

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 SEARS CANADA INC., CORBEIL ÉLECTRIQUE
INC., S.L.H. TRANSPORT INC., THE CUT INC., SEARS CONTACT
SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM
COMMERCE LABS INC., INITIUM TRADING AND SOURCING
CORP., SEARS FLOOR COVERING CENTRES INC., 173470 CANADA
INC., 2497089 ONTARIO INC., 6988741 CANADA INC., 10011711
CANADA INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD.,
4201531 CANADA INC., 168886 CANADA INC., AND 3339611
CANADA INC.

APPLICANTS

APPLICATION RECORD OF THE APPLICANTS

Volume 1

June 22, 2017

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TO: SERVICE LIST

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

IN THE MATTER OF THE *COMPANIES' CREDITORS
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Tab 1

Court File No.

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

B E T W E E N:

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
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CANADA INC., 168886 CANADA INC., AND 3339611 CANADA INC.

Applicants

NOTICE OF APPLICATION

TO THE RESPONDENT:

A LEGAL PROCEEDING HAS BEEN COMMENCED by the Applicants. The claim made by the Applicants appears on the following page.

THIS APPLICATION will come on for a hearing before a Judge presiding over the Commercial List on June 22, 2017 at the Court House, 361 University Avenue, Toronto, Ontario.

IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the Applicants' lawyer or, where the Applicant does not have a lawyer, serve it on the Applicant, and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the Applicants' lawyer or, where the Applicant does not have a lawyer, serve it on the Applicant, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but not later than 2 p.m. on the day before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date June 22, 2017

Issued by _____

Local registrar

Address of court office: 361 University Avenue
Toronto, Ontario M5G 1R7

TO: SERVICE LIST

APPLICATION

1. The Applicants make this application for an Order substantially in the form attached as Schedule “B” hereto, *inter alia*:

- (a) abridging the time for service of this notice of application and dispensing with service on any person other than those served;
- (b) declaring that the Applicants are parties to which the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “CCAA”) applies;
- (c) declaring that the Partnership listed on Schedule “A” hereto shall enjoy the benefits of the protections provided to the Applicants under the Initial Order;
- (d) appointing FTI Consulting Canada Inc. (“FTI”) as an officer of this Court to monitor the assets, businesses and affairs of the Applicants and the Partnership (collectively, the “Sears Canada Group”) (in such capacity, the “Monitor”);
- (e) staying all proceedings taken or that might be taken in respect of the Sears Canada Group, its directors and officers, or the Monitor until July 22, 2017, subject to further Order of the Court (the “Stay of Proceedings”);
- (f) extending the Stay of Proceedings to (i) all rights of third party tenants against any landlords of the Applicants that arise out of the insolvency of the Sears Canada Group or as a result of any steps taken by the Sears Canada Group pursuant to the Initial Order (“Third Party Tenant Rights”); and (ii) all claims against the independent dealers who own and operate Sears Hometown stores (the “Hometown Dealers”) and franchisees of Corbeil Électrique Inc. (“Corbeil Franchisees”) that arise from the insolvency of the Sears Canada Group;
- (g) approving the Applicant to obtain and borrow under two debtor-in-possession credit facilities (collectively, the “DIP Facility”) to finance its working capital

requirements and other general corporate purposes and post-filing expenses and costs;

- (h) approving a key employment retention plan (the “KERP”) for the benefit of certain key executives and employees of the Applicants;
- (i) granting the following charges over the property of the Applicants, listed in order of priorities:
 - (i) a charge in favour of counsel to the Applicants, the Monitor, counsel to the Monitor, and counsel to the board of directors and a special committee of Sears Canada Inc.’s (“Sears Canada”) (the “Administration Charge”); and a charge in favour of the Financial Advisor (as defined below) (the “FA Charge”);
 - (ii) a charge in favour of certain key employees to secure amounts owing to them under the KERP (the “KERP Charge”);
 - (iii) a charge in favour of the directors and officers of the Applicants to the maximum amount of \$44 million (the “Directors’ Priority Charge”);
 - (iv) two charges in favour of the DIP Lenders (as defined below) (collectively, the “DIP Lenders’ Charges”); and
 - (v) a charge in favour of the directors and officers of the Applicants to the maximum amount of \$19.5 million (the Directors’ Subordinated Charge);
- (j) relieving Sears Canada of any obligation to call and hold an annual meeting of shareholders or to appoint an additional director pending any further Order of the Court; and
- (k) such further and other relief as this Court may deem just.

2. The grounds for the application are:

GENERAL

- (a) the Applicants are insolvent;
- (b) the Applicants are companies to which the CCAA applies;

- (c) the Partnership carries on operations integral and closely related to the business of the Applicants;
- (d) the claims against the Applicants exceed \$5 million;
- (e) the Sears Canada Group operates 225 retail stores across Canada under the Sears and Corbeil banners and employs approximately 17,000 employees;
- (f) Sears Canada is a public company governed by the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended (the “CBCA”). It is the ultimate parent company of the Sears Canada Group, and the other Applicants are all direct or indirect wholly-owned subsidiaries of Sears Canada;
- (g) the Applicants’ financial performance continues to deteriorate despite the implementation of strategic initiatives;
- (h) the Applicants need to complete their operational restructuring in a stable environment that will allow them to preserve the going-concern value of their business and deal with the claims that will arise from the last phase of their restructuring;
- (i) the Applicants are facing a looming liquidity crisis and will be unable to meet their obligations as they become due without court protection;
- (j) the board of directors of Sears Canada has determined that, in its business judgement, it is in the best interest of its business and its stakeholders to file for CCAA protection;
- (k) FTI has consented to act as the Monitor;

DIP FACILITY

- (l) subject to certain conditions, Sears Canada’s existing lenders (the “DIP Lenders”) have agreed to provide Sears Canada with two interim financing facilities (collectively, the “DIP Facility”) of up to approximately \$450 million in total;

- (m) the lenders providing the DIP Facility will only extend credit to Sears Canada if it is a borrower under the DIP Facility and obtains an Initial Order of this Honourable Court under the CCAA providing for a super-priority charge on all of the assets and property of the Applicants (subject only to certain court-ordered charges) as security for the DIP Facility;
- (n) without the DIP Facility, the Sears Canada Group will be forced to shut down its operations, with a significant loss of employment;

KERP

- (o) the Applicants have developed a KERP to facilitate and encourage the continued participation of senior management and other key employees of the Sears Canada Group in the business and the restructuring;
- (p) the anticipated participants in the KERP either possess specialized expertise with respect to the Sears Canada Group's business operations or are critical for a successful restructuring of the Sears Canada Group's business;
- (q) the KERP provides appropriate incentives for the Sears Canada Group's key employees to remain in their current positions and ensures that they are properly compensated for their assistance in the restructuring process;

FINANCIAL ADVISOR

- (r) the Applicants are seeking the Court's approval for the engagement of BMO Nesbitt Burns Inc. as financial advisor (the "Financial Advisor") to Sears Canada;
- (s) the Financial Advisor's expertise and experience have benefited the Applicants in their restructuring efforts to date, and the Applicants will require the Financial Advisor's assistance in connection with upcoming steps in these proceedings;

STAY OF PROCEEDINGS

- (t) the Applicants require the Stay of Proceedings and the other relief sought to permit the Sears Canada Group to continue operating as a going concern as it pursues restructuring options including reorganization and a potential sale of the business in order to maximize enterprise value;
- (u) it is necessary and in the best interests of the Sears Canada Group and their stakeholders that the Sears Canada Group be afforded the “breathing space” provided by the CCAA as they attempt to restructure their business;
- (v) it is necessary and in the best interests of the Sears Canada Group and their stakeholders that the Stay of Proceedings be extended to (i) Third Party Tenant Rights; and (ii) claims against the Hometown Dealers and Corbeil Franchisees that arise from the insolvency of the Sears Canada Group;

AGM

- (w) Sears Canada is required pursuant to section 133(1)(b) of the CBCA to call and, pursuant to the rules of the Toronto Stock Exchange, to hold an annual meeting of its shareholders by no later than July 28, 2017. On June 13, 2017, Sears Canada postponed the annual meeting scheduled for June 14, 2017 to a date to be determined;
- (x) the management of Sears Canada is presently devoting its efforts to stabilizing the business of the Applicants with a view to implementing a going concern and value maximizing restructuring;
- (y) holding the annual meeting of shareholders during the CCAA proceedings would divert the attention of senior management away from the restructuring;
- (z) financial and other information is and will continue to be available to the public through the Applicants’ court filings;
- (aa) Sears Canada currently has six directors;

- (bb) while Sears Canada's articles require a minimum of seven directors, its by-laws permit the board of directors to act as such provided there is a quorum in place, for which only three directors are required. Therefore, Sears Canada can still conduct business pursuant to its by-laws with six directors;

OTHER GROUNDS

- (cc) the provisions of the CCAA and the inherent and equitable jurisdiction of this Honourable Court;
- (dd) Rules 2.03, 3.02, 14.05(2) and 16 of the Ontario *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended and section 106 of the Ontario *Courts of Justice Act*, R.S.O. 1990, c. C.43 as amended; and
- (ee) such further and other grounds as counsel may advise and this Court may permit.

3. The following documentary evidence will be used at the hearing of the application:

- (a) the Affidavit of Billy Wong sworn June 22, 2017 and the exhibits attached thereto;
- (b) consent of the proposed Monitor;
- (c) the Pre-Filing Report of the Monitor dated June 22, 2017; and
- (d) such further and other evidence as counsel may advise and this Court may permit.

June 22, 2017

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Schedule A

SCHEDULE "A"

Partnership

1. Sears Connect LP

Schedule B

Court File No.

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.) THURSDAY, THE 22ND
)
JUSTICE HAINEY) DAY OF JUNE, 2017
)

IN THE MATTER OF THE *COMPANIES' CREDITORS*
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AND IN THE MATTER OF A PLAN OF COMPROMISE OR
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4201531 CANADA INC., 168886 CANADA INC., AND 3339611
CANADA INC.

(each, an “**Applicant**”, and collectively, the “**Applicants**”)

INITIAL ORDER

THIS APPLICATION, made by the Applicants, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Billy Wong sworn June 22, 2017, and the Exhibits thereto (collectively, the “**Wong Affidavit**”), and the pre-filing report dated June 22, 2017 of FTI Consulting Canada Inc. (“**FTI**”), in its capacity as the proposed Monitor of the Applicants (the “**Pre-Filing Report**”), and on hearing the submissions of counsel to the Applicants and Sears Connect LP (the “**Partnership**”, and collectively with the Applicants, the “**Sears Canada**”

Entities”), counsel to the Board of Directors (the “**Board of Directors**”) of Sears Canada Inc. (“**SCI**”) and the Special Committee of the Board of Directors (the “**Special Committee**”) of SCI, counsel to FTI, counsel to Wells Fargo Capital Finance Corporation Canada (the “**DIP ABL Agent**”), as administrative agent under the DIP ABL Credit Agreement (as defined herein), and counsel to GACP Finance Co., LLC (the “**DIP Term Agent**”), as administrative agent under the DIP Term Credit Agreement (as defined herein), and on reading the consent of FTI to act as the Monitor.

SERVICE

1. **THIS COURT ORDERS** that the time for service of the Notice of Application and the Application Record is hereby abridged and validated so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

2. **THIS COURT ORDERS AND DECLARES** that the Applicants are companies to which the CCAA applies. Although not an Applicant, the Partnership shall enjoy the benefits of the protections and authorizations provided by this Order.

PLAN OF ARRANGEMENT

3. **THIS COURT ORDERS** that the Applicants, individually or collectively, shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the “**Plan**”).

POSSESSION OF PROPERTY AND OPERATIONS

4. **THIS COURT ORDERS** that the Sears Canada Entities shall remain in possession and control of their respective current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the “**Property**”). For greater certainty, the “**Property**” includes all inventory, assets, undertakings and property of the Sears Canada Entities in the possession or control of the Hometown Dealers (as defined in the Wong Affidavit) and all inventory, assets, undertakings and property of the Sears Canada Entities in the possession or control of the Corbeil Franchisees (as defined in the Wong

Affidavit). Subject to further Order of this Court, the Sears Canada Entities shall continue to carry on business in a manner consistent with the preservation of the value of their business (the “**Business**”) and Property. The Sears Canada Entities shall each be authorized and empowered to continue to retain and employ the employees, independent contractors, advisors, consultants, agents, experts, accountants, counsel and such other persons (collectively, “**Assistants**”) currently retained or employed by them, with liberty, subject to the terms of the Definitive Documents (as defined herein) to retain such further Assistants, as they deem reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

5. **THIS COURT ORDERS** that the Sears Canada Entities shall be entitled to continue to utilize the central cash management services currently in place as described in the Wong Affidavit, or, with the consent of the Monitor, the DIP ABL Agent on behalf of the DIP ABL Lenders (as defined herein) and the DIP Term Agent on behalf of the DIP Term Lenders (as defined herein), replace it with another substantially similar central cash management services (the “**Cash Management System**”) and that any present or future bank or other institution providing the Cash Management System shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the Sears Canada Entities of funds transferred, paid, collected or otherwise dealt with in the Cash Management System, shall be entitled to provide the Cash Management System without any liability in respect thereof to any Person (as hereinafter defined) other than the Sears Canada Entities, pursuant to the terms of the documentation applicable to the Cash Management System, and shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims or expenses it may suffer or incur in connection with the provision of the Cash Management System; provided, however, that no bank or other institution providing such Cash Management System shall be obliged to extend any overdraft credit, on an aggregate net basis, directly or indirectly in connection therewith and further provided that, to the extent any overdraft occurs, on an aggregate net basis, the Sears Canada Entities shall make arrangements to repay such overdraft forthwith.

6. **THIS COURT ORDERS** that the Sears Canada Entities, subject to availability under, and in accordance with the terms of the DIP Facilities (as defined herein) and the Definitive

Documents, and subject to further Order of this Court, shall be entitled but not required to pay the following expenses whether incurred prior to, on or after this Order to the extent that such expenses are incurred and payable by the Sears Canada Entities:

- (a) all outstanding and future wages, salaries, commissions, employee and retiree benefits (including, without limitation, medical, dental, life insurance and similar benefit plans or arrangements), pension benefits or contributions, vacation pay, expenses, and director fees and expenses, payable on or after the date of this Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements (but not including termination or severance payments), and all other payroll, pension and benefits processing and servicing expenses;
- (b) all outstanding and future amounts owing to or in respect of individuals working as independent contractors in connection with the Business;
- (c) all outstanding or future amounts owing in respect of customer rebates, refunds, discounts or other amounts on account of similar customer programs or obligations;
- (d) all outstanding or future amounts related to honouring customer obligations, whether existing before or after the date of this Order, including customer financing, product warranties, pre-payments, deposits, gift cards, Sears Club programs (including redemptions of Sears Club points) and other customer loyalty programs, offers and benefits, in each case incurred in the ordinary course of business and consistent with existing policies and procedures;
- (e) the fees and disbursements of any Assistants retained or employed by the Sears Canada Entities at their standard rates and charges; and
- (f) with the consent of the Monitor, amounts owing for goods or services actually supplied to the Sears Canada Entities prior to the date of this Order by:
 - (i) logistics or supply chain providers, including customs brokers and freight forwarders, fuel providers, repair, maintenance and parts providers, and security and armoured truck carriers, and including amounts payable in respect of customs and duties for goods;

- (ii) providers of information, internet, and other technology, including e-commerce providers and related services;
- (iii) providers of credit, debit and gift card processing related services; and
- (iv) other third party suppliers up to a maximum aggregate amount of \$25 million, if, in the opinion of the Sears Canada Entities, the supplier is critical to the business and ongoing operations of the Sears Canada Entities.

7. **THIS COURT ORDERS** that, except as otherwise provided to the contrary herein and subject to the terms of the Definitive Documents, the Sears Canada Entities shall be entitled but not required to pay all reasonable expenses incurred by them in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order and any other Order of this Court, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors' and officers' insurance), maintenance (including environmental remediation) and security services; and
- (b) payment for goods or services actually supplied to the Sears Canada Entities following the date of this Order.

8. **THIS COURT ORDERS** that the Sears Canada Entities shall remit, in accordance with legal requirements, or pay:

- (a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from the Sears Canada Entities' employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;
- (b) all goods and services taxes, harmonized sales taxes or other applicable sales taxes (collectively, "**Sales Taxes**") required to be remitted by the Sears Canada Entities in connection with the sale of goods and services by the Sears Canada Entities, but only where such Sales Taxes are accrued or collected after the date of this Order, or where

such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order;

- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business, workers' compensation or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the Sears Canada Entities; and
- (d) taxes under the *Income Tax Act* (Canada) or other relevant taxing statutes to the extent that such taxing statutes give rise to statutory deemed trust amounts in favour of the Crown in right of Canada or any Province thereof or any political subdivision thereof or any other taxation authority.

9. **THIS COURT ORDERS** that, except as specifically permitted herein, the Sears Canada Entities are hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by any one of the Sears Canada Entities to any of their creditors as of this date; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of the Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business or pursuant to this Order or any further Order of this Court.

RESTRUCTURING

10. **THIS COURT ORDERS** that the Sears Canada Entities shall, subject to such requirements as are imposed by the CCAA, and subject to the terms of the Definitive Documents, have the right to:

- (a) permanently or temporarily cease, downsize or shut down any of their Business or operations, and to dispose of redundant or non-material assets not exceeding \$2 million in any one transaction or \$5 million in the aggregate in any series of related transactions, provided that, with respect to leased premises, the Sears Canada Entities may, subject to the requirements of the CCAA and paragraphs 11 to 13 herein,

- vacate, abandon or quit the whole (but not part of) and may permanently (but not temporarily) cease, downsize or shut down any of their Business or operations in respect of any leased premises;
- (b) terminate the employment of such of its employees or temporarily lay off such of its employees as the relevant Sears Canada Entity deems appropriate; and
 - (c) pursue all avenues of refinancing, restructuring, selling and reorganizing the Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing, restructuring, sale or reorganization,

all of the foregoing to permit the Sears Canada Entities to proceed with an orderly restructuring of the Sears Canada Entities and/or the Business (the “**Restructuring**”).

REAL PROPERTY LEASES

11. **THIS COURT ORDERS** that until a real property lease is disclaimed or resiliated in accordance with the CCAA, the Sears Canada Entities shall pay, without duplication, all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under its lease, but for greater certainty, excluding accelerated rent or penalties, fees or other charges arising as a result of the insolvency of any or all of the Sears Canada Entities or the making of this Initial Order) or as otherwise may be negotiated between the applicable Sears Canada Entity and the landlord from time to time (“**Rent**”), for the period commencing from and including the date of this Order, twice-monthly in equal payments on the first and fifteenth day of each month, in advance (but not in arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including the date of this Order shall also be paid.

12. **THIS COURT ORDERS** that the Sears Canada Entities shall provide each of the relevant landlords with notice of the relevant Sears Canada Entity’s intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the entitlement of a Sears Canada

Entity to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the relevant Sears Canada Entity, or by further Order of this Court upon application by the Sears Canada Entities on at least two (2) days' notice to such landlord and any such secured creditors. If any of the Sears Canada Entities disclaims or resiliates the lease governing such leased premises in accordance with Section 32 of the CCAA, it shall not be required to pay Rent under such lease pending resolution of any such dispute (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer or resiliation of the lease shall be without prejudice to the relevant Sears Canada Entity's claim to the fixtures in dispute.

13. **THIS COURT ORDERS** that if a notice of disclaimer or resiliation is delivered pursuant to Section 32 of the CCAA by any of the Sears Canada Entities, then: (a) during the notice period prior to the effective time of the disclaimer or resiliation, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the relevant Sears Canada Entity and the Monitor 24 hours' prior written notice; and (b) at the effective time of the disclaimer or resiliation, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the relevant Sears Canada Entity in respect of such lease or leased premises, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

NO PROCEEDINGS AGAINST THE SEARS CANADA ENTITIES, THE BUSINESS OR THE PROPERTY

14. **THIS COURT ORDERS** that until and including July 22, 2017, or such later date as this Court may order (the "**Stay Period**"), no proceeding or enforcement process in any court or tribunal (each, a "**Proceeding**") shall be commenced or continued against or in respect of the Sears Canada Entities or the Monitor or their respective employees and representatives acting in such capacities, or affecting the Business or the Property, except with the written consent of the Sears Canada Entities and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Sears Canada Entities or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

15. **THIS COURT ORDERS** that during the Stay Period, no Person having any agreements or arrangements with the owners, operators, managers or landlords of commercial shopping centres or other commercial properties (including retail, office and industrial (warehouse) properties) in which there is located a store, office or warehouse owned or operated by the Sears Canada Entities shall take any Proceedings or exercise any rights or remedies under such agreements or arrangements that may arise upon and/or as a result of the making of this Order, the insolvency of, or declarations of insolvency by, any or all of the Sears Canada Entities, or as a result of any steps taken by the Sears Canada Entities pursuant to this Order and, without limiting the generality of the foregoing, no Person shall terminate, accelerate, suspend, modify, determine or cancel any such arrangement or agreement or be entitled to exercise any rights or remedies in connection therewith.

16. **THIS COURT ORDERS** that during the Stay Period, no Person having any agreements or arrangements with the Hometown Dealers or the Corbeil Franchisees shall take any Proceedings or exercise any rights or remedies under such agreements or arrangements that may arise upon and/or as a result of the making of this Order, the insolvency of, or declarations of insolvency by, any or all of the Sears Canada Entities, or as a result of any steps taken by the Sears Canada Entities pursuant to this Order and, without limiting the generality of the foregoing, no Person shall terminate, accelerate, suspend, modify, determine or cancel any such arrangement or agreement or be entitled to exercise any rights or remedies in connection therewith.

17. **THIS COURT ORDERS** that during the Stay Period all rights and remedies, of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being “**Persons**” and each being a “**Person**”) against or in respect of the Sears Canada Entities or the Monitor or their respective employees and representatives acting in such capacities, or affecting the Business or the Property, are hereby stayed and suspended, except with the written consent of the Sears Canada Entities and the Monitor, or leave of this Court, provided that nothing in this Order shall: (a) empower the Sears Canada Entities to carry on any business that the Sears Canada Entities are not lawfully entitled to carry on; (b) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by

Section 11.1 of the CCAA; (c) prevent the filing of any registration to preserve or perfect a security interest; or (d) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

18. **THIS COURT ORDERS** that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, lease, sublease, licence or permit in favour of or held by the Sears Canada Entities, except with the written consent of the Sears Canada Entities and the Monitor, or leave of this Court. Without limiting the foregoing, no right, option, remedy, and/or exemption in favour of the relevant Sears Canada Entity shall be or shall be deemed to be negated, suspended, waived and/or terminated as a result of this Order.

CONTINUATION OF SERVICES

19. **THIS COURT ORDERS** that during the Stay Period, all Persons having oral or written agreements with the Sears Canada Entities or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all trademark license and other intellectual property, computer software, communication and other data services, centralized banking services, payroll and benefit services, insurance, warranty services, transportation services, freight services, security and armoured truck carrier services, utility, customs clearing, warehouse and logistics services or other services to the Business or the Sears Canada Entities are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply or license of such goods, services, trademarks and other intellectual property as may be required by the Sears Canada Entities, and that the Sears Canada Entities shall be entitled to the continued use of the trademarks and other intellectual property currently licensed to, used or owned by the Sears Canada Entities, premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Sears Canada Entities in accordance with normal payment practices of the Sears Canada Entities or such other practices as may be agreed upon by the supplier or service provider and each of the Sears Canada Entities and the Monitor, or as may be ordered by this Court.

NON-DEROGATION OF RIGHTS

20. **THIS COURT ORDERS** that, notwithstanding anything else in this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of leased or licensed property or other valuable consideration provided on or after the date of this Order, nor shall any Person be under any obligation on or after the date of this Order to advance or re-advance any monies or otherwise extend any credit to the Sears Canada Entities. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

KEY EMPLOYEE RETENTION PLAN

21. **THIS COURT ORDERS** that the Key Employee Retention Plan (the “**KERP**”), as described in the Wong Affidavit, is hereby approved and the Sears Canada Entities are authorized to make payments contemplated thereunder in accordance with the terms and conditions of the KERP.

22. **THIS COURT ORDERS** that the key employees referred to in the KERP (the “**Key Employees**”) shall be entitled to the benefit of and are hereby granted the following charges on the Property, which charges shall not exceed: (a) an aggregate amount of \$4.6 million (the “**KERP Priority Charge**”) to secure the first \$4.6 million payable to the Key Employees under the KERP; and (b) an aggregate amount of \$4.6 million (the “**KERP Subordinated Charge**”) to secure any other payments to the Key Employees under the KERP. The KERP Priority Charge and the KERP Subordinated Charge shall have the priority set out in paragraphs 46, 47 and 49 hereof.

APPROVAL OF FINANCIAL ADVISOR AGREEMENT

23. **THIS COURT ORDERS** that the agreement dated May 15, 2017 engaging BMO Nesbitt Burns Inc. (the “**Financial Advisor**”) as financial advisor to SCI and attached as Confidential Appendix C to the Pre-Filing Report (the “**Financial Advisor Agreement**”), and the retention of the Financial Advisor under the terms thereof, is hereby ratified and approved and SCI is authorized and directed *nunc pro tunc* to make the payments contemplated thereunder in accordance with the terms and conditions of the Financial Advisor Agreement.

24. **THIS COURT ORDERS** that the Financial Advisor shall be entitled to the benefit of and is hereby granted a charge (the “**FA Charge**”) on the Property, which charge shall not exceed an aggregate amount of \$3.3 million, as security for the fees and disbursements payable under the Financial Advisor Agreement, both before and after the making of this Order in respect of these proceedings. The FA Charge shall have the priority set out in paragraphs 46, 47 and 49 hereof.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

25. **THIS COURT ORDERS** that during the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Sears Canada Entities with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Sears Canada Entities whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the Sears Canada Entities, if one is filed, is sanctioned by this Court or is refused by the creditors of the Sears Canada Entities or this Court.

DIRECTORS’ AND OFFICERS’ INDEMNIFICATION AND CHARGE

26. **THIS COURT ORDERS** that the Sears Canada Entities shall jointly and severally indemnify their directors and officers against obligations and liabilities that they may incur as directors or officers of the Sears Canada Entities after the commencement of the within proceedings, except to the extent that, with respect to any officer or director, the obligation or liability was incurred as a result of the director’s or officer’s gross negligence or wilful misconduct.

27. **THIS COURT ORDERS** that the directors and officers of the Sears Canada Entities shall be entitled to the benefit of and are hereby granted the following charges on the Property, which charges shall not exceed: (a) an aggregate amount of \$44 million (the “**Directors’ Priority Charge**”); and (b) an aggregate amount of \$19.5 million (the “**Directors’ Subordinated Charge**”), respectively, and in each case, as security for the indemnity provided

in paragraph 26 of this Order. The Directors' Priority Charge and the Directors' Subordinated Charge shall have the priority set out in paragraphs 46, 47 and 49 hereof.

28. **THIS COURT ORDERS** that, notwithstanding any language in any applicable insurance policy to the contrary: (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Priority Charge and the Directors' Subordinated Charge; and (b) the Sears Canada Entities' directors and officers shall only be entitled to the benefit of the Directors' Priority Charge and the Directors' Subordinated Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 26 of this Order.

APPOINTMENT OF MONITOR

29. **THIS COURT ORDERS** that FTI is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the Business and financial affairs of the Sears Canada Entities with the powers and obligations set out in the CCAA or set forth herein and that the Sears Canada Entities and their shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Sears Canada Entities pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

30. **THIS COURT ORDERS** that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the Sears Canada Entities' receipts and disbursements;
- (b) liaise with the Sears Canada Entities and the Assistants and, if determined by the Monitor to be necessary, the Hometown Dealers and Corbeil Franchisees, with respect to all matters relating to the Property, the Business, the Restructuring and such other matters as may be relevant to the proceedings herein;
- (c) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, the Restructuring and such other matters as may be relevant to the proceedings herein;

- (d) assist the Sears Canada Entities, to the extent required by the Sears Canada Entities, in their dissemination of financial and other information to the DIP ABL Agent, the DIP ABL Lenders, the DIP Term Agent, the DIP Term Lenders and each of their respective counsel and financial advisors, pursuant to and in accordance with the Definitive Documents;
- (e) advise the Sears Canada Entities in their preparation of the Sears Canada Entities' cash flow statements and any reporting required by the Definitive Documents, which information shall be reviewed with the Monitor and delivered to the DIP ABL Agent, the DIP ABL Lenders, the DIP Term Agent, the DIP Term Lenders and each of their respective counsel and financial advisors, pursuant to and in accordance with the Definitive Documents;
- (f) advise the Sears Canada Entities in their development of the Plan and any amendments to the Plan;
- (g) assist the Sears Canada Entities, to the extent required by the Sears Canada Entities, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;
- (h) have full and complete access to the Property (including any Property in the possession of the Hometown Dealers and the Corbeil Franchisees), including the premises, books, records, data, including data in electronic form, and other financial documents of the Sears Canada Entities, to the extent that is necessary to adequately assess the Business and the Sears Canada Entities' financial affairs or to perform its duties arising under this Order;
- (i) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;
- (j) assist the Sears Canada Entities, to the extent required by the Sears Canada Entities, with any matters relating to any foreign proceeding commenced in relation to any of the Sears Canada Entities, including retaining independent legal counsel, agents,

experts, accountants, or such other persons as the Monitor deems necessary or desirable respecting the exercise of this power; and

- (k) perform such other duties as are required by this Order or by this Court from time to time.

31. **THIS COURT ORDERS** that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

32. **THIS COURT ORDERS** that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, “**Possession**”) of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the “**Environmental Legislation**”), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor’s duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

33. **THIS COURT ORDERS** that the Monitor shall provide any creditor of the Sears Canada Entities, the DIP ABL Agent, the DIP ABL Lenders, the DIP Term Agent and the DIP Term Lenders with information provided by the Sears Canada Entities in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Sears Canada Entities is confidential, the Monitor shall not provide such information to creditors

unless otherwise directed by this Court or on such terms as the Monitor and the Sears Canada Entities may agree.

34. **THIS COURT ORDERS** that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

35. **THIS COURT ORDERS** that the Monitor, counsel to the Monitor, counsel to the Sears Canada Entities and counsel to the Board of Directors and the Special Committee shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, whether incurred prior to or subsequent to the date of this Order, by the Sears Canada Entities as part of the costs of these proceedings. The Sears Canada Entities are hereby authorized and directed to pay the accounts of the Monitor, counsel to the Monitor, counsel to the Sears Canada Entities and counsel to the Board of Directors and the Special Committee on a weekly basis and, in addition, the Sears Canada Entities are hereby authorized to pay to the Monitor, counsel to the Monitor, counsel to the Sears Canada Entities and counsel to the Board of Directors and the Special Committee, retainers in the aggregate amount of \$700,000, to be held by them as security for payment of their respective fees and disbursements outstanding from time to time.

36. **THIS COURT ORDERS** that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

37. **THIS COURT ORDERS** that the Monitor, counsel to the Monitor, counsel to the Sears Canada Entities and counsel to the Board of Directors and the Special Committee shall be entitled to the benefit of and are hereby granted a charge (the “**Administration Charge**”) on the Property, which charge shall not exceed an aggregate amount of \$5 million, as security for their professional fees and disbursements incurred at their respective standard rates and charges, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 46, 47 and 49 hereof.

DIP FINANCING

38. **THIS COURT ORDERS** that the Sears Canada Entities are hereby authorized and empowered to obtain and borrow or guarantee, as applicable, on a joint and several basis, under:

- (a) the Senior Secured Superpriority Debtor-in-Possession Amended and Restated Credit Agreement dated as of June 22, 2017 and attached to the Wong Affidavit as Exhibit K, among the Sears Canada Entities, the DIP ABL Agent and the lenders from time to time party thereto (the “**DIP ABL Lenders**”) (as may be amended, restated, supplemented and/or modified, subject to approval of this Court in respect of any amendment that the Monitor determines to be material, the “**DIP ABL Credit Agreement**”), in order to finance the Sears Canada Entities’ working capital requirements and other general corporate purposes and capital expenditures, all in accordance with the Definitive Documents, provided that borrowings under DIP ABL Credit Agreement shall not exceed \$300 million unless permitted by further Order of this Court (the “**DIP ABL Credit Facility**”); and
- (b) the Senior Secured, Superpriority Debtor-in-Possession Credit Agreement dated as of June 22, 2017 and attached to the Wong Affidavit as Exhibit K, among the Sears Canada Entities, the DIP Term Agent and the lenders from time to time party thereto (the “**DIP Term Lenders**”) (as may be amended, restated, supplemented and/or modified, subject to approval of this Court in respect of any amendment that the Monitor determines to be material, the “**DIP Term Credit Agreement**”), in order to finance the Sears Canada Entities’ working capital requirements and other general corporate purposes and capital expenditures, all in accordance with the Definitive Documents, provided that borrowings under the DIP Term Credit Agreement shall not exceed \$150 million unless permitted by further Order of this Court (the “**DIP Term Credit Facility**”, and together with the DIP ABL Credit Facility, the “**DIP Facilities**”).

39. **THIS COURT ORDERS** that the DIP Facilities shall be on the terms and subject to the conditions set forth in the DIP ABL Credit Agreement, the DIP Term Credit Agreement and the other Definitive Documents.

40. **THIS COURT ORDERS** that the Sears Canada Entities are hereby authorized and empowered to execute and deliver the DIP ABL Credit Agreement, the DIP Term Credit Agreement and such mortgages, charges, hypothecs and security documents, guarantees and other definitive documents (collectively, and including any schedules (as amended and updated from time to time) thereto, the “**Definitive Documents**”), as are contemplated by the DIP ABL Credit Agreement and the DIP Term Credit Agreement or as may be reasonably required by the DIP ABL Agent on behalf of the DIP ABL Lenders and the DIP Term Agent on behalf of the DIP Term Lenders pursuant to the terms thereof, as applicable, and the Sears Canada Entities are hereby authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities and obligations to the DIP ABL Agent, the DIP ABL Lenders, the DIP Term Agent and the DIP Term Lenders under and pursuant to the Definitive Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.

41. **THIS COURT ORDERS** that the DIP ABL Agent and the DIP ABL Lenders shall be entitled to the benefit of and are hereby granted a charge (the “**DIP ABL Lenders’ Charge**”) on the Property as security for any and all Obligations (as defined in the DIP ABL Credit Agreement) other than the Prepetition Obligations (as defined in the DIP ABL Credit Agreement) (including on account of principal, interest, fees, expenses and other liabilities, and the aggregate of all such obligations, the “**DIP ABL Obligations**”), which DIP ABL Lenders’ Charge shall be in the aggregate amount of the DIP ABL Obligations outstanding at any given time under the DIP ABL Credit Agreement. The DIP ABL Lenders’ Charge shall not secure an obligation that exists before this Order is made. The DIP ABL Lenders’ Charge shall have the priority set out in paragraphs 46, 47 and 49 hereof.

42. **THIS COURT ORDERS** that the DIP Term Agent and the DIP Term Lenders shall be entitled to the benefit of and are hereby granted a charge (the “**DIP Term Lenders’ Charge**”) on the Property as security for any and all Obligations (as defined in DIP Term Credit Agreement) (including on account of principal, interest, fees, expenses and other liabilities, and the aggregate of all such obligations, the “**DIP Term Obligations**”), which DIP Term Lenders’ Charge shall be in the aggregate amount of the DIP Term Obligations outstanding at any given time under the DIP Term Credit Agreement. The DIP Term Lenders’ Charge shall not secure an obligation that exists before this Order is made. The DIP Term Lenders’ Charge shall have the priority set out in paragraphs 46, 47 and 49 hereof.

43. **THIS COURT ORDERS** that SCI's reimbursement obligation with respect to the letters of credit outstanding under the Wells Fargo Credit Agreement (as defined in the Wong Affidavit) prior to the date of this Order and which are drawn upon on or after the date of this Order shall be deemed to form part of the DIP ABL Credit Facility and shall be included as DIP ABL Obligations for the purposes of determining the amount of the DIP ABL Lenders' Charge.

44. **THIS COURT ORDERS** that, notwithstanding any other provision of this Order:

- (a) the DIP ABL Agent on behalf of the DIP ABL Lenders, as applicable, may take such steps from time to time as they may deem necessary or appropriate to file, register, record or perfect the DIP ABL Lenders' Charge, the DIP ABL Credit Agreement or any of the other Definitive Documents;
- (b) the DIP Term Agent on behalf of the DIP Term Lenders, as applicable, may take such steps from time to time as they may deem necessary or appropriate to file, register, record or perfect the DIP Term Lenders' Charge, the DIP Term Credit Agreement or any of the other Definitive Documents;
- (c) upon the occurrence of an event of default under the DIP ABL Credit Agreement, the other related Definitive Documents or the DIP ABL Lenders' Charge, the DIP ABL Agent and the DIP ABL Lenders, as applicable, may, subject to the provisions of the DIP ABL Credit Agreement with respect to the giving of notice or otherwise, and in accordance with the DIP ABL Credit Agreement, the other related Definitive Documents and the DIP ABL Lenders' Charge, as applicable, cease making advances to the Sears Canada Entities, make demand, accelerate payment and give other notices; provided that, the DIP ABL Agent and the DIP ABL Lenders must apply to this Court on seven (7) days' prior written notice (which may include the service of materials in connection with such an application to this Court) to the Sears Canada Entities, the DIP Term Agent, the DIP Term Lenders and the Monitor, to enforce against or exercise any other rights and remedies with respect to the Sears Canada Entities or any of the Property (including to set off and/or consolidate any amounts owing by the DIP ABL Agent and the DIP ABL Lenders to the Sears Canada Entities against the obligations of the Sears Canada Entities to the DIP ABL Agent and the DIP ABL Lenders under the DIP ABL Credit Agreement, the other related Definitive

Documents or the DIP ABL Lenders' Charge), to appoint a receiver, receiver and manager or interim receiver, or to seek a bankruptcy order against the Sears Canada Entities and to appoint a trustee in bankruptcy of the Sears Canada Entities;

- (d) upon the occurrence of an event of default under the DIP Term Credit Agreement, the other related Definitive Documents or the DIP Term Lenders' Charge, the DIP Term Agent and the DIP Term Lenders, as applicable, may, subject to the provisions of the DIP Term Credit Agreement with respect to the giving of notice or otherwise, and in accordance with the DIP Term Credit Agreement, the other related Definitive Documents and the DIP Term Lenders' Charge, as applicable, cease making advances to the Sears Canada Entities, make demand, accelerate payment and give other notices; provided that, the DIP Term Agent and the DIP Term Lenders must apply to this Court on seven (7) days' prior written notice (which may include the service of materials in connection with such an application to this Court) to the Sears Canada Entities, the DIP ABL Agent, the DIP ABL Lenders and the Monitor, to enforce against or exercise any other rights and remedies with respect to the Sears Canada Entities or any of the Property (including to set off and/or consolidate any amounts owing by the DIP Term Agent and the DIP Term Lenders to the Sears Canada Entities against the obligations of the Sears Canada Entities to the DIP Term Agent and the DIP Term Lenders under the DIP Term Credit Agreement, the other related Definitive Documents or the DIP Term Lenders' Charge), to appoint a receiver, receiver and manager or interim receiver, or to seek a bankruptcy order against the Sears Canada Entities and to appoint a trustee in bankruptcy of the Sears Canada Entities; and
- (e) the foregoing rights and remedies of the DIP ABL Agent, the DIP ABL Lenders, the DIP Term Agent and the DIP Term Lenders shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Sears Canada Entities or the Property.

45. **THIS COURT ORDERS AND DECLARES** that the DIP ABL Agent, the DIP ABL Lenders, the DIP Term Agent and the DIP Term Lenders shall be treated as unaffected in any plan of arrangement or compromise filed by the Sears Canada Entities or any of them under the

CCAA, or any proposal filed by the Sears Canada Entities or any of them under the *Bankruptcy and Insolvency Act* of Canada (the “**BIA**”), with respect to any advances made under the DIP ABL Credit Agreement, the DIP Term Credit Agreement and the other Definitive Documents.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

46. **THIS COURT ORDERS** that the priorities of the Administration Charge, the FA Charge, the DIP ABL Lenders’ Charge, the DIP Term Lenders’ Charge, the Directors’ Priority Charge, the Directors’ Subordinated Charge, the KERP Priority Charge and the KERP Subordinated Charge (collectively, the “**Charges**”), as among them, with respect to ABL Priority Collateral (as defined in the Intercreditor Agreement dated March 20, 2017 and attached as Exhibit J to the Wong Affidavit) shall be as follows:

First – Administration Charge, to the maximum amount of \$5 million, and the FA Charge, to the maximum amount of \$3.3 million, on a *pari passu* basis;

Second – KERP Priority Charge, to the maximum amount of \$4.6 million;

Third – Directors’ Priority Charge, to the maximum amount of \$44 million;

Fourth – DIP ABL Lenders’ Charge, to the maximum amount of the quantum of the DIP ABL Obligations at the relevant time;

Fifth – the DIP Term Lenders’ Charge, to the maximum amount of the quantum of the DIP Term Obligations at the relevant time;

Sixth – KERP Subordinated Charge, to the maximum amount of \$4.6 million; and

Seventh – the Directors’ Subordinated Charge, to the maximum amount of \$19.5 million.

47. **THIS COURT ORDERS** that the priorities of the Charges as among them, with respect to all Property other than the ABL Priority Collateral shall be as follows:

First – Administration Charge, to the maximum amount of \$5 million, and the FA Charge, to the maximum amount of \$3.3 million, on a *pari passu* basis;

Second – KERP Priority Charge, to the maximum amount of \$4.6 million;

Third – Directors’ Priority Charge, to the maximum amount of \$44 million;

Fourth – DIP Term Lenders’ Charge, to the maximum amount of the quantum of the DIP Term Obligations at the relevant time;

Fifth – DIP ABL Lenders’ Charge, to the maximum amount of the quantum of the DIP ABL Obligations at the relevant time;

Sixth – KERP Subordinated Charge, to the maximum amount of \$4.6 million; and

Seventh – the Directors’ Subordinated Charge, to the maximum amount of \$19.5 million.

48. **THIS COURT ORDERS** that the filing, registration or perfection of the Charges shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

49. **THIS COURT ORDERS** that each of the Charges shall constitute a charge on the Property, and such Charges shall rank in priority to all other security interests, trusts (including constructive trusts), liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (including without limitation any deemed trust that may be created under the Ontario *Pension Benefits Act*) (collectively, “**Encumbrances**”) other than (a) any Person with a properly perfected purchase money security interest under the *Personal Property Security Act* (Ontario) or such other applicable provincial legislation that has not been served with notice of this Order; and (b) statutory super-priority deemed trusts and liens for unpaid employee source deductions.

50. **THIS COURT ORDERS** that except as otherwise expressly provided for herein, or as may be approved by this Court, the Sears Canada Entities shall not grant any Encumbrances over any of the Property that rank in priority to, or *pari passu* with, any of the Charges, unless the Sears Canada Entities also obtain the prior written consent of the Monitor, the DIP ABL Agent

on behalf of the DIP ABL Lenders, the DIP Term Agent on behalf of the DIP Term Lenders and the other beneficiaries of affected Charges, or further Order of this Court.

51. **THIS COURT ORDERS** that the Charges, the DIP ABL Credit Agreement, the DIP Term Credit Agreement, and the other Definitive Documents shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the “**Chargees**”) thereunder shall not otherwise be limited or impaired in any way by: (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an “**Agreement**”) that binds the Sears Canada Entities, and notwithstanding any provision to the contrary in any Agreement:

- (i) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the DIP ABL Credit Agreement, the DIP Term Credit Agreement or the other Definitive Documents shall create or be deemed to constitute a breach by the Sears Canada Entities of any Agreement to which it is a party;
- (ii) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Sears Canada Entities entering into the DIP ABL Credit Agreement and the DIP Term Credit Agreement, the creation of the Charges, or the execution, delivery or performance of the other Definitive Documents; and
- (iii) the payments made by the Sears Canada Entities pursuant to this Order, the DIP ABL Credit Agreement, the DIP Term Credit Agreement or the other Definitive Documents, and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

52. **THIS COURT ORDERS** that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the relevant Sears Canada Entity’s interest in such real property leases.

53. **THIS COURT ORDERS** that, notwithstanding any other provision of this Order, the L/C Collateral Account (as defined in the DIP ABL Credit Agreement) shall be deemed to be subject to a lien, security, charge and security interest in favour of the DIP ABL Agent solely for the reimbursement obligation of SCI related to the letters of credit issued under the Wells Fargo Credit Agreement which remain undrawn from and after the Comeback Motion (as defined herein). The Charges as they may attach to the L/C Collateral Account, including by operation of law or otherwise: (a) shall rank junior in priority to the lien, security, charge and security interest in favour of the DIP ABL Agent in respect of the L/C Collateral Account; and (b) shall attach to the L/C Collateral Account only to the extent of the rights, if any, of any Sears Canada Entity to the return of any cash from the L/C Collateral Account in accordance with the DIP ABL Credit Agreement.

CORPORATE MATTERS

54. **THIS COURT ORDERS** that SCI be and is hereby relieved of any obligation to call and hold an annual meeting of its shareholders until further Order of this Court.

55. **THIS COURT ORDERS** that SCI be and is hereby relieved of any obligation to appoint any new directors until further Order of this Court.

SERVICE AND NOTICE

56. **THIS COURT ORDERS** that the Monitor shall: (a) without delay, publish in The Globe and Mail (National Edition) and La Presse a notice containing the information prescribed under the CCAA; and (b) within five days after the date of this Order, (i) make this Order publicly available in the manner prescribed under the CCAA, (ii) send or cause to be sent, in the prescribed manner, a notice to every known creditor who has a claim against the Sears Canada Entities of more than \$1,000 (excluding individual employees, former employees with pension and/or retirement savings plan entitlements, and retirees and other beneficiaries who have entitlements under any pension or retirement savings plans), and (iii) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder, provided that the Monitor shall not make the claims, names and addresses of the individuals who are creditors publicly available.

57. **THIS COURT ORDERS** that the Monitor shall create, maintain and update as necessary a list of all Persons appearing in person or by counsel in this proceeding (the “**Service List**”). The Monitor shall post the Service List, as may be updated from time to time, on the Monitor’s Website (as defined herein) as part of the public materials to be made available thereon in relation to this proceeding. Notwithstanding the foregoing, the Monitor shall have no liability in respect of the accuracy of or the timeliness of making any changes to the Service List.

58. **THIS COURT ORDERS** that any employee of any of the Sears Canada Entities that receives a notice of termination from any of the Sears Canada Entities shall be deemed to have received such notice of termination by no more than the seventh day following the date such notice of termination is delivered, if such notice of termination is sent by ordinary mail, courier or registered mail.

59. **THIS COURT ORDERS** that the E-Service Protocol of the Commercial List (the “**Protocol**”) is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/eservice-commercial/>) shall be valid and effective service. Subject to Rule 17.05, this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the Rules of Civil Procedure. Subject to Rule 3.01(d) of the Rules of Civil Procedure and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission. This Court further orders that a Case Website shall be established in accordance with the Protocol with the following URL: cfcanada.fticonsulting.com/searscanada (the “**Monitor’s Website**”).

60. **THIS COURT ORDERS** that if the service or distribution of documents in accordance with the Protocol is not practicable, the Sears Canada Entities and the Monitor are at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic transmission to the Sears Canada Entities’ creditors or other interested parties at their respective addresses as last shown on the records of the Sears Canada Entities and that any such service or distribution by courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

61. **THIS COURT ORDERS** that the Applicants, the Monitor, the Financial Advisor, the DIP Term Agent on behalf of the DIP Term Lenders and the DIP ABL Agent on behalf of the DIP ABL Lenders, and their respective counsel are at liberty to serve or distribute this Order, any other materials and orders as may be reasonably required in these proceedings, including any notices, or other correspondence, by forwarding true copies thereof by electronic message to the Applicants' creditors or other interested parties and their advisors. For greater certainty, any such distribution or service shall be deemed to be in satisfaction of a legal or juridical obligation, and notice requirements within the meaning of clause 3(c) of the Electronic Commerce Protection Regulations, Reg. 81000-2-175 (SOR/DORS).

COMEBACK MOTION

62. **THIS COURT ORDERS** that the comeback motion shall be heard on July 13, 2017 (the "**Comeback Motion**").

GENERAL

63. **THIS COURT ORDERS** that the Sears Canada Entities or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

64. **THIS COURT ORDERS** that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Sears Canada Entities, the Business or the Property.

65. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order and to assist the Sears Canada Entities, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Sears Canada Entities and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Sears Canada Entities and the Monitor and their respective agents in carrying out the terms of this Order.

66. **THIS COURT ORDERS** that each of the Applicants and the Monitor be at liberty and are hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Monitor is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada, including acting as the foreign representative of the Applicants to apply to the United States Bankruptcy Court for relief pursuant to Chapter 15 of the *United States Bankruptcy Code*, 11 U.S.C. §§ 101-1515, as amended, and to act as foreign representative in respect of any such proceedings and any ancillary relief in respect thereto, and to take such other steps as may be authorized by the Court.

67. **THIS COURT ORDERS** that any interested party (including the Sears Canada Entities and the Monitor) may apply to this Court to vary or amend this Order at the Comeback Motion on not less than seven (7) calendar days' notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

68. **THIS COURT ORDERS** that Confidential Appendix B and Confidential Appendix C to the Pre-Filing Report shall be and are hereby sealed, kept confidential and shall not form part of the public record pending further Order of this Court.

69. **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.

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 SEARS CANADA INC., CORBEIL ÉLECTRIQUE INC., S.L.H. TRANSPORT INC., THE CUT INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP., SEARS FLOOR COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC., AND 3339611 CANADA INC. (collectively, the "Applicants")

ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)

Proceeding commenced at Toronto

INITIAL ORDER

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Lawyers for the Applicants

Schedule C

Court File No. _____

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE _____ MR.) ~~WEEKDAY~~ THURSDAY, THE # 22ND
)
JUSTICE _____ HAINES) DAY OF ~~MONTH~~ JUNE, ~~20YR~~ 2017
)

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 ~~[APPLICANT'S NAME]~~ (the "SEARS
CANADA INC., CORBEIL ÉLECTRIQUE INC., S.L.H.
TRANSPORT INC., THE CUT INC., SEARS CONTACT
SERVICES INC., INITIUM LOGISTICS SERVICES INC.,
INITIUM COMMERCE LABS INC., INITIUM TRADING AND
SOURCING CORP., SEARS FLOOR COVERING CENTRES
INC., 173470 CANADA INC., 2497089 ONTARIO INC.,
6988741 CANADA INC., 10011711 CANADA INC., 1592580
ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531
CANADA INC., 168886 CANADA INC., AND 3339611
CANADA INC.
(each, an "Applicant", and collectively, the "Applicants")

INITIAL ORDER

THIS APPLICATION, made by the Applicants, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA"), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of ~~[NAME]~~ Billy Wong sworn ~~[DATE]~~ June 22, 2017, and the Exhibits thereto, ~~and on being advised that the secured creditors who are likely to be affected by the charges created herein were given notice~~ (collectively, the "Wong Affidavit"), and the pre-filing report dated June 22, 2017 of FTI Consulting Canada Inc. ("FTI"), in its capacity as the proposed Monitor of the Applicants (the "Pre-Filing Report"), and on hearing the

submissions of counsel ~~for [NAMES], no one appearing for [NAME]¹ although duly served as appears from the affidavit of service of [NAME] sworn [DATE]~~ to the Applicants and Sears Connect LP (the “**Partnership**”, and collectively with the Applicants, the “**Sears Canada Entities**”), counsel to the Board of Directors (the “**Board of Directors**”) of Sears Canada Inc. (“**SCI**”) and the Special Committee of the Board of Directors (the “**Special Committee**”) of SCI, counsel to FTI, counsel to Wells Fargo Capital Finance Corporation Canada (the “**DIP ABL Agent**”), as administrative agent under the DIP ABL Credit Agreement (as defined herein), and counsel to GACP Finance Co., LLC (the “**DIP Term Agent**”), as administrative agent under the DIP Term Credit Agreement (as defined herein), and on reading the consent of ~~[MONITOR’S NAME]~~ FTI to act as the Monitor,²

SERVICE

1. **THIS COURT ORDERS** that the time for service of the Notice of Application and the Application Record is hereby abridged and validated² so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

2. **THIS COURT ORDERS AND DECLARES** that the ~~Applicant is a company~~ Applicants are companies to which the CCAA applies. ~~Although not an Applicant, the Partnership shall enjoy the benefits of the protections and authorizations provided by this Order.~~

PLAN OF ARRANGEMENT

3. **THIS COURT ORDERS** that the ~~Applicant~~ Applicants, individually or collectively, shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the “**Plan**”).

¹ Include names of secured creditors or other persons who must be served before certain relief in this model Order may be granted. See, for example, CCAA Sections 11.2(1), 11.3(1), 11.4(1), 11.51(1), 11.52(1), 32(1), 32(3), 33(2) and 36(2).

² If service is effected in a manner other than as authorized by the Ontario *Rules of Civil Procedure*, an order validating irregular service is required pursuant to Rule 16.08 of the *Rules of Civil Procedure* and may be granted in appropriate circumstances.

POSSESSION OF PROPERTY AND OPERATIONS

4. **THIS COURT ORDERS** that the ~~Applicant~~Sears Canada Entities shall remain in possession and control of ~~its~~their respective current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "~~Property~~").-Property"). For greater certainty, the "Property" includes all inventory, assets, undertakings and property of the Sears Canada Entities in the possession or control of the Hometown Dealers (as defined in the Wong Affidavit) and all inventory, assets, undertakings and property of the Sears Canada Entities in the possession or control of the Corbeil Franchisees (as defined in the Wong Affidavit). Subject to further Order of this Court, the ~~Applicant~~Sears Canada Entities shall continue to carry on business in a manner consistent with the preservation of ~~its~~the value of their business (the "~~Business~~").-Business") and Property. The ~~Applicant is~~Sears Canada Entities shall each be authorized and empowered to continue to retain and employ the employees, independent contractors, advisors, consultants, agents, experts, accountants, counsel and such other persons (collectively-"Assistants") currently retained or employed by ~~it~~them, with liberty, subject to the terms of the Definitive Documents (as defined herein) to retain such further Assistants, as ~~it~~they deems reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

5. **{THIS COURT ORDERS** that the ~~Applicant~~Sears Canada Entities shall be entitled to continue to utilize the central cash management ~~system~~³services currently in place as described in the Wong Affidavit of [NAME] sworn [DATE] or, or, with the consent of the Monitor, the DIP ABL Agent on behalf of the DIP ABL Lenders (as defined herein) and the DIP Term Agent on behalf of the DIP Term Lenders (as defined herein), replace it with another substantially similar central cash management ~~system~~services (the "~~Cash Management System~~").-Cash Management System") and that any present or future bank or other institution providing the Cash Management System shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the ~~Applicant~~Sears Canada Entities of funds transferred, paid, collected or otherwise dealt with in the Cash Management System, shall be entitled to provide the Cash Management System without any liability in respect thereof to any Person (as hereinafter

³~~This provision should only be utilized where necessary, in view of the fact that central cash management systems often operate in a manner that consolidates the cash of applicant companies. Specific attention should be paid to cross-border and inter-company transfers of cash.~~

defined) other than the ~~Applicant~~Sears Canada Entities, pursuant to the terms of the documentation applicable to the Cash Management System, and shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims or expenses it may suffer or incur in connection with the provision of the Cash Management System; provided, however, that no bank or other institution providing such Cash Management System shall be obliged to extend any overdraft credit, on an aggregate net basis, directly or indirectly in connection therewith and further provided that, to the extent any overdraft occurs, on an aggregate net basis, the Sears Canada Entities shall make arrangements to repay such overdraft forthwith.†

6. **THIS COURT ORDERS** that the ~~Applicant~~Sears Canada Entities, subject to availability under, and in accordance with the terms of the DIP Facilities (as defined herein) and the Definitive Documents, and subject to further Order of this Court, shall be entitled but not required to pay the following expenses whether incurred prior to, on or after this Order to the extent that such expenses are incurred and payable by the Sears Canada Entities:

- (a) all outstanding and future wages, salaries, ~~employee and~~commissions, employee and retiree benefits (including, without limitation, medical, dental, life insurance and similar benefit plans or arrangements), pension benefits or contributions, vacation pay and expenses, and director fees and expenses, payable on or after the date of this Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements (but not including termination or severance payments), and all other payroll, pension and benefits processing and servicing expenses; and
- (b) all outstanding and future amounts owing to or in respect of individuals working as independent contractors in connection with the Business;
- (c) all outstanding or future amounts owing in respect of customer rebates, refunds, discounts or other amounts on account of similar customer programs or obligations;
- (d) all outstanding or future amounts related to honouring customer obligations, whether existing before or after the date of this Order, including customer financing, product warranties, pre-payments, deposits, gift cards, Sears Club programs (including

redemptions of Sears Club points) and other customer loyalty programs, offers and benefits, in each case incurred in the ordinary course of business and consistent with existing policies and procedures;

- (e) ~~(b)~~ the fees and disbursements of any Assistants retained or employed by the ~~Applicant in respect of these proceedings,~~ Sears Canada Entities at their standard rates and charges; and
- (f) with the consent of the Monitor, amounts owing for goods or services actually supplied to the Sears Canada Entities prior to the date of this Order by:
- (i) logistics or supply chain providers, including customs brokers and freight forwarders, fuel providers, repair, maintenance and parts providers, and security and armoured truck carriers, and including amounts payable in respect of customs and duties for goods;
 - (ii) providers of information, internet, and other technology, including e-commerce providers and related services;
 - (iii) providers of credit, debit and gift card processing related services; and
 - (iv) other third party suppliers up to a maximum aggregate amount of \$25 million, if, in the opinion of the Sears Canada Entities, the supplier is critical to the business and ongoing operations of the Sears Canada Entities.

7. **THIS COURT ORDERS** that, except as otherwise provided to the contrary herein, ~~the Applicant~~ and subject to the terms of the Definitive Documents, the Sears Canada Entities shall be entitled but not required to pay all reasonable expenses incurred by ~~the Applicant~~ them in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order and any other Order of this Court, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors' and officers' insurance), maintenance (including environmental remediation) and security services; and

- (b) payment for goods or services actually supplied to the ~~Applicant~~ Sears Canada Entities following the date of this Order.

8. **THIS COURT ORDERS** that the ~~Applicant~~ Sears Canada Entities shall remit, in accordance with legal requirements, or pay:

- (a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from the Sears Canada Entities' employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;
- (b) all goods and services taxes, harmonized sales taxes or other applicable sales taxes (collectively, "Sales Taxes") required to be remitted by the ~~Applicant~~ Sears Canada Entities in connection with the sale of goods and services by the ~~Applicant~~ Sears Canada Entities, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order, ~~and;~~
- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business, workers' compensation or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the ~~Applicant~~ Sears Canada Entities; and
- (d) ~~9. *THIS COURT ORDERS that until a real property lease is disclaimed *for resiliated]*⁴ in accordance with the CCAA, the *Applicant shall pay* all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under *the lease*) or as otherwise may be negotiated~~

⁴ ~~The term "resiliate" should remain if there are leased premises in the Province of Quebec, but can otherwise be removed.~~

~~between the *Applicant* and the landlord from time to time (*"Rent"*), for the period commencing from and including the date of this Order, twice monthly in equal payments on the first and fifteenth day of each month, in advance (but not in arrears). * *On the date of the first of such payments, any Rent relating to the period commencing from and including the date of this Order shall also be paid*.~~ taxes under the *Income Tax Act* (Canada) or other relevant taxing statutes to the extent that such taxing statutes give rise to statutory deemed trust amounts in favour of the Crown in right of Canada or any Province thereof or any political subdivision thereof or any other taxation authority.

9. ~~10.~~ **THIS COURT ORDERS** that, except as specifically permitted herein, the ~~Applicant~~ Sears Canada Entities are hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by ~~the Applicant~~ any one of the Sears Canada Entities to any of ~~its~~ their creditors as of this date; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of ~~its~~ the Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business or pursuant to this Order or any further Order of this Court.

RESTRUCTURING

10. ~~11.~~ **THIS COURT ORDERS** that the ~~Applicant~~ Sears Canada Entities shall, subject to such requirements as are imposed by the CCAA ~~and such covenants as may be contained in, and subject to the terms of~~ the Definitive Documents ~~(as hereinafter defined)~~, have the right to:

- (a) permanently or temporarily cease, downsize or shut down any of ~~its~~ their ~~Business~~ or operations, ~~and~~ to dispose of redundant or non-material assets not exceeding \$ ~~2~~ 2 million in any one transaction or \$ ~~in the aggregate~~ 5 million in the aggregate in any series of related transactions, provided that, with respect to leased premises, the Sears Canada Entities may, subject to the requirements of the CCAA and paragraphs 11 to 13 herein, vacate, abandon or quit the whole (but not part of) and may

⁵ ~~Section 36 of the amended CCAA does not seem to contemplate a pre-approved power to sell (see subsection 36(3)) and moreover requires notice (subsection 36(2)) and evidence (subsection 36(7)) that may not have occurred or be available at the initial CCAA hearing.~~

permanently (but not temporarily) cease, downsize or shut down any of their Business or operations in respect of any leased premises;

- (b) ~~†~~terminate the employment of such of its employees or temporarily lay off such of its employees as ~~†~~the relevant Sears Canada Entity deems appropriate~~†~~; and
- (c) pursue all avenues of refinancing~~-of its~~, restructuring, selling and reorganizing the Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing, restructuring, sale or reorganization,

all of the foregoing to permit the ~~Applicant~~Sears Canada Entities to proceed with an orderly restructuring of the Sears Canada Entities and/or the Business (the "Restructuring").

REAL PROPERTY LEASES

11. *THIS COURT ORDERS that until a real property lease is disclaimed* or resiliated* in accordance with the CCAA, the *Sears Canada Entities shall pay, without duplication,* all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under *its lease, but for greater certainty, excluding accelerated rent or penalties, fees or other charges arising as a result of the insolvency of any or all of the Sears Canada Entities or the making of this Initial Order*) or as otherwise may be negotiated between the *applicable Sears Canada Entity* and the landlord from time to time (*"Rent"*), for the period commencing from and including the date of this Order, twice-monthly in equal payments on the first and fifteenth day of each month, in advance (but not in arrears). **On the date of the first of such payments, any Rent relating to the period commencing from and including the date of this Order shall also be paid*.

12. **THIS COURT ORDERS** that the ~~Applicant~~Sears Canada Entities shall provide each of the relevant landlords with notice of the ~~Applicant's~~relevant Sears Canada Entity's intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the ~~Applicant's~~ entitlement of a Sears Canada Entity to remove any such fixture under the provisions of the lease, such

fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the ~~Applicant~~relevant Sears Canada Entity, or by further Order of this Court upon application by the ~~Applicant~~Sears Canada Entities on at least two (2) days' notice to such landlord and any such secured creditors. If any of the Applicant~~Sears Canada Entities~~ disclaims ~~for~~ ~~resiliates~~ the lease governing such leased premises in accordance with Section 32 of the CCAA, it shall not be required to pay Rent under such lease pending resolution of any such dispute (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer ~~for~~ ~~resiliation~~ of the lease shall be without prejudice to the ~~Applicant~~relevant Sears Canada Entity's claim to the fixtures in dispute.

13. **THIS COURT ORDERS** that if a notice of disclaimer ~~for~~ ~~resiliation~~ is delivered pursuant to Section 32 of the CCAA by any of the Sears Canada Entities, then: (a) during the notice period prior to the effective time of the disclaimer ~~for~~ ~~resiliation~~, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the ~~Applicant~~relevant Sears Canada Entity and the Monitor 24 hours' prior written notice; and (b) at the effective time of the disclaimer ~~for~~ ~~resiliation~~, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the ~~Applicant~~relevant Sears Canada Entity in respect of such lease or leased premises, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

NO PROCEEDINGS AGAINST THE ~~APPLICANT~~SEARS CANADA ENTITIES, THE BUSINESS OR THE PROPERTY

14. **THIS COURT ORDERS** that until and including ~~[DATE — MAX. 30 DAYS]~~July 22, 2017, or such later date as this Court may order (the "Stay Period"), no proceeding or enforcement process in any court or tribunal (each, a "Proceeding") shall be commenced or continued against or in respect of the ~~Applicant~~Sears Canada Entities or the Monitor or their respective employees and representatives acting in such capacities, or affecting the Business or the Property, except with the written consent of the ~~Applicant~~Sears Canada Entities and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of the ~~Applicant~~Sears Canada Entities or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

15. **THIS COURT ORDERS** that during the Stay Period, ~~all rights and remedies~~ no Person having any agreements or arrangements with the owners, operators, managers or landlords of commercial shopping centres or other commercial properties (including retail, office and industrial (warehouse) properties) in which there is located a store, office or warehouse owned or operated by the Sears Canada Entities shall take any Proceedings or exercise any rights or remedies under such agreements or arrangements that may arise upon and/or as a result of the making of this Order, the insolvency of, or declarations of insolvency by, any or all of the Sears Canada Entities, or as a result of any steps taken by the Sears Canada Entities pursuant to this Order and, without limiting the generality of the foregoing, no Person shall terminate, accelerate, suspend, modify, determine or cancel any such arrangement or agreement or be entitled to exercise any rights or remedies in connection therewith.

16. **THIS COURT ORDERS** that during the Stay Period, no Person having any agreements or arrangements with the Hometown Dealers or the Corbeil Franchisees shall take any Proceedings or exercise any rights or remedies under such agreements or arrangements that may arise upon and/or as a result of the making of this Order, the insolvency of, or declarations of insolvency by, any or all of the Sears Canada Entities, or as a result of any steps taken by the Sears Canada Entities pursuant to this Order and, without limiting the generality of the foregoing, no Person shall terminate, accelerate, suspend, modify, determine or cancel any such arrangement or agreement or be entitled to exercise any rights or remedies in connection therewith.

17. **THIS COURT ORDERS** that during the Stay Period all rights and remedies, of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "Persons" and each being a "Person") against or in respect of the ~~Applicant~~ Sears Canada Entities or the Monitor or their respective employees and representatives acting in such capacities, or affecting the Business or the Property, are hereby stayed and suspended, except with the written consent of the ~~Applicant~~ Sears Canada Entities and the Monitor, or leave of this Court, provided that nothing in this Order shall: (i) empower the ~~Applicant~~ Sears Canada Entities to carry on any business ~~which~~ that the ~~Applicant is~~ Sears Canada Entities are not lawfully entitled to carry on; (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA; (iii) prevent

the filing of any registration to preserve or perfect a security interest; or (~~iv~~) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

18. ~~16.~~ **THIS COURT ORDERS** that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, lease, sublease, licence or permit in favour of or held by the ApplicantSears Canada Entities, except with the written consent of the ApplicantSears Canada Entities and the Monitor, or leave of this Court. Without limiting the foregoing, no right, option, remedy, and/or exemption in favour of the relevant Sears Canada Entity shall be or shall be deemed to be negated, suspended, waived and/or terminated as a result of this Order.

CONTINUATION OF SERVICES

19. ~~17.~~ **THIS COURT ORDERS** that during the Stay Period, all Persons having oral or written agreements with the ApplicantSears Canada Entities or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all trademark license and other intellectual property, computer software, communication and other data services, centralized banking services, payroll and benefit services, insurance, warranty services, transportation services, ~~utility~~freight services, security and armoured truck carrier services, utility, customs clearing, warehouse and logistics services or other services to the Business or the ApplicantSears Canada Entities are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply or license of such goods ~~or~~ services, trademarks and other intellectual property as may be required by the ApplicantSears Canada Entities, and that the ApplicantSears Canada Entities shall be entitled to the continued use of ~~its current~~the trademarks and other intellectual property currently licensed to, used or owned by the Sears Canada Entities, premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the ApplicantSears Canada Entities in accordance with normal payment practices of the ApplicantSears Canada Entities or such other practices as may be agreed upon by the supplier or service provider and each of the ApplicantSears Canada Entities and the Monitor, or as may be ordered by this Court.

NON-DEROGATION OF RIGHTS

20. ~~18.~~ **THIS COURT ORDERS** that, notwithstanding anything else in this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of leased or licensed property or other valuable consideration provided on or after the date of this Order, nor shall any Person be under any obligation on or after the date of this Order to advance or re-advance any monies or otherwise extend any credit to the ~~Applicant.~~ Sears Canada Entities. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.⁶

KEY EMPLOYEE RETENTION PLAN

21. **THIS COURT ORDERS** that the Key Employee Retention Plan (the “KERP”), as described in the Wong Affidavit, is hereby approved and the Sears Canada Entities are authorized to make payments contemplated thereunder in accordance with the terms and conditions of the KERP.

22. **THIS COURT ORDERS** that the key employees referred to in the KERP (the “Key Employees”) shall be entitled to the benefit of and are hereby granted the following charges on the Property, which charges shall not exceed: (a) an aggregate amount of \$4.6 million (the “KERP Priority Charge”) to secure the first \$4.6 million payable to the Key Employees under the KERP; and (b) an aggregate amount of \$4.6 million (the “KERP Subordinated Charge”) to secure any other payments to the Key Employees under the KERP. The KERP Priority Charge and the KERP Subordinated Charge shall have the priority set out in paragraphs 46, 47 and 49 hereof.

APPROVAL OF FINANCIAL ADVISOR AGREEMENT

23. **THIS COURT ORDERS** that the agreement dated May 15, 2017 engaging BMO Nesbitt Burns Inc. (the “Financial Advisor”) as financial advisor to SCI and attached as Confidential Appendix C to the Pre-Filing Report (the “Financial Advisor Agreement”), and the retention of the Financial Advisor under the terms thereof, is hereby ratified and approved

⁶ ~~This non-derogation provision has acquired more significance due to the recent amendments to the CCAA, since a number of actions or steps cannot be stayed, or the stay is subject to certain limits and restrictions. See, for example, CCAA Sections 11.01, 11.04, 11.06, 11.07, 11.08, 11.1(2) and 11.5(1).~~

and SCL is authorized and directed *nunc pro tunc* to make the payments contemplated thereunder in accordance with the terms and conditions of the Financial Advisor Agreement.

24. THIS COURT ORDERS that the Financial Advisor shall be entitled to the benefit of and is hereby granted a charge (the "FA Charge") on the Property, which charge shall not exceed an aggregate amount of \$3.3 million, as security for the fees and disbursements payable under the Financial Advisor Agreement, both before and after the making of this Order in respect of these proceedings. The FA Charge shall have the priority set out in paragraphs 46, 47 and 49 hereof.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

25. ~~19.~~ THIS COURT ORDERS that during the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the ~~Applicant~~Sears Canada Entities with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the ~~Applicant~~Sears Canada Entities whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the ~~Applicant~~Sears Canada Entities, if one is filed, is sanctioned by this Court or is refused by the creditors of the ~~Applicant~~Sears Canada Entities or this Court.

DIRECTORS²² AND OFFICERS²³ INDEMNIFICATION AND CHARGE

26. ~~20.~~ THIS COURT ORDERS that the ~~Applicant~~Sears Canada Entities shall jointly and severally indemnify ~~its~~their directors and officers against obligations and liabilities that they may incur as directors or officers of the ~~Applicant~~Sears Canada Entities after the commencement of the within proceedings,⁷ except to the extent that, with respect to any officer or director, the obligation or liability was incurred as a result of the director¹²'s or officer¹²'s gross negligence or wilful misconduct.

27. ~~21.~~ THIS COURT ORDERS that the directors and officers of the ~~Applicant~~Sears Canada Entities shall be entitled to the benefit of and are hereby granted ~~a charge (the "Directors'~~

⁷~~The broad indemnity language from Section 11.51 of the CCAA has been imported into this paragraph. The granting of the indemnity (whether or not secured by a Directors' Charge), and the scope of the indemnity, are discretionary matters that should be addressed with the Court.~~

~~Charge⁸)~~ the following charges on the Property, which charges shall not exceed: (a) an aggregate amount of \$44 million (the “Directors’ Priority Charge”); and (b) an aggregate amount of \$19.5 million (the “Directors’ Subordinated Charge”), respectively, and in each case, as security for the indemnity provided in paragraph ~~{20}~~26 of this Order. The Directors’ Priority Charge and the Directors’ Subordinated Charge shall have the priority set out in paragraphs ~~{38}~~46, 47 and ~~{40}~~ herein~~.49 hereof.~~

28. ~~22.~~ **THIS COURT ORDERS** that, notwithstanding any language in any applicable insurance policy to the contrary; (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors’ Priority Charge, and the Directors’ Subordinated Charge; and (b) the ~~Applicant’s~~Sears Canada Entities’ directors and officers shall only be entitled to the benefit of the Directors’ Priority Charge and the Directors’ Subordinated Charge to the extent that they do not have coverage under any directors’⁹ and officers’⁹ insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph ~~{20}~~26 of this Order.

APPOINTMENT OF MONITOR

29. ~~23.~~ **THIS COURT ORDERS** that ~~[MONITOR’S NAME]~~FTI is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the ~~b~~Business and financial affairs of the ~~Applicant~~Sears Canada Entities with the powers and obligations set out in the CCAA or set forth herein and that the ~~Applicant~~Sears Canada Entities and ~~its~~their shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the ~~Applicant~~Sears Canada Entities pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor⁹s functions.

30. ~~24.~~ **THIS COURT ORDERS** that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the ~~Applicant’s~~Sears Canada Entities’ receipts and disbursements;

⁸ ~~Section 11.51(3) provides that the Court may not make this security/charging order if in the Court’s opinion the Applicant could obtain adequate indemnification insurance for the director or officer at a reasonable cost.~~

- (b) liaise with the Sears Canada Entities and the Assistants and, if determined by the Monitor to be necessary, the Hometown Dealers and Corbeil Franchisees, with respect to all matters relating to the Property, the Business, the Restructuring and such other matters as may be relevant to the proceedings herein;
- (c) ~~(b)~~ report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, the Restructuring and such other matters as may be relevant to the proceedings herein;
- (d) ~~(e)~~ assist the ~~Applicant~~ Sears Canada Entities, to the extent required by the ~~Applicant~~ Sears Canada Entities, in ~~its~~ their dissemination, ~~to the DIP Lender and its counsel on a [TIME INTERVAL] basis~~ of financial and other information ~~as agreed to between the Applicant and the DIP Lender which may be used in these proceedings including reporting on a basis to be agreed with the DIP Lender~~ to the DIP ABL Agent, the DIP ABL Lenders, the DIP Term Agent, the DIP Term Lenders and each of their respective counsel and financial advisors, pursuant to and in accordance with the Definitive Documents;
- (e) ~~(d)~~ advise the ~~Applicant~~ Sears Canada Entities in ~~its~~ their preparation of the ~~Applicant's~~ Sears Canada Entities' cash flow statements and any reporting required by the ~~DIP Lender~~ Definitive Documents, which information shall be reviewed with the Monitor and delivered to the DIP ~~Lender and its counsel on a periodic basis, but not less than [TIME INTERVAL], or as otherwise agreed to by the DIP Lender~~ ABL Agent, the DIP ABL Lenders, the DIP Term Agent, the DIP Term Lenders and each of their respective counsel and financial advisors, pursuant to and in accordance with the Definitive Documents;
- (f) ~~(e)~~ advise the ~~Applicant~~ Sears Canada Entities in ~~its~~ their development of the Plan and any amendments to the Plan;
- (g) ~~(f)~~ assist the ~~Applicant~~ Sears Canada Entities, to the extent required by the ~~Applicant~~ Sears Canada Entities, with the holding and administering of creditors²² or shareholders²² meetings for voting on the Plan;

- (h) ~~(g)~~ have full and complete access to the Property (including any Property in the possession of the Hometown Dealers and the Corbeil Franchisees), including the premises, books, records, data, including data in electronic form, and other financial documents of the ~~Applicant~~ Sears Canada Entities, to the extent that is necessary to adequately assess the ~~Applicant's business and~~ Business and the Sears Canada Entities' financial affairs or to perform its duties arising under this Order;
- (i) ~~(h)~~ be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;
- (j) assist the Sears Canada Entities, to the extent required by the Sears Canada Entities, with any matters relating to any foreign proceeding commenced in relation to any of the Sears Canada Entities, including retaining independent legal counsel, agents, experts, accountants, or such other persons as the Monitor deems necessary or desirable respecting the exercise of this power; and
- (k) ~~(i)~~ perform such other duties as are required by this Order or by this Court from time to time.

31. ~~25.~~ **THIS COURT ORDERS** that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

32. ~~26.~~ **THIS COURT ORDERS** that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder

(the "Environmental Legislation"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

33. ~~27.~~ **THIS COURT ORDERS** that ~~that~~ the Monitor shall provide any creditor of the Applicant Sears Canada Entities, the DIP ABL Agent, the DIP ABL Lenders, the DIP Term Agent and the DIP ~~Lender~~ Term Lenders with information provided by the Applicant Sears Canada Entities in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Applicant Sears Canada Entities is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicant Sears Canada Entities may agree.

34. ~~28.~~ **THIS COURT ORDERS** that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

35. ~~29.~~ **THIS COURT ORDERS** that the Monitor, counsel to the Monitor ~~and~~, counsel to the Applicant Sears Canada Entities and counsel to the Board of Directors and the Special Committee shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, ~~by the Applicant~~ whether incurred prior to or subsequent to the date of this Order, by the Sears Canada Entities as part of the costs of these proceedings. The ~~Applicant is~~ Sears Canada Entities are hereby authorized and directed to pay the accounts of the Monitor, counsel ~~for the Monitor and counsel for the Applicant on a [TIME INTERVAL]~~ to the Monitor, counsel to the Sears Canada Entities and counsel to the Board of Directors and the Special Committee on a weekly basis and, in addition, the ~~Applicant is~~ Sears Canada Entities are hereby authorized to pay to the Monitor, counsel to the Monitor, ~~and~~ counsel to the Applicant Sears Canada Entities and counsel to the Board of Directors and the Special Committee, retainers in the

aggregate amount[s] of \$● ~~[, respectively,]~~ 700,000, to be held by them as security for payment of their respective fees and disbursements outstanding from time to time.

36. ~~30.~~ **THIS COURT ORDERS** that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

37. ~~31.~~ **THIS COURT ORDERS** that the Monitor, counsel to the Monitor, ~~if any, and the Applicant's~~ counsel to the Sears Canada Entities and counsel to the Board of Directors and the Special Committee shall be entitled to the benefit of and are hereby granted a charge (the "Administration Charge") on the Property, which charge shall not exceed an aggregate amount of \$● 5 million, as security for their professional fees and disbursements incurred at ~~the~~ their respective standard rates and charges ~~of the Monitor and such counsel~~, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs ~~38~~ 46, 47 and ~~40~~ 49 hereof.

DIP FINANCING

38. ~~32.~~ **THIS COURT ORDERS** that the ~~Applicant is~~ Sears Canada Entities are hereby authorized and empowered to obtain and borrow ~~under a credit facility from [DIP LENDER'S NAME] (the "DIP Lender") in order to finance the Applicant's working capital requirements and other general corporate purposes and capital expenditures, provided that borrowings or guarantee, as applicable, on a joint and several basis, under such credit facility shall not exceed \$● unless permitted by further Order of this Court.:~~

- (a) the Senior Secured Superpriority Debtor-in-Possession Amended and Restated Credit Agreement dated as of June 22, 2017 and attached to the Wong Affidavit as Exhibit K, among the Sears Canada Entities, the DIP ABL Agent and the lenders from time to time party thereto (the "DIP ABL Lenders") (as may be amended, restated, supplemented and/or modified, subject to approval of this Court in respect of any amendment that the Monitor determines to be material, the "DIP ABL Credit Agreement"), in order to finance the Sears Canada Entities' working capital requirements and other general corporate purposes and capital expenditures, all in accordance with the Definitive Documents, provided that borrowings under DIP ABL

Credit Agreement shall not exceed \$300 million unless permitted by further Order of this Court (the “DIP ABL Credit Facility”); and

- (b) the Senior Secured, Superpriority Debtor-in-Possession Credit Agreement dated as of June 22, 2017 and attached to the Wong Affidavit as Exhibit K, among the Sears Canada Entities, the DIP Term Agent and the lenders from time to time party thereto (the “DIP Term Lenders”) (as may be amended, restated, supplemented and/or modified, subject to approval of this Court in respect of any amendment that the Monitor determines to be material, the “DIP Term Credit Agreement”), in order to finance the Sears Canada Entities’ working capital requirements and other general corporate purposes and capital expenditures, all in accordance with the Definitive Documents, provided that borrowings under the DIP Term Credit Agreement shall not exceed \$150 million unless permitted by further Order of this Court (the “DIP Term Credit Facility”, and together with the DIP ABL Credit Facility, the “DIP Facilities”).

39. ~~33.~~ THIS COURT ORDERS THAT such credit that the DIP Facilityies shall be on the terms and subject to the conditions set forth in the commitment letter between the Applicant and the DIP Lender dated as of [DATE] (the “Commitment Letter”), filed DIP ABL Credit Agreement, the DIP Term Credit Agreement and the other Definitive Documents.

40. ~~34.~~ THIS COURT ORDERS that the Applicant is Sears Canada Entities are hereby authorized and empowered to execute and deliver the DIP ABL Credit Agreement, the DIP Term Credit Agreement and such credit agreements, mortgages, charges, hypothecs and security documents, guarantees and other definitive documents (collectively, ~~the “and including any schedules (as amended and updated from time to time) thereto, the “Definitive Documents”~~), as are contemplated by the ~~Commitment Letter~~ DIP ABL Credit Agreement and the DIP Term Credit Agreement or as may be reasonably required by the DIP Lender ABL Agent on behalf of the DIP ABL Lenders and the DIP Term Agent on behalf of the DIP Term Lenders pursuant to the terms thereof, as applicable, and the Applicant is Sears Canada Entities are hereby authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities and obligations to the DIP Lender ABL Agent, the DIP ABL Lenders, the DIP Term Agent and the DIP Term Lenders under and pursuant to ~~the Commitment Letter and~~ the Definitive Documents as and

when the same become due and are to be performed, notwithstanding any other provision of this Order.

41. ~~35.~~ **THIS COURT ORDERS** that the DIP ~~Lender~~ABL Agent and the DIP ABL Lenders shall be entitled to the benefit of and ~~is~~are hereby granted a charge (the ~~"DIP Lender's Charge"~~"DIP ABL Lenders' Charge") ~~on the Property, which DIP Lender's~~on the Property as security for any and all Obligations (as defined in the DIP ABL Credit Agreement) other than the Prepetition Obligations (as defined in the DIP ABL Credit Agreement) (including on account of principal, interest, fees, expenses and other liabilities, and the aggregate of all such obligations, the "DIP ABL Obligations"), which ~~DIP Lender's~~DIP ABL Lenders' Charge shall be in the aggregate amount of the ~~DIP ABL Obligations~~DIP ABL Obligations outstanding at any given time under the DIP ABL Credit Agreement. The DIP ABL Lenders' Charge shall not secure an obligation that exists before this Order is made. The DIP Lender'sABL Lenders' Charge shall have the priority set out in paragraphs ~~38~~46, 47 and ~~40~~49 hereof.

42. **THIS COURT ORDERS** that the ~~DIP Term Agent and the DIP Term Lenders~~DIP Term Agent and the DIP Term Lenders shall be entitled to the benefit of and ~~are~~are hereby granted a charge (the ~~"DIP Term Lenders' Charge"~~"DIP Term Lenders' Charge") ~~on the Property as security for any and all Obligations (as defined in DIP Term Credit Agreement) (including on account of principal, interest, fees, expenses and other liabilities, and the aggregate of all such obligations, the "DIP Term Obligations")~~on the Property as security for any and all Obligations (as defined in DIP Term Credit Agreement) (including on account of principal, interest, fees, expenses and other liabilities, and the aggregate of all such obligations, the "DIP Term Obligations"), which ~~DIP Term Lenders' Charge~~DIP Term Lenders' Charge shall be in the aggregate amount of the ~~DIP Term Obligations~~DIP Term Obligations outstanding at any given time under the DIP Term Credit Agreement. The DIP Term Lenders' Charge shall not secure an obligation that exists before this Order is made. The DIP Term Lenders' Charge shall have the priority set out in paragraphs 46, 47 and 49 hereof.

43. **THIS COURT ORDERS** that ~~SCI's reimbursement obligation with respect to the letters of credit outstanding under the Wells Fargo Credit Agreement (as defined in the Wong Affidavit) prior to the date of this Order and which are drawn upon on or after the date of this Order shall be deemed to form part of the DIP ABL Credit Facility and shall be included as DIP ABL Obligations for the purposes of determining the amount of the DIP ABL Lenders' Charge.~~SCI's reimbursement obligation with respect to the letters of credit outstanding under the Wells Fargo Credit Agreement (as defined in the Wong Affidavit) prior to the date of this Order and which are drawn upon on or after the date of this Order shall be deemed to form part of the DIP ABL Credit Facility and shall be included as DIP ABL Obligations for the purposes of determining the amount of the DIP ABL Lenders' Charge.

44. ~~36.~~ **THIS COURT ORDERS** that, notwithstanding any other provision of this Order:

- (a) the DIP ~~Lender~~ABL Agent on behalf of the DIP ABL Lenders, as applicable, may take such steps from time to time as ~~it~~they may deem necessary or appropriate to file, register, record or perfect the DIP ~~Lender's~~ABL Lenders' Charge, the DIP ABL Credit Agreement or any of the other Definitive Documents;
- (b) ~~*upon the occurrence of an event of default under the *Definitive Documents or the DIP Lender's Charge, the DIP Lender, upon ● days notice to the Applicant and the Monitor, may exercise any and all of its rights and remedies against the Applicant or the Property under or pursuant to the Commitment Letter, Definitive Documents and the DIP Lender's Charge, including without limitation, to *cease making advances to the *Applicant and set off and/or consolidate any amounts owing by the DIP Lender to the Applicant against the obligations of the Applicant to the DIP Lender under the Commitment Letter, the Definitive Documents or the DIP Lender's Charge, to *make demand, accelerate payment and give other notices*, or to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the Applicant and for the appointment of a trustee in bankruptcy of the Applicant; and~~ the DIP Term Agent on behalf of the DIP Term Lenders, as applicable, may take such steps from time to time as they may deem necessary or appropriate to file, register, record or perfect the DIP Term Lenders' Charge, the DIP Term Credit Agreement or any of the other Definitive Documents;
- (c) ~~*upon the occurrence of an event of default under the *DIP ABL Credit Agreement,~~ the other related Definitive Documents or the DIP ABL Lenders' Charge, the DIP ABL Agent and the DIP ABL Lenders, as applicable, may, subject to the provisions of the DIP ABL Credit Agreement with respect to the giving of notice or otherwise, and in accordance with the DIP ABL Credit Agreement, the other related Definitive Documents and the DIP ABL Lenders' Charge, as applicable, *cease making advances to the *Sears Canada Entities, *make demand, accelerate payment and give other notices*; provided that, the DIP ABL Agent and the DIP ABL Lenders must apply to this Court on seven (7) days' prior written notice (which may include the service of materials in connection with such an application to this Court) to the Sears Canada Entities, the DIP Term Agent, the DIP Term Lenders and the Monitor, to enforce against or exercise any other rights and remedies with respect to the Sears

Canada Entities or any of the Property (including to set off and/or consolidate any amounts owing by the DIP ABL Agent and the DIP ABL Lenders to the Sears Canada Entities against the obligations of the Sears Canada Entities to the DIP ABL Agent and the DIP ABL Lenders under the DIP ABL Credit Agreement, the other related Definitive Documents or the DIP ABL Lenders' Charge), to appoint a receiver, receiver and manager or interim receiver, or to seek a bankruptcy order against the Sears Canada Entities and to appoint a trustee in bankruptcy of the Sears Canada Entities;

(d) upon the occurrence of an event of default under the DIP Term Credit Agreement, the other related Definitive Documents or the DIP Term Lenders' Charge, the DIP Term Agent and the DIP Term Lenders, as applicable, may, subject to the provisions of the DIP Term Credit Agreement with respect to the giving of notice or otherwise, and in accordance with the DIP Term Credit Agreement, the other related Definitive Documents and the DIP Term Lenders' Charge, as applicable, cease making advances to the Sears Canada Entities, make demand, accelerate payment and give other notices; provided that, the DIP Term Agent and the DIP Term Lenders must apply to this Court on seven (7) days' prior written notice (which may include the service of materials in connection with such an application to this Court) to the Sears Canada Entities, the DIP ABL Agent, the DIP ABL Lenders and the Monitor, to enforce against or exercise any other rights and remedies with respect to the Sears Canada Entities or any of the Property (including to set off and/or consolidate any amounts owing by the DIP Term Agent and the DIP Term Lenders to the Sears Canada Entities against the obligations of the Sears Canada Entities to the DIP Term Agent and the DIP Term Lenders under the DIP Term Credit Agreement, the other related Definitive Documents or the DIP Term Lenders' Charge), to appoint a receiver, receiver and manager or interim receiver, or to seek a bankruptcy order against the Sears Canada Entities and to appoint a trustee in bankruptcy of the Sears Canada Entities; and

(e) ~~(e)~~ the foregoing rights and remedies of the DIP Lender ABL Agent, the DIP ABL Lenders, the DIP Term Agent and the DIP Term Lenders shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the ~~Applicant~~ Sears Canada Entities or the Property.

45. ~~37.~~ **THIS COURT ORDERS AND DECLARES** that the DIP ~~Lender~~ABL Agent, the DIP ABL Lenders, the DIP Term Agent and the DIP Term Lenders shall be treated as unaffected in any plan of arrangement or compromise filed by the ~~Applicant~~Sears Canada Entities or any of them under the CCAA, or any proposal filed by the ~~Applicant~~Sears Canada Entities or any of them under the *Bankruptcy and Insolvency Act* of Canada (the "BIA"), with respect to any advances made under the DIP ABL Credit Agreement, the DIP Term Credit Agreement and the other Definitive Documents.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

46. ~~38.~~ **THIS COURT ORDERS** that the priorities of the ~~Directors' Charge, the Administration Charge and the DIP Lender's Charge, as among them, shall be as follows~~⁹ Administration Charge, the FA Charge, the DIP ABL Lenders' Charge, the DIP Term Lenders' Charge, the Directors' Priority Charge, the Directors' Subordinated Charge, the KERP Priority Charge and the KERP Subordinated* Charge (collectively, the *"Charges"), as among them, with respect to ABL Priority Collateral (as defined in the Intercreditor Agreement dated March 20, 2017 and attached as Exhibit J to the Wong Affidavit) shall be as follows:

First ~~—~~ Administration Charge ~~(to the maximum amount of \$~~~~●~~~~)~~5 million, and the FA Charge, to the maximum amount of \$3.3 million, on a *pari passu* basis;

Second ~~—~~ DIP Lender's Charge; and KERP Priority Charge, to the maximum amount of \$4.6 million;

Third ~~—~~ Directors' Priority Charge, to the maximum amount of \$44 million;

Fourth ~~—~~ DIP ABL Lenders' Charge, to the maximum amount of the quantum of the DIP ABL Obligations at the relevant time;

⁹~~The ranking of these Charges is for illustration purposes only, and is not meant to be determinative. This ranking may be subject to negotiation, and should be tailored to the circumstances of the case before the Court. Similarly, the quantum and caps applicable to the Charges should be considered in each case. Please also note that the CCAA now permits Charges in favour of critical suppliers and others, which should also be incorporated into this Order (and the rankings, above), where appropriate.~~

Fifth – the DIP Term Lenders’ Charge, to the maximum amount of the quantum of the DIP Term Obligations at the relevant time;

Sixth – KERP Subordinated Charge, to the maximum amount of \$4.6 million; and

Seventh – the Directors’ Subordinated Charge, to the maximum amount of \$19.5 million.

47. THIS COURT ORDERS that the priorities of the Charges as among them, with respect to all Property other than the ABL Priority Collateral shall be as follows:

First – Administration Charge, to the maximum amount of \$5 million, and the FA Charge, to the maximum amount of \$3.3 million, on a *pari passu* basis;

Second – KERP Priority Charge, to the maximum amount of \$4.6 million;

Third – Directors’ Priority Charge, to the maximum amount of \$44 million;

Fourth – DIP Term Lenders’ Charge, to the maximum amount of the quantum of the DIP Term Obligations at the relevant time;

Fifth – DIP ABL Lenders’ Charge, to the maximum amount of the quantum of the DIP ABL Obligations at the relevant time;

Sixth – KERP Subordinated Charge, to the maximum amount of \$4.6 million; and

~~Third–Seventh – the Directors’ Subordinated~~ Charge, (to the maximum amount of \$●)19.5 million.

48. ~~39.~~ THIS COURT ORDERS that the filing, registration or perfection of the ~~Directors’ Charge, the Administration Charge or the DIP Lender’s*~~ Charge (collectively, the ~~*"Charges")~~ Charges shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

49. ~~40.~~ **THIS COURT ORDERS** that each of the ~~Directors' Charge, the Administration Charge and the DIP Lender's Charge (all as constituted and defined herein)~~ Charges shall constitute a charge on the Property, and such Charges shall rank in priority to all other security interests, trusts (including constructive trusts), liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (including without limitation any deemed trust that may be created under the Ontario Pension Benefits Act) (collectively, ~~"Encumbrances"~~ "Encumbrances") ~~in favour of any Person.~~ "Encumbrances" other than (a) any Person with a properly perfected purchase money security interest under the Personal Property Security Act (Ontario) or such other applicable provincial legislation that has not been served with notice of this Order; and (b) statutory super-priority deemed trusts and liens for unpaid employee source deductions.

50. ~~41.~~ **THIS COURT ORDERS** that except as otherwise expressly provided for herein, or as may be approved by this Court, the ~~Applicant~~ Sears Canada Entities shall not grant any Encumbrances over any of the Property that rank in priority to, or *pari passu* with, any of the ~~Directors' Charge, the Administration Charge or the DIP Lender's Charge~~ Charges, unless the ~~Applicant~~ Sears Canada Entities also obtains the prior written consent of the Monitor, the ~~DIP Lender and the beneficiaries of the Directors' Charge and the Administration Charge~~ ABL Agent on behalf of the DIP ABL Lenders, the DIP Term Agent on behalf of the DIP Term Lenders and the other beneficiaries of affected Charges, or further Order of this Court.

51. ~~42.~~ **THIS COURT ORDERS** that the ~~Directors' Charge, the Administration Charge, the Commitment Letter, the Charges, the DIP ABL Credit Agreement, the DIP Term Credit Agreement, and the other~~ Definitive Documents ~~and the DIP Lender's Charge~~ shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the ~~"Chargees" and/or the DIP Lender"~~ "Chargees") thereunder shall not otherwise be limited or impaired in any way by: (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an

~~"Agreement")~~ ~~which~~ ~~that~~ binds the ~~Applicant~~ Sears Canada Entities, and notwithstanding any provision to the contrary in any Agreement:

- (i) ~~(a)~~ neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the ~~Commitment Letter or the~~ DIP ABL Credit Agreement, the DIP Term Credit Agreement or the other Definitive Documents shall create or be deemed to constitute a breach by the ~~Applicant~~ Sears Canada Entities of any Agreement to which it is a party;
- (ii) ~~(b)~~ none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the ~~Applicant~~ Sears Canada Entities entering into the ~~Commitment Letter~~ DIP ABL Credit Agreement and the DIP Term Credit Agreement, the creation of the Charges, or the execution, delivery or performance of the other Definitive Documents; and
- (iii) ~~(c)~~ the payments made by the ~~Applicant~~ Sears Canada Entities pursuant to this Order, the ~~Commitment Letter or the~~ DIP ABL Credit Agreement, the DIP Term Credit Agreement or the other Definitive Documents, and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

52. ~~43.~~ **THIS COURT ORDERS** that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the ~~Applicant's~~ relevant Sears Canada Entity's interest in such real property leases.

53. **THIS COURT ORDERS** that, notwithstanding any other provision of this Order, the L/C Collateral Account (as defined in the DIP ABL Credit Agreement) shall be deemed to be subject to a lien, security, charge and security interest in favour of the DIP ABL Agent solely for the reimbursement obligation of SCI related to the letters of credit issued under the Wells Fargo Credit Agreement which remain undrawn from and after the Comeback Motion (as defined herein). The Charges as they may attach to the L/C Collateral Account, including by operation of law or otherwise: (a) shall rank junior in priority to the lien, security, charge and security interest in favour of the DIP ABL Agent in respect of the L/C Collateral Account; and (b) shall attach to the L/C Collateral Account only to the extent of the rights, if any, of any Sears Canada Entity to the return of any cash from the L/C Collateral Account in accordance with the DIP ABL Credit Agreement.

CORPORATE MATTERS

54. THIS COURT ORDERS that SCI be and is hereby relieved of any obligation to call and hold an annual meeting of its shareholders until further Order of this Court.

55. THIS COURT ORDERS that SCI be and is hereby relieved of any obligation to appoint any new directors until further Order of this Court.

SERVICE AND NOTICE

56. ~~44.~~ THIS COURT ORDERS that the Monitor shall: (i~~a~~) without delay, publish in ~~[newspapers specified by the Court]~~ The Globe and Mail (National Edition) and La Presse a notice containing the information prescribed under the CCAA; ~~and (ii~~b~~)~~ within five days after the date of this Order, (A~~i~~) make this Order publicly available in the manner prescribed under the CCAA, (B~~ii~~) send or cause to be sent, in the prescribed manner, a notice to every known creditor who has a claim against the ~~Applicant of more than \$1000, and (C~~ Sears Canada Entities of more than \$1,000 (excluding individual employees, former employees with pension and/or retirement savings plan entitlements, and retirees and other beneficiaries who have entitlements under any pension or retirement savings plans), and (iii) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder, provided that the Monitor shall not make the claims, names and addresses of the individuals who are creditors publicly available.

57. THIS COURT ORDERS that the Monitor shall create, maintain and update as necessary a list of all Persons appearing in person or by counsel in this proceeding (the "Service List"). The Monitor shall post the Service List, as may be updated from time to time, on the Monitor's Website (as defined herein) as part of the public materials to be made available thereon in relation to this proceeding. Notwithstanding the foregoing, the Monitor shall have no liability in respect of the accuracy of or the timeliness of making any changes to the Service List.

58. THIS COURT ORDERS that any employee of any of the Sears Canada Entities that receives a notice of termination from any of the Sears Canada Entities shall be deemed to have received such notice of termination by no more than the seventh day following the date such

notice of termination is delivered, if such notice of termination is sent by ordinary mail, courier or registered mail.

59. ~~45.~~ **THIS COURT ORDERS** that the E-Service Protocol of the Commercial List (the “**Protocol**”) is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/e-service-protocol/http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/eservice-commercial/>) shall be valid and effective service. Subject to Rule ~~17.05~~17.05, this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the Rules of Civil Procedure. Subject to Rule 3.01(d) of the Rules of Civil Procedure and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission. This Court further orders that a Case Website shall be established in accordance with the Protocol with the following URL- ~~‘<@>’~~: cfeanada.fticonsulting.com/searscanada (the “**Monitor’s Website**”).

60. ~~46.~~ **THIS COURT ORDERS** that if the service or distribution of documents in accordance with the Protocol is not practicable, the ~~Applicant~~Sears Canada Entities and the Monitor are at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or ~~faesimile~~electronic transmission to the ~~Applicant's~~Sears Canada Entities’ creditors or other interested parties at their respective addresses as last shown on the records of the ~~Applicant~~Sears Canada Entities and that any such service or distribution by courier, personal delivery or ~~faesimile~~electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

61. **THIS COURT ORDERS** that the Applicants, the Monitor, the Financial Advisor, the DIP Term Agent on behalf of the DIP Term Lenders and the DIP ABL Agent on behalf of the DIP ABL Lenders, and their respective counsel are at liberty to serve or distribute this Order, any other materials and orders as may be reasonably required in these proceedings, including any notices, or other correspondence, by forwarding true copies thereof by electronic message to the Applicants’ creditors or other interested parties and their advisors. For greater certainty, any such

distribution or service shall be deemed to be in satisfaction of a legal or juridical obligation, and notice requirements within the meaning of clause 3(c) of the Electronic Commerce Protection Regulations, Reg. 81000-2-175 (SOR/DORS).

COMEBACK MOTION

62. THIS COURT ORDERS that the comeback motion shall be heard on July 13, 2017 (the “Comeback Motion”).

GENERAL

63. ~~47.~~ THIS COURT ORDERS that the ~~Applicant~~Sears Canada Entities or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

64. ~~48.~~ THIS COURT ORDERS that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the ~~Applicant~~Sears Canada Entities, the Business or the Property.

65. ~~49.~~ THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order and to assist the ~~Applicant~~Sears Canada Entities, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the ~~Applicant~~Sears Canada Entities and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the ~~Applicant~~Sears Canada Entities and the Monitor and their respective agents in carrying out the terms of this Order.

66. ~~50.~~ THIS COURT ORDERS that each of the Applicants and the Monitor be at liberty and ~~is~~are hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Monitor is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada, including acting as the foreign representative of the

Applicants to apply to the United States Bankruptcy Court for relief pursuant to Chapter 15 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1515, as amended, and to act as foreign representative in respect of any such proceedings and any ancillary relief in respect thereto, and to take such other steps as may be authorized by the Court.

67. ~~51.~~ **THIS COURT ORDERS** that any interested party (including the ~~Applicant~~ Sears Canada Entities and the Monitor) may apply to this Court to vary or amend this Order at the Comeback Motion on not less than seven (7) calendar days' notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

68. **THIS COURT ORDERS** that Confidential Appendix B and Confidential Appendix C to the Pre-Filing Report shall be and are hereby sealed, kept confidential and shall not form part of the public record pending further Order of this Court.

69. ~~52.~~ **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.

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 SEARS
CANADA INC., CORBEIL ÉLECTRIQUE INC., S.L.H. TRANSPORT INC., THE CUT
INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC.,
INITIUM COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP.,
SEARS FLOOR COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO
INC., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED,
955041 ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC., AND 3339611
CANADA INC. (collectively, the "Applicants")

ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)

Proceeding commenced at Toronto

INITIAL ORDER

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Lawyers for the Applicants

IN THE MATTER OF the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended

Court File No:

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF SEARS CANADA INC., CORBEL ÉLECTRIQUE INC., S.L.H. TRANSPORT INC., THE CUT INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP., SEARS FLOOR COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC., AND 3339611 CANADA INC.

Applicants

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

NOTICE OF APPLICATION

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Tab 2

Court File No.

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 SEARS CANADA INC., CORBEIL
ÉLECTRIQUE INC., S.L.H. TRANSPORT INC., THE CUT INC.,
SEARS CONTACT SERVICES INC., INITIUM LOGISTICS
SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM
TRADING AND SOURCING CORP., SEARS FLOOR
COVERING CENTRES INC., 173470 CANADA INC., 2497089
ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA
INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD.,
4201531 CANADA INC., 168886 CANADA INC., AND 3339611
CANADA INC.

APPLICANTS

AFFIDAVIT OF BILLY WONG
(Sworn June 22, 2017)

I, Billy Wong, of the City of Toronto, in the Province of Ontario, MAKE OATH

AND SAY:

1. This Affidavit is made in support of an Application by Sears Canada Inc. ("**Sears Canada**"), Corbeil Électrique Inc. ("**Corbeil**"), S.L.H. Transport Inc., The Cut Inc., Sears Contact Services Inc., Initium Logistics Services Inc., Initium Commerce Labs Inc., Initium Trading and Sourcing Corp., Sears Floor Covering Centres Inc., 173470 Canada Inc., 2497089 Ontario Inc., 6988741 Canada Inc., 10011711 Canada Inc., 1592580 Ontario Limited, 955041 Alberta Ltd., 4201531 Canada Inc., 168886 Canada Inc., and 3339611 Canada Inc. (together, the

“Applicants” or the “Sears Canada Group”) for relief under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “CCAA”).

2. I am the Executive Vice-President and Chief Financial Officer of Sears Canada and have held this position since December 2016. Prior to that, I was the interim Chief Financial Officer from July 2016 and before that held the position of Senior Vice-President, Corporate Financial Planning. I have been employed in Sears Canada’s finance department since March 2015. I am also a director of each of the other Applicants. As such, I have personal knowledge of the matters deposed to in this Affidavit. Where I have relied on other sources for information, I have specifically referred to such sources and believe them to be true. In preparing this Affidavit, I have consulted with legal, financial and other advisors to Sears Canada and other members of the senior management team of Sears Canada. Unless otherwise indicated, all amounts in this Affidavit are in Canadian dollars.

3. This Affidavit is organized in the following sections:

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Introduction

4. The Sears Canada Group is one of Canada's largest multi-format retailers, employing approximately 17,000 people at 225 stores across Canada and at its head office in Toronto, Ontario. Sears Canada is a public company listed on the Toronto Stock Exchange and NASDAQ. The principal activities of Sears Canada and its subsidiaries include the sale of goods and services through its full-line department stores, Sears Home, Sears Hometown, Sears Outlet, and Corbeil stores, and via its online sales platform.

5. In addition to its approximately 17,000 employees, the Sears Canada Group's stakeholder groups include customers, vendors of inventory, suppliers of services, franchisees operating Corbeil stores, dealer operators of Hometown stores, retirees, landlords, tenants to whom the Sears Canada Group leases space, and others.

6. In recent years, the Sears Canada Group has experienced a sustained decline in its performance, including substantial declines in revenue, as well as recurring operating losses and net losses, and an erosion of its cash position, which has now resulted in significant liquidity pressures. The Sears Canada Group has considered and implemented a wide range of initiatives over the past few years to transform the business in an attempt to address the serious challenges facing the company and the retail industry more generally.

7. In particular, the Sears Canada Group has taken steps to transform its business from a bricks and mortar chain of retail stores supported by an e-commerce platform to an e-commerce based retailer with supporting stores. These steps include: launching the Initium Commerce Lab, an innovation hub, to design and implement a modernized technology platform

for Sears Canada; reducing square footage and changing the product mix in its stores through the Sears 2.0 program; launching a new off-price retail business called “The Cut”; closing numerous underperforming stores; improving the efficiency of logistics networks; and reducing costs.

8. In order to provide sufficient funds to implement this operational transformation and to fund its ongoing business operations, the Sears Canada Group has taken a number of actions, including the monetization of real estate assets, sale of joint venture interests, and additional borrowings. Recently, Sears Canada negotiated a new term loan credit facility with two available tranches. The first tranche of the term loan in the amount of US\$93.9 million (CAN \$125 million) was advanced on March 20, 2017. However, the second tranche of up to the U.S. dollar equivalent of CAN\$175 million could not be funded in a timely manner and the anticipated closing was extended from May 4, 2017 to June 30, 2017.

9. As set out in Sears Canada’s press release date June 13, 2017, based on the status of negotiations with the term loan lenders, the amount that Sears Canada could expect to borrow under the second tranche was reduced to an amount up to \$109.1 million before transaction fees. Ultimately, Sears Canada concluded that it was not prudent to encumber its remaining real estate assets for borrowings that were significantly less than \$175 million.

10. On June 13, 2017, Sears Canada also filed its consolidated quarter-end financial statements, which noted that there was significant doubt as to the company’s ability to continue as a going concern. Management was uncertain as to Sears Canada’s ability to continue to satisfy its obligations and implement its business plan in the ordinary course due to Sears Canada’s inability to borrow the full amount of the second tranche of funding and the lack of timely, available alternative sources of liquidity. Without additional liquidity, the Sears Canada Group

can no longer continue to transform its business and rationalize its footprint outside of a CCAA proceeding.

11. Accordingly, as part of the relief sought in this application, the Applicants are seeking approval of two debtor-in-possession loan facilities (collectively, the “**DIP Facility**”) with its existing lenders. I believe that the DIP Facility is the only available option for the Applicants to keep the vast majority of its workers employed and maintain going concern operations for the benefit of its stakeholders. The proposed DIP Facility is intended to provide the Sears Canada Group with stability, additional time, and the necessary liquidity to complete its operational restructuring as part of these CCAA proceedings.

12. The Sears Canada Group is entering these proceedings with the intention of emerging as a stronger, more focused competitor in the Canadian retail industry. It plans to continue to operate a large number of stores, maintain significant employment, and service its customers across Canada. However, in order to complete the Sears Canada Group’s transformation and to right-size its business, the Sears Canada Group will be closing a number of stores, exiting business lines, reducing operating costs, and implementing headcount reductions. Management expects that the company that emerges from this CCAA proceeding will be well-positioned to capitalize on the opportunities that exist in the Canadian retail marketplace. The Sears Canada Group is already seeing promising signs of growth as Sears Canada’s same store sales increased by 2.9% in the first quarter of Fiscal 2017, compared to the same quarter last year.

13. The Applicants require a stay of proceedings and related relief under the CCAA in order to continue operating and restructuring their businesses, with the ultimate goal of

maximizing enterprise value through one or more restructuring transactions for the benefit of their stakeholders, including potentially developing a plan of compromise and arrangement as part of these CCAA proceedings.

14. If an Initial CCAA Order is granted, the Applicants intend to promptly serve a motion or motions seeking this Court's approval of:

- (a) a comprehensive and flexible sale and investor solicitation process that will seek and evaluate a broad range of potential transactions (the "SISP"), to be conducted by BMO Nesbitt Burns Inc. ("BMO Capital Markets") under the supervision of the Proposed Monitor. It is contemplated that the process will be open to both third parties and the company's landlords;
- (b) the liquidation of inventory in certain stores that will be closing as part of these proceedings and associated sale guidelines; and
- (c) the Sears Canada Group ceasing to: (i) make special payments with respect to the defined benefit portion of the Sears Pension Plan (defined below) and (ii) make payments with respect to other post-retirement benefits under the PRB Plan (defined below).

Corporate Structure of the Sears Canada Group

15. Sears Canada was incorporated under the laws of Canada by letters patent dated September 17, 1952 and was continued under the *Canada Business Corporations Act* by articles of continuance effective May 15, 1980. By articles of amendment effective May 31, 1984, it

changed its name from Simpsons-Sears Limited to Sears Canada Inc. By articles of amalgamation dated January 1, 1994, December 29, 1996 and December 30, 1999, Sears Canada was amalgamated with various wholly-owned subsidiaries.

16. Sears Canada is the ultimate parent company of the Sears Canada Group and the other Applicants are all direct or indirect wholly-owned subsidiaries of Sears Canada. A chart showing the organizational structure of the Sears Canada Group as of today's date is attached as Exhibit "A" to this Affidavit. The corporate chart also shows Sears Canada's relationship with its major shareholders.

A. Sears Canada's Subsidiaries

17. The following are descriptions of Sears Canada's key subsidiaries, which are all Applicants in this proceeding:

- (a) **Corbeil Électrique Inc.** – a Quebec corporation that carries on the Corbeil specialty retail business from Corbeil branded corporate and franchised stores. Corbeil has a separate management structure from the rest of the Sears Canada Group's retail business, although Sears Canada provides Corbeil with legal and financial support services. It employs approximately 170 people directly. Additionally, approximately 130 people are employed by Corbeil franchisees;
- (b) **S.L.H. Transport Inc. ("SLH") and 168886 Canada Inc.** – SLH is a Canadian corporation that transports merchandise to and from stores and merchandise pick-up locations for Sears Canada. It also provides transportation services to various third party customers. SLH employs approximately 380 people located in Ontario

and Quebec. Additionally, SLH wholly-owns 168886 Canada Inc. which employs approximately 240 employees in other provinces. In addition, SLH contracts with approximately 185 independent contractors who own and operate (or oversee the operation of) their own trucks.

- (c) **The Cut Inc.** – a Delaware corporation that operates as a procurement agent for sourcing off-price inventory for Sears Canada’s new off-price brand that launched in Spring 2017. The Cut Inc. employs approximately 27 full-time employees in New York. The Cut Inc.’s office is embedded within one of Sears Canada’s vendors in New York. Sears Canada funds The Cut Inc.’s payroll and other expenses;
- (d) **Sears Contact Services Inc. (“Sears Contact”)** – a Canadian corporation that operates call centres related to Sears Canada’s business. As part of a return of the call centres to Canada, Sears Contact is in the process of hiring and training employees and currently employs approximately 300 people; and
- (e) **173470 Canada Inc.** – a Canadian corporation that owns 1% of Sears Connect LP, a limited partnership which sells mobile phones, phone plans and long distance plans with various third parties. It has no employees. Sears Canada owns 99% of Sears Connect LP.

18. Sears Canada’s additional subsidiaries are listed in Schedule A to this affidavit. I am a director for each of the subsidiaries listed above and in Schedule A, along with Philip

Mohtadi (General Counsel). One or more of Becky Penrice (Chief Operating Officer), Pamela Murphy, Jeff Abbott and Claude De Luca is also a director of the above subsidiaries.

19. With respect to the subsidiaries of Sears Canada: (i) none of them has total assets exceeding 15% of the consolidated assets of the Sears Canada Group, or sales and operating revenues in excess of 10% of the consolidated sales and operating revenues of the Sears Canada Group; and (ii) when taken together, they do not have assets exceeding 20% of the consolidated assets of the Sears Canada Group, or sales and operating revenues exceeding 20% of the consolidated sales and operating revenues of the Sears Canada Group.

20. The wireless, phone and long distance business run by the Sears Canada Group is run by Sears Connect LP. While the limited partnership Sears Connect LP is not an Applicant in this proceeding, the Applicants seek to have a stay of proceedings and other provisions of an Initial Order under the CCAA extended to Sears Connect LP in order to maintain stability through this restructuring process. The business and operations of the Applicants are heavily intertwined with that of Sears Connect LP, as it is wholly-owned by the Applicants and the wireless business run by Sears Connect LP operates out of Sears Canada's stores and online platform.

B. Sears Canada's Major Shareholders

21. Sears Canada currently has outstanding 101,877,662 common shares and 2,302,000 options to acquire common shares. No dividends have been paid since 2013.

22. ESL Investments, Inc. and investment affiliates, including Edward S. Lampert, (collectively "ESL"), form the largest shareholder of Sears Canada, both directly through

ownership in Sears Canada, and indirectly through shareholdings in Sears Holdings Corporation (“**Sears Holdings**”), a U.S. public company. The major shareholders are as follows:

	# of outstanding common shares	% of outstanding common shares
ESL	46,162,515	45.3%
Sears Holdings	11,962,391	11.7%
Fairholme Capital Management, LLC	20,375,533	20%

23. The directors and officers of Sears Canada, as a group, beneficially own, directly or indirectly, or exercise control or direction over 5,220 common shares, representing less than 1% of Sears Canada’s issued and outstanding common shares.

24. Sears Canada’s most significant agreement with Sears Holdings is a royalty-free license from Sears Holdings’s wholly-owned subsidiary, Sears, Roebuck and Co., to use the name “Sears” as part of its corporate name as well as a royalty-free license to use other brand names, such as Kenmore® and DieHard® (the “**Trademark License Agreement**”). The Trademark License Agreement was amended in October 2014 and in March 2017. A copy of the Trademark License Agreement and the amendments thereto are attached as Exhibit “B” to this Affidavit.

25. Pursuant to the October 2014 amendment, the Trademark License Agreement will continue to apply for so long as Sears Holdings continues to own at least 10% of the voting shares of Sears Canada. In the event Sears Holdings’ ownership interest in Sears Canada is reduced to less than 10%, Sears Canada would continue to have the right to use the trademarks on a royalty-free basis for a period of five years, after which Sears Canada would incur a cost to

continue to use the “Sears” name and certain other brand names for a transition period not to exceed four years.¹

26. In January 2017, Sears Holdings agreed to sell the Craftsman® brand to Stanley, Black & Decker, Inc. and to use its reasonable best efforts either to obtain from Sears Canada a waiver of its then-exclusivity in Canada for the Craftsman® brand name or reduce the Sears Holdings ownership interest in Sears Canada below 10% and therefore trigger the process for the termination of Sears Canada’s license of the Craftsman® brand name and the other trademarks governed by the Trademark License Agreement. The March 2017 amendment removed the Craftsman® brand name from the Trademark License Agreement. Concurrently with that amendment, Sears Canada entered into a license agreement with Stanley, Black & Decker, Inc. for a non-exclusive license (the first 15 years of which are royalty-free) to use the Craftsman® brand name in Canada.

27. In addition to the Trademark License Agreement, Sears Canada is party to an international merchandise purchasing agreement with Sears Holdings. This agreement is described in further detail below in the section regarding Merchandising and Sourcing.

28. Sears Canada and Sears Holdings are also parties to an information technology agreement for the sharing of information technology and software development, ownership and costs, which agreement, as amended on October 7, 2014, terminated when Sears Holdings ceased

¹ Sears, Roebuck & Co will extend the agreement for this further transition period not to exceed four years, at a royalty rate to be agreed equal to the lesser of a fair market rate based on the value of the trademarks or the lowest rate which will provide a reasonable incentive to induce Sears Canada to phase out the use of the trademarks.

to control 50% of the voting shares of Sears Canada in October 2014, subject to a three year transition period.

29. Additionally, Sears Canada and ESL are parties to an agreement where ESL will provide, at Sears Canada's request and without charge, investment, business and real estate consulting services to Sears Canada.

30. While Sears Canada's business requires use of the licenses provided pursuant to the Trademark License Agreement, the daily operations of the business of the Sears Canada Group, including those of Sears Canada, are not dependent upon the operation of the business of Sears Holdings. Rather, the two businesses are operated independently of one another by separate management teams.

Chief Place of Business

31. The chief place of business of the Sears Canada Group is Ontario. Sears Canada's head office and corporate headquarters is located in Toronto, Ontario. Approximately 7,500 employees work in Ontario. There are 65 operating Sears Canada retail stores located in Ontario as of April 29, 2017, which is the largest number of stores in any province where Sears Canada operates. Two of Sears Canada's five primary distribution centres are also located in Ontario.

The Business of the Applicants

32. The Sears Canada Group is a multi-channel retailer with a proud history of operating across Canada. Its merchandising operations include the sale of goods and services through its various retail channels and its "Direct" (catalogue/internet) channels. The Sears Canada Group's major competitors in Canada include traditional full-line department stores,

discount department stores, wholesale clubs, “big-box” retailers, internet retailers and specialty stores offering alternative retail formats.

33. The following is a brief description of the Sears Canada Group’s retail channels:

- **Full-Line Department Stores** – Sears Canada’s full-line department stores are located primarily in suburban enclosed shopping centres and range in size from approximately 30,000 to 300,000 square feet. The major merchandise categories include the following:
 - *Apparel & Accessories* - women’s, men’s and children’s apparel, nursery products, cosmetics, jewellery, footwear and accessories.
 - *Home & Hardlines* - home furnishings and mattresses, home décor, lawn and garden, hardware, leisure, seasonal products, toys, floorcare, sewing and major appliances.

Although merchandise varies by store, the merchandise sales mix between the two major categories is approximately 60% Apparel & Accessories and 40% Home & Hardlines. Full-line department stores include a Sears catalogue and online merchandise pick-up location. Sears Travel offices and other licensed businesses, such as optical centres and portrait studios, are also located in many of Sears Canada’s full-line department stores.

- **Sears Home Stores** – Sears Home stores are typically located in power centres (large unenclosed shopping centres) and carry an extensive selection of furniture, mattresses box-springs, and major appliances. The majority of these stores range in size from 35,000 to 60,000 square feet.
- **Sears Hometown stores** – Almost all Hometown stores are independently owned and operated through a network of dealers, which have been appointed by Sears Canada for a specified period and subject to the terms and conditions of a dealer agreement. Most Hometown stores are located in markets that lack the population to support a full-line department store. These stores offer major appliances, furniture, mattresses and box-springs, outdoor power equipment as well as a catalogue and online merchandise pickup location. Hometown stores range in size from 2,000 to 10,000 square feet.
- **Outlet stores** – Outlet stores provide Sears Canada’s customers with in-store access to a broad assortment of surplus merchandise at prices that are significantly lower than Sears Canada’s retail prices. Clearance merchandise is sourced primarily from Sears Canada’s full-line department stores and Direct channel, with surplus big-ticket items sourced from all channels. Sears Canada anticipates that, going forward, it will not continue to operate Outlet stores.

- **Corbeil** – Corbeil is a chain of major appliance specialty stores located throughout Québec, the Greater Toronto Area and Eastern Ontario. There are 32 stores in the chain, 16 of which are independently owned and operated through a network of franchisees. The chain also includes two liquidation centres and one distribution centre in Montreal. Stores average approximately 6,500 square feet in size.

34. Sears Canada is in the process of transitioning its Direct sales channel from a catalogue and e-commerce business to solely an online sales / e-commerce platform. Sears Canada's website, sears.ca, enables Sears Canada to provide merchandise offers directly to online customers and highlights Sears Canada's extensive general merchandise selection. It is one of Canada's leading online shopping destinations with over 91.3 million visits in the fiscal year ended January 28, 2017 ("**Fiscal 2016**"). Sears Canada has continued to invest in its online capabilities to improve the user experience, and engage new customers and demographics, launching a new digital e-commerce platform, Initium, in November 2016.

35. As of April 29, 2017, Sears Canada had 705 order fulfilment / pick-up locations across Canada (of which 514 were independently owned and operated, and a further 191 were located within existing Sears Canada locations). Sears Canada also delivers its products directly to its customers' homes.

36. Additionally, the Sears Canada Group has a number of other sources of revenue:

- (a) **Service Revenue** – the Sears Canada Group provides a number of services to its customers, including logistics and transportation services, protection agreements, home improvement services, and product repair services.

- (i) Logistics and Transportation Services: In addition to providing logistics and transportation services to Sears Canada, SLH provides these services

to a diverse base of third party commercial customers. SLH's business is discussed in more detail in the section regarding Distribution, below.

(ii) Protection Agreements: Sears Canada sells a variety of protection (*i.e.*, warranty) and replacement plans, including single- or multi-year coverage on major appliances, small appliances, electronics, vacuums, lawn and garden products, fitness products, and heating, ventilating and air conditioning products, as well as furniture and mattresses.

(iii) Parts and Repair Services: Sears Canada provides a number of repair services to its customers, including servicing of items covered under a Sears Protection Plan, cash calls (service fee-based repairs), as well as in-warranty service for select Kenmore[®], Craftsman[®] and national brand products. Sears Canada has a network of home specialists that provide parts and repair services for home appliances and equipment (including HVAC products). These services are provided in part by Sears Canada employees and in part by third party contract technicians.

(b) **Commission Revenue** – the Sears Canada Group receives commissions on revenue generated by other product offerings within Sears Canada stores and under the Sears brand, including travel services, home improvement services, insurance, and wireless and long distance plans. As Sears Canada is not the primary obligor in these transactions, these commissions are recognized upon sale of the related product or service. The Sears Canada Group expects as part of these proceedings to exit some or all of its commission-generating businesses.

(c) **License Revenue** – the Sears Canada Group receives revenue comprised of license fee payments received from licensees that operate primarily within its stores, such as optical service centres. Revenue earned is based on a percentage of licensee sales. The Sears Canada Group expects as part of these proceedings to exit some or all of its license revenue generating businesses.

A. Store Formats and Locations

37. As noted above, the Sears Canada Group’s different retail channels have varying store formats, locations and square footage. For its full-line department stores, Sears Canada is usually an anchor tenant for the mall or shopping centre. The following chart summarizes the Sears Canada Group’s current number of store locations by region as at April 29, 2017:

	Pacific	Prairies	Ontario	Quebec	Atlantic	TOTAL
Full-Line Department Store	12	17	33	23	10	95
Sears Home Stores	2	3	14	4	0	23
Outlet Stores	1	1	4	3	1	10
Hometown Stores	17	21	8	4	15	65
Corbeil	0	0	6	26	0	32
National Logistics Centres	1	1	2	1	0	5
Direct Purchase Pick-Up	67	178	223	155	82	705

38. Since April 29, 2017, certain additional stores have closed or are in the process of closing.

39. As part of the completion of the operational restructuring to be implemented as part of these CCAA proceedings, the Applicants also intend to close 59 stores (20 full-line, 15 Sears Home stores, 10 Outlet stores and 14 Hometown stores) after liquidating the inventory and implementing an orderly wind-down of these stores, a list of which can be found in Exhibit “C”.

40. After the store closures described above are complete, it is anticipated that the Sears Canada Group will have 75 full-line department stores (including one pop-up shop), 8 Sears Home stores, 49 Hometown stores, 32 Corbeil stores, and 0 Outlet stores.

B. Hometown Dealers

41. The Sears Canada Group also has a network of dealers who independently own and operate 62 of its Hometown stores (collectively, the “**Hometown Dealers**”).² Hometown Dealers sell Sears Canada-supplied inventory in their stores and receive a range of commissions for such sales. Sears Canada makes a profit on the sale of inventory in Hometown stores, and Sears Canada maintains ownership of the inventory until it has been sold and delivered to the customer; however, ownership is regained by Sears Canada if and when the customer returns any inventory to the Hometown store.

42. Hometown Dealers are generally responsible for their own leases, employees, insurance costs, certain store fixtures, furnishings, equipment and upkeep. Hometown Dealers do not pay fees to use the Sears name and be part of the Hometown store network.

² The other three stores are corporate stores.

43. Hometown stores are an integral part of the Sears Canada Group's go-forward plan, and the businesses of the Hometown Dealers and the Sears Canada Group are intertwined in a number of ways. Areas of inter-connection and inter-dependence include:

- (a) Hometown Dealers exclusively sell Sears Canada inventory;
- (b) Sears Canada continues to hold title to the inventory located in the Hometown stores, and this inventory is taken into account when calculating the borrowing base under Sears Canada's credit facilities (as described in greater detail below);
and
- (c) Sears Canada provides information technology, point of sale systems, and marketing and branding services.

C. Corbeil Franchisees

44. In 1997, Corbeil adopted a franchise model to facilitate the company's expansion. In consideration for the license to use the "Corbeil Appliances Concept" and the receipt of certain services from Corbeil, Corbeil franchisees (the "**Corbeil Franchisees**") pay Corbeil: (i) an initial franchise fee; (ii) a royalty based on gross income; (iii) marketing fees; and (iv) accounting and IT charges. The services that Corbeil provides its franchisees include: initial and ongoing training; site selection; lease negotiation assistance; layout planning; an operations manual; construction and furnishings; bid management; supply of display goods; advertising management; and consulting for financial management, marketing, and general business operations. All products and services sold at the franchise stores must be supplied by Corbeil.

45. Three of the Corbeil Franchisees own their own store premises, four franchisees lease from third party landlords, and the other nine franchisees sublease from Corbeil. It is currently intended that all of the Corbeil stores remain operational during the CCAA proceedings.

D. Real Estate and Leases

46. The Sears Canada Group owns the properties where eight full-line department stores, two Outlet stores, and one Sears Home store operate: five in Ontario, four in Quebec, and one in each of Manitoba and Prince Edward Island.

47. The majority of the other stores are held under long-term leases with Sears Canada or Corbeil as tenant. As of April 29, 2017, Sears Canada and Corbeil leased and owned the following stores:

	Leased	Owned	TOTAL
Full-Line Department Store	87	8	95
Sears Home Stores	22	1	23
Outlet stores	8	2	10
Hometown stores ³	3	0	3
Corbeil ⁴	23	0	23
Total	143	11	154

³ Only Hometown stores that are not independently owned and operated are included. Hometown Dealers are responsible for their own leases.

⁴ This figure includes 13 corporate stores and 1 liquidation centre (which is located in the same space as Corbeil's distribution centre) that are leased, as well as 9 stores which Corbeil leases and then subleases to its franchisees. Two other corporate stores are located within Sears Home stores and Corbeil pays rent to Sears Canada for those locations.

48. Catalogue and online merchandise pick-up locations are located in other Sears Canada stores or local businesses, and are therefore not included. As at April 29, 2017, the gross square footage of corporate store locations (both owned and leased) and Sears Canada's national logistics centres was approximately 19.7 million square feet.

i. ***Landlords***

49. Many of Sears Canada's store leases are held or managed by large landlords. Several of these landlords lease multiple locations to Sears Canada. The leases are generally for a current term of 1 to 10 years, with some leases granting Sears Canada multiple options to renew after that date.

50. Typical of retail store leases in Canada, many of the leases contain provisions that impact Sears Canada store operations. Sears Canada has operating covenants with landlords for a significant number of its stores. An operating covenant generally requires Sears Canada, during normal operating hours, to operate a store continuously as per the identified format in the lease agreement. The remaining term of the various operating covenants ranges from less than one year to 28 years, with an average remaining term of approximately five years, excluding options to extend leases. In addition, many of the retail leases include use and other similar restrictions.

51. Certain of Sears Canada's store leases also contain restrictions that relate to going out of business sales in one form or another, including in certain cases blanket prohibitions on "bankruptcy sales", "going out of business sales", "liquidation sales", and other similar terms. Additionally, many leases provide that Sears Canada will be in default if it becomes insolvent.

ii. ***Rights of Other Tenants in Third Party Leases***

52. Many third-party retail leases provide that tenants have certain rights against their landlords upon an anchor tenant's insolvency or upon an anchor tenant ceasing operations. For tenants of commercial properties where the Applicants' stores, offices or warehouses are located, the Applicants are asking the Court to stay rights, including but not limited to termination rights and reduction or abatement of rent, that tenants may have against the landlords, owners, operators or managers of the commercial properties that arise as a result of the Applicants' insolvency, or as a result of any steps taken by the Applicants pursuant to the proposed Initial Order. This relief is necessary to mitigate the effect of the Applicants' insolvency on their landlords and to maintain the status quo while restructuring negotiations continue.

iii. ***Owned and Leased National Logistics Centres***

53. Sears Canada operates five national logistics centres strategically located across the country, each referred to as an "NLC", of which one is owned and four are leased. The NLCs are located in Montreal, Québec, Vaughan and Belleville (owned), Ontario, Calgary, Alberta and Port Coquitlam, British Columbia.⁵ The total floor area of these logistics centres is approximately 5.1 million square feet of which approximately 4.4 million square feet is devoted to warehouse and logistics operations. The remainder of the space is utilized for other Sears Canada operations, including the buying centre for The Cut Inc.

54. In addition to the NLCs, Corbeil leases a multipurpose distribution centre/warehouse/liquidation centre/office space in Montreal, Québec.

iv. ***Office and Other Leases***

55. Sears Canada leases the office and other space for its corporate headquarters in Toronto, Ontario. Sears Canada also leases the two call centres in New Brunswick used by Sears Contact.

56. SLH leases seven shipping terminals: 2 in Ontario and 1 each in Alberta, Quebec, Manitoba, Saskatchewan, and Nova Scotia. In addition, SLH leases office premises in Kingston.

v. ***Other Owned Properties***

57. Additionally, Sears Canada owns certain other real estate assets with no operating activity. As of April 29, 2017, the fair value of these properties was \$2.8 million.

vi. ***Subleases and Licenses to Third Parties***

58. Sears Canada has entered into a number of agreements to sub-lease premises to third parties. For instance, Sears Canada subleases store premises in Burlington, Ontario to the Hudson's Bay Company and store premises in Burnaby, B.C. to Toys R' Us. Sears Canada also subleases space to seven Active Green + Ross auto centres as well as to five KalTire tire dealers.

59. All sub-leases to third parties are classified as operating leases. Rental income from operating leases is recognized as a reduction of rent expense on a straight-line basis over the term of the lease. During Fiscal 2016, total sub-lease income from leased premises was \$2.0

⁵ Sears Canada also leases an additional NLC in Calgary, Alberta that is operated by a third party. Sears Canada has terminated this contract and will no longer be using this facility as at August 18, 2017.

million. As at January 28, 2017, future minimum lease payments receivable from third party tenants totaled \$12.9 million.

E. Merchandising and Sourcing

60. The sourcing and purchasing of goods sold by Sears Canada is conducted at its head office by the merchandise buying and corporate procurement teams. Sears Canada purchases its merchandise from approximately 3,300 domestic and international suppliers, many of which have long-standing relationships with Sears Canada.

61. Although Sears Canada's business is not substantially dependent on any one supplier, its relationship with certain suppliers is of significance to Sears Canada's merchandising strategy, including attracting customers to its locations, cross segment sales and image. Sears Canada is dependent upon a significant number of products that originate from non-Canadian markets. For the twelve months ended April 29, 2017, Sears Canada paid approximately USD \$118.8 million for direct purchases of overseas merchandise (excluding commissions paid for merchandise purchasing services).

62. For the majority of the merchandise it purchases directly from overseas vendors, Sears Canada utilizes the international merchandise purchasing services of Sears Holdings, provided pursuant to an agreement between Sears Holdings and Sears Canada dated January 1, 1995. Sears Holdings may provide assistance to Sears Canada with respect to monitoring and facilitating the production, inspection and delivery of imported merchandise and the payment to vendors. Although Sears Holdings essentially acts as Sears Canada's purchasing agent, Sears Canada does not coordinate its merchandise purchasing with Sears Holdings. Sears Canada pays Sears Holdings a fee based on a stipulated percentage (5.5%) of the value of the imported

merchandise. In Fiscal 2016, Sears Canada paid \$2.8 million to Sears Holdings in connection with this agreement.

63. Sears Canada's international merchandise purchasing arrangement with Sears Holdings is complemented by merchandise purchasing services provided by William E. Connor and Associates Ltd. Similar to the arrangement with Sears Holdings, Sears Canada pays the Connor buying group a fee based on a stipulated percentage (5.5%) of the value of the imported merchandise.

64. Corbeil has a separate merchandise purchasing program that is run out of Corbeil's head office in Montreal.

65. Title to goods purchased by Sears Canada passes based on the terms of the agreement with the specific vendor. For direct purchases of merchandise that are shipped from outside of North America, title generally passes to Sears Canada once the merchandise is loaded onto ships or airplanes for transit to Sears Canada. For all other purchases of merchandise, title generally passes when SLH (or a third party transportation service) picks up merchandise from the manufacturer or it is delivered to Sears Canada's NLCs or stores.

66. A portion of Sears Canada's merchandise is purchased in U.S. currency. As a result, exchange rate fluctuations between the Canadian and U.S. dollars may pose a risk to Sears Canada's business. In order to minimize the cost of its U.S. dollar requirements, Sears Canada uses foreign currency forward contracts to hedge exchange rate risk.

F. Distribution

67. All merchandise sold through the Retail (full-line department, Sears Home, Sears Hometown, Sears Outlet) and Direct (catalogue and internet) channels are distributed from Sears Canada's NLCs. Corbeil has a separate distribution centre in Montreal.

68. Sears Canada operates its own NLCs,⁶ which are used for receiving, verifying and inspecting shipments; preparing outbound shipments for transportation to Sears Canada's stores; and inventory management. As of May 30, 2017, the NLCs held Sears Canada merchandise with a cost of approximately \$174 million.

69. Sears Canada's wholly-owned subsidiary, SLH, provides logistics services for Sears Canada's merchandising operations and is responsible for transporting merchandise to Sears Canada's NLCs, stores and catalogue/internet merchandise pick-up locations. SLH also provides some transportation and distribution services to Corbeil. SLH is a federally-regulated business with its operations headquartered in Kingston, Ontario. While Sears Canada provides certain procurement, legal services, payroll services and funding, SLH's management and operations are separate from the Sears Canada retail business.

70. Additionally, SLH provides contract carrier services to over 300 commercial customers who are unrelated to the Sears Canada Group. Approximately 55% of SLH's business is with these third party customers. The third party business increases SLH's fleet utilization and improves the efficiency of its operations. SLH has developed an extensive domestic and cross-border distribution network to provide better and more consistent service to its customers. In

⁶ With the exception of the additional NLC in Calgary which is operated by a third-party. This contract has been terminated and Sears Canada will no longer use this facility after August 18, 2017.

addition to the Sears Canada NLCs, SLH has seven other strategically-located terminals across Canada.

71. SLH owns and operates a fleet of more than 268 trucks and 2,700 trailers. SLH also works with approximately 185 independent contractors who own and operate their own trucks. SLH has its own independent operating system which is used to track freight services, including pick up, routing, storage and final delivery of materials to Sears Canada and third-party customers.

72. Sears Canada must pay customs brokers, clearing houses, freight forwarders and other supply chain providers for costs incurred in transporting products from their sources inside and outside of North America. As of May 30, 2017, Sears Canada estimates that merchandise at cost of approximately \$23 million was in transit to North America.

73. Sears Canada also has over 514 independent merchandise pick-up locations across Canada for its Direct line of business. These are located in stores in smaller communities and provide a convenient pick-up point for customers. Operators of these locations are paid a commission on any merchandise sent to them, as well as a fee for handling any returns.

G. Consignment Goods

74. A small proportion of product sold by Sears Canada, such as jewelry, women's apparel, and magazines, are delivered directly to Sears Canada stores under consignment arrangements by which the vendor holds title to the inventory until immediately before the sale, at which time title passes to Sears Canada.

H. Employees

75. As of May 30, 2017, the Sears Canada Group employed approximately 17,000 people, of which approximately 6,500 were full time and 10,500 were part time. In addition, the Sears Canada Group has relationships with approximately 775 independent contractors. Corbeil Franchisees and Hometown Dealers also employ approximately 250 people.

76. The following chart shows the approximate number of people employed by the Sears Canada Group in each province and in the U.S. as of May 30, 2017.⁷

Location	Full Time Part Time	Full-Line/Home/Outlet	Corbeil	SLH	Other Services	Call Centre	Head Office	Total
Alberta	FT	375	0	113	191	0	0	679
	PT	873	0	0	94	0	0	967
British Columbia	FT	326	0	23	64	0	0	413
	PT	1,020	0	0	117	0	0	1,137
Manitoba	FT	87	0	25	4	0	0	116
	PT	356	0	0	7	0	0	363
New Brunswick	FT	77	0	22	3	294	0	396
	PT	290	0	0	0	5	0	295
Newfoundland	FT	49	0	0	3	0	0	52
	PT	192	0	0	2	0	0	194
Nova Scotia	FT	69	0	54	9	0	0	132
	PT	263	0	0	0	0	0	263
Ontario	FT	1,076	0	237	552	128	1,078	3,071
	PT	3,828	0	27	503	7	107	4,472
PEI	FT	15	0	0	0	0	0	15

⁷ This chart does not include individuals employed by third parties such as the Corbeil franchisees, Hometown Dealers or third party licensees.

	PT	77	0	0	0	0	0	77
Quebec	FT	661	179	100	345	92	72	1,449
	PT	2,172	0	3	249	18	8	2,450
Saskatchewan	FT	94	0	16	8	0	0	118
	PT	234	0	0	3	0	0	237
U.S.	FT	0	0	0	0	0	26	26
	PT	0	0	0	0	0	1	1
Total	FT	2,829	179	590	1,179	514	1,176	6,467
	PT	9,305	0	30	975	30	116	10,456

77. The Sears Canada Group intends to eliminate approximately 500 non-store level positions immediately upon filing. Additional headcount reductions in the amount of approximately 2,400 will result from store closures. At this time, it is expected that some or all of these store level employees will be provided with working notice of termination. Further, it is anticipated that adjustments to compensation arrangements for certain store level employees will be made during the CCAA proceedings.

i. *Sears Canada Store Level*

78. The majority of Sears Canada employees are “associates” who perform customer facing functions such as sales and service. As of May 30, 2017, Sears Canada employed approximately 1,795 full-time and approximately 9,267 part-time associates at the store level for a total of approximately 11,062 associates. Associates are paid hourly rates, commissions or some combination thereof. Subject to eligibility based on length of service and hours worked, associates may receive benefits packages (as described below).

79. In addition, each store has a certain number of “leaders”, who have a management role. As of May 30, 2017, Sears Canada employed approximately 1,072 leaders. Of those leaders, approximately 540 are paid at hourly rates and may be eligible for benefits, and approximately 532 are compensated through base salary and benefits. Leaders are eligible for a semi-annual incentive pay based on key store performance metrics.

80. A small number of Sears Canada employees from five stores and from one service team in Product Repair Services are represented by unions. These employees – which represent approximately 2% of the total Sears Canada employee population – are governed by various collective bargaining agreements with Unifor (Ontario), the International Brotherhood of Electrical Workers (British Columbia), and the Syndicat des Métallos (Québec).

ii. ***Sears Canada Management Group and Other Salaried Employees***

81. As of May 30, 2017, Sears Canada employed approximately 1,185 people at its headquarters in Toronto, Ontario, and approximately 107 people in its other local offices. All of these employees are compensated through base salary and benefits.

82. In addition, some of these individuals are eligible to receive performance bonuses and are eligible to participate in an equity-based compensation plan that includes stock options and Performance Share Units (“PSUs”). There are currently outstanding 2,302,000 options to purchase common shares and 758,170 PSUs.

iii. ***Corbeil Employees***

83. Corbeil has approximately 60 head office and warehouse employees, and another approximately 120 corporate store employees. Employee compensation is based upon responsibility level and salary scale. Sales associates are paid hourly rates and commissions on the products that they sell.

84. Management employees receive a base salary. Additionally, Corbeil offers both an Annual Incentive Plan and Contribution to Business Results (“**CTBR**”) system to eligible management employees in order to promote performance. Payouts under the Annual Incentive Plan are based on achieving sales and EBITDA targets while the CTBR system determines a portion of any merit increase to salary.

iv. ***Sears Contact Employees***

85. The Sears Canada Group is currently in the process of moving its call centres from the Philippines and Bulgaria⁸ to New Brunswick, with the aim of improving services as well as creating 530 new jobs. The New Brunswick call centres are operated by Sears Contact.

86. The New Brunswick government agreed to provide Sears Contact with (i) a forgivable loan of up to \$2 million (which would be secured by a letter of credit and corporate guarantee from Sears Canada) for building improvements, equipment and employee training, which will earn forgiveness based on incremental payroll over six years and (ii) a payroll rebate of up to \$3,356,800 for any annual incremental payroll over and above \$5,555,550 to be disbursed over six years.

v. ***U.S.-Based Employees***

87. Approximately 27 employees of The Cut Inc. are based in the U.S. Those employees are generally paid a base salary and are eligible for an annual incentive bonus based on their performance.

vi. ***Payroll***

88. Sears Canada manages its own payroll processing and remits employee taxes and deductions as required. Sears Canada employees, Sears Contact employees and SLH employees who are salaried are paid monthly on the third week of each month. Sears Canada employees, Sears Contact employees and SLH employees who are hourly workers are paid bi-weekly. All these employees are paid through various RBC sub-accounts (described below in the cash management section).

89. 168886 Canada Inc employees are paid bi-weekly, and 168886 Canada Inc. uses ADP to provide payroll services for these employees.

90. The Cut Inc. and Corbeil use third party providers of payroll services (Trinet Group Inc. and Desjardins, respectively) to process payroll. The Cut Inc. employees are paid twice a month. Corbeil head office and warehouse employees are paid bi-weekly and corporate store employees are paid weekly. Employee wages, taxes and deductions are funded to ADP, Trinet Group Inc. or Desjardins on a gross basis, which then make the required payments.

⁸ The call centres in the Philippines and Bulgaria were outsourced to a third party.

91. Although Sears Canada's payroll fluctuates on a monthly basis due primarily to the change in hourly staffing levels to reflect seasonality, the average monthly wage costs of the work-force during the first quarter of Fiscal 2017 was approximately \$31 million per month, excluding costs relating to pension and benefits.

vii. ***Health and Wellness Benefits***

92. The Sears Canada Group provides programs designed to enhance the health, wellness and quality of life of its employees. The programs include discounts on fitness facilities across Canada, weight loss services, home and auto insurance, tax preparation services, transportation and vehicle discounts as well as discounts on a wide range of entertainment and attractions, sporting events, magazine subscriptions and more. These programs operate at no cost to the Sears Canada Group and it intends to continue these programs during the CCAA proceedings.

93. The Sears Canada Group also provides eligible employees with disability, health and dental coverage. The Sears Canada Group pays for the coverage provided to full-time employees, and part-time employees may purchase coverage. The Sears Canada Group intends to continue this coverage during the CCAA proceedings.

I. Pension and Other Post-Retirement Benefit Plans

94. The Sears Canada Group currently maintains the following pension arrangements:

(a) Sears Canada Inc. Registered Retirement Plan, a pension plan registered under the Ontario *Pension Benefits Act*, R.S.O. 1990, c. P.8 (the "PBA") and the *Income Tax Act*, R.S.C. 1985, c. 1 (5th Supp) (the "ITA") with a defined benefit

component and a defined contribution component, and which is maintained for employees of Sears Canada, Sears Contact, Corbeil and SLH (the “**Sears Pension Plan**”);

- (b) Sears Canada Inc. Supplementary Retirement Plan, a non-registered supplemental pension plan maintained to provide benefits to eligible participants in the defined benefit component of the Sears Pension Plan (the “**Supplemental Plan**”);
- (c) Pension Plan for the eligible Employees of 168886 Canada Inc., a pension plan registered under the *Pension Benefits Standards Act*, R.S.C. 1985, c. 32 (2nd. Supp.) (the “**PBSA**”) and the ITA which provides defined contribution pension benefits to employees in the Eastern Division of 168886 Canada Inc. (the “**168886 Eastern Plan**”);
- (d) Pension Plan for the eligible Employees of 168886 Canada Inc., a pension plan registered under the PBSA and the ITA which provides defined contribution pension benefits to employees in the Western Division of 168886 Canada Inc. (the “**168886 Western Plan**”); and
- (e) A U.S. defined contribution pension plan for the employees of The Cut Inc. (the “**401K Plan**”) that is provided through a third party administrator, Trinet.

95. In addition, all permanent employees of the Sears Canada Group are eligible to join a group registered retirement savings plan (the “**Group RRSP**”) on a voluntary basis. No

member of the Sears Canada Group is required to make any contributions in respect of any of its employees that participate in the Group RRSP.

96. Sears Canada also maintains a post-retirement benefit plan, which provides life insurance, medical and dental benefits to eligible retired employees of the Sears Canada Group through an employee health and welfare trust (the “**PRB Plan**”).⁹

i. *Sears Pension Plan*

97. The Sears Pension Plan consists of a defined benefit component (“**DB Component**”) and a defined contribution component (“**DC Component**”). Sears Canada acts as both the sponsor employer and as the “administrator” of the Sears Pension Plan for the purposes of the PBA. The DB Component of the Sears Pension Plan was closed to new entrants as of June 30, 2008 and all members of the DB Component ceased to accrue pensionable service after June 30, 2008.¹⁰ However, earnings increases continue to be recognized for participants in the DB Component while such members are in active employment with Sears Canada.

98. Contributions to the DB Component of the Sears Pension Plan are required to be made in accordance with the most recent actuarial valuation report that has been filed with the pension regulator, the Financial Services Commission of Ontario, which was prepared as at December 31, 2015 and dated September 2016 (the “**Pension Valuation Report**”). The Pension Valuation Report indicates that, as at December 31, 2015, the hypothetical wind-up deficit under

⁹ Short-term disability payments for active employees are also paid through the health and welfare trust.

¹⁰ Only Sears Canada or SLH employees are members of the DB Component of the Pension Plan.

the DB Component of the Sears Pension Plan was \$266,805,000 and the transfer (wind-up) ratio was 81%.

99. The Pension Valuation Report indicates that, in accordance with temporary funding relief options available in Ontario, Sears Canada elected to consolidate the existing solvency special payments established prior to December 31, 2015 into a new five-year payment schedule and elected to defer by 12 months (*i.e.*, to December 31, 2016) the commencement of special payments relating to the new solvency deficiency established through the Pension Valuation Report. The combined effect of these two elections resulted in the minimum annual special payments required to be made to the Sears Pension Plan being approximately \$44.2 million for the calendar years 2017-2020 and approximately \$30.5 million for the 2021 calendar year. These special payment obligations may be modified pursuant to the next valuation report for the DB Component of the Sears Pension Plan, which is required to be performed no later than as at December 31, 2018. These special payments are currently required to be made in equal monthly installments of approximately \$3.7 million and are due at the end of each month.

100. As service accruals ceased under the DB Component of the Sears Pension Plan effective July 1, 2008, no normal cost contributions are required for the DB Component of the Sears Pension Plan (however, as noted below, normal cost contributions continue to be made under the Sears Pension Plan in respect of the employees in the Sears Canada Group that participate in the DC Component of the Sears Pension Plan). As of December 31, 2016, there were 16,921 members in the DB Component of the Sears Pension Plan (3,025 active/disabled members; 160 transferred members; 195 suspended members; 396 deferred vested members; and 13,121 retired members).

101. Based on the significantly constrained liquidity position of the Applicants, the Applicants intend to serve a motion in the near term seeking court approval to cease making the monthly special payments for the DB Component of the Sears Pension Plan. The Sears Canada Group can no longer afford to make these special payments in respect of the DB Component of the Sears Pension Plan as it attempts to restructure under the CCAA. The cash forecasts described below do not include making any special payments beyond June 2017.

102. Eligible active employees of Sears Canada, Sears Contact, Corbeil and SLH¹¹ are eligible to participate in the DC Component of the Sears Pension Plan. Under the DC Component of the Sears Pension Plan, employees can select a contribution level from 1% to 7% of earnings (which includes base pay, variable pay, overtime pay and commissions). The participating employers under the DC Component of the Sears Pension Plan are required to make a matching contribution equal to 50% of the contributions made by an employee (*i.e.*, subject to a maximum match of 3.5% of earnings). There were 5,409 associates enrolled in the DC Component of the Sears Pension Plan as at May 25, 2017, with an additional 7,476 associates that were eligible to participate in the DC Component of the Sears Pension Plan but who had not enrolled. In Fiscal 2016, the Sears Canada Group made contributions of \$4.8 million to the DC Component of the Sears Pension Plan.

103. As at the time of swearing this affidavit, to the best of my knowledge, the Sears Canada Group has paid to the Sears Pension Plan all contributions that are due (under both the DB Component and the DC Component of the Sears Pension Plan).

¹¹ There are two separate defined contribution pension plans for employees of 168886 Canada Inc. (SLH's wholly-owned subsidiary), which are described in further detail below.

ii. *Supplemental Plan*

104. The Supplemental Plan provides pension benefits to members of the DB Component of the Sears Pension Plan that are in excess of the benefits that are permitted to be provided under the Sears Pension Plan as a result of the maximum pension benefit limits under the ITA. As with the DB Component of the Sears Pension Plan, the Supplemental Plan only provides pension benefits to participating employees in respect to periods of pensionable service prior to July 1, 2008. The Supplemental Plan is not a registered plan and is not subject to the solvency/wind up funding requirements under the PBA.

105. In connection with the Supplemental Plan, Sears Canada has established a retirement compensation arrangement (“RCA”) with CIBC Mellon Trust Company (the “**Supplemental Plan Trustee**”) through which Supplemental Plan benefits (including ongoing monthly supplementary pension payments) are provided to individuals that terminated active service prior to January 1, 2010. Under the terms of the Supplemental Plan, benefits secured under the RCA are funded through a combination of letters of credit and cash. For individuals whose active service ended on or after January 1, 2010, Supplemental Plan benefits are paid directly by Sears Canada through its general revenues on a pay-as-you-go basis.

106. In fiscal 2012, Sears Canada amended the Supplemental Plan to allow the use of letters of credit to satisfy its funding requirements in respect of the benefits under the Supplemental Plan that are secured by the RCA. An actuarial valuation report prepared in respect of the Supplemental Plan as at December 31, 2015 (the “**Supplemental Plan Valuation Report**”) indicates that the funded portion of the Supplemental Plan (without taking into account any letters of credit) had a wind-up deficit of \$8,405,249 as of December 31, 2015. The

Supplemental Plan Valuation Report does not deal with liabilities under the Supplemental Plan that are not funded through the RCA (i.e., liabilities in respect of the members who terminated from active status on or after January 1, 2010). Between December 31, 2015 and December 31, 2016, Sears Canada made a cash contribution to the RCA of approximately \$1 million. In addition, as at May 26, 2017 a letter of credit with a face value of approximately \$6.8 million was on deposit with the Supplemental Plan Trustee.

107. As of today's date, to the best of my knowledge, the Sears Canada Group has satisfied its funding requirements in respect of the benefits under the Supplemental Plan that are secured by the RCA and is current on its payment of benefits under the Supplemental Plan.

iii. ***168886 Eastern Plan***

108. Employees in the Eastern Division of 168886 Canada Inc. are eligible to participate in the 168886 Eastern Plan, which is a defined contribution pension plan that is registered under the federal PBSA and the ITA. There were 58 members of the 168886 Eastern Plan as at December 31, 2016. In Fiscal 2016, 168886 Canada Inc. made contributions of \$78,844 to the 168886 Eastern Plan.

109. As of today's date, to the best of my knowledge, 168886 Canada Inc. has paid all contributions that are due to the 168886 Eastern Plan.

iv. ***168886 Western Plan***

110. Employees in the Western Division of 168886 Canada Inc. are eligible to participate in the 168886 Western Plan, which is a defined contribution pension plan that is

registered under the federal PBSA and the ITA. There were 153 members of the 168886 Western Plan as at December 31, 2016. For the payroll year ending December 17, 2016, 168886 Canada Inc. made contributions of \$190,426.73 to the 168886 Western Plan.

111. As of today's date, to the best of my knowledge, 168886 Canada Inc. has paid all contributions that are due to the 168886 Western Plan.

v. ***PRB Plan***

112. Certain full-time associates hired by the Sears Canada Group prior to 1999 that met the requisite age and service requirements by December 31, 2008 are eligible for coverage for post-retirement life, health and dental benefits under the PRB Plan. Benefits under the PRB Plan are provided through a health and welfare trust on a pay-as-you-go basis.

113. In December 2009, Sears Canada made the decision to use the surplus in the health and welfare trust to make benefit payments (including benefit payments for short term disability benefits for active employees which are also provided under the trust). Beginning in February 2015, Sears Canada resumed funding the PRB Plan benefit payments since the surplus in the health and welfare trust had been depleted. There are currently no assets in the health and welfare trust.

114. An actuarial valuation of the PRB Plan is performed at least every three years, with the last valuation completed as of January 31, 2014 (the "**PRB Plan Valuation Report**"). As of January 31, 2017, Sears Canada's post-retirement benefit liabilities under the PRB Plan on an accounting basis were approximately \$196 million. As at the time of swearing this affidavit,

to the best of my knowledge, Sears Canada is current on its payment of post-retirement life, health and dental benefits under the PRB Plan.

115. Similar to the above with respect to the anticipated request for the cessation of the special payments to the DB Component of the Sears Pension Plan, the Applicants intend to serve a motion in the near term seeking court approval to cease paying post-retirement benefits under the PRB Plan. The Sears Canada Group can no longer afford to make these payments as it attempts to restructure under the CCAA and the Cash Flow Forecast (defined below) does not include payments for the amounts going forward.

vi. ***The Cut Inc. 401K***

116. The Cut Inc. offers the 401K Plan to its employees through Trinet, a third party administrator. The Cut Inc. matches certain employee contributions to the 401K Plan. Contributions to the 401K Plan vest immediately.

117. As of today's date, to the best of my knowledge, The Cut Inc. has paid all contributions that are due to the 401K Plan.

vii. ***Retiree Group***

118. A group of former Sears Canada executives has formed a retiree group to advance their interests in respect of the Sears Pension Plan (the "**Retiree Group**"). The Retiree Group has retained Koskie Minsky LLP as their counsel and Sears Canada has recently started paying their reasonable legal fees. Sears Canada has been communicating with the Retiree Group with respect to the funded status and ongoing administration of the DB Component of the Sears Pension Plan.

The Applicants intend to continue this dialogue and engage with the Retiree Group as part of these CCAA proceedings.

viii. *Notice to Pension Plan Beneficiaries*

119. As set out above, I understand that Sears Canada acts as both the sponsor employer and the administrator of the Sears Pension Plan for purposes of the PBA. I am informed by Tony Devir of Osler, Hoskin & Harcourt LLP and believe that these roles impose differing responsibilities and duties on Sears Canada, and that these responsibilities and duties may come into conflict during the course of these CCAA proceedings.

120. In view of this potential conflict, and because the Applicants are seeking that the Initial Order give Court-ordered charges including the DIP Lenders' Charges (as defined below) priority over the Encumbrances (as defined in the proposed Initial Order), including any deemed trusts created by the PBA, the Applicants intend to provide specific notice to individuals who are members, former members or retired members with entitlements under the DB Component of the Sears Pension Plan and individuals who are surviving spouses of a deceased member, former member or retired member where such surviving spouse has an entitlement to a benefit under the DB Component of the Sears Pension Plan.

121. In particular, should the Initial Order be granted, in addition to immediately engaging with Koskie Minsky LLP in its capacity as counsel to the Retiree Group, the Applicants intend to provide notice to those members of the DB Component of the Sears Pension Plan who are employees of Sears Canada through an e-mail communication and to provide notice to all other participants in the DB Component of the Sears Pension Plan (being former

members or retired members with entitlements under the DB Component of the Sears Pension Plan and individuals who are surviving spouses of a deceased member, former member or retired member where such surviving spouse has an entitlement to a benefit under the DB Component of the Sears Pension Plan) through sending letters advising them of the commencement of the CCAA proceedings, the date of the comeback hearing and the fact that issues relating to the Sears Pension Plan will be dealt with at that hearing. The notice will also direct the recipient to the Monitor's website as the place to obtain information with respect to the CCAA proceedings. The Applicants will also provide notice of the comeback hearing to the Ontario Superintendent of Financial Services.

122. I believe that this proposed notification procedure is a reasonable method of ensuring that notice of the comeback hearing and the relief to be sought therein is reasonably likely to come to the attention of the intended recipients.

J. Loyalty Program, Gift Cards and Warranties

123. In November 2015, Sears Canada launched a new Sears Club Points Program (the "**Loyalty Program**") which allows customers to earn points on purchases at Sears Canada using cash or any debit or credit card accepted by Sears Canada. Customers can then redeem points in accordance with the Loyalty Program rewards schedule for merchandise. Over 1.2 million customers are members of the Loyalty Program. A third party service provider, Exchange Solutions Inc., tracks and maintains the Loyalty Program. When points are earned, Sears Canada defers revenue equal to the fair value of the awards adjusted for expected redemptions. When awards are redeemed, the redemption value of the awards is charged against deferred revenue and recognized as revenue. The expected future redemption rates are reviewed on an ongoing basis and are adjusted based upon expected future activity. In Fiscal 2016, revenue recognized

from points redemption under the Loyalty Program totaled \$22.7 million, and deferred revenue related to points issuances totaled \$18.7 million. Sears Canada intends to honour the redemption of points, but customers will not be able to earn new points, during the CCAA proceedings.

124. Sears Canada also sells gift cards through its retail stores, websites and third parties with no administrative fee charges or expiration dates. A third party processor tracks the outstanding gift cards. No revenue is recognized at the time gift cards are sold. Revenue is recognized when the gift card is redeemed by the customer. Sears Canada also recognizes income when the likelihood of the gift card being redeemed by the customer is remote, which is generally at the end of 18 months subsequent to issuance, estimated based on historical redemption patterns. Sears Canada intends to continue to honour, but not sell, gift cards during the CCAA proceedings.

125. Sears Canada also sells extended warranty service contracts (with warranty coverage provided by Sears Canada or by third parties) with terms of coverage generally between 12 and 60 months. Revenue from the sale of each contract is deferred and amortized on a straight-line basis over the term of the related contract. Sears Canada intends to continue selling and honouring these warranties during the CCAA proceedings, with limited exceptions.

126. Sears Canada also intends to continue to honour the 30 day returns policy in continuing stores during the CCAA proceedings.

K. Royalty Contracts

127. Sears Canada has a number of royalty agreements pursuant to which it sells branded merchandise from various third parties. Sears Canada pays these third parties royalty

fees. As part of their operational restructuring, the Applicants intend to discontinue some or all of these royalty arrangements.

L. Critical Suppliers

128. The Applicants rely on a number of vendors and third-party service providers in operating their businesses. For instance, customs brokers, clearing houses, freight forwarders, fuel providers, and other supply chain providers are all essential to the Applicants' ability to continue running their business.

129. The Sears Canada Group relies on a number of third parties to process credit card, debit card, and other forms of electronic payment. Without these services, the Sears Canada Group would be unable to accept credit and debit cards in its retail stores, without which it would not be able to continue operating.

M. Charitable Efforts

130. For over sixty years, the Sears Canada Group has been supporting both national and local community-based initiatives through its investment in non-profit organizations. The Sears Canada Group has two main mandates for which funds are raised: children's education (emphasizing after-school programs) and children's health (emphasizing the fight against childhood cancer).

131. The Sears Canada Group has partnerships with organizations such as the Boys and Girls Clubs of Canada, Scouts Canada and Girl Guides of Canada which help children develop and reach their full potential. In addition, initiatives such as the Sears Drama Festival

and the Sears Canadian High School Design Competition also contribute to the healthy development of Canadian youth.

132. The Sears Canada Group also works with children's hospitals across the country and helps to raise funds to provide the special care required for children living with cancer as well as much needed research in the field of pediatric oncology. As an example, the Sears Canada Charitable Foundation provides funding for the Sears Cancer Clinic at the Hospital for Sick Children in Toronto. It also sponsored the ninth annual Sears National Kids Cancer Ride, in cooperation with the Coast to Coast Against Cancer Foundation.

133. Over the past year, the Sears Canada Group, its customers, vendors and employees raised or facilitated the donation of approximately \$5.3 million for various charitable organizations through a variety of events and initiatives.

N. Outstanding Litigation Claims

134. The Sears Canada Group is subject to ongoing litigation from time-to-time. Unresolved litigation claims include the following:

- (a) **Claims Against Sears Canada:** These include claims regarding real estate and/or environmental contamination disputes, breach of contract, constructive/wrongful dismissal, an inquiry being conducted by the Competition Bureau of Canada with respect to mattress sales, and various class actions regarding pricing practices, warranty practices, and alleged practices with a chain of dealers.

- (b) **Claims Against Corbeil:** Claims include two class action claims regarding warranty practices.

135. Additionally, the Sears Canada Group is currently remediating various locations throughout Canada where it operated gas bars, auto centres and a logistics facility. The Sears Canada Group intends to continue these remediation activities during the CCAA proceedings.

The Financial Position of the Sears Canada Group

136. As a publicly traded company, Sears Canada files consolidated financial statements with the Canadian Securities Administrators through the SEDAR filing system and with the Securities and Exchange Commission in the United States. A copy of the Sears Canada Group's audited financial statements as of January 28, 2017 is attached as Exhibit "D" to this Affidavit. These are the most recent set of annual audited financial statements prepared and filed by Sears Canada.

137. In addition, a copy of the Sears Canada Group's unaudited financial statements for the first quarter ended April 29, 2017 is attached as Exhibit "E" to this affidavit. These are the most recent set of unaudited quarterly financial statements prepared and filed by Sears Canada. Certain information contained in the unaudited quarterly financial statements is summarized below.

A. Assets

138. As at April 29, 2017, the Sears Canada Group had total assets of approximately \$1,187 million. This included current assets of approximately \$942 million and non-current assets of approximately \$245 million.

i. ***Current Assets***

139. As at April 29, 2017, the Sears Canada Group's current assets consisted of the following:

- (a) Cash: \$164.4 million;
- (b) Accounts receivable, net: \$61.5 million;
- (c) Income taxes recoverable: \$12.8 million;
- (d) Inventories: \$658.3 million;
- (e) Prepaid expenses: \$38.8 million;
- (f) Derivative financial assets: \$1.4 million; and
- (g) Assets classified as held for sale: \$5.2 million.

140. As of June 17, 2017, the Sears Canada Group had cash on hand of approximately \$125.3 million. As set out above, inventory comprises the majority of the Sears Canada Group's current assets. As of June 17, 2017, the Sears Canada Group had inventory with a cost value of approximately \$648.1 million.

ii. ***Non-Current Assets***

141. As at April 29, 2017, the Sears Canada Group's non-current assets consisted of the following:

- (a) Property, plant and equipment: \$233.2 million;
- (b) Investment properties: \$2.0 million ;
- (c) Intangible assets: \$2.5 million;

- (d) Deferred tax assets: \$0.6 million; and
- (e) Other long-term assets: \$6.7 million.

B. Liabilities

142. As at April 29, 2017, the Sears Canada Group had total liabilities of approximately \$1,108 million. This included current liabilities of approximately \$528 million and non-current liabilities of approximately \$580 million.

i. *Current Liabilities*

143. As at April 29, 2017, the Sears Canada Group's current liabilities consisted of the following:

- (a) Accounts payable and accrued liabilities: \$333.0 million;
- (b) Deferred revenue: \$130.1 million;
- (c) Provisions: \$55.9 million;
- (d) Income taxes payable: \$0.6 million;
- (e) Other taxes payable: \$4.2 million; and
- (f) Current portion of long-term obligations: \$4.0 million.

ii. *Non-Current Liabilities*

144. As at April 29, 2017, the Sears Canada Group's non-current liabilities consisted of the following:

- (a) Long-term debt: \$120.4 million;
- (b) Long-term obligations: \$17.2 million;

- (c) Deferred revenue: \$68.1 million;
- (d) Retirement benefit liability: \$294.9 million; and
- (e) Other long-term liabilities: \$79.4 million.

145. The Sears Canada Group’s long-term liabilities consist primarily of the approximately \$120.4 million obligation in respect of long-term debt and the approximately \$294.9 million obligation in respect of Sears Canada’s retirement plans.

C. Revenue

146. The Sears Canada Group has incurred significant losses and experienced negative operating cash flows for the past several years. The following table provides a five year “snapshot” of key financial measures of the Sears Canada Group:

<i>(in Millions)</i>	Fiscal 2016	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
Total Revenue	\$2,613.6	\$3,145.7	\$3,424.5	\$3,991.8	\$4,346.5
Adjusted EBITDA	\$(282.9)	\$(160.5)	\$(122.4)	\$35.7	\$73.5
Net Earnings (Loss)	\$(321.0)	\$(67.9)	\$(338.8)	\$446.5	\$101.2
Capital Expenditures	\$27.4	\$45.4	\$54.0	\$70.8	\$101.6
A/R (Net)	\$67.1	\$59.4	\$73.0	\$83.3	\$77.7
Inventories	\$598.5	\$664.8	\$641.4	\$774.6	\$851.4
PP&E	\$227.1	\$444.1	\$567.6	\$785.5	\$1,118.5
Total Assets	\$1,244.4	\$1,633.2	\$1,774.1	\$2,392.3	\$2,504.7
Working Capital	\$460.6	\$543.0	\$522.0	\$567.0	\$410.7
Dividends	\$0	\$0	\$0	\$509.4	\$101.9

147. The decrease in revenue from Fiscal 2015 to Fiscal 2016 was attributable to sales declines in all product categories in Home & Hardlines and Apparel & Accessories, including:

- (a) a decrease in the Direct channel of \$203.0 million compared to Fiscal 2015, primarily due to a decrease in catalogues, catalogue pages and distribution, as well as challenges experienced with the launch of the new website;
- (b) a decrease of \$136.5 million as the result of store closures during and subsequent to Fiscal 2015;
- (c) a decrease of commission and licensee revenue of \$75.7 million, primarily due to reduced revenues after the termination of the credit card marketing and servicing agreement with JPMorgan Chase Bank, N.A. (Toronto Branch) (“**JPMorgan Chase**”) in November 2015; and
- (d) a decrease in services and other revenue of \$8.0 million, primarily due to reduced shipping fees on sales to customers through Sears Canada’s Direct channel and Sears Home stores due to store closures.

148. The Sears Canada Group’s Adjusted Net Loss Before Interest, Taxes, Depreciation and Amortization (“**Adjusted EBITDA**”) for Fiscal 2016 was negatively impacted by the termination of the credit card marketing and servicing agreement with JPMorgan Chase described above, by \$59.5 million due to the weakening of the Canadian dollar compared to the U.S. dollar, and by \$24.3 million from expenses incurred for the Initium initiative (discussed below) and challenges experienced with the launch of the new website. These negative impacts were partially offset by a \$23.0 million release of a sales tax provision, savings of \$14.9 million related to the closure of underperforming stores subsequent to Fiscal 2015, and a decrease of

\$5.6 million in severance costs. Excluding the impact of these items, Adjusted EBITDA for Fiscal 2016 declined by \$5.9 million compared to Fiscal 2015.

149. Additionally, in the first quarter of Fiscal 2017, the Sears Canada Group experienced net losses of \$144.4 million. Adjusted EBITDA was a loss of \$133.9 million in the first quarter compared to a loss of \$75.4 million for the same quarter last year. Revenue was \$505.5 million in the first quarter, a decline of 15.2% compared to the same quarter last year.

D. Secured Debt and Credit Facilities

i. *Summary of Sears Canada’s Credit Facilities as of June 5, 2017*

	<i>Type</i>	<i>Current Facility</i>	<i>Amount Outstanding</i>
Wells Fargo Credit Agreement	Revolver based on borrowing base and letter of credit availability	Up to CAN \$300.0 million	CAN \$33 million plus (as of May 26, 2017) \$136.6 million of outstanding letters of credit
GACP Credit Agreement	Term facility with two tranches	US\$93.9 million plus up to the US\$ equivalent of CAN \$175 million	US\$93.9 million

ii. *Description of Credit Facilities*

(a) *Wells Fargo Revolving Credit Facility*

150. On September 10, 2010, Sears Canada entered into a Credit Agreement (as amended, the “**Wells Fargo Credit Agreement**”) with (i) Wells Fargo Capital Finance Corporation Canada (“**Wells Fargo**”) as Administrative Agent, Co-Collateral Agent and Swingline Lender, (ii) GE Canada Finance Holding Company as Co-Collateral Agent and Documentation Agent, (iii) CIBC Asset Based Lending Inc. and Bank of Montreal as Co-Syndication Agents, (iv) Wells Fargo, GE Capital Markets (Canada) Limited, GE Capital

Markets, Inc., CIBC Asset-Based Lending Inc. and BMO Capital Markets as Joint Lead Arrangers and Bookrunners, and (v) the lenders currently participating in the syndicate (the “**Revolving Facility Lenders**”). The obligations of Sears Canada under the Wells Fargo Credit Agreement are guaranteed on a secured basis by Corbeil (and together with Sears Canada, the “**Loan Parties**”).

151. The Wells Fargo Credit Agreement originally provided for an \$800.0 million senior secured revolving credit facility (the “**Revolving Credit Facility**”) with a maturity date of September 10, 2015. On May 28, 2014, the term of the Revolving Credit Facility was extended to May 28, 2019 and the total credit limit was reduced to \$300.0 million. Advances under the Revolving Credit Facility are available by way of direct advances or letters of credit (each an “**LOC**”). A copy of the Wells Fargo Credit Agreement, including the amendments thereto, is attached as Exhibit “F”.

152. Availability under the Revolving Credit Facility is determined pursuant to a borrowing base formula, up to a maximum availability of \$300.0 million. The borrowing base formula is linked to the value of 85% of the Loan Parties’ eligible credit card receivables plus 85% of the net orderly liquidation value of the Loan Parties’ eligible inventory less the amount of reserves relating to liens or charges that could rank *pari passu* or in priority to Wells Fargo’s liens and including in particular a reserve in respect of the estimated net pension deficit in the event of a wind-up of the DB Component of the Pension Plan (the “**Pension Reserve**”).

153. Accordingly, borrowing availability under the Wells Fargo Credit Agreement fluctuates from month to month. Sears Canada calculates its borrowing base monthly to

determine the amount that Sears Canada can draw upon under the Revolving Credit Facility in accordance with the Wells Fargo Credit Agreement.

154. On June 5, 2017, Sears Canada completed a draw of \$33 million under the Revolving Credit Facility and there is currently no material additional availability after application of the reserves. Interest on cash drawings under the Revolving Credit Facility is determined based on bankers' acceptance rates, LIBOR or prime rates plus an applicable margin. Margins range from 1.75% to 2.25% per annum depending on the type of advance subject to adjustment in accordance with a pricing grid. LOCs issued under the Revolving Credit Facility are subject to a fee of 1.75% per annum for commercial letters of credit or 2.25% per annum for standby letters of credit. Letters of credit are also subject to a fronting fee payable to the issuing bank on the undrawn and unexpired amount of such letters of credit. Interest amounts and letter of credit fees under the Revolving Credit Facility are due monthly or on the last day of the applicable interest period in the case of banker acceptance or LIBOR advances.

155. Sears Canada has a number of outstanding LOCs issued under the Revolving Credit Facility, which fluctuate in quantity and amount from time to time. As of May 26, 2017, there were 35 standby LOCs outstanding in the aggregate principal amount of approximately \$117.3 million and merchandise LOCs outstanding in the aggregate principal amount of approximately US\$14.3 million. Five of the standby LOCs were issued in relation to Sears Canada's sale and lease back transactions and amount to approximately \$36.1 million. Ten of the standby LOCs were issued in favour of various Sears Canada suppliers and amount to approximately \$27.8 million. Other beneficiaries of standby LOCs include Canadian banks,

utilities providers, and insurers. The largest amount of any single LOC is approximately \$18.9 million.

156. The Revolving Credit Facility includes a requirement for mandatory repayments to the extent the loans outstanding exceed the line cap (determined by reference to the lesser of the borrowing base minus reserves and the maximum amount of the loan) or if Sears Canada's liquidity falls below a specified level. Such mandatory repayments do not reduce the credit limit. Advances and unused commitments under the Revolving Credit Facility may be optionally prepaid or reduced without premium or penalty (subject to payment of customary breakage costs in respect of banker's acceptance or LIBOR drawings prepaid before the end of the applicable interest period).

157. Due primarily to the Pension Reserve, the Revolving Credit Facility provides insufficient liquidity for Sears Canada. As such, Sears Canada evaluated additional financing opportunities that would provide additional capital relative to the collateral available.

(b) *GACP Term Loans*

158. On March 20, 2017, Sears Canada entered into a Credit Agreement (the "**GACP Credit Agreement**") and, together with the Wells Fargo Credit Agreement, the "**Credit Agreements**") with, (i) GACP Finance Co., LLC ("**GACP**") as Administrative Agent and Syndication Agent, (ii) KKR Capital Markets LLC and GACP Finance Co., LLC as Joint Lead Arrangers, (iii) TPG Specialty Lending, Inc. as Documentation agent, and (iv) the lenders currently participating in the syndicate (the "**Term Loan Lenders**"). The GACP Credit Agreement terminates on the earliest of (i) March 20, 2022, (ii) the termination date of the Wells

Fargo Credit Agreement if it is not refinanced under certain terms and (iii) the date that an earlier termination event occurs. The obligations of Sears Canada under the GACP Credit Agreement are guaranteed on a secured basis by Corbeil. A copy of the GACP Credit Agreement, including amendment thereto, is attached as Exhibit “G”.

159. The GACP Credit Agreement is a term loan credit facility with two available tranches. An initial term loan of approximately US\$93.9 million (CAN \$125 million) was advanced on March 20, 2017 (the “**Initial Term Loan**”) against a borrowing base of 10% of the Loan Parties’ eligible credit card receivables plus 20% of the Loan Parties’ eligible inventory (the “**Personal Property Borrowing Base Portion**”), less the amount of reserves, including the Pension Reserve under the Revolving Credit Facility.

160. The GACP Credit Agreement also provides for a delayed draw term loan available at Sears Canada’s option subject to the grant of a first charge on certain owned and leased real property acceptable to Sears Canada and the Term Loan Lenders (the “**Delay Draw Term Loan**” and, together with the Initial Term Loan, the “**Term Loans**”). The amount of the Delayed Draw Term Loan cannot exceed the lesser of (a) the U.S. dollar equivalent of CAN\$175 million and (b) a borrowing base of 50% of the fair market value of owned real property and 30% of the fair market value of leasehold real property, in each case with a first priority charge in favour of the Term Loan Lenders (the “**Real Property Borrowing Base Portion**”), less reserves (including the Pension Reserve). Interest on the Term Loans is determined based on the LIBOR rate (with a floor of 1%) plus a margin of 9.5% or the prime rate plus a margin of 8.5% and is payable monthly. The anticipated closing date with respect to the Delay Draw Term Loan was extended from May 4, 2017 to June 30, 2017.

161. The GACP Credit Agreement includes a requirement for mandatory repayments to the extent the loans outstanding exceed the loan cap (determined by reference to the lesser of the full borrowing base, being the Personal Property Borrowing Base Portion and the Real Property Borrowing Base Portion (if any at such time) minus the reserves, and the maximum amount of the loan) or if Sears Canada's liquidity falls below a specified level (but subject to an aggregate \$20 million threshold before such repayment is required). The GACP Credit Agreement also includes prepayment penalties.

162. The GACP Credit Agreement may impact on the availability of financing under the Revolving Credit Facility. Pursuant to the GACP Credit Agreement, if the amount advanced in the Term Loans exceeds the borrowing base, the difference between those amounts becomes a reserve against the Revolving Credit Facility (the "**Push Down Reserve**"). The Push Down Reserve consequently reduces the amount of financing available to Sears Canada under the Revolving Credit Facility.

163. As noted above, based on the status of negotiations with the Term Loan Lenders, the amount that Sears Canada could expect to borrow under the Delay Draw Term Loan was reduced to an amount up to \$109.1 million before transaction fees. Ultimately, Sears Canada concluded that it was not prudent to encumber its remaining real estate assets for borrowings that were significantly less than \$175 million. The inability to access the full amount of this funding contributed to Sears Canada's liquidity problems and is one of the catalysts for the Applicants' decision to seek relief under the CCAA.

(c) *Collateral under the Credit Agreements*

164. The obligations of Sears Canada and Corbeil under or in connection with the Credit Agreements are secured by Sears Canada's and Corbeil's:

- (a) credit card account receivables, inventory, most accounts, cash and cash equivalents and proceeds of the foregoing, and four real estate properties in Belleville, Ontario, Peterborough, Ontario, City of Trois-Rivieres, Quebec and Charlottetown, Prince Edward Island (the "**Initial Real Property Collateral**", and together with the credit card account receivables, inventory, most accounts, cash and cash equivalents and proceeds of the foregoing, the "**Wells Fargo Priority Collateral**"); and
- (b) equipment, certain goods (including furniture and fixtures), accounts relating to the GACP Credit Agreement and proceeds of the foregoing and any real property collateral subsequently secured (the "**GACP Priority Collateral**" and, together with the Wells Fargo Priority Collateral, the "**Collateral**").

165. Wells Fargo has security over the Collateral pursuant to a guarantee and collateral agreement dated as of September 10, 2010 as amended and restated as of April 19, 2017, as well as deeds of hypothec and debentures with respect to the Initial Real Property Collateral (collectively, the "**Wells Fargo Collateral Agreements**"). A copy of the amended and restated Wells Fargo Collateral Agreement is attached as Exhibit "H".

166. GACP has security over the Collateral pursuant to a guarantee and collateral agreement dated as of March 20, 2017 and amended and restated as of April 19, 2017, as well as

deeds of hypothec and debentures with respect to the Initial Real Property Collateral (collectively, the “**GACP Collateral Agreements**”). A copy of the amended and restated GACP Collateral Agreements is attached as Exhibit “I”.

167. The respective priorities of Wells Fargo and GACP with respect to the Collateral are governed by an Intercreditor Agreement dated as of March 20, 2017 made between Wells Fargo and GACP and acknowledged by Sears Canada and Corbeil. A copy of the Intercreditor Agreement is attached as Exhibit “J”. Subject to two limited inventory suppliers, (i) Wells Fargo has first priority over the Wells Fargo Priority Collateral and has second priority over the GACP Priority Collateral, and (ii) GACP has first priority over the GACP Priority Collateral and has second priority over the Wells Fargo Priority Collateral.

168. As at January 28, 2017, restricted cash of \$100 million was pledged voluntarily as collateral under the Revolving Credit Facility to provide additional security to the Revolving Facility Lenders. This amount was then reduced to \$30 million. Subsequently, the \$30 million in restricted cash was returned to the company.

Cash Management System

169. In the ordinary course of business, Sears Canada uses a centralized cash management system to monitor account activity and balances for itself and each of its subsidiaries with the exception of Corbeil and SLH, which have their own cash management systems (the “**Sears Cash Management System**”). These accounts are monitored daily and managed centrally at Sears Canada’s head office in Toronto. The Sears Cash Management System facilitates cash forecasting and reporting, monitoring, collection and disbursement of funds, and control over the administration of various bank accounts required to effect the

collection, disbursement and movement of cash. There are various blocked account agreements in place, but none have been activated at this time.

170. The Sears Cash Management System involves four main banks with over 80 bank accounts. In general, Royal Bank of Canada (“**RBC**”) and Bank of Montreal (“**BMO**”) provide the primary accounts for receipts of credit, debit and EFT transactions as well as the primary accounts for disbursements. Canadian Imperial Bank of Commerce (“**CIBC**”) provides the primary accounts for cash receipts from the Sears Canada stores. Sears Canada uses BMO for Canadian dollar EFT disbursements to its North American vendors, while HSBC Canada (“**HSBC**”) and RBC are used for USD EFT disbursements to North American and international vendors.

171. Sears Canada uses a variety of receipt and disbursement sub-accounts which are consolidated on a monthly basis into central accounts at each bank referred to as “Concentrator Accounts”.¹² The RBC Canadian and US dollar Concentrator Accounts are Sears Canada’s main operating accounts. Funds are transferred from the Concentrator Accounts at CIBC and BMO either directly to the RBC USD Concentrator or else into the RBC Canadian dollar accounts by way of the RBC treasury account. When funds must be transferred out of the RBC Concentrator Account to other Concentrator Accounts (e.g. BMO or HSBC) or other entities (e.g. Corbeil), these funds are transferred through the RBC treasury account.

172. Corbeil has a largely independent cash management system (the “**Corbeil Cash Management System**”) that is managed from Corbeil’s head office in Montreal. Similarly, SLH

¹² The sub-accounts are each designated to process a certain type of transaction (e.g. Visa card settlements, direct deposit payroll payments) to simplify the reconciliation of the account activity.

also has a largely independent cash management system (the “**SLH Cash Management System**”) that is managed from SLH’s head office in Kingston. All of the Corbeil and SLH accounts are with RBC. Sears Canada will fund or remove excess cash from the SLH or Corbeil accounts when needed or available.

173. Except for The Cut Inc.’s bank account at RBC Bank (Georgia) NA, all of the accounts are located in Canada, regardless of the financial institution. The Cut Inc. also has a USD denominated bank account located in Canada.

A. Sears Canada Receipts

i. Credit/Debit Payments

174. Debit and credit card settlements represent approximately 90% of receipts from Sears Canada store sales.¹³ Additionally, sales from Sears Canada’s online platform are all credit card transactions and Sears Canada has a number of other receipt streams where customers pay using credit cards.

175. All card transaction settlements except for MasterCard are deposited into various deposit-only sub-accounts at RBC. Funds are swept automatically from these sub-accounts at the end of each day into the RBC Treasury Account and then to the RBC Concentrator Account. MasterCard settlements are deposited into a sub-account at BMO and swept into the main BMO account (the “**BMO Concentrator Account**”) at the end of each day.

¹³ Sears Canada uses a third party, Moneris Solutions Corporation (“**Moneris**”), to process the card transactions.

ii. ***Cash Receipts***

176. Cash receipts represent approximately 10% of receipts from Sears Canada's store sales.¹⁴ All retail stores, other than independent Direct pick-up locations and Hometown Dealer locations, use CIBC as their depository bank. All Canadian funds are deposited into sub-accounts which are swept monthly to a CIBC Canadian Concentrator Account. All US funds are deposited into sub-accounts which are swept monthly to a CIBC USD Concentrator Account. Periodically, the CIBC USD Concentrator Account is swept into an RBC account which is, in turn, swept into an RBC USD Concentrator Account.

177. Independent Direct pick-up locations and Sears Hometown Dealers utilize banks that are convenient to their locations as many stores are in rural areas with limited banking options, and store staff is responsible for depositing cash receipts. On a regular basis, funds in the depository bank accounts of the independent Direct pick-up and Hometown Dealer locations are transferred by EFT transactions into a single bank account at RBC, which is then swept on a regular basis into the RBC Concentrator Account.

iii. ***Other Receipts***

178. Sears Canada has a number of other sources of receipts which are deposited into sub-accounts (either with CIBC (cheques/cash) or RBC (EFT)) which are swept into the applicable Concentrator Accounts (e.g. Head Office Deposits, Western Union Receipts, etc.).

¹⁴ Sears Canada uses a third party, Brinks, to collect cash from the stores. The pickups typically occur once per week.

B. Sears Canada Disbursements

179. Sears Canada uses separate sub-accounts at various banks to process disbursements. These accounts run negative balances as payments are made and are funded by a transfer of funds from the associated Concentrator Account. The relevant banking institution monitors the overall cash position of Sears Canada, which allows for these accounts to run a negative balance at any given time. Sears Canada generally maintains a consolidated \$5 million float of cash when considering making payments from the Concentrator Account. It reviews the net balance of funds with each institution on a daily basis.

i. ***Payroll***

180. Payroll for Sears Canada employees and SLH employees is funded through two RBC sub-accounts depending on whether the employee is paid by cheque or the funds are deposited directly into their individual bank account.¹⁵

181. The Cut Inc. has its own bank account with RBC that is used to make payroll related disbursements to its third party payroll processing service provider.

ii. ***Health Benefits***

182. Sears Canada has an account at RBC which it uses to fund its obligations to employees on sick leave. Funds are transferred to this account from the RBC Treasury Account.

¹⁵ 168886 Canada Inc. employees are paid by third-party service provider ADP, which is paid by SLH through its own cash management system.

iii. ***Vendor Payments***

183. Payments to vendors by EFT are processed through Sears Canada's accounts with BMO and HSBC. Canadian denominated EFT payments to North American vendors are made directly from the BMO Concentrator Account. US dollar denominated EFT payments to North American or international vendors are paid from either a BMO sub-account or an HSBC sub-account which is funded from an RBC USD account.

184. Payments to North American vendors paid by cheque are processed from the various sub-accounts of the RBC CAD and USD Concentrator Accounts.

iv. ***Revolving Credit Facility Repayments***

185. Any repayments on the Revolving Credit Facility are processed directly from the RBC Treasury account. Sears Canada does not have a bank account with Wells Fargo.

v. ***Other Disbursements***

186. Sears Canada has a number of other disbursement accounts for various purposes, such as a CIBC sub-account for coin purchases as well as RBC and CIBC accounts to fund chargebacks and "not sufficient funds" customer purchases. Additionally, Sears Canada has bank accounts with Toronto Dominion Bank ("TD"), National Bank and the Bank of Nova Scotia ("BNS") in order to pay the bank fees payable on the individual dealer bank accounts provided by these institutions.

C. Corbeil Cash Management System

187. Corbeil has its own group of bank accounts with RBC and funds its own operations primarily from its cash receipts. Sears Canada will also provide funding to Corbeil on an as needed basis throughout the year. Corbeil has two main accounts at RBC, a “Chequing” account and a “Receipts/Non-Cheque Disbursement” account. Cash receipts and credit card settlements are deposited into two RBC sub-accounts and swept into the RBC Chequing account at the end of each day. Cash transfers from Sears Canada are deposited directly into the RBC Chequing account. Miscellaneous corporate receipts (e.g., tax refunds etc.) are deposited into the RBC Receipts/Non-Cheque Disbursement account.

188. Disbursements to suppliers made by cheque or by EFT are processed through the RBC Chequing account.

D. SLH Cash Management System

189. SLH has its own group of bank accounts with RBC and funds its own operations directly from cash receipts and from funding provided by Sears Canada.

190. SLH collections on its third party customer accounts are deposited into two accounts at RBC (one Canadian dollar and one USD). The Canadian dollar account is swept automatically every day into SLH’s main RBC Concentrator Account.

191. SLH has five Canadian dollar and one US dollar denominated RBC sub-accounts that it uses for SLH disbursements. The Canadian dollar sub-accounts are funded from SLH’s main RBC Concentrator Account and the US dollar disbursement account is funded from the SLH USD deposits account.

E. Intercompany Debt

192. Intercompany balances between members of the Sears Canada Group exist as a result of, among other things: (i) inter-company cash management and finance functions; (ii) the provision of services among Sears Canada Group members; and (iii) the payment of certain subsidiaries' operating costs by Sears Canada. In the ordinary course of business, these intercompany amounts fluctuate from time to time.

The Urgent Need for Relief under the CCAA

193. The Sears Canada Group has experienced many years of declining sales and significant losses, with net losses beginning in 2014.

194. Factors contributing to this decline in financial performance include: (i) a general weakening of the traditional Canadian retail industry; (ii) unsustainable fixed costs from an overly broad footprint; (iii) the decline of the catalogue business; (iv) lower than expected conversion of catalogue customers to online customers; (v) the inability to secure an agreement with a financial institution for the management of its credit and financial services operations; and (vi) the weakening of the Canadian dollar.

195. The Sears Canada Group has been able to maintain liquidity during this time of transformation through monetizing the value in its real estate and other assets. The dispositions of assets by the Sears Canada Group have resulted in the following cash receipts (in \$ millions) in recent years:

	2013	2014	2015	2016
Proceeds from sale of joint ventures	\$315.4	\$71.7	\$0.0	\$0.0
Proceeds from credit card termination	\$0.0	\$0.0	\$174.0	\$0.0

Proceeds from sale and leaseback	\$0.0	\$0.0	\$130.0	\$257.1
Proceeds from lease terminations	\$590.5	\$0.0	\$0.0	\$37.9
Proceeds from sale of Assets	\$1.9	\$1.2	\$0.3	\$3.1
Total	\$907.8	\$72.9	\$304.3	\$298.1

196. The Sears Canada Group has used the proceeds from these transactions to, among other things, pay dividends (prior to 2014) and fund the strategic initiatives detailed below.

197. As a result of the Sears Canada Group's poor financial performance and considerable negative press, vendors supplying inventory to Sears Canada have increasingly been imposing reduced terms on the company. This has further exacerbated liquidity issues.

198. Additionally, the Sears Canada Group faces certain challenges with respect to its pension and postretirement benefit obligations. While the Sears Canada Group is up-to-date with the current required contributions to the Sears Pension Plan, the DB Component of the Sears Pension Plan has a large funding deficit when calculated on a wind-up basis and the monthly special payments place a significant strain on the liquidity available to conduct ongoing operations. The funding deficit has become a significant risk and impediment to the Sears Canada Group's ongoing business, including through the pension reserves taken by its lenders.

199. The Sears Canada Group continues to face significant challenges. The Canadian retail market remains highly competitive as key players and new entrants compete for market share, including as a result of the growth of luxury retailers entering the market and the continued expansion of online sales. Certain international retailers continue to expand into Canada while existing retailers enhance their product offerings and become direct competitors. In addition, the weakening of the Canadian dollar continues to present additional challenges for

Canadian retailers, as this generally leads to higher costs for the company as many goods are purchased with US dollars.

200. The timing of this CCAA application is principally a function of declining liquidity. The Applicants cannot complete the implementation of their operational restructuring without additional liquidity and the stability created by a stay of proceedings under the CCAA. The Applicants simply do not have sufficient cash and projected cash going forward to continue their restructuring initiatives without the benefit of court protection.

201. In addition, the Applicants need to “right size” their operations through negotiations with stakeholders, the disclaimer of a number of unprofitable store locations, reducing the store footprint, staffing reductions, and eliminating a number of businesses and product lines. Right-sizing the business will also have ancillary implications on the Applicants’ purchasing, distribution and logistics functions, among others. All of this will be assisted through court-supervised restructuring proceedings.

202. A stay of proceedings is needed while the Sears Canada Group navigates its restructuring and to otherwise ensure the stability and preservation of the going concern value of the business.

203. The success of the Applicants’ restructuring efforts will depend principally upon: (i) addressing long term liquidity issues so as to ensure future viability of operations (which may entail a sale of all or parts of the business or securing a source of exit financing sufficient to adequately capitalize the business going forward); and (ii) completing the operational transformation of the Sears Canada Group.

204. The Sears Canada Group has recently taken steps to engage a number of parties to assist in formulating and executing on potential restructuring strategies, including: (i) Osler, Hoskin & Harcourt LLP (“**Osler**”), counsel to the Sears Canada Group; (ii) FTI Consulting Canada Inc. (“**FTI**”), as prospective CCAA Monitor (in such capacity and if so appointed by the Court, the “**Monitor**”); (iii) Bennett Jones LLP (“**Bennett Jones**”), as independent counsel to Sears Canada’s board of directors and the Special Committee of Sears Canada’s board of directors, described below; and (iv) BMO Capital Markets, as investment banker and financial advisor (the “**Financial Advisor**”).

205. Additionally, the board of directors of Sears Canada recently constituted a special committee of independent directors (the “**Special Committee**”) to consider various strategic alternatives, including obtaining sources of capital, the recapitalization or restructuring of the Sears Canada Group or the sale of material assets or all of its business, or any alternatives to the aforementioned transactions, which may include insolvency-related proceedings.

206. Due to, among other things, Sears Canada’s inability to draw the full amount of the Delayed Draw Term Loan, and the continuing and mounting operating losses being faced by the company, the Sears Canada Group is facing a looming liquidity crisis and will be unable to meet its obligations as they become due without court protection. Further, the Sears Canada Group does not have sufficient liquidity to pay the claims that will be triggered through the last phase of the operational restructuring described herein.

207. The Applicants are therefore insolvent and will be unable to meet their obligations as they come due without the benefit of an Initial CCAA Order and the receipt of DIP financing. If the Applicants are not permitted the opportunity to restructure under the CCAA or are not able

to successfully restructure and instead proceeded to bankruptcy, the expected proceeds of the Applicants' assets and business would in all likelihood be insufficient to pay in full the claims of their creditors (including those claims arising by virtue of the Applicants ceasing to operate).

208. The Special Committee has spent considerable time considering strategic alternatives for the Sears Canada Group with a view to making a recommendation on such alternatives to the full board of directors. The Special Committee has received presentations and/or information from senior management, the Financial Advisor, the Proposed Monitor, and Osler in the course of discharging its mandate. It has also received independent legal advice from Bennett Jones. After a thorough consideration of the options facing the company, and based on advice of its and Sears Canada's professional advisors referred to above, the Special Committee resolved to recommend the filing of this CCAA application to the board of directors.

209. Following a review of the Sears Canada Group's performance described above, the careful consideration of all options, and the recommendation of the Special Committee, the board of directors of Sears Canada has determined that, in its business judgement, and based on advice of its and Sears Canada's professional advisors referred to above, it is in the best interest of its business and its stakeholders to file for CCAA protection.

Restructuring Efforts to Date

210. In response to the losses incurred over the last several years, the Sears Canada Group has taken a number of actions to re-engineer its business for long-term growth. The initiatives to achieve this objective have been established within five primary workstreams, which are designed to drive the Sears Canada Group's business goals of increasing revenue and maintaining a strong balance sheet. The five primary workstreams are as follows:

- (a) **Sears 2.0** - Moving Sears Canada's physical retail stores to a more productive model, with a customer-focused and relevant assortment of products, faster inventory turns, and an assessment of the required square footage per store.
- (b) **Initium** - Building a new technology architecture to run Sears Canada with an upgraded e-commerce experience and logistics capabilities. The platform has the potential to structure Sears Canada as a digital commerce company with a network of stores attached, as opposed to a network of stores and legacy technology with a separate e-commerce business.
- (c) **Real Estate** - Matching the Sears Canada Group's real estate portfolio to better suit its needs for a profitable store-based retail business.
- (d) **Cost Reduction** - Bringing the Sears Canada Group's Selling, General and Administrative expense structure in line with its revenue.
- (e) **New Off-Price Business, Fast Fashion and Sears Label Essentials** - Launching Sears Canada's new off-price business – The Cut @ Sears – as well as its new fast fashion offering and rebranding Sears Canada's private label businesses.

211. As described below, the Sears Canada Group has made progress on these key workstreams:

A. Sears 2.0

- **Prototype Stores:** In 2016, Sears Canada launched its first new Sears 2.0 prototype stores at four locations in Ontario. The stores underwent significant

changes in their layout and offerings all designed to deliver quality products at affordable prices. Sears Canada plans to convert ten more stores to the Sears 2.0 format in 2017.

- **Price Scraping:** Sears Canada implemented a program whereby it researches competitor pricing daily to seek to ensure Sears Canada offers the lowest price on comparative appliances and mattresses.
- **Financing:** Sears Canada entered into a new loan processing and servicing agreement with easyFinancial Services Inc. to extend financing options to Sears Canada's customers purchasing major appliances and other home appliances.
- **Operational Reorganization:** Sears Canada has made several changes to its store structures to improve efficiency and increase the effectiveness of the chain of communication between management and the store associate teams within its retail stores. For instance, in January 2017, Sears Canada announced that it would separate the leadership structure of its full-line department stores into (i) Apparel and Accessories and (ii) Home and Hardlines so that leaders can manage smaller areas of the store more efficiently and with greater expertise.
- **New Logo:** Sears Canada unveiled a new logo during the third quarter of 2016 as part of its plan to re-invigorate and revitalize Sears Canada across all lines of business.

B. Initium

212. In the first quarter of Fiscal 2016, Sears Canada launched Initium Commerce Lab, an innovation hub, to design and implement a modernized technology platform for Sears Canada. Initium is an open-concept, creative environment, physically located away from head office operations to more easily facilitate the generation of new ideas and focus on delivering customer-centric, digital solutions.

- **New Website:** The new digital e-commerce platform launched the new Sears Canada website nationally in November 2016. While the transition to the new website initially encountered some significant technical difficulties, these difficulties are in the process of being addressed.
- **Technology Infrastructure:** In the second quarter of 2016, Sears Canada announced that it had entered into an agreement with a third party vendor to help streamline and update Sears Canada's current technology infrastructure and mainframe applications with the goal of reducing costs and improving efficiency, enabling the company to decommission legacy systems concurrent to establishing Initium. This agreement will also protect Sears Canada's technology environments with advanced cybersecurity solutions, and assist Sears Canada with elements of its new technology architecture.

C. Real Estate

213. Commencing in or about Fiscal 2012, the Sears Canada Group has undertaken a series of property sales and location closures in order to streamline its operations and eliminate unprofitable locations. This "right-sizing" strategy has included: (i) selling owned property that

was no longer required, (ii) selling owned property that was still required and leasing-back the property; and (iii) closing leased locations.

214. Since the beginning of Fiscal 2016 alone, the Sears Canada Group completed the following real estate transactions:

- Closed and self-liquidated numerous underperforming stores;
- Completed sale and leaseback transactions with respect to its NLCs located in Vaughan, Ontario, Calgary, Alberta, Port Coquitlam, British Columbia, and Montreal, Quebec;
- Completed sale and leaseback transactions with respect to certain retail stores;
- Completed a lease termination of the office floors at the Toronto Eaton Centre;
- Sold two former NLCs located in Regina, Saskatchewan; and
- Assigned eight of its Sears Home banner store leases to Leon's Furniture Ltd.

D. Cost Reduction

215. The Sears Canada Group achieved annualized cost reductions of \$159.6 million in Fiscal 2016, which exceeded the upper range of its target of \$155.0 million in annualized cost reductions. These reductions were primarily achieved through: store closures, headcount reductions and exiting unprofitable lines of business.

E. New Off-Price Business, Fast Fashion and Sears Label Essentials

216. In early 2017, Sears Canada officially launched its off-price business as “The Cut @ Sears”. The Cut @ Sears has a dedicated merchandising team to bring deals on designer products to Sears Canada’s customers. This merchandise is available online as well as in specific sections of certain Sears Canada full-line stores.

217. Sears Canada also launched a new fast fashion offering which features trendy, high-fashion apparel aimed at a millennial lifestyle audience.

218. In March 2017, Sears Canada also began rebranding its private label businesses with the introduction of a new line of everyday favorites on the Sears Label – key essentials for women, men, kids and the home. Sears Label essentials are positioned at elevated quality with prices designed to turn the inventory quickly.

F. Additional Efforts to Boost Liquidity

219. In addition to the efforts noted above, Sears Canada has sought to enhance its financial flexibility by entering into the GACP Credit Agreement.

Relief Sought

220. The Sears Canada Group has made significant efforts to pursue a restructuring outside of a formal insolvency proceeding. The Sears Canada Group’s liquidity position continues to deteriorate and a going concern note was included in its first quarter financial statements for Fiscal 2017. The Sears Canada Group does not have adequate liquidity to fulfill current business objectives and maintain going concern operations without commencing a

CCAA process, including the DIP Facility. As set out above, the Sears Canada Group will be unable to meet its liabilities as they become due and is therefore insolvent.

A. Stay of Proceedings

221. In order to provide breathing space to the Applicants while they restructure and to permit the Sears Canada Group to continue to operate as a going concern, the Applicants require a stay of proceedings. The Applicants are concerned about the potential termination of contracts by key suppliers and the inability to require suppliers to provide future product in accordance with contractual arrangements. It would be detrimental to the Sears Canada Group's ability to restructure if proceedings were commenced or continued or rights and remedies were exercised against the Applicants.

222. The Applicants request that the benefit of the stay of proceedings be extended to the Hometown Dealers and the Corbeil Franchisees with respect to any claims against them arising out of the Applicants' insolvency and the application for protection under the CCAA.

223. The operations of the Sears Canada Group, the Hometown Dealers and the Corbeil Franchisees are intertwined and the proposed limited extension of the stay is necessary to maintain stability and value in the CCAA process. Hometown Dealer stores allow Sears Canada to operate in smaller markets that cannot support a full-line department store and any third party actions that could affect their operations may result in a loss of revenue. Further, a significant portion of the Hometown Dealer stores are projected to be part of the reconfigured Sears footprint on a go-forward basis. Similarly, Corbeil Franchisees account for half of the Corbeil store footprint and are integral to the continued success of the Corbeil business going forward.

224. Any proceedings commenced against Hometown Dealers or Corbeil Franchisees would necessarily require the participation of key personnel of the Applicants – for example, to provide evidentiary support for the defence of such claims through witnesses or documents. The need to provide such support could be a very significant distraction for the Applicants’ key personnel during the restructuring and would materially detract from the paramount goal of achieving the timely restructuring of the business. Additionally, it would negatively affect the Sears Canada Group’s plan to continue with its Hometown Dealer stores and Corbeil Franchisees, and would hamper ongoing business relations at this critical time.

225. The stay will allow management to develop and oversee an orderly restructuring of the business with less disruption to the Applicants’ current business operations, as well as to continue implementing the operational restructuring initiatives. This, in turn, will help to protect the interests of the Sears Canada Group’s stakeholders, including employees, suppliers, landlords, customers and lenders. Having regard to the circumstances, and in an effort to preserve the going concern value of the Sears Canada Group’s business, I believe that the granting of a stay of proceedings is in the best interests of the Sears Canada Group and its stakeholders.

226. As noted above, the Applicants are also seeking to stay rights, including but not limited to termination rights and reduction or abatement of rent, that tenants may have against the landlords, owners, operators or managers of the commercial properties where the Sears Canada Group’s stores, offices or warehouses are located that arise as a result of the Applicants’ insolvency, or as a result of any steps taken by the Applicants pursuant to the proposed Initial Order.

B. DIP Financing

227. Because of its current liquidity challenges, and as demonstrated in the Cash Flow Forecast (discussed below), the Sears Canada Group requires interim financing to provide stability, continue going concern operations and to restructure its business as part of this CCAA proceeding.

228. As part of the Sears Canada Group's consideration of strategic alternatives, Sears Canada's current lenders were canvassed on their willingness to provide DIP financing. In the view of the Financial Advisor, the existing lenders would be in the best position to provide DIP financing in a timely manner as they were already familiar with the Sears Canada Group, its complex business and collateral base. Although discussions were held with another potential financier, the Financial Advisor was of the view that, given the rapidly deteriorating financial position of the Applicants, any non-current lender would likely be unable to conduct due diligence and provide committed DIP financing in the urgent timeframe required. Further, a DIP facility provided by the current lenders would avoid potentially distracting litigation involving a third party priming DIP facility.

229. Subject to certain terms and conditions, the Term Loan Lenders and the Revolving Facility Lenders (collectively, the "**DIP Lenders**") have agreed to provide the DIP Facility to Sears Canada consisting of a \$300 million revolving credit facility (the "**DIP Revolver**") as well as a term loan in the amount of the US\$ equivalent of CAN\$150 million (the "**DIP Term Loan**"). The DIP Facility is guaranteed, jointly and severally, by the Applicants. The related credit agreements (the "**DIP Revolving Credit Agreement**" and the "**DIP Term Loan Credit Agreement**", collectively the "**DIP Credit Agreements**") and fee letters are attached to this affidavit as Exhibit "K".

230. The funds available under the DIP Facility will be used to meet the Sears Canada Group's funding requirements during the CCAA proceedings in accordance with the Cash Flow Forecast, including the payment of professional fees and other costs and expenses in connection with the CCAA proceedings.

231. The DIP Credit Agreements do not contemplate, or permit the Sears Canada Group to make, any draws on the DIP Facility until after the comeback hearing. The Cash Flow Forecast demonstrates that the Applicants will not require the additional liquidity provided by the DIP Facility until after the comeback hearing. Nevertheless, it is essential that the DIP Facility is approved at the commencement of the CCAA proceeding in order to provide stability and certainty to the CCAA proceedings.

232. The DIP Facility includes the following commercial terms:

- (a) **Interest:** DIP Term Loan: LIBOR + 11.0% (with a floor of 1%) or US prime rate + 10.0%; DIP Revolver (on cash advances) LIBOR + 4.50% or Prime rate + 3.50%; DIP Revolver (on LOCs): (a) 4.50% per annum, in the case of a Standby LOC, and (b) 4.00% per annum, in the case of a merchandise (commercial) LOC.
- (b) **Commitment Fee:** DIP Term Loan: 3.5%, DIP Revolver: