidavit of Mark J. Wong, General Counsel and Secretary of TCC in support of the Meeting Order, sworn on April 6, 2016 (the “**Wong Affidavit – Meeting Order**”).

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

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

3.0 AGREEMENTS WITH LANDLORDS

3.1 As described in the Wong Affidavit – Meeting Order, the Target Canada Entities have developed the Amended Plan to present to their creditors. A copy of each of the Amended Plan, and a blackline comparing the Plan to the Joint Plan of Compromise and Arrangement dated November 27, 2015 (the “**Original Plan**”) that the Target Canada Entities sought to file with the Court in late December 2015, are attached as Exhibits “A” and “C” to the Wong Affidavit – Meeting Order.

Landlord Guarantee Creditors

3.2 The most significant structural change to the Amended Plan relative to the Original Plan is that in order to comply with the Court’s January 15 Endorsement¹ and, in turn, preserve the subordination of the vast majority of the Intercompany Claims where such subordination was contingent on resolving the Landlord Guarantee Claims, all of the Landlord Guarantee Creditors and Target Corporation have reached a comprehensive agreement (the “**Landlord Guarantee Creditor Settlement Agreement**”, executed as of March 4, 2016), outside of the Plan, that is intended to resolve all Landlord Guarantee Claims and contractually release Target Corporation and others from the Landlord Guarantee Claims. As such, Target Corporation’s release under the Plan does not include a release in respect of the Landlord Guarantee Claims.

3.3 The Landlord Guarantee Creditor Settlement Agreement covers 37 disclaimed store leases that were guaranteed directly or indirectly by Target Corporation. While TCC is

¹ Among other things, the January 15 Endorsement held that the filing of the Original Plan would violate paragraph 19A of the Initial Order by compromising the Landlord Guarantee Claims without the consent of the affected Landlords.

not a party to the Landlord Guarantee Creditor Settlement Agreement, TCC, Target Corporation and the Monitor, and each party's respective legal counsel, were extensively involved in the analyses and negotiations that culminated in the agreement. The settlement of the Landlord Guarantee Claims is conditional, among other things, on the approval and implementation of the Plan. A copy of the Landlord Guarantee Creditor Settlement Agreement, without schedules, and with certain confidential information removed or redacted, is attached as Exhibit "E" to the Wong Affidavit – Meeting Order.

3.4 The Original Plan valued all Landlord Restructuring Period Claims using the Landlord Formula Amount that was derived from the BIA Formula and then enhanced to provide an improved recovery to Landlords. As a result of the agreements with Landlord Guarantee Creditors and Landlord Non-Guarantee Creditors (described below), the Amended Plan no longer uses the Landlord Formula Amount. TCC and the Landlords, with the assistance of the Monitor, have consensually agreed on the amounts of the Landlords' Landlord Restructuring Period Claims and Pre-filing Claims.

3.5 As a result of the Landlord Guarantee Creditor Settlement Agreement and the Amended Plan, Landlord Guarantee Creditors are to receive aggregate enhanced recoveries relative to the Original Plan of approximately \$69.9 million (inclusive of applicable GST/HST). Of this \$69.9 million: (i) approximately \$25.5 million is to be funded by a cash contribution from Target Corporation as Plan Sponsor; (ii) approximately \$34.1 million is to be funded by the Plan Sponsor contributing back amounts for the benefit of Landlord Guarantee Creditors that it otherwise would have recovered on intercompany claims under the Plan; and (iii) the balance of approximately \$10.3 million is to be funded by the estates of the Target Canada Entities largely as a result of increased Landlord Guarantee

Creditor Base Claim Amounts at 100% recoveries. Under the Original Plan, the \$34.1 million would have been funded into the TCC Cash Pool for the benefit of Affected Creditors. Under the Amended Plan, this amount is to be funded into the Landlord Guarantee Enhancement Cash Pool for the benefit of the Landlord Guarantee Creditors.

- 3.6 In aggregate, estimated recoveries to Landlord Guarantee Creditors under the Landlord Guarantee Creditor Settlement Agreement and the Amended Plan are approximately \$200.3 million, as compared to approximately \$130.4 million under the Original Plan (including the Landlord Guarantee Creditor Top-Up Amounts provided for in the Original Plan). As at February 26, 2016, the Monitor estimated that enhanced recoveries to Landlord Guarantee Creditors required to reach a consensual resolution would result in decreased recoveries to Affected Creditors of approximately 8.6% to 8.9% relative to the Original Plan (from a range of 75.3% to 85.3% to a range of 66.4% to 76.7%). An updated illustrative range of estimated recoveries as at April 1, 2016 is provided later in this Twenty-Sixth Report and estimates that Affected Creditors will receive distributions of approximately 68% to 78% under the Amended Plan.²

Landlord Non-Guarantee Creditors

- 3.7 Following the Court's January 15 Endorsement, during the course of further negotiations with the Landlords to reach a consensual resolution and preserve the subordination of the vast majority of Intercompany Claims contemplated in the Original Plan, Landlord Non-Guarantee Creditors (some of which had disclaimed leases that were guaranteed and others that were not guaranteed) required that their recoveries not be diluted on account

² All illustrative ranges of recovery provided in this Twenty-Sixth Report are subject to the important qualifications set out in paragraph 6.1 of this Report, and those set out in the Monitor's Twenty-Third and Twenty-Fourth Reports.

of enhanced recoveries to Landlord Guarantee Creditors. This was accomplished through the development of the Landlord Non-Guarantee Creditor Equalization Amount that was ultimately included in the Landlord Non-Guarantee Creditor Consent and Support Agreements between TCC and each Landlord Non-Guarantee Creditor, which amount is to be funded by the Plan Sponsor with the intention that recoveries to Affected Creditors will not be diluted by the equalization amount. The Landlord Non-Guarantee Creditor Equalization Amount utilized the approximate mid-points of the estimated recovery ranges in each of the Original Plan (75.3% to 85.3% based on information available as at November 27, 2015; approximate mid-point of 80.1%) and the Amended Plan (66.4% to 76.7% based on information available as at March 4, 2016; approximate mid-point of 71.1%) to quantify the equalization amount to Landlord Non-Guarantee Creditors in the Amended Plan that was required to keep Landlord Non-Guarantee Creditors in approximately the same economic position as in the Original Plan.

3.8 The Landlord Non-Guarantee Creditor Consent and Support Agreements cover 52 disclaimed leases (38 store leases and 14 office and warehouse leases) that were not guaranteed by Target Corporation. A copy of the Landlord Non-Guarantee Creditor Consent and Support Agreement, without schedules, and with certain confidential information removed or redacted, is attached as Exhibit “F” to the Wong Affidavit – Meeting Order.

3.9 As a result of the Landlord Non-Guarantee Creditor Consent and Support Agreements, Landlord Non-Guarantee Creditors are to receive combined aggregate equalization amounts of approximately \$7.5 million (inclusive of applicable GST/HST). All of the \$7.5 million is to be funded by an additional cash contribution by the Plan Sponsor. The

Plan Sponsor will receive approximately \$3.4 million of the \$7.5 million back through equalization payments to the Plan Sponsor on account of Landlord Claims that have been assigned to Target Corporation. In aggregate, estimated recoveries (not including equalization amounts) to Landlord Non-Guarantee Creditors under the Amended Plan are approximately \$127.5 million to \$145.7 million.

