

**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.**

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

**MARCH 24, 2015**

## TABLE OF CONTENTS

---

1.0	INTRODUCTION .....	4
2.0	TERMS OF REFERENCE AND DISCLAIMER .....	6
3.0	ASSET PURCHASE AGREEMENT .....	7
4.0	PROGRESS REGARDING THE ORDERLY WIND-DOWN.....	17
5.0	CASH FLOW RESULTS RELATIVE TO FORECAST .....	22
6.0	PHARMACY UPDATE .....	25
7.0	EMPLOYEE MATTERS AND EMPLOYEE TRUST .....	29
8.0	MONITOR’S ACTIVITIES TO DATE .....	34
9.0	MONITOR’S RECOMMENDATION .....	37

## **INDEX TO APPENDICES**

Appendix “A” – List of the Applicants and Partnerships

## 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 are described in the Second Report of the Monitor (the “**Second Report**”) dated February 9, 2015.
- 1.3 In connection with the CCAA Proceedings, the Monitor has previously provided to this Court six reports and one supplementary report (the “**Supplementary Report**”, and collectively, the “**Monitor’s Reports**”). A&M has also provided to this Court the Pre-Filing Report of the Proposed Monitor (the “**Pre-Filing Report**”) dated January 14, 2015 (together with the Monitor’s Reports, the “**Prior Reports**”). The Prior Reports, the Initial Order and other Court-filed documents and notices in these CCAA Proceedings are available on the Monitor’s website at [www.alvarezandmarsal.com/targetcanada](http://www.alvarezandmarsal.com/targetcanada).

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

1. information regarding the following:
  - (a) the Applicants’ motion for an order (the “**Approval and Vesting Order – Asset Purchase Agreement**”) substantially in the form attached to the Applicants’ Motion Record dated March 23, 2015:
    - (i) approving the Asset Purchase Agreement entered into as of March 23, 2015 between TCC, Target Corporation and Target Brands, Inc. (“**Target Brands**” and the agreement, the “**APA**”), a copy of which is attached as Exhibit “D” to the Affidavit of Mark J. Wong, General Counsel and Assistant Secretary of TCC, sworn March 23, 2015 (the “**Sixth Wong Affidavit**”); and
    - (ii) vesting in Target Corporation all of TCC’s right, title and interest in and to the Purchased Assets (as defined below) free and clear of all encumbrances;
  - (b) the progress made and status of key aspects of the Orderly Wind-down, including:
    - (i) the Inventory Liquidation Process;
    - (ii) retail store closures; and
    - (iii) the Real Property Portfolio Sales Process;
  - (c) the receipts and disbursements of the Target Canada Entities from January 15, 2015 through March 14, 2015;

- (d) pharmacy matters;
  - (e) employee matters, including the Employee Trust;
  - (f) the Monitor's activities since the date of the Third Report of the Monitor (February 27, 2015); and
2. the Monitor's conclusions and recommendations in connection with the foregoing.

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

2.1 In preparing this Seventh 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 Seventh Report in respect of the Target Canada Entities' cash flow forecast:

- (a) 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
- (b) some of the information referred to in this Seventh Report consists of 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.

- 2.2 Future oriented financial information referred to in this Seventh Report was prepared based on management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.
- 2.3 This Seventh Report should be read in conjunction with Sixth Wong Affidavit.
- 2.4 Capitalized terms not otherwise defined in this Seventh Report are as defined in the Prior Reports, the Initial Order and the Sixth Wong Affidavit, as applicable.
- 2.5 Unless otherwise stated, all monetary amounts contained in this Seventh Report are expressed in Canadian dollars.

### **3.0 ASSET PURCHASE AGREEMENT**

- 3.1 As detailed in this section, TCC and the Monitor have been assessing options for realizing on various assets using or displaying intellectual property (“**IP**”) that is proprietary to Target Brands (the “**Target IP Assets**”), which IP has been licensed for use by TCC. Subject to the approval of the Court and with the consent of the Monitor, TCC has entered into the APA with Target Corporation and Target Brands in respect of certain Target IP Assets (the “**Purchased Assets**”).
- At a high level, the APA:

- (a) achieves a purchase price of USD \$2,215,020 for the Purchased Assets, which are all subject to the IP rights of Target Brands – an amount well in excess of independent third party valuations and/or offers obtained in respect of these assets;

- (b) results in additional savings estimated at approximately \$1.9 million to the Target Canada Entities' estate by shifting the costs for the removal and destruction of the Purchased Assets to Target Corporation; and
- (c) provides the Target Canada Entities with the flexibility to continue using the Purchased Assets, as required, to facilitate the Inventory Liquidation Process, and continue to advance the Orderly Wind-down.

## Background

### *Nature of the Target IP Assets*

- 3.2 As set out in paragraph 12 of the Sixth Wong Affidavit, the Purchased Assets include shopping carts, shopping baskets, merchandise bags, exterior signage, and in-store navigational signage, among other things, all in large quantities, given that they have been used in operations across TCC's 133 stores. For example, the APA will convey approximately 28,000 shopping carts and approximately 912,000 merchandise bags to Target Corporation. The shopping carts represent the most significant item by far, with an allocated purchase price of approximately 82% of the total.
- 3.3 The Purchased Assets contain, in all cases, IP owned by Target Brands that has been licensed to TCC for use in its Canadian retail operations. As outlined in the Affidavit of Mark J. Wong sworn January 14, 2015 (the "**First Wong Affidavit**"), all IP relating to the Target brand is owned by Target Brands and is the subject of a Master Agreement (the "**Master Agreement**") which grants TCC the exclusive right to commercially exploit Target Brands' IP in connection with TCC's retail operations in Canada. As described in the First Wong Affidavit and the Pre-filing Report of the Monitor, the Master Agreement will terminate effective April 14, 2015, and an Intellectual Property License Agreement (the "**IP License Agreement**") will become effective



on such date, which grants TCC the exclusive right to use certain Target Brands' IP in connection with the Orderly Wind-down.

- 3.4 Target Brands' IP rights impose a significant limitation on the realizable value of the Purchased Assets in the context of a third party sale by impacting TCC's ability to sell the vast majority of these assets to such a purchaser. In general, absent consent from Target Brands, selling the Purchased Assets would necessarily involve defacing each item so as to remove all Target Brands' IP (where possible), or any such sale could be subject to litigation by Target Brands to enforce their IP rights and/or further action by Target Corporation to protect their corporate interests.

The Target IP Assets are Not Included in the Inventory Liquidation Process

- 3.5 As described in the Sixth Wong Affidavit, the Target IP Assets are not directly included in the Inventory Liquidation Process approved by the Approval Order – Agency Agreement issued by the Court on February 4, 2015, being, in all cases, “Excluded FF&E”, as defined in the Agency Agreement. The Agency Agreement does allow TCC to designate items, at its sole discretion, that would otherwise be Excluded FF&E as “Designated Company Consignment Goods”, which may be sold in the Inventory Liquidation Process. Where the removal of Target branding was not difficult, TCC did designate those assets as Designated Company Consignment Goods with the consent of Target Brands. For example, TCC's inventory of electric scooters and shopping cart corrals were identified as Designated Company Consignment Goods, and those items are being offered for sale in the Inventory Liquidation Process.

- 3.6 However, it is not possible to remove the Target branding from most of the Target IP Assets without destroying or substantially decreasing their value. In addition, as set out in the Sixth Wong Affidavit, TCC understood that Target Brands would not agree to allow certain Target-branded items, including shopping carts and shopping baskets, to be sold in the Inventory

Liquidation Process. Therefore, a number of Target IP Assets were not designated for sale in the Inventory Liquidation Process and the Target Canada Entities sought to maximize value for all stakeholders with respect to such assets, after assessing and bearing in mind the limitations and litigation risk arising as a result of the Master Agreement and IP License Agreement.

### Process Overview

- 3.7 As set out in the Sixth Wong Affidavit, Target Corporation submitted an offer to purchase certain of the Target IP Assets including shopping carts, shopping baskets, shopping bags and exterior signage, among other things, in January, 2015 (the “**Initial Offer**”). TCC and the Monitor undertook a process to evaluate whether the sale of certain Target IP Assets to Target Corporation reflected in the Initial Offer (and, ultimately, the APA) was fair and reasonable in the circumstances by: (i) determining the extent to which the potential IP-related restrictions could limit the sale of the Target IP Assets to third parties, where Target Brands was not prepared to acquiesce to a transfer of specific items; and (ii) determining how the potential value to a third party purchaser of such assets, independent of potential IP-related restrictions (save and except the practical requirement and cost of brand defacing, where practicable) compared to the consideration offered by Target Corporation.
- 3.8 In considering the process for optimizing the value of the Target IP Assets, the Monitor was mindful of the factors set out in sections 36(3) and (4) of the CCAA. However, as indicated in the Sixth Wong Affidavit, Target Corporation and Target Brands view all of the Target-branded items as being proprietary to Target Brands and would likely contest any sale of certain Target-branded items to a third party. The Monitor therefore also considered the Master Agreement and the IP License Agreement and their impact on TCC’s ability to sell the Target IP Assets to a third party buyer.

- 3.9 Based on the advice of its counsel, Goodmans LLP, the Monitor understands that, while the result of litigation thereon is not entirely free from doubt, given the Master Agreement and IP License Agreement Target Brands has a strong argument that TCC has no authority to sell the branded-goods without the permission of Target Brands.
- 3.10 Therefore, it is apparent that the value of certain of the Target IP Assets is affected by Target Brands' IP rights, since a potential third party purchaser would discount the purchase price to mitigate the risk of enforcement by Target Brands and/or the costs of defacing.

#### Valuation Efforts

- 3.11 TCC and the Monitor undertook a number of initiatives in order to ascertain the objective value of the Target IP Assets subject to the Initial Offer (and ultimately the APA), both individually and in the aggregate.
- 3.12 As outlined in the Sixth Wong Affidavit, during the course of soliciting a liquidation agent, in late January 2015 the Target Canada Entities and the Monitor sought bids for certain of the Target IP Assets that were included in the Initial Offer from each of the liquidation firms participating in the auction. Hilco Global ("**Hilco**") was the only participant prepared to submit a bid, which bid was with respect to only some of the Target IP Assets set out in the Initial Offer, including shopping carts, shopping baskets, videogame browser shelves, and a branded sculpture.
- 3.13 In February 2015, the Monitor requested valuation estimates from Hilco in respect of additional Target IP Assets that were included in the Initial Offer but not in Hilco's bid in order to assess the potential market value if such assets were sold to a third party purchaser, and to enable a fulsome, independent comparison of value with the Initial Offer. The schedule summarizing Hilco's bid and additional estimates provided at that time in respect of the Purchased Assets is attached as Exhibit A to the Sixth Wong Affidavit.

- 3.14 In February, 2015, TCC and the Monitor also solicited and received an appraisal of the Target IP Assets that were included in the Initial Offer from Maynards Appraisals Ltd. (“**Maynards**”). Maynards is a leading auctioneer, liquidation, and appraisal firm that is a certified appraiser company with experience in the conversion of commercial inventories and industrial equipment in the retail industry. The appraisal prepared by Maynards was subsequently updated to reflect the following: (i) a reduction in TCC’s estimate of the quantity of shopping carts, shopping baskets and merchandise bags; (ii) a 25% discount to the value of the shopping carts because, in Maynard’s view, a third party would reflect the cost of removal of the Target branding in the purchase price; and (iii) the deletion of items subsequently removed from the APA by Target Corporation (e.g. videogame browser shelves, checklane lights and artwork). A copy of the updated Maynards appraisal (the “**Maynards Report**”) is attached as Exhibit B to the Sixth Wong Affidavit.
- 3.15 The Maynards Report is not a bid to purchase the Target IP Assets, but, by its own terms, is intended to establish values for the Target IP Assets for bid comparisons in respect of any sale opportunity. The forced liquidation value estimate provided in the Maynards Report in respect of the Purchased Assets, subject to the assumptions and conditions set out therein, does not provide for any discount a potential third party purchaser may apply in respect of mitigating IP enforcement risk, save and except for the estimated defacing costs associated with the shopping carts. The appraisal amount provided in the Maynards Report also does not factor in brokerage fees, other fees for assembling, cleaning, advertising, or other disposal costs, which would further erode realizations on a sale to a potential third party purchaser.
- 3.16 To establish a further objective valuation for the Target IP Assets, in March 2015, the Monitor went back to GA Retail Canada, ULC (“**Great American**”) and requested an offer for the assets proposed to be conveyed in the APA at that point (i.e. including all Purchased Assets with the exception of the Bullseye Boutique Goods, as defined below). Great American responded that it

would not submit an offer to purchase such Target IP Assets, but would prepare a liquidation value estimate as if TCC were to market such Target IP Assets in the Inventory Liquidation Process as Designated Company Consignment Goods. The letter containing Great American's estimates is attached as Exhibit C to the Sixth Wong Affidavit. It is important to note that, according to the Designated Company Consignment provisions of the Agency Agreement, any such sales conducted through the Inventory Liquidation Process would be subject to a 20% commission in favour of the Agent.

3.17 The table set out at paragraph 25 of the Sixth Wong Affidavit comparing the purchase price of the APA to the estimated liquidation values received in respect of the Purchased Assets (excluding the Bullseye Boutique Goods) is replicated here for ease of reference:

	<b>Target Corporation</b>	<b>Hilco</b>	<b>Maynards</b>	<b>Great American</b>
Bid/Estimate	\$2,676,900 <sup>1</sup>	\$727,300	\$1,844,439 <sup>2</sup>	\$1,338,800 <sup>3</sup>

3.18 As reflected in the above chart, the purchase price offered by Target Corporation well exceeds the estimated liquidation valuations obtained.

#### The APA

3.19 As a result of various discussions that took place in February and March, 2015, in which the Monitor participated with Target Corporation and TCC, and to reflect updated estimates in the

---

<sup>1</sup> The APA purchase price of USD \$2,215,020 has been translated into the Canadian dollar equivalent of \$2,768,775 utilizing an exchange rate of \$1.25 CDN = \$1.00 USD, less (for comparative purposes) the Canadian equivalent of USD \$73,500 (i.e., \$91,875) being the purchase price allocation for the Bullseye Boutique Goods, which were not included in the Hilco bid, Maynards appraisal, or Great American estimate of liquidation value.

<sup>2</sup> The Maynards Report states that it has not been discounted for brokerage costs. If the Purchased Assets were sold in the Inventory Liquidation Process, the net appraisal value expressed in the Maynards Report would be approximately \$1,475,551, when factoring in the Agent's 20% commission entitlement under the terms of the Sales Guidelines.

<sup>3</sup> Great American's estimate indicates that a 20% commission would apply to the sale of the Purchased Assets. Accordingly, the net estimate from Great American is approximately \$1,071,040.

quantity of certain of these assets, the terms of the Initial Offer were ultimately amended to form the APA.

3.20 Pursuant to the terms of the APA, Target Corporation agrees to pay TCC USD \$2,215,020 in cash for the Purchased Assets. This amount is well in excess of the appraisal amount provided by Maynards, and is also substantially higher than the bid and appraisal in respect of certain of the Purchased Assets from Hilco and the estimated value of the sale of the Purchased Assets in the Inventory Liquidation Process provided by Great American. The APA also includes certain items, which are branded promotional merchandise such as stuffed animals, apparel, and other goods that are offered for sale or promotional distribution to TCC's employees, but not to the public (collectively, the "**Bullseye Boutique Goods**"). These items were added to the Initial Offer at a later date and are not subject to an independent valuation estimate. Schedule "A" of the APA includes a detailed list of all of the specific items and quantities of Bullseye Boutique Goods sold to Target Corporation as part of the APA. Schedule "A" contains a reference to promotional merchandise held at a vendor site, however the Monitor understands that all of the items on the Schedule "A" list are held at TCC's headquarters. The parties to the APA have allocated a portion of the *en bloc* purchase price in the amount of USD \$73,500 to the Bullseye Boutique Goods, which represents a premium to the cost of these items. The Monitor is of the view that a purchase price at a premium to cost is a good result for the estate, particularly given the costs of distribution and 20% commission that would be incurred if these items were included in the Inventory Liquidation Process.

3.21 In addition to the above-market value of the purchase price, the Monitor is of the view that the APA provides significant additional benefits to the Target Canada Entities and their stakeholders. First, as outlined above, the APA will allow the Target Canada Entities to realize value on a group of assets which, for the vast majority, are arguably otherwise unsaleable given Target Brands' IP rights in the Target IP Assets.

3.22 Second, the APA shifts significant costs to Target Corporation that would otherwise have to be borne by the Target Canada Entities, resulting in preservation of estate funds. For example, one class of Target IP Assets included in the Purchased Assets, the external signage, cannot be repurposed and in any event has no value based on the third party bids/estimates of value that have been received. The Target Canada Entities have determined that the cost of removing and destroying the external signage is approximately \$1.7 million (i.e. approximately \$12,800 per Store). In total, the APA will shift approximately \$1.9 million of such removal and disposal costs to Target Corporation, resulting in significant savings to the Target Canada Entities' estate. The following chart, which is replicated from paragraph 28 of the Sixth Wong Affidavit, factors in the additional value of these cost savings when comparing Target Corporation's offer for the Purchased Assets to the valuations and/or offers received from third parties.

	<b>Target Corporation</b>	<b>Hilco</b>	<b>Maynards</b>	<b>Great American</b>
Bid/Estimate	\$4,557,525 <sup>4</sup>	\$727,300	\$1,844,439 <sup>2</sup>	\$1,338,800 <sup>3</sup>

3.23 Third, the terms of the APA provide that TCC and Target Corporation, in consultation with the Monitor, will determine the necessary arrangements for the transfer or destruction of the Purchased Assets (as applicable). Since certain of the Target IP Assets are still being used during the Inventory Liquidation Process, this flexibility will afford the Target Canada Entities the benefit of utilizing the assets as required until they are no longer necessary or desirable to further the objectives of the Orderly Wind-down.

---

<sup>4</sup> \$2,676,900 plus \$1,880,625 in payment of third party out-of-pocket expenses. In addition to these amounts, Target Corporation has agreed in the Asset Purchase Agreement to purchase the Bullseye Boutique Goods, as noted above.

The Monitor Approves the Process that Resulted in the Asset Purchase Agreement

- 3.24 In assessing the APA, the Monitor took into consideration the factors set out in sections 36(3) and (4) of the CCAA. For the reasons set out herein, and in particular given the unique nature of the Purchased Assets, the Monitor is of the view that the process that culminated in the APA is reasonable in the circumstances; not only is a sale to Target Corporation the most practical, if not the only, means of realizing value on the Purchased Assets, but the consideration offered by Target Corporation is well in excess of the appraisal valuations/offers obtained.
- 3.25 The Monitor worked with TCC and Target Corporation to negotiate the APA and approves of the negotiation process, which included obtaining objective third party expert asset valuations or offers for comparison purposes. Where Target Corporation was not prepared to match market appraisal for a specific asset class that was included in the Initial Offer (for example, in the case of the videogame browser shelves where Maynards' appraised value exceeded the allocated purchase price indicated by Target Corporation), that item was excluded from the APA, and Target Brands has agreed that the Agent can sell these items in the Inventory Liquidation Process.<sup>5</sup>
- 3.26 The Monitor is of the opinion that the APA benefits the creditors of the Target Canada Entities. As stated herein, a sale to Target Corporation is the most practical means of realizing value for the Target IP Assets subject to the APA, and failing such a sale, the Target Canada Entities would likely have to incur the costs of removal and destruction of the vast majority of such assets.
- 3.27 With respect to the factors set out in section 36(4) of the CCAA regarding a proposed sale to a related company, the Monitor is of the view that given the nature of the assets, a third party sale of the vast majority of the Purchased Assets is arguably precluded by Target Brands' IP rights in

---

<sup>5</sup> As indicated in the Sixth Wong Affidavit, any sales of Target IP Assets outside of the APA, including the potential sale of the videogame browser shelves, will entail conditions to protect Target Brands' IP rights.



the Target IP Assets, where Target Brands may not be prepared to acquiesce to such transaction. However, even if that were not the case, the consideration offered by Target Corporation significantly exceeds the Hilco bid, the liquidation value in the Maynards Report and Great American's estimate of liquidation value.

3.28 In summary, given the IP-related issues associated with the assets included in the Initial Offer from Target Corporation, it was clear to the Target Canada Entities and the Monitor that the Initial Offer merited consideration. Therefore, in order to determine whether the Initial Offer (and subsequent amendments thereto) was at a fair and reasonable value, TCC and/or the Monitor solicited the Hilco bid, the Maynards appraisal and Great American's estimate of liquidation value. In all cases, the aggregate value of the Purchased Assets included in the APA significantly exceeds the other value reference points. In addition, the APA provides for a shifting of significant asset removal and destruction costs from the estate to Target Corporation. The Monitor does not believe that a realization of the Purchased Assets under a bankruptcy would be more beneficial to the creditors of the Target Canada Entities. For these reasons, the Monitor supports the requested approval of the APA.

#### **4.0 PROGRESS REGARDING THE ORDERLY WIND-DOWN**

##### Inventory Liquidation Process

4.1 On February 4, 2015, this Court issued an order (the "**Approval Order – Agency Agreement**") approving: (i) the Agency Agreement, including the Sales Guidelines, entered into between TCC, Target Canada Pharmacy Corp. and Target Canada Pharmacy (Ontario) Corp. (collectively, "**Target Canada**"), and a contractual joint venture comprised of Merchant Retail Solutions ULC, Gordon Brothers Canada ULC and GA Retail Canada, ULC (collectively, the "**Agent**") on January 29, 2015 (the "**Agency Agreement**"), and certain related relief; and (ii) the granting of

the Agent's Charge and Security Interest (as defined in the Approval Order – Agency Agreement).

- 4.2 The Approval Order – Agency Agreement, authorized the Agent to conduct the Sale of inventory and furniture, fixtures and equipment (“**FF&E**”) in accordance with the Order, the Agency Agreement and the Sales Guidelines. The Inventory Liquidation Process commenced in the retail stores (“**Stores**”) on February 5, 2015.
- 4.3 The Approval Order – Agency Agreement approved the Agency Agreement with such minor amendments as Target Canada (with the consent of the Monitor) and the Agent may agree in writing. In early March 2015, the Agent, TCC and the Monitor commenced discussions regarding the possible sale and disposal of FF&E located at certain additional locations, being TCC's ten regional office suites and other ancillary locations (the “**Additional Locations**”), that were not included in the Agency Agreement. As discussions involving FF&E at the Additional Locations progressed, it was concluded that certain inventory that was not specifically included in the Agency Agreement, such as returned and salvaged merchandise, specialty Store fixtures, and promotional merchandise and fixtures held at a third party warehouse (collectively, the “**Additional Goods**”), should also be addressed. Target Canada and the Agent, with input from the Monitor, have completed an Amendment Agreement in order to incorporate the FF&E at the Additional Locations and the Additional Goods into the Inventory Liquidation Process. Further, the Amendment Agreement extends the time period for the sale and removal of FF&E at the corporate headquarters and at an unopened Store. The Monitor provided its consent to the Amendment Agreement as it will further facilitate the sale and removal of FF&E and inventory, and the objectives of maximizing proceeds to the estate and ultimately vacating all locations with no realizable assets being abandoned (as required under the Sales Guidelines).
- 4.4 Pursuant to the Agency Agreement, TCC was required to use commercially reasonable efforts to ensure that: (i) all inventory held at TCC's three distribution centres (the “**DCs**”) as at January 25,

2015 was to be delivered to the Stores not later than 21 days from the Sale Commencement Date (as defined in the Agency Agreement, being the day after the date the Approval Order – Agency Agreement was granted) of February 5, 2015; and (ii) all goods-in-transit and inventory held at the DCs as at the Sale Commencement Date were to be delivered to the Stores not later than 42 days from the Sale Commencement Date. With these dates in mind, TCC and the Monitor have worked extensively with vendors, freight forwarders and consolidators, ocean freight carriers and other transportation companies, and TCC's customs broker, to ensure that goods continued to move throughout TCC's supply chain in order to minimize disruptions and meet the timing requirements of the Agency Agreement. TCC and the Monitor also worked extensively with the Agent in order to coordinate the movement and redirection of inventory from Eastern Canada to Central and Western Canada, as well as Store-to-Store transfers within regions, in order to accelerate the Inventory Liquidation Process and Store closures and minimize costs to the estate.

4.5 The 42-day time period from the Sale Commencement Date ended on March 18, 2015. As at that date, all goods-in-transit and inventory held at TCC's DCs as at the Sale Commencement Date had been delivered to the Stores (except for a very small amount of inventory that is to be sold at port which was delayed, in part, as a result of a fire in the Vancouver harbour, and certain return/salvage goods located at the Milton DC which are now included in the Amendment Agreement), such that operation of the DCs has been discontinued with no further inventory to be received or shipped at/from the DCs. Throughout the Inventory Liquidation Process, TCC and the Monitor worked with Eleven Points Logistics Inc. ("**Eleven Points**"), the third party logistics services provider that operates TCC's DCs, in order to assist Eleven Points in managing its staffing levels and inventory handling capabilities with the amount of activity associated with the anticipated receipts of goods into the DCs and shipments of goods to the Stores.

- 4.6 As at March 14, 2015, approximately 55% of all of TCC's inventory (comprised of goods-in-transit, and DC and Stores inventory) as at the commencement of the CCAA Proceedings had been sold.
- 4.7 Cash receipts from the Inventory Liquidation Process from February 5 to March 14, 2015 were approximately \$369.8 million (total receipts from inventory and FF&E sales since the commencement of the CCAA Proceedings to March 14, 2015 were approximately \$511.7 million).

#### Store Closures/Anticipated Closures

- 4.8 Pursuant to the Agency Agreement:
- (a) the Agent is entitled to surrender vacant possession of any Location by providing TCC ten days' written notice of its intention to surrender possession of a Location by 12:00 p.m. (EST) on the 10th day (a "**Vacate Notice**") prior to such vacating (a "**Vacate Date**"). As at March 23, 2015, the Agent had delivered 78 Vacate Notices, with three Stores having closed on March 18, 2015, 13 Stores having closed on March 22, 2015, one Store scheduled to close on March 27, 2015, six Stores scheduled to close on March 30, 2015, 23 Stores scheduled to close on April 1, 2015 and 32 Stores scheduled to close on April 2, 2015;<sup>6</sup> and
  - (b) no later than 14 days after the Vacate Date for each Store (the "**FF&E Removal Deadline**"), the Agent is to remove all FF&E (other than Excluded FF&E) from the Store. The FF&E Removal deadline has not yet expired for any of the Stores where a Vacate Notice has been delivered. TCC and the Monitor, and their respective legal counsel, having been working with the landlords for the

---

<sup>6</sup> As at the date of this Seventh Report, the Target Canada Entities have not delivered any notice of disclaimer or resiliation pursuant to section 32 of the CCAA with respect to any premises lease.

Locations that have closed/are scheduled to close in order to attempt to consensually resolve any issues related to the sale and removal of FF&E from each Store.

- 4.9 It is anticipated that the pace of delivery of Vacate Notices by the Agent will continue to increase over the next two weeks, such that all Stores are expected to be closed to the public as early as mid-April, 2015, which represents a significant achievement relative to the outside Sale Termination Date for the Stores of May 15, 2015 provided for in the Agency Agreement.

#### Real Property Portfolio Sales Process

- 4.10 As described in the Sixth Report of the Monitor (the “**Sixth Report**”) dated March 17, 2015:
- (a) since the commencement of the Real Property Portfolio Sales Process, the Monitor has supervised the process in accordance with its terms. From the date of the Court’s February 4, 2015 Endorsement through close of business on March 5, 2015 (the “**Phase 1 Bid Deadline**”), Lazard had been in contact with approximately 360 prospective interested parties and had distributed 275 teasers, and TCC had entered into 67 CAs with potential buyers. Those parties that executed a CA were provided with access to the data room established for the Real Property Portfolio Sales Process, which includes the CIM;
  - (b) the eleven locations included in the Lease Transaction Agreement (discussed below) that closed on March 6, 2015 have been withdrawn from the Real Property Portfolio Sales Process, which has reduced the number of leasehold Stores remaining in the process to 126 (plus three owned Stores, three owned DCs, the leased headquarters, ten leased regional office suites and six leasehold/contracted warehouse facilities);

- (c) pursuant to the terms of the Real Property Portfolio Sales Process, Interested Bidders were required to deliver an LOI to Lazard not later than the Phase 1 Bid Deadline of March 5, 2015;
- (d) a significant amount of interest was received across the real property portfolio, with 51 LOIs submitted by the Phase 1 Bid Deadline, with the majority of bids including multiple locations; and
- (e) at that time, the Applicants, in consultation with Lazard and the Monitor, were in the process of assessing which Qualified LOI bidders would be invited by the Applicants to participate in Phase 2 of the Real Property Portfolio Sales Process.

4.11 The Real Property Portfolio Sales Process requires that parties wishing to submit Qualified Bids must submit such bids by 5:00 p.m. (Toronto time) on April 23, 2015 (the “**Qualified Bid Deadline**”). On March 20, 2015, Lazard wrote to parties that had submitted Qualified LOIs to invite them to submit a Qualified Bid (with the requirements for a bid to be considered a Qualified Bid set out in Lazard’s letter) by the Qualified Bid Deadline, and advising them of an extended Stalking Horse Bid Deadline of April 6, 2015 (which extension was made by the Applicants on the consent of the Monitor and in consultation with Lazard and the DIP Lender in accordance with the Real Property Portfolio Sales Process).

4.12 In the Monitor’s view, the Real Property Portfolio Sales Process continues to be conducted in a fair and reasonable manner, and in accordance with its terms.

## **5.0 CASH FLOW RESULTS RELATIVE TO FORECAST**

5.1 Receipts and disbursements for the period January 15, 2015 to March 14, 2015 (the “**Reporting Period**”), as compared to the updated and extended cash flow forecast that was attached as

Appendix “B” to the Supplementary Report (the “Cash Flow Forecast”), are summarized in the table below.

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

<i>Period Ended</i>	<b>Cumulative</b>		
	<b>Budget 14-Mar</b>	<b>Actual 14-Mar</b>	<b>Variance B / (W)</b>
<b>OPERATING RECEIPTS</b>			
Sales Receipts	\$ 465,449	\$ 511,699	\$ 46,249
RPPSP Receipts	-	129,167	129,167
Other Receipts	941	2,441	1,499
<b>TOTAL RECEIPTS</b>	<b>466,390</b>	<b>643,306</b>	<b>176,916</b>
<b>OPERATING DISBURSEMENTS</b>			
Employee Payments	80,482	75,308	5,173
Rent & Occupancy	32,263	29,646	2,617
DC / Logistics	32,410	35,092	(2,682)
Normal Course Taxes	60,402	29,479	30,923
Professional Fees	15,820	12,185	3,636
All Other	40,234	25,003	15,231
Current Operating Disbursements	261,611	206,714	54,897
<b>OPERATING CASH FLOW</b>	<b>204,780</b>	<b>436,592</b>	<b>231,812</b>
<b>INTERCOMPANY DISBURSEMENTS</b>			
Intercompany Services	12,592	201	12,391
DIP Interest	60	76	(15)
Intercompany Disbursements	12,653	277	12,376
<b>NET CASH FLOW</b>	<b>\$ 192,127</b>	<b>\$ 436,315</b>	<b>\$ 244,188</b>
<b>WEEKLY LIQUIDITY</b>			
Beginning Bank Cash Balance [1] [2]	\$ 3,169	\$ 3,169	\$ -
( +/- ) Net Cash Flow	192,127	436,315	244,188
( +/- ) Change in Cheque Float	750	1,839	1,089
( +/- ) DIP Draws/(Repayments)	-	-	-
( +/- ) FX Translation	(1,183)	(1,140)	42
Ending Bank Cash Balance [1]	194,864	440,183	245,319
<b>DIP Balance - USD</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

[1] Actuals assume \$1.25 CAD/USD

[2] Beginning Cash Balance was actualized in the updated and extended cash flow forecast that was attached as "Appendix B" to the Supplementary Report

5.2 During the Reporting Period, the Target Canada Entities' total receipts were approximately \$176.9 million greater than projected in the Cash Flow Forecast. The primary components of this variance were:

- (a) approximately \$46.3 million of the variance related to the ongoing Inventory Liquidation Process, which management attributes to more accelerated sales at the Stores than anticipated; and
- (b) approximately \$129.2 million of the variance is represented by the net proceeds received by TCC following the closing (on March 6, 2015) of the Lease Transaction Agreement as described in the Third and Sixth Reports of the Monitor (the "**Lease Transaction Agreement**"); the net proceeds from this transaction were not included in the Cash Flow Forecast as the contemplated transaction was not sufficiently advanced at the time the forecast was prepared. Following various adjustments to the purchase price of \$138.0 million for municipal taxes, utilities, construction liens and other items, as agreed amongst the parties to the Lease Transaction Agreement, TCC received net proceeds from the transaction of approximately \$134.9 million, of which the Monitor, as escrow agent, retained approximately \$5.7 million for Pre-Paid Leaseback Rent (therefore, the net proceeds received by TCC and included in the chart above were approximately \$129.2 million). The Monitor is to hold the Pre-Paid Leaseback Rent to pay the Landlord Entities, on a semi-monthly basis, for gross rents during the Leaseback Period (ending on June 30, 2015, unless advanced by TCC on written notice) to the extent that TCC has not vacated an applicable location. Any part of the Pre-Paid Leaseback Rent that is not ultimately paid to the Landlord Entities under a Leaseback will be refunded by the Monitor to TCC.



- 5.3 The Target Canada Entities' total disbursements during the Reporting Period were approximately \$67.3 million less than projected in the Cash Flow Forecast. Management attributes this variance primarily to timing differences in disbursement items such as employee benefits, owned real property taxes, freight charges, utilities, professional fees and shared services, much of which is due to delayed receipt of invoices. It is anticipated that much of this variance will reverse as delayed disbursements are caught up.
- 5.4 Overall, during the Reporting Period, the Target Canada Entities experienced a positive net cash flow variance of approximately \$244.2 million relative to the Cash Flow Forecast. However, it is anticipated that portions of this variance will decline as the Orderly Wind-down progresses and delayed disbursements are ultimately made.
- 5.5 The closing cash balance as at March 14, 2015 was approximately \$440.2 million, as compared to the projected cash balance of \$194.9 million. The variance was due almost entirely to the net positive variance in receipts and disbursements described above.
- 5.6 The Initial Order entitles the Target Canada Entities to continue to utilize their existing Cash Management System, as described in the Pre-Filing report. The Cash Management System of the Target Canada Entities continues to operate in the same manner as it had prior to the commencement of the CCAA Proceedings.

## **6.0 PHARMACY UPDATE**

- 6.1 As described in the First and Second Reports of the Monitor, Target branded pharmacy businesses were operated in most of TCC's stores, primarily through franchise arrangements (93 in-store pharmacies outside of Quebec, 14 sub-licensed, co-branded pharmacies in Quebec and three corporate-owned pharmacies).

- 6.2 On January 26, 2015, as provided for, and in accordance with, subsection 32(1) of the CCAA, the Target Canada Entities provided notice in the prescribed form and with the approval of the Monitor to all 93 pharmacy franchisees (plus one pharmacy franchisee in respect of an unopened store) of the Target Canada Entities' intention to disclaim or resiliate their franchise agreements and all other ancillary agreements (the "**Disclaimer Notices**").
- 6.3 On February 3, 2015, counsel for the Pharmacy Franchise Association of Canada ("**PFAC**") delivered a motion record returnable on February 11, 2015, wherein PFAC sought an order to set aside the Disclaimer Notices and for certain other relief.
- 6.4 As described in the Second Report, in order to attempt to address certain of the concerns of those Franchisees that sought additional time beyond the 30-day period provided for in the Disclaimer Notices, the Monitor encouraged and supported development of the following plan implemented by the Target Canada Entities (the "**Accommodation**"):
- (a) To provide additional time to assist the pharmacists in the transfer or relocation of patient files and drug inventory and in the relocation of their respective pharmacy businesses, TCC will permit and facilitate the pharmacists to continue to operate, in compliance with their professional obligations and applicable law, at their respective existing Target locations, subject to any applicable landlord rights, while the pharmacists wind down their respective operations, until the earlier of: (i) March 30, 2015; and (ii) three (3) days following written notice by TCC to the pharmacist of anticipated store closure at such pharmacist's location (such earlier date being the "**Accommodation Date**"). TCC, in consultation with the liquidation agent under the Agency Agreement approved by the Approval Order – Agency Agreement, will use commercially reasonable efforts to provide each pharmacist with as much advance notice of their anticipated store closure date as possible.

- (b) The Notices of Disclaimer of the franchise agreements and all ancillary agreements delivered on January 26, 2015 shall remain in full force and effect and the disclaimer of such agreements will take effect on February 25, 2015 in accordance therewith and with the CCAA, and, for greater certainty, without any further payment obligations on any party thereunder relating to the period after February 25, 2015.
- (c) As per the Closing Checklist provided to the Franchisees, once the pharmacist has made arrangements to close and/or relocate its pharmacy operations, the pharmacist shall notify TCC at targetcanadarx@target.com immediately and advise of the pharmacist's last day at the Target Pharmacy ("**Franchisee Closing Date**"), which in any event shall be on or before the Accommodation Date.

6.5 On February 18, 2015, this Court issued an endorsement (the "**Pharmacy Endorsement**"), which, among other things: (i) considered the Accommodation to be a constructive, practical and equitable approach; (ii) dismissed PFAC's request to set aside the Disclaimer Notices; and (iii) appointed PFAC as the Representative of the Pharmacists.

6.6 Since the date of the Pharmacy Endorsement, the Target Canada Entities, with the assistance of the Monitor, have completed the following with respect to the Franchisees:

- (a) on February 19, 2015, notified the Franchisees by e-mail of the Accommodation and Accommodation Date;
- (b) on February 27, 2015, paid the Net Franchise Payment to those Franchisees that were owed such payment, for the period January 16, 2015 to January 31, 2015 (an aggregate amount of approximately \$510,000);

- (c) on March 4, 2015, disclaimed the lease agreement between TCC and Kroll Computer Systems Inc. (“**Kroll**”, and such disclaimer the “**Kroll Disclaimer**”). The patient data and Franchisee point-of-sales systems are provided by Kroll;
- (d) on March 11, 2015, by e-mail to those Franchisees who had not yet provided a Franchisee Closing Date, requested them to do so. On March 13 and 17, 2015, provided direction to the Store Team Leaders to deliver a letter to those Franchisees who still had not yet provided a Franchisee Closing Date, requesting them to do so (a letter was also couriered to the same Franchisees on March 17, 2015); and
- (e) on March 20, 2015, paid the Net Franchise Payment to the individual Franchisees that were owed such payment for the period February 1 to 25, 2015, the effective date of the Disclaimer Notices (an aggregate amount of approximately \$875,000). The February Net Franchisee Payment was pro-rated for the actual days in operation in February by the individual Franchisee.

6.7 As at the date of this Seventh Report, of the 93 Franchisee pharmacies: (i) 73 have closed; (ii) 15 have informed TCC of closure dates that are on or before the Accommodation Date; (iii) two have informed TCC of closure dates that are after the Accommodation Date; and (iv) three have not provided closure dates. The Target Canada Entities will not be able to accommodate requests to extend pharmacy operations beyond the Accommodation Date due to the effective date of the Kroll Disclaimer of April 4, 2015 and the anticipated accelerated timeline for Store closures.

6.8 The patient information for the three corporate-owned pharmacies was transferred to Wal-Mart Canada Corp. on January 29, 2015 and all of the Quebec-based pharmacies were closed on or before February 19, 2015.

## **7.0 EMPLOYEE MATTERS AND EMPLOYEE TRUST**

7.1 The Initial Order approved the creation of the Employee Trust on substantially the terms and conditions set out in the Employee Trust Agreement and also included the appointment of Koskie Minsky LLP (“**Koskie Minsky**”) as Employee Representative Counsel for all Employees in the CCAA Proceedings or any other Insolvency Proceedings for any issues affecting Employees in such proceedings, including without limitation, with respect to the Employee Trust Agreement and the Claims Process.

7.2 The Initial Order also provided that Koskie Minsky commence a process of identifying no more than seven Employees to be nominated as Court-appointed representatives of the Target Employees as soon as practicable (the “**Employee Representatives**”).

7.3 On February 11, 2015, this Court issued an order (the “**Employee Representatives Order**”) approving, among other things that:

- (a) Frederic Payette, Sylvie Gautier, Jennifer Lindsay, Catherin Bédard, Michael O’Neil, Alyssa Morin and Joshua Gordon are approved as Employee Representatives;
- (b) the Employee Representatives as representatives of the Target Employees (excluding Opt-Out Individuals, as defined below, if any) in these CCAA Proceedings or in any other Insolvency Proceedings and such representatives shall determine, advance and compromise any and all Target Employees’ claims which now have arisen or may arise at law or equity or under federal or provincial legislation, including but not limited to actual or deemed trust claims, secured or unsecured claims under the BIA, contractual claims, and any claims arising under provincial employment standards, retirement savings arrangements, human rights, workplace safety and insurance legislation which may be made

against the Applicants, its estate, or the Employee Trust established, as the case may be, relating to or arising out of the Target Employees' employment with the Applicants;

- (c) the Employee Representatives or Employee Representative Counsel are authorized to take all steps and to do all acts necessary or desirable to carry out the terms of the Employee Representatives Order, including dealing with any Court, regulatory body and other government ministry, department or agency, and to take all such steps as are necessary or incidental thereto;
- (d) notice of the granting of the Employee Representatives Order be:
  - (i) published by Employee Representative Counsel on its website within two calendar days of the date of the Employee Representatives Order;
  - (ii) published by the Applicants, with the assistance of the Monitor, in The Globe and Mail and La Presse within seven calendar days of the date of the Employee Representatives Order; and
  - (iii) posted by the Applicants, with the assistance of the Monitor, in each of the Applicants' stores, within two calendar days of the date of the Employee Representatives Order;
- (e) any individual Target Employee who does not wish to be represented by the Employee Representatives and Employee Representative Counsel in the Proceedings shall, within 30 days of publication in The Globe and Mail and La Presse of the notice referred to above, notify the Monitor, the Applicants and Employee Representative Counsel in writing, that he or she is opting out of representation by the Employee Representatives and Employee Representative

Counsel (an “**Opt-Out Notice**”), and shall thereafter not be bound by the actions of the Employee Representatives or Employee Representative Counsel and shall represent himself or herself or be represented by any counsel that he or she may retain exclusively at his or her own expense in the Proceedings (any such persons who deliver an Opt-Out Notice in compliance with the terms of the Employee Representatives Order, being “**Opt-Out Individuals**”);

- (f) the Employee Representatives and Employee Representative Counsel have no obligation to represent the Opt-Out Individuals; and
- (g) with the exception of the Opt-Out Individuals, the Employee Representatives shall represent all Target Employees, which persons shall be bound by the actions of the Employee Representatives and Employee Representative Counsel in the Proceedings.

7.4 A notice containing the information prescribed under the Employee Representatives Order was published in each of The Global and Mail (National Edition) and La Presse on January 17, 2015 and posted in each of TCC’s Stores.

7.5 Employee Representative Counsel has advised the Monitor that, to date, it has not received any Opt-Out Notices.

7.6 The Monitor is in regular contact with Employee Representative Counsel and understands that Employee Representative Counsel has/is:

- maintained a website for the Target Canada Entities’ employees in order to provide up-to-date information regarding the CCAA Proceedings, guidance on common questions and access to relevant documents;

- maintained a toll-free telephone number and email address dedicated to the Target Canada Entities' employees. Employee Representative Counsel has advised the Monitor that to-date it has received and responded to approximately 1,200 inquiries;
- held teleconference meetings with TCC and the Monitor, on a weekly basis or as needed, in order to facilitate the resolution of issues arising during the CCAA Proceedings and brought to the attention of Employee Representative Counsel;
- upon granting of the Employee Representatives Order, issued a press release and facilitated notice of the appointment of Employee Representatives in daily communications (such notice included a procedure for employees of the Target Canada Entities to opt-out of representation by the Employee Representatives);
- held weekly meetings by teleconference with the Employee Representatives to report on the proceedings, communications with employees and receive instructions as and when appropriate;
- identified two additional employees, Barbara Lauber and Sally Kobow, who wished to assist the Employee Representatives and provide additional feedback to the Employee Representatives from the perspective of part-time employees, who have executed non-disclosure agreements and participate in weekly meetings with the Employee Representatives;
- consulted with counsel in Quebec to provide advice, as necessary, regarding the impact of the CCAA Proceedings on employees located in that province; and
- had discussions with Service Canada regarding issues arising in the provision of services that Service Canada provides for employees of the Target Canada Entities.



Employee Trust Update

7.7 As at the commencement of the CCAA Proceedings, TCC employed approximately 17,600 salaried and hourly employees. As at March 17, 2015, TCC employed approximately 14,100 salaried and hourly employees.

7.8 Since the commencement of the CCAA Proceedings, TCC has notified approximately 800 salaried Eligible Employees that their services are no longer required. Also, as described above, three Stores closed on March 18, 2015 and 13 Stores closed on March 22, 2015 (the “**Closed Stores**”). As a result of these Store closings, approximately 1,500 employees have been notified that their services are no longer required, which will further reduce the number of employees to approximately 12,600.

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

- (a) in conjunction with the Trustee, jointly opened the Target Canada Employee Trust bank account at Royal Bank of Canada (the “**Employee Trust Account**”);
- (b) transferred the full \$90 million of contributions received from the Settlor to the Employee Trust Account;
- (c) continued to provide extensive assistance and review of TCC’s calculation of individual bi-weekly entitlement amounts for thousands of Eligible Employees; and

- (d) with the consent of the Trustee, made payments from the Employee Trust totaling approximately \$15.6 million for the benefit of more than 11,700 Eligible Employees.

7.10 The Monitor continues to work closely with TCC and Target Corporation to monitor the sufficiency of the remaining Employee Trust funds and assess whether any increase in funding may be required as Stores continue to close on an accelerated basis.

## **8.0 MONITOR'S ACTIVITIES TO DATE**

8.1 Since the granting of the Initial Order, the Monitor has worked closely with the Target Canada Entities to stabilize their business and operations (all 133 open Stores in Canada remained operational since the granting of the Initial Order, with Store closures now taking place as the Inventory Liquidation Process continues to advance). As summarized in the First Report and below, this has included concerted efforts to address extensive and urgent supply chain and other logistical issues essential to the Orderly Wind-down and extensive communications with stakeholders, as well as assisting with other activities essential to the Orderly Wind-down, including matters related to the Inventory Liquidation Process and the Real Property Portfolio Sales Process. The Monitor will continue to communicate with stakeholders and assist with and facilitate the Orderly Wind-down, in the interests of all stakeholders.

8.2 In the Second Report and in submissions to the Court on February 11, 2015, the Monitor undertook to provide information regarding the quantity of TCC's inventory: (a) received and in-transit (where title had transferred to TCC) as at January 15, 2015; and (b) received and/or where title had transferred to TCC and had not been paid for during the 30-day period immediately preceding January 15, 2015 (the "**Requested Information**"). The Monitor was also asked by the Court to update the Service List as to its progress in assembling the Requested Information no later than February 18, 2015. The Monitor served the Inventory Update Letter on the Service List

on February 18, 2015. In the Fourth Report of the Monitor (the “**Fourth Report**”) dated March 3, 2015, the Monitor provided the Court with information regarding the key dates and assumptions, methodology and approach, and conclusions related to the Requested Information.

8.3 Pursuant to the Endorsement of this Court dated February 19, 2015, Blaney McMurtry LLP (“**Blaney McMurtry**”) submitted a list of 61 questions and information requests to TCC, Target Corporation and the Monitor on March 2, 2015 (the “**March 2 Letter**”). The Monitor conducted an extensive amount of work in order to respond to the questions directed to the Monitor or that the Monitor was best able to respond to. In the Fifth Report of the Monitor (the “**Fifth Report**”) dated March 16, 2015, the Monitor provided the Court with responses to certain of the inventory-related and other questions included in the March 2 Letter. In addition, the Monitor also provided extensive assistance to TCC and Osler, Hoskin & Harcourt LLP (“**Osler**”) in obtaining and analyzing information to assist in the preparation of Osler’s responding letter, on behalf of TCC, to the March 2 Letter.

8.4 In addition to the Monitor’s ongoing supervision and involvement with the Inventory Liquidation Process (as described in the First Report) and Real Property Portfolio Sales Process (as described in the First and Sixth Reports), and the activities of the Monitor described in prior sections of this Seventh Report, the activities of the Monitor from the date of the Third Report (February 27, 2015) have included the following:

- assisting the Applicants with communications with employees, PFAC, pharmacy franchisees, suppliers and other parties;
- as described above, assisting TCC in stabilizing its supply chain, including extensive communications with the third party operator of TCC’s distribution centres, vendors, freight forwarders and consolidators, ocean freight carriers and other transportation companies, and

TCC's customs broker, with a view to minimizing supply disruption and continuing the movement of goods-in-transit to the DCs and Stores;

- numerous meetings and discussions with the Applicants and the Agent regarding the Inventory Liquidation Process, including assisting TCC in reviewing and reconciling data in support of the Agent's weekly invoices;
- numerous discussions with the Applicants, Lazard and the Broker regarding the Real Property Portfolio Sales Process, including assisting with the closing of the Lease Transaction Agreement, reviewing the LOIs received and meeting with the Applicants and Lazard regarding same, and reviewing other draft letters and agreements with respect to the process, and preparing the Sixth Report;
- numerous discussions with the Applicants and their legal counsel to develop a plan for addressing the sale and removal of FF&E on a premises-by-premises basis, and addressing extensive, specific issues related to individual Store locations and other real estate;
- assisting the Applicants in coordinating Store closures;
- responding to approximately 650 enquiries (from the commencement of the CCAA Proceedings) from stakeholders that contacted the Monitor on the toll-free number or email account established by the Monitor, plus countless other enquiries made directly to the Monitor or directed to the Monitor by employees of the Target Canada Entities;
- monitoring the receipts, disbursements, purchase commitments and arrangements for deposits with certain suppliers and creditors of the Applicants, including tracking outstanding balances and commitments due to critical service providers;
- assisting the Applicants in assessing and responding to the Applicants' requests for Monitor consents to disclaimers of contracts and agreements;


- monitoring and providing ongoing updates to assist the Applicants in managing the Orderly Wind-down;
- assisting the Applicants in assessing their employee requirements as the Orderly Wind-down advances; assisting the Applicants in identifying KERP eligible employees and in calculating individual entitlements under the KERP;
- in its capacity as Administrator of the Employee Trust, communications with and among Employee Representative Counsel, Monitor counsel, Applicants' counsel and the Trustee regarding the Employee Trust, assistance with the calculation of specific entitlement amounts for Eligible Employees and facilitation of required payments from the Employee Trust;
- corresponding with and tracking claims transfers and assignments received from purchasers of creditor claims; and
- posting non-confidential materials filed with the Court to the website established by the Monitor for the CCAA Proceedings.


## **9.0 MONITOR'S RECOMMENDATION**

9.1 For the reasons set out in this Seventh Report, the Monitor is of the view that the relief requested by the Applicants is reasonable and respectfully recommends that this Court make the Order granting the relief requested by the Applicants.

All of which is respectfully submitted to this Court this 24<sup>th</sup> day of March, 2015.

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

Per:   
\_\_\_\_\_  
Name: Douglas R. McIntosh  
Title: President

Per:   
\_\_\_\_\_  
Name: Alan J. Hutchens  
Title: Senior Vice President

## **APPENDIX “A”**

### **Applicants**

Target Canada Co.

Target Canada Health Co.

Target Canada Mobile GP Co.

Target Canada Pharmacy (BC) Corp.

Target Canada Pharmacy (Ontario) Corp.

Target Canada Pharmacy (SK) Corp.

Target Canada Pharmacy Corp.

Target Canada Property LLC

### **Partnerships**

Target Canada Pharmacy Franchising LP

Target Canada Mobile LP

Target Canada Property LP

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

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

---

***ONTARIO***  
**SUPERIOR COURT OF JUSTICE**  
**COMMERCIAL LIST**  
Proceeding commenced at Toronto

---

**SEVENTH REPORT OF THE MONITOR**

---

**GOODMANS LLP**

Barristers & Solicitors  
Bay Adelaide Centre  
333 Bay Street, Suite 3400  
Toronto, ON M5H 2S7

Alan Mark LSUC#: 21772U  
amark@goodmans.ca

Jay Carfagnini LSUC#: 22293T  
jcarfagnini@goodmans.ca

Melaney Wagner LSUC#: 44063B  
mwagner@goodmans.ca

Jesse Mighton LSUC#: 62291J  
jmighton@goodmans.ca

Tel: 416.979.2211  
Fax: 416.979.1234

Lawyers for the Monitor