Landlord Guarantee Creditor Settlement Agreements

- 3.10 The Landlord Guarantee Creditor Settlement Agreement provides for, among other things:
- (i) each Landlord Guarantee Creditor's agreement to vote all of its Claims in favour of the Amended Plan substantially in the form of the Plan attached to the Landlord Guarantee Creditor Settlement Agreement;
 - (ii) each Landlord Guarantee Creditor's consent to the motions by the Target Canada Entities seeking the Meeting Order and Sanction and Vesting Order;
 - (iii) a full and final settlement of the Landlord Guarantee Claims outside of the Amended Plan, on a consensual basis, that complies with paragraph 19A of the Initial Order and the January 15 Endorsement;
 - (iv) a full and final contractual release from each Landlord Guarantee Creditor in favour of Target Corporation and all predecessors in interest to the Target Canada Entities, including the HBC Entities, from the Landlord Guarantee Claims;

- (v) each Landlord Guarantee Creditor to execute and deliver to TCC an Acknowledgement and Direction that consensually resolves its Landlord Restructuring Period Claim and Pre-filing Claim; and
- (vi) an aggregate payment by Target Corporation of \$700,000 towards the costs of certain Landlord Guarantee Creditors, including but not limited to, the settlement of costs issues arising out of the Original Meeting Order Motion.

Landlord Non-Guarantee Creditor Consent and Support Agreements

3.11 Each Landlord Non-Guarantee Creditor Consent and Support Agreement provides for, among other things:

- (i) settlement of the Landlord's Landlord Restructuring Period Claims and Pre-filing Claims, if any, in accordance with the Claims Procedure Order;
- (ii) the Landlord's agreement to vote all of its Claims in favour of the Amended Plan substantially in the form of the Plan attached to the Landlord Non-Guarantee Creditor Consent and Support Agreement; and
- (iii) the Landlord's consent to the motions by the Target Canada Entities seeking the Meeting Order and Sanction and Vesting Order.

Plan Sponsor Agreement

3.12 Target Corporation and TCC have entered into a Plan Sponsor Agreement, attached as Exhibit "E" to the Wong Affidavit – Meeting Order, which contains Target Corporation's commitment to fund its contributions into the Plan, including amounts required to fund

the Landlord Guarantee Enhancement Cash Pool and the Landlord Non-Guarantee Creditor Equalization Cash Pool.

Related Conditions and Steps Included in the Amended Plan

3.13 Both the Landlord Guarantee Creditor Settlement Agreement and the Landlord Non-Guarantee Creditor Consent and Support Agreements are conditional on the completion of a number of steps relating to the Plan, including the following (when the conditions of both agreements are combined):

- (i) the Target Canada Entities must have amended and restated the Original Plan such that the Amended Plan reflects the terms and conditions set out in the Term Sheet;
- (ii) the Target Canada Entities must obtain the Proposed Meeting Order, in form and substance satisfactory to TCC and Target Corporation, by April 21, 2016 or such later date acceptable to TCC, Target Corporation and the Landlords;
- (iii) the Amended Plan must have been approved at the Creditors' Meeting by the Required Majority of the Affected Creditors;
- (iv) the Target Canada Entities must obtain the Sanction and Vesting Order, in form and substance satisfactory to TCC and Target Corporation, by June 6, 2016 or such later date acceptable to TCC, Target Corporation and the Landlords, and such Order must become a Final Order; and

- (v) the Plan Implementation Date under the Amended Plan must occur within seven days from the date on which the Sanction and Vesting Order becomes a Final Order.

4.0 AMENDED AND RESTATED JOINT PLAN OF COMPROMISE AND ARRANGEMENT

- 4.1 Capitalized terms utilized in this section of the Twenty-Sixth Report not otherwise defined herein have the meaning given to them in the Amended Plan. Readers are cautioned that the commentary below is an overview only, and, as such, interested parties should review the Amended Plan in its entirety. In addition, as set out below, on or before May 11, 2016, the Monitor will provide to the Service List a Report regarding the Plan and the Monitor's analysis of same. Key elements of the Amended Plan are described below.

Overview of the Amended Plan

- 4.2 Target Corporation will act as Plan Sponsor and provide support through, among other things: (i) permitting the subordination of certain Intercompany Claims, including the Propco Intercompany Claim which was filed pursuant to the Claims Procedure Order against TCC in an amount of \$1,911,494,242 (and proposed to be adjusted downwards by the Monitor in the Intercompany Claims Report to an amount of \$1,356,756,051); and (ii) the contribution of approximately: (a) \$25.5 million towards the Landlord Guarantee Enhancement Amount;³ (b) \$34.1 million towards the Landlord Guarantee Enhancement

³ The Plan Sponsor's contribution of approximately \$25.5 million towards the Landlord Guarantee Enhancement Amount is intended to replace the aggregate Landlord Guarantee Creditor Top-Up Amounts proposed in the

Amount by contributing back amounts that it otherwise would have recovered on certain Intercompany Claims under the Amended Plan;⁴ (c) \$7.5 million towards the Landlord Non-Guarantee Creditor Equalization Amount; and (d) \$700,000 towards the costs of certain Landlord Guarantee Creditors, including the settlement of costs arising out of the Original Meeting Order Motion.

- 4.3 The Amended Plan provides for a single class of Affected Creditors that will consider and vote on the Plan at the Creditors' Meeting to be held at the Toronto Board of Trade in Toronto, Ontario on May 25, 2016.
- 4.4 The Amended Plan separates Claims according to whether they are asserted and proven against: (i) TCC or its subsidiaries (on a consolidated basis); or (ii) Propco or Property LP. After Claims against Propco and Property LP are paid or provided for in accordance with the Plan, any remaining cash at Propco will be contributed to the TCC Cash Pool Account for the benefit of Affected Creditors of the Target Canada Entities.
- 4.5 If approved, sanctioned and implemented, the Amended Plan is intended to:
- (i) complete the controlled and orderly wind down of the Target Canada Entities in a timely manner without potentially costly and lengthy litigation and delay;
 - (ii) effect a compromise, settlement and payment of all Proven Claims in the near term;
 - (iii) grant releases of the Target Canada Entities and others;

Original Plan. The Monitor previously valued the aggregate Landlord Guarantee Creditor Top-Up Amounts at approximately \$18 million to \$32 million, and \$25.5 million represents the approximate mid-point of that range.

⁴ See paragraph 3.5 of this Report.

- (iv) grant releases in favour of Target Corporation, except in respect of Landlord Guarantee Claims; and
- (v) comply with paragraph 19A of the Initial Order, the Claims Procedure Order and the Court's January 15 Endorsement.

Creditor Claims

4.6 Pursuant to the terms of the Amended Plan:

Claims Against Propco and Property LP

- (i) Propco Unaffected Creditors and Property LP Unaffected Creditors with Proven Claims against Propco and Property LP, respectively, will receive 100% of their Proven Claims from the Propco Cash Pool Account.⁵ These payments are accomplished through the subordination of certain Intercompany Claims and the partial subordination of others.
- (ii) Payments from the Propco Cash Pool Account will then be made on a *pro rata* basis in partial satisfaction of the following Intercompany Claims: (i) to TCC, on account of the TCC (Pre-filing Propco) Intercompany Claim and the TCC (Post-filing Propco) Intercompany Claim; (ii) to the Plan Sponsor, on account of the Plan Sponsor (Propco) Intercompany Claim; and (iii) to Property LP, on account of that amount of the Property LP (Propco) Intercompany Claim in excess of the Contributed Claim Amount.

⁵ Property LP will receive an amount from Propco equal to the Contributed Claim Amount in partial satisfaction of the Property LP (Propco) Intercompany Claim, which amount will be used to fund the claims of Property LP Unaffected Creditors.

- (iii) On the Initial Distribution Date, the Plan Sponsor will re-contribute some of the funds described in the previous sub-paragraph that were paid in partial satisfaction of the Intercompany Claims, according to the following steps (the **“Plan Sponsor Contribution Waterfall”**):
- (a) First, Property LP will direct TCC on behalf of Propco to pay to the Plan Sponsor any amounts payable to Property LP by Propco in respect of the Property LP (Propco) Intercompany Claim.
 - (b) Second, the Plan Sponsor will direct TCC to deposit an amount of approximately \$34.1 million into the Landlord Guarantee Enhancement Cash Pool Account on account of the distributions otherwise payable to the Plan Sponsor in respect of the Plan Sponsor (Propco) Intercompany Claim and amounts payable to the Plan Sponsor as directed by Property LP in respect of the Property LP (Propco) Intercompany Claim.
 - (c) Third, the Plan Sponsor will direct TCC to deposit any remaining balance of the distribution in respect of the Plan Sponsor (Propco) Intercompany Claim and the amount payable to the Plan Sponsor in respect of the Property LP (Propco) Intercompany Claim into the Plan Sponsor Propco Recovery Limit Reserve Account up to a maximum amount equal to the Plan Sponsor Propco Recovery Limit (*i.e.*, \$23,427,369) – any

undistributed balance of which will ultimately be contributed to the TCC Cash Pool in accordance with the Amended Plan.⁶

- (d) Fourth, TCC will deposit into the TCC Cash Pool: (1) all of the distributions that TCC received in respect of its Intercompany Claims against Propco; and (2) the remaining balance of any distributions that the Plan Sponsor received from Propco or at the direction of Property LP after completing the preceding steps in the Plan Sponsor Contribution Waterfall.

- (iv) All remaining cash in the Propco Cash Pool Account, subject to any funds transferred and held in the Propco Disputed Claims Reserve Account and the Plan Sponsor (Propco) Intercompany Claim Recovery Limit Account, will be transferred to the TCC Cash Pool Account.

Claims Against the Target Canada Entities other than Propco and Property LP

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

⁶ Amounts will only be paid from the Plan Sponsor Recovery Limit Reserve Account to the Plan Sponsor in essentially the same proportion, and on the same dates, that TCC makes distributions to Affected Creditors that are not Convenience Class Creditors or Landlord Guarantee Creditors. The remaining amounts in the account will ultimately be deposited in the TCC Cash Pool Account as a contribution by the Plan Sponsor to TCC.

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

- (iii) Landlord Guarantee Creditors will receive payments on the Initial Distribution Date from two cash pools: (i) the Landlord Guarantee Creditor Base Claim Cash Pool – for 100% of each Landlord Guarantee Creditor Base Claim Amount, being the agreed upon amount of each Landlord Guarantee Creditor’s Landlord Restructuring Period Claim and Pre-filing Claim; and (ii) the Landlord Guarantee Enhancement Cash Pool – for 100% of each Landlord Guarantee Creditor’s Landlord Guarantee Enhancement Amount under the Landlord Guarantee Creditor Settlement Agreement. Total payments to be made to Landlord Guarantee Creditors from the Landlord Guarantee Creditor Base Claim Cash Pool and the Landlord Guarantee Enhancement Cash Pool are anticipated to be approximately \$140.8 million and \$59.5 million, respectively (\$200.3 million in aggregate);

- (iv) Landlord Non-Guarantee Creditors will receive payments from two cash pools: (i) the TCC Cash Pool on the Initial Distribution Date (and any subsequent Distribution Dates) – for each Landlord Non-Guarantee Creditor’s Pro Rata Share of the remaining cash in the TCC Cash Pool Account, subject to any funds transferred and held in the Administrative Reserve Account and the TCC Disputed Claims Reserve Account; and (ii) the Landlord Non-Guarantee Creditor Equalization Cash Pool – on the Initial Distribution Date for 100% of each Landlord Non-Guarantee Creditor’s Landlord Non-Guarantee Creditor

Equalization Amount under the Landlord Non-Guarantee Creditor Consent and Support Agreements; and

- (v) all other Affected Creditors with Proven Claims will receive their respective Pro Rata Share of the remaining cash in the TCC Cash Pool Account from time to time, subject to any funds transferred and held in the Administrative Reserve Account and the TCC Disputed Claims Reserve Account.

Intercompany Claims

4.7 Target Corporation has agreed to or facilitated the following as part of a consensual global resolution:

- (i) the prior subordination of the \$3.1 billion NE1 Intercompany Claim;
- (ii) the re-contributions into the TCC Cash Pool described in paragraph 4.6 (iii), above;
- (iii) the subordination of the Propco Intercompany Claim which was filed pursuant to the Claims Procedure Order against TCC in an amount of \$1,911,494,242 (and proposed to be adjusted downwards by the Monitor in the Intercompany Claims Report to an amount of \$1,356,756,051);⁷ and
- (iv) the subordination of other Intercompany Claims as set out in Schedule “A” to the Amended Plan.

⁷ The Monitor understands that for purposes of the Plan only, Target Corporation will accept all downward adjustments proposed by the Monitor.

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

- (i) Property LP claim against TCC in the amount of \$82,861,821 (proposed to be adjusted downwards by the Monitor in the Intercompany Claims Report from the filed amount of \$87,748,817);
- (ii) Target Brands Inc. claim against TCC in the amount of \$22,416,731 (US\$18,787,069 converted to Canadian dollars; proposed to be adjusted downwards by the Monitor in the Intercompany Claims Report from the filed amount of US\$23,573,542);
- (iii) Target Corporate Services Inc. claim against TCC in the amount of \$2,582,573 (US\$2,164,409 converted to Canadian dollars; proposed to be adjusted downwards by the Monitor in the Intercompany Claims Report from the filed amount of US\$2,778,278); and
- (iv) Target Corporation claim against TCC in the amount of \$602,349 (US\$504,818 converted to Canadian dollars; proposed to be adjusted downwards by the Monitor in the Intercompany Claims Report from the filed amount of US\$541,404).

Plan Releases

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

- (i) the Target Canada Released Parties (which include the Target Canada Entities, NE1, and their respective Directors, Officers, employees, legal counsel, agents and advisors);
- (ii) the Third Party Released Parties (which include the Monitor, A&M, their respective directors, officers, employees, legal counsel, agents and advisors, and Pharmacists' Representative Counsel and members of the Consultative Committee and their advisors);
- (iii) the Plan Sponsor Released Parties (which include Target Corporation, its subsidiaries other than the Target Canada Entities and NE1, the HBC Entities and their respective directors, officers, employees, legal counsel, agents and advisors), excluding in respect of Landlord Guarantee Claims; and
- (iv) the Employee Trust Released Parties (which include the Employee Trust Administrator and its respective directors and officers and the Employee Trust Trustee, Employee Representative Counsel, Employee Representatives and all of their respective counsel and advisors).

Other

4.10 In connection with the filing of the Amended Plan, the Target Canada Entities have drafted a letter to be sent to the Affected Creditors (the "**Letter to Creditors**") as part of

the Meeting Materials. The Letter to Creditors highlights information from the Plan to help Affected Creditors understand the Plan. A copy of the draft Letter to Creditors is attached as Exhibit “B” to the Wong Affidavit – Meeting Order.

4.11 The Monitor will issue a report on the Amended Plan on or before May 11, 2016 in advance of the Creditors’ Meeting proposed to be held on May 25, 2016.

5.0 CLAIMS PROCESS

5.1 On June 11, 2015, this Court issued the claims procedure order (as amended, the “**Claims Procedure Order**”) approving the claims process (the “**Claims Process**”) to identify and determine claims of creditors (“**Claims**”) of the Target Canada Entities and their Directors and Officers. The Claims Procedure Order was summarized in the Fifteenth Report of the Monitor, and an update on the completion of the notification requirements of the Claims Procedure Order was provided in the Eighteenth Report.

5.2 As described in certain of the Prior Reports, including the Twenty-Fifth Report, the Claims Procedure Order provided for the following Claims bar dates:

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

Intercompany Claims

- 5.3 As required by the Claims Procedure Order, the Monitor provided a comprehensive report on its review of the Intercompany Claims in the Twentieth Report of the Monitor (the “**Intercompany Claims Report**”) dated August 31, 2015.
- 5.4 Paragraph 37 of the Claims Procedure Order provided that after the service of the Monitor’s Intercompany Claims Report, any Claimant may file objections, which may include, but are not limited to, any argument asserted for the subordination of outstanding intercompany debts of any of the Target Canada Entities, any relief in connection with claims to priority, any claim asserted for substantive consolidation, and the validity and quantum of Intercompany Claims and any claim relating to debt re-characterization, by filing a Notice of Objection with the Monitor, not later than the Notice of Objection Bar Date of September 30, 2015.
- 5.5 As described in the Twenty-Fifth Report, the Notice of Objection Bar Date has been extended several times, with the last of such extensions occurring at the hearing on March 14, 2015, where the Court issued an order extending the Notice of Objection Bar Date to 28 days following April 15, 2016, or such other date as the Court may order.
- 5.6 In light of the progress that has been made in achieving a consensual resolution of issues, including reaching settlements with the landlords and the Target Canada Entities’ filing of the Amended Plan that will address Intercompany Claims, the Applicants are seeking an extension of the Notice of Objection Bar Date to 28 days following June 6, 2016. The Monitor supports this request as it is consistent with the extension to the Stay Period that

is being sought by the Applicants and it will prevent stakeholders from incurring costs that may prove to be unnecessary.

Landlord Claims

5.7 The Monitor received 18 Notices of Dispute with respect to landlord claims relating to assigned leases by the February 29, 2016 deadline (posted to the Monitor’s website and served on the Service List)⁸ and one Notice of Dispute from a third-party in respect of an indemnity that TCC provided in relation to a disclaimed lease.⁹ The Monitor continues to review and assess these Notices of Dispute and will provide updates to the Court as the Claims Process continues to advance.¹⁰

Status of Claims Review and Assessment

5.8 As at April 1, 2016, 1,745 Claims have been filed with the Monitor, totalling approximately \$2.6 billion. As summarized in the tables below:

- (i) 1,580 Claims have been reviewed, reconciled, resolved and allowed (or deemed allowed or disallowed as the time for a Claimant to respond to a Notice of Revision or Disallowance (“NRDA”) issued by the Monitor has expired) (collectively, the “**Resolved Claims**”); and

⁸ See the Monitor’s Twenty-Fifth Report.

⁹ The deadline for filing a Notice of Dispute with respect to landlord claims relating to disclaimed leases has not been set; however, any such disputes would be superseded by the terms of the landlord agreements pursuant to which the landlords have agreed to their respective Claim amount in respect of disclaimed leases for both voting and distribution purposes.

¹⁰ Certain of these NODs with respect to assigned leases are to be withdrawn in accordance with the terms of the settlement agreement or related documents.

- (ii) 165 Claims are either:
- (a) under review by the Monitor – six Claims (all of which were filed subsequent to the Claims Bar Date); or
 - (b) subject to a Notice of Dispute (“**NOD**”) received by the Monitor from the Claimant in response to an NRDA issued by the Monitor, which NOD is under review by the Monitor (the “**NOD Stage**”) – 159 Claims, including 19 NODs with respect to landlord Claims (as described above) and 81 Pharmacist Franchisee Claims;¹¹
- (collectively, the “**Unresolved Claims**”).

5.9 As at April 1, 2016, a summary of the Resolved Claims and Unresolved Claims is as follows:

RESOLVED CLAIMS

Category	Filed Amount		Allowed			Deemed Disallowed			Total	
	#	\$	#	Filed \$	Allowed \$	#	Filed \$	Allowed \$	#	\$
Landlord (a)(b)	84	1,811,555,664	79	1,811,555,659	335,226,452	5	5	-	84	335,226,452
Vendor	1366	273,077,385	1341	269,303,388	251,472,558	25	3,773,997	-	1,366	251,472,558
Pharmacist	13	14,864,706	13	14,864,706	3,510,038	-	-	-	13	3,510,038
Government	4	5,111,357	3	5,111,356	5,087,288	1	1	-	4	5,087,288
Litigation	56	5,952,267	48	4,954,765	492,705	8	997,502	-	56	492,705
Employee	55	719,422	11	386,229	136,546	44	333,193	-	55	136,546
Other	2	2	-	-	-	2	2	-	2	-
Total	1580	2,111,280,803	1495	2,106,176,103	595,925,588	85	5,104,700	-	1,580	595,925,588

¹¹ As set out herein, Pharmacist Representative Counsel has filed the Omnibus Pharmacist NOD in respect of all pharmacists, however as part of the claims review process, the Monitor allowed the claims of two pharmacists as filed and therefore did not issue an NRDA with respect to such claims and 11 pharmacist claims have been resolved through the opt-out process. The Opt-Out Notice deadline was March 25, 2016 (one Opt-Out Notice that was accepted was received that day past the 5 p.m. deadline).

UNRESOLVED CLAIMS

Category	Filed Amount		Monitor Review		NRDA Stage			NOD Stage			
	#	\$	#	\$	#	Filed \$	Allowed \$	#	Filed \$	Allowed \$	NOD \$
Landlord (a)(b)	19	110,596,860	-	-	-	-	-	19	110,596,860	2,916	110,596,859
Vendor	38	268,476,197	5	437,062	-	-	-	33	268,039,136	165,343,920	240,012,950
Pharmacist	81	144,630,242	-	-	-	-	-	81	144,630,242	16,746,129	144,152,367
Government	9	2,863,376	-	-	-	-	-	9	2,863,376	184,897	2,858,994 (c)
Litigation	7	2,737,002	1	500,000	-	-	-	6	2,237,002	15,760	668,179
Employee	11	211,773	-	-	-	-	-	11	211,773	-	206,007
Other	-	-	-	-	-	-	-	-	-	-	-
Total	165	529,515,450	6	937,062	-	-	-	159	528,578,389	182,293,622	498,495,356 (c)
Grand Total	1745	2,640,796,253									

Notes:

- (a) The Allowed amounts of Landlord Claims in the Resolved Claims table reflect the Claim amounts under the settlement agreements reached with Landlords.
- (b) Two Landlord Claims, in respect of nine properties, have both an Allowed amount on account of seven disclaimed properties and a NOD amount on account of two assigned leases. Such Claims are considered to be in the NOD stage, however, for reporting purposes, the respective Claim Filed and Allowed amounts are reflected in the Resolved Claims table to provide a more appropriate view of the claims profile. The Claim count has not been adjusted.
- (c) Total NOD Amount is unknown as certain CRA Claims cannot yet be quantified as information is still pending at this time.

5.10 In addition to the Claims set out above, 26 Claims totalling approximately \$8.3 million were filed and subsequently withdrawn by the Claimants.

5.11 Pursuant to paragraphs 23 and 27 of the Claims Procedure Order, Claims not filed and received by the Monitor by the respective Claims Bar Dates, or such later date as the Monitor may agree in writing or the Court may otherwise direct, will be forever barred, estopped and extinguished. The Monitor has received a number of late-filed claims totalling approximately \$15.6 million, including three claims totalling \$8.0 million from Pharmacist Franchisees and one claim of \$1.9 million from a landlord with a Parent Guarantee. Following inquiries of the Claimants as to why the claims were filed late, and after satisfying itself that there was: (i) a *prima facie* basis for such claims; and (ii) a valid reason for late filing, the Monitor admitted these claims into the Claims Process for review and assessment.

Unresolved Claims

5.12 The Monitor is in the process of assessing and resolving Notices of Dispute that have been filed with the Monitor. As at the date of this Twenty-Fifth Report, 159 NODs have been received from Claimants, disputing a total of approximately \$498.5 million (plus “marker claims” that have been filed for unliquidated or unknown amounts, such as certain Claims filed by the CRA), as compared to the total amount of \$182.3 million allowed by the Monitor in the corresponding NRDA. The significant NODs relate to:

- (i) Government Claims: Information with respect to Government Claims was provided in the Twenty-Fourth Report. The Target Canada Entities and their legal counsel and the Monitor and its legal counsel, and representatives of the CRA and the Department of Justice Canada on behalf of the CRA, continue to work diligently and cooperatively (both with each other and with TCC’s affiliates as part of the Shared Services) to obtain and provide the CRA with information to satisfy outstanding information requests. This process remains ongoing;
- (ii) Pharmacist Claims: As described in the Twenty-Fifth Report, Pharmacist Franchisees filed 93 individual Proofs of Claim (including three claims filed subsequent to the Claims Bar Date),¹² and the Monitor issued individual NRDA in respect of 91 of such Pharmacist Franchisee Claims.¹³ Pharmacist Representative Counsel filed an Omnibus Pharmacist NOD in response to the

¹² The Monitor also received a Proof of Claim filed by McMahon Distributeur Pharmaceutique Inc., the owner/operator of 14 Target/Brunet co-branded pharmacies in the province of Quebec, which is not represented by Pharmacist Representative Counsel, and is not reflected in the Omnibus Pharmacist NOD.

¹³ As indicated above, two of the Pharmacist Franchisee Claims were allowed as filed and no NRDA were issued for these claims.

individual NRDA issued that, by its terms and the terms of the Pharmacist Order, applies to all Pharmacist Franchisee Claims, other than those that were accepted as filed or where an Opt-Out Notice has been filed. As described above, the Monitor received a total of 11 Opt-Out Notices (by those Pharmacist Franchisees who do not wish to be represented by the Pharmacist Representative Counsel). The difference between the aggregate allowed amounts in the NRDA issued by the Monitor and the disputed amount in the Omnibus Pharmacist NOD is approximately \$125.9 million.

As described in the Twenty-Fifth Report, pursuant to the Pharmacist Order, the Omnibus Pharmacist NOD was referred to the Honourable Dennis O'Connor (the "**Claims Officer**") to determine the validity and amount of the Pharmacist Franchisee Claims under the Claims Procedure Order, as amended, with direction to implement a summary process for the resolution of each disputed claim. Pharmacist Representative Counsel and the Monitor, in consultation with the Target Canada Entities, have been working on a list of common issues. On March 31, 2016, the Monitor reported to the Claims Officer that proposed common issues lists had been exchanged and that the parties continue to work to advance the common issues list and to discuss procedure.

- (iii) Vendor Claims: 33 Claimants have submitted NODs that remain unresolved, with a difference in aggregate claims value between the Monitor and the Claimants of approximately \$74.7 million. Seven significant Claims account for approximately \$68.9 million or 92% of the aggregate difference. The Monitor is reviewing the NODs that have been received, and is assessing its options to resolve these

Claims, including through further discussions or reconciliation with the claimants or referring Claims to a Claims Officer or the Court for adjudication where appropriate; and

- (iv) Landlord Claims: As described above, the Monitor received 18 NODs with respect to assigned leases prior to the February 29, 2016 deadline and one NOD filed by a third-party in respect of an indemnity TCC provided in relation to a disclaimed lease.

5.13 The Monitor, in consultation with the Target Canada Entities, is in the process of reviewing and assessing the NODs, including assessing whether any further Claims should be referred to a Claims Officer or the Court for adjudication, and will provide updates to the Court as the Claims Process continues to advance.

Director & Officer Claims

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

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

- 5.15 The Monitor, in consultation with the Target Canada Entities and legal counsel to the Directors and Officers, reviewed the remaining five filed D&O Claims and issued NRDA's to each of the Claimants disallowing the claims in full.
- 5.16 With respect to the five Claims disallowed in full: (i) two claimants did not respond to the NRDA and the claims have been deemed disallowed pursuant to the Claims Procedure Order; (ii) one claimant responded with an NOD, but has subsequently withdrawn their claim; (iii) one claimant responded with an NOD in the amount of approximately \$180,000; and (iv) one claimant responded with an NOD filed as a "marker claim" for unspecified, unliquidated amounts.
- 5.17 The Monitor, in consultation with the Target Canada Entities and legal counsel to the Directors and Officers, continues to review and assess the two disputed D&O Claims and will provide updates to the Court as the Claims Process continues to advance.

6.0 ILLUSTRATIVE RANGE OF ESTIMATED CREDITOR RECOVERIES

- 6.1 The Monitor has prepared an updated illustrative range of estimated recoveries under the Amended Plan which is summarized in the table below and is based on information available as at April 1, 2016 (the "**Illustrative Recoveries Analysis**"). The Illustrative Recoveries Analysis has been prepared based on the terms of the Amended Plan and a further preliminary estimate of the assessment of Claims filed. The Monitor cautions that the Illustrative Recoveries Analysis remains preliminary at this stage and is expected to change (which change could be material) as: (a) filed Claims continue to be reviewed and assessed, including "marker claims" that have been filed for unliquidated or unknown amounts (such as certain Claims filed by the CRA); and (b) the Claims Process continues

to advance, including the resolution of Disputed Claims, in accordance with Claims Procedure Order.

	Illustrative Scenario #1 - LOW	Illustrative Scenario #2 - HIGH
(\$ in 000's CAD)		
PROPCO		
CASH AVAILABLE FOR DISTRIBUTION		
Propco Cash	\$ 76,750	\$ 76,750
PROCEEDS AVAILABLE FOR DISTRIBUTION	<u>76,750</u>	<u>76,750</u>
CLAIMS FILED AGAINST PROPCO/PROPERTY LP		
Total Third Party Claims Against Propco and Property LP	10,535	10,535
PropCo Intercompany Claims (recontributed below)	34,081	34,081
Estimated Payments under Plan Sponsor Propco Recovery Reserve Limit	15,983	18,240
ESTIMATED NET PROCEEDS AVAILABLE FOR TCC AFTER DISTRIBUTIONS	<u>16,151</u>	<u>13,894</u>
TARGET CANADA CO		
CASH AVAILABLE FOR DISTRIBUTION		
Target Canada Co. Cash	780,000	785,000
Propco Cash (from above)	16,151	13,894
ESTIMATED PROCEEDS AVAILABLE FOR DISTRIBUTION	<u>796,151</u>	<u>798,894</u>
ESTIMATED SECURED, UNAFFECTED AND CONVENIENCE CLASS CREDITORS		
Secured Claims and Unaffected Creditor Claims	60,031	60,031
Convenience Class Claims - < \$25,000	5,745	5,745
Convenience Class Opt-In - Claim Value < \$35,000	2,150	2,150
TOTAL ESTIMATED SECURED, UNAFFECTED AND CONVENIENCE CLASS CREDITOR CLAIMS	<u>67,926</u>	<u>67,926</u>
ESTIMATED NET PROCEEDS AVAILABLE FOR DISTRIBUTION AFTER SECURED, UNAFFECTED AND CONVENIENCE CLASS CLAIMS	<u>728,226</u>	<u>730,969</u>
LANDLORD GUARANTEE CREDITOR SETTLEMENT AMOUNTS		
Landlord Guarantee Creditor Base Claim Amounts (Pre-filing and Restructuring)	140,745	140,745
Landlord Guarantee Enhancement Amounts	59,532	59,532
Total Distribution to Landlord Guarantee Creditors	200,276	200,276
Less:		
Plan Sponsor Contribution to the Landlord Guarantee Enhancement Cash Pool	(25,451)	(25,451)
Plan Sponsor Contribution from the PropCo Intercompany Claims (from above)	(34,081)	(34,081)
NET DISTRIBUTION TO LANDLORD GUARANTEE CREDITORS AFTER PLAN SPONSOR CONTRIBUTIONS	<u>140,745</u>	<u>140,745</u>
ESTIMATED NET PROCEEDS AVAILABLE FOR DISTRIBUTION AFTER SECURED, UNAFFECTED, CONVENIENCE CLASS AND LANDLORD GUARANTEE CREDITOR CLAIMS	<u>(A) 587,481</u>	<u>590,224</u>
ESTIMATED ALLOWABLE CLAIMS		
Landlord Non-Guarantee Creditor Claim Amounts (Pre-Filing, Restructuring and Other)	186,974	186,974
Other Affected Creditor Claims	566,149	462,631
Total Affected Creditor Claims	753,123	649,605
Total Intercompany Claims	108,464	108,464
ESTIMATED ALLOWABLE TOTAL CLAIMS EXCLUDING SECURED, UNAFFECTED, CONVENIENCE CLASS AND LANDLORD GUARANTEE CREDITOR CLAIMS	<u>(B) 861,587</u>	<u>758,069</u>
RECOVERY % (A/B)	68.2%	77.9%

6.2 Based on the above Illustrative Recoveries Analysis (and subject to the important qualifications noted in paragraph 6.1 above), the Monitor estimates that the Affected Creditors with Proven Claims will receive distributions under the Amended Plan in the range of approximately 68% to 78% of such Affected Creditors' Proven Claims. This

represents an estimated reduction of approximately 7% from the Original Plan due primarily to the enhanced recoveries to the Landlord Guarantee Creditors (including the re-direction of the \$34.1 million referred to above to the Landlord Guarantee Enhancement Cash Pool) required in order to reach a consensual resolution with the Landlords and comply with the January 15 Endorsement and paragraph 19A of the Initial Order.

7.0 MEETING ORDER

7.1 The Target Canada Entities, in consultation with the Monitor, have prepared a proposed procedure for a meeting of creditors, and are seeking the Court's approval of this procedure, together with certain related relief, in the form of an Order contained in the Target Canada Entities' motion record returnable on April 13, 2016 (the "**Meeting Order**"). Capitalized terms used but not defined in this section of this Twenty-Sixth Report have the meanings ascribed to them in the Meeting Order.

7.2 The Meeting Order contemplates a meeting of a single class of Affected Creditors, the Unsecured Creditors' Class, to consider and vote on the Amended Plan (the "**Creditors' Meeting**"). Subject to the Meeting Order being approved, the Creditors' Meeting will be held on May 25, 2016 at the Toronto Board of Trade, 77 Adelaide Street West, Toronto, Ontario, starting at 10:00 a.m., subject to adjournment or modification in accordance with the terms of the Meeting Order or further order of this Court. The Creditors' Meeting will be chaired by the Monitor or its representative.

Notice of Creditors' Meeting

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

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

7.4 The Monitor will post the Meeting Materials to the Monitor’s website, and will serve a copy of the Meeting Materials on the Service List.

7.5 Additionally, on or before April 27, 2016, the Monitor will cause the Notice of Creditors' Meeting to be published for a period of two (2) business days in *The Globe and Mail* (National Edition), *La Presse* and *The Wall Street Journal*.

7.6 The Meeting Order further contemplates that the Monitor will serve a report with respect to the Amended Plan on the Service List by no later than May 11, 2016, which report will be filed with this Court and posted to the Monitor's website.

Amendments to the Plan

7.7 The Meeting Order provides that the Target Canada Entities, with the consent of the Plan Sponsor and the Monitor, may make and file modifications, restatements, amendments or supplements to the Plan (each, a "**Plan Modification**") prior to or at the Creditors' Meeting prior to a vote being taken. Any such Plan Modification shall be deemed to form part of and be incorporated into the Plan.

7.8 The Target Canada Entities may, with the consent of the Plan Sponsor and the Monitor, effect a Plan Modification after the Creditors' Meeting: (i) pursuant to an Order of the Court; or (ii) where such Plan Modification is of an administrative nature required to better give effect to the implementation of the Plan and the Sanction and Vesting Order or to cure any errors, omissions or ambiguities, and in either event is not materially adverse to the financial or economic interests of the Affected Creditors.

7.9 Where a Plan Modification is made prior to the Creditors' Meeting, the Target Canada Entities shall provide notice to the Service List. Where a Plan Modification is made prior to a vote at the Creditors' Meeting, the Target Canada Entities shall give notice to those

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

Procedure for Creditors' Meeting

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

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

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

Voting at Creditors' Meeting

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

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

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

- 7.17 Where an Affected Creditor holds a Disputed Claim as of the Creditors' Meeting¹⁴, the dollar value of such Disputed Claim for voting purposes shall be the amount set out in respect of the Affected Creditor's Notice of Revision or Disallowance delivered by the Monitor in accordance with the Claims Procedure Order.
- 7.18 The Monitor and its designees appointed in accordance with the Meeting Order will keep separate records of votes cast by Affected Creditors holding Disputed Claims and will report to the Court with respect thereto.
- 7.19 Holders of Intercompany Claims will not be entitled to vote on the Plan. The Plan Sponsor will not be entitled to vote on the Plan in respect of: (i) its Plan Sponsor Subrogated Claims; (ii) any amounts to be contributed to the Landlord Guarantee Enhancement Cash Pool and to the Landlord Non-Guarantee Creditor Equalization Cash Pool under the Plan; or (iii) any Cash Management Lender Claims held through assignment or subrogation (the latter being Unaffected Claims which are not entitled to vote in any event).

Assignment of Claims

- 7.20 An Affected Creditor, a Propco Unaffected Creditor or a Property LP Unaffected Creditor may transfer or assign the whole of its claim prior to the Creditors' Meeting by providing notice of such transfer or assignment, together with satisfactory evidence of such transfer or assignment to the Monitor in writing, by no later than 5:00 p.m. on the date which is seven (7) days prior to the Creditors' Meeting. Where a Claim has been

¹⁴ In accordance with the Meeting Order, Canada Revenue Agency shall have one vote in respect of its Disputed Claims, the dollar value of which shall be equal to \$1, without prejudice to the determination of the dollar value of such Disputed Claims.

transferred or assigned in part, the transferor or assignor will retain the right to vote at the Creditors' Meeting in respect of the full amount of the Claim as determined for voting purposes in accordance with the Claims Procedure Order and the Meeting Order, and the transferee or assignee will have no voting rights at the Creditors' Meeting in respect of such claim.

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

Voting by Proxy

- 7.22 Any Person entitled to vote at the Creditors' Meeting may do so in person or by proxy. The Meeting Order provides that the form of proxy for use at the Creditors' Meeting (including any adjourned, postponed or rescheduled Creditors' Meeting) is to be included with the Meeting Materials (the "**Proxy**") and sets out the timeline and procedure for submitting a proxy.
- 7.23 In the absence of specific instructions to vote for or against the approval of the Resolution in a duly signed and delivered Proxy, the Meeting Order provides that the Proxy shall be deemed to include the instruction to vote for the approval of the Resolution, provided that the Proxy-holder does not otherwise exercise its right to vote at the Creditors' Meeting.

8.0 CASH FLOW RESULTS RELATIVE TO FORECAST

8.1 Receipts and disbursements for the period March 6, 2016 to April 2, 2016 (the “**Reporting Period**”, noting that cash flow results through March 5, 2016 were reported in the Twenty-Fifth Report) as compared to the cash flow forecast that was attached as Appendix “C” to the Twenty-Fourth Report (the “**Cash Flow Forecast**”), are summarized on the following page.

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

<i>Period Ended</i>	Cumulative		
	Budget 02-Apr	Actual 02-Apr	Variance B / (W)
OPERATING RECEIPTS			
Sales Receipts	\$ -	\$ -	\$ -
Other Receipts	120	348	228
TOTAL RECEIPTS	120	348	228
OPERATING DISBURSEMENTS			
Employee Payments	30	47	(17)
Rent & Occupancy	-	22	(22)
DC / Logistics	-	-	-
Normal Course Taxes	-	-	-
Professional Fees	1,850	1,592	258
All Other	200	118	82
Current Operating Disbursements	2,080	1,778	302
OPERATING CASH FLOW	(1,960)	(1,430)	530
INTERCOMPANY DISBURSEMENTS			
Intercompany Services	125	191	(66)
DIP Interest	-	-	-
Intercompany Disbursements	125	191	(66)
NET CASH FLOW	\$ (2,085)	\$ (1,621)	\$ 464

WEEKLY LIQUIDITY			
Beginning Bank Cash Balance [1]	\$ 798,451	\$ 799,808	\$ 1,357
(+/-) Net Cash Flow	(2,085)	(1,621)	464
(+/-) Change in Cheque Float	-	42	42
(+/-) DIP Draws/(Repayments)	-	-	-
(+/-) FX Translation	-	(32)	(32)
Ending Bank Cash Balance [2]	796,366	798,197	1,831

[1] Cash Balances were actualized in the Twenty-Fifth Report and the variance relative to the Cash Flow Forecast attached as Appendix "C" to the Twenty-Fourth Report was previously commented on

[2] Actuals assume \$1.30 CAD/ \$1.00 USD

8.2 During the Reporting Period, the Target Canada Entities' total receipts were approximately \$228,000 greater than as projected in the Cash Flow Forecast. The variance was due primarily to interest received that was not reflected in the Cash Flow Forecast.

- 8.3 The Target Canada Entities' total disbursements during the Reporting Period were approximately \$236,000 less than as projected in the Cash Flow Forecast. Management attributes most of this variance to timing differences in the payment of professional fees.
- 8.4 The closing cash balance as at April 2, 2016 was approximately \$798.2 million, as compared to the projected cash balance of \$796.4 million.
- 8.5 The Initial Order entitles the Target Canada Entities to continue to utilize their existing Cash Management System, as described in the Pre-Filing report. The Cash Management System of the Target Canada Entities continues to operate in the same manner as it had prior to the commencement of the CCAA Proceedings, with the exception that all 133 retail Stores were closed to the public on or before April 12, 2015.

9.0 CCAA CASH FLOW FORECAST

- 9.1 With the assistance of the Monitor, the Applicants have prepared an updated and extended cash flow forecast (the "**Cash Flow Forecast**") for the period April 3, 2016 to June 11, 2016 (the "**Cash Flow Period**"). As described below, the Stay Period is set to expire on April 15, 2016. The Applicants are seeking an extension of the Stay Period to June 6, 2016 and the Cash Flow Period covers the date of the extension request. A copy of the Cash Flow Forecast is attached as **Appendix "B"** to this Twenty-Sixth Report.
- 9.2 The Cash Flow Forecast is presented on a weekly basis during the Cash Flow Period and represents TCC management's estimates of projected cash flow during the Cash Flow Period. The Cash Flow Forecast has been prepared using the probable and hypothetical

assumptions set out in the notes to the Cash Flow Forecast (the “**Cash Flow Assumptions**”).

- 9.3 The Monitor has reviewed the Cash Flow Forecast to the standard required of a Court-appointed Monitor by section 23(1)(b) of the CCAA. Section 23(1) requires a Monitor to review the debtor’s cash flow statement as to its reasonableness and to file a report with the Court on the Monitor’s findings. Pursuant to this standard, the Monitor’s review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to information supplied to it by certain key members of management and employees of TCC and Target Corporation. The Monitor reviewed information provided by management for the Cash Flow Assumptions. Since the Cash Flow Assumptions need not be supported, the Monitor’s procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast.
- 9.4 The Cash Flow Forecast has been updated for actual cash flow results through the week ended April 2, 2016. The opening cash position as at April 3, 2016 was approximately \$798.2 million. Forecast receipts for the Cash Flow Period are approximately \$660,000 and forecast disbursements are approximately \$5.7 million (including approximately \$610,000 for Shared Services).
- 9.5 The Cash Flow Forecast includes disbursements of \$270,000 and \$190,000 in April (for February and March), and \$150,000 in May (for April) for Shared Services incurred in connection with the Orderly Wind-down and Claims Process (i.e. primarily accounting, treasury and information technology services). The projected Shared Services disbursements are based on a new agreement entered into following the expiration of the

Shared Services Agreement in January 2016 (which provides for payments based on hourly rates), and TCC continues to work with the Monitor and Target Corporation to reduce these services, where appropriate, as the Orderly Wind-down and Claims Process continue toward completion.

- 9.6 The closing cash position in the Cash Flow Forecast for the week ending June 11, 2016 is projected to be approximately \$793.1 million.
- 9.7 The Cash Flow Forecast has been prepared solely for the purposes described above, and readers are cautioned that it may not be appropriate for other purposes.

10.0 EXTENSION OF THE STAY PERIOD

- 10.1 Pursuant to the Order (Extending the Stay Period) of this Court dated March 14, 2016 (the “**March 14 Order**”), the Stay Period is set to expire on April 15, 2016. The Applicants are seeking an extension of the Stay Period to June 6, 2016.
- 10.2 The Monitor supports the Applicants’ motion to extend the Stay Period to June 6, 2016 for the following reasons:
- (i) subject to this Court granting the Meeting Order, the extension will facilitate the holding of the Creditors’ Meeting on May 25, 2016;
 - (ii) subject to the Plan being approved by the Required Majority, the extension will facilitate the Target Canada Entities’ bringing the Sanction Motion before this Court on June 2, 2016;

- (iii) the extension will provide the Monitor with the time required to continue to advance the Claims Process in accordance with the Claims Procedure Order;
- (iv) the Applicants have sufficient liquidity throughout the Cash Flow Period to accommodate the above dates; and
- (v) the Applicants continue to act in good faith and with due diligence and have made significant progress in these CCAA Proceedings in developing the Amended Plan to present to their creditors.

11.0 MONITOR'S CONCLUSIONS AND RECOMMENDATION


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

- (i) accepting the filing of the Amended Plan;
- (ii) authorizing the Target Canada Entities to establish one class of Affected Creditors for the purpose of considering and voting on the Plan;
- (iii) authorizing the Target Canada Entities to call, hold and conduct the Creditors' Meeting on May 25, 2016 to consider and vote on a resolution to approve the Plan, and approving the procedures to be followed with respect to the Creditors' Meeting;
- (iv) setting the date of June 2, 2016 for the hearing of the Target Canada Entities' motion seeking sanction of the Amended Plan should the Plan be approved by the Required Majority;


- (v) extending the Stay Period to June 6, 2016; and
- (vi) extending the Notice of Objection Bar Date to 28 days following June 6, 2016 or such later date as this Court may Order.

All of which is respectfully submitted to this Court this 7th day of April, 2016.

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

Per: 

Name: Douglas R. McIntosh
Title: President

Per: 

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

APPENDIX “A”

Applicants

Target Canada Co.

Target Canada Health Co.

Target Canada Mobile GP Co.

Target Canada Pharmacy (BC) Corp.

Target Canada Pharmacy (Ontario) Corp.

Target Canada Pharmacy (SK) Corp.

Target Canada Pharmacy Corp.

Target Canada Property LLC

Partnerships

Target Canada Pharmacy Franchising LP

Target Canada Mobile LP

Target Canada Property LP

APPENDIX "B"
(SEE ATTACHED)

**In the Matter of the CCAA Proceedings of Target Canada Co. (“TCC”) and the Other Applicants and Partnerships Identified in the Initial Order (collectively, the “Target Canada Entities”)
Notes to the Target Canada Entities’ Unaudited 10-Week Cash Flow Forecast**

Disclaimer:

In preparing this cash flow forecast (the “Forecast”), TCC has relied upon unaudited financial information and TCC has not attempted to further verify the accuracy or completeness of such information. The Forecast includes estimates concerning the orderly wind-down of the Target Canada Entities’ businesses and additional assumptions discussed below with respect to the requirements and impact of a filing under the *Companies’ Creditors Arrangement Act* (“CCAA”). Since the Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Forecast period will vary from the Forecast, even if the assumptions materialize, and such variations may be material. There is no representation, warranty of other assurance that any of the estimates, forecasts or projections will be realized.

Overview:

The Forecast reflects opening cash from the orderly wind-down of the Target Canada Entities’ operations. TCC, with the assistance of the Monitor, has prepared the Forecast based primarily on TCC’s go-forward expectations. The Forecast does not include Target Canada Property LLC (“TCC Propco”), as no material cash flow activity is anticipated for that entity during the Forecast Period. TCC Propco’s cash balance as at April 3, 2016 was approximately \$77.0 million. The Forecast is presented in thousands of Canadian dollars.

Assumptions:

1. Beginning Balance

This is the actual opening cash balance as at April 3, 2016.

2. Operating Receipts

Forecast receipts include interest on funds on deposit.

3. Employee Payments

These disbursements include payroll, payroll taxes and employee benefits costs and are forecast based on projected requirements.

4. Professional Fees

These disbursements include payments to TCC’s legal counsel, the Monitor and its counsel, counsel to the Directors, members of the Consultative Committee of Creditors, and other consultants and advisors as required.

5. All Other

These disbursements include post-filing amounts anticipated to arise during claims reconciliations through the claims process and projected noticing/publishing expenses.

6. Intercompany

These disbursements represent projected payments related to Shared Services provided by Target Corporation.

	Wk-64 02-Apr	Wk-65 09-Apr	Wk-66 16-Apr	Wk-67 23-Apr	Wk-68 30-Apr	Wk-69 07-May	Wk-70 14-May	Wk-71 21-May	Wk-72 28-May	Wk-73 04-Jun	Wk-74 11-Jun	Forecast Total
RECEIPTS												
Actual												
Sales Receipts	\$ -	30	30	30	30	210	30	30	30	210	30	\$ -
Other Receipts	255	30	30	30	30	210	30	30	30	210	30	660
TOTAL RECEIPTS	255	30	30	30	30	210	30	30	30	210	30	660
DISBURSEMENTS												
Employee Payments	-	15	-	15	-	15	-	15	-	15	-	75
Rent & Occupancy	-	-	-	-	-	-	-	-	-	-	-	-
DC / Logistics	-	-	-	-	-	-	-	-	-	-	-	-
Normal Course Taxes	-	-	-	-	-	-	-	-	-	-	-	-
Professional Fees	1,289	650	650	650	950	125	750	50	950	50	950	4,250
All Other	12	50	50	50	200	125	125	50	50	50	50	800
Current Operating Disbursements	1,301	65	700	65	1,149	140	875	65	1,000	65	1,000	5,125
CASH FLOW	(1,046)	(35)	(670)	(35)	(1,119)	70	(845)	(35)	(970)	145	(970)	(4,465)
INTERCOMPANY DISBURSEMENTS												
Intercompany Services	-	-	270	-	190	-	-	-	150	-	-	610
DIP Interest	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Disbursements	-	-	270	-	190	-	-	-	150	-	-	610
NET CASH FLOW	(1,046)	(35)	(940)	(35)	(1,309)	70	(845)	(35)	(1,120)	145	(970)	(5,075)
WEEKLY LIQUIDITY												
Beginning Bank Cash Balance	\$ 799,265	\$ 798,197	\$ 798,162	\$ 797,222	\$ 797,187	\$ 795,877	\$ 795,947	\$ 795,102	\$ 795,067	\$ 793,947	\$ 794,092	\$ 798,197
Weekly Cash Flow	(1,046)	(35)	(940)	(35)	(1,309)	70	(845)	(35)	(1,120)	145	(970)	(5,075)
DIP Funding	-	-	-	-	-	-	-	-	-	-	-	-
Total	798,220	798,162	797,222	797,187	795,877	795,947	795,102	795,067	793,947	794,092	793,122	793,122
FX Translation	(32)	-	-	-	-	-	-	-	-	-	-	-
Change in Float	10	-	-	-	-	-	-	-	-	-	-	-
Ending Bank Cash Balance	\$ 798,197	\$ 798,162	\$ 797,222	\$ 797,187	\$ 795,877	\$ 795,947	\$ 795,102	\$ 795,067	\$ 793,947	\$ 794,092	\$ 793,122	\$ 793,122

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF TARGET CANADA CO., TARGET CANADA HEALTH CO., TARGET CANADA MOBILE GP CO., TARGET CANADA PHARMACY (BC) CORP., TARGET CANADA PHARMACY (ONTARIO) CORP., TARGET CANADA PHARMACY CORP., TARGET CANADA PHARMACY (SK) CORP., AND TARGET CANADA PROPERTY LLC

Court File No.: CV-15-10832-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
Proceeding commenced at Toronto

TWENTY-SIXTH REPORT OF THE
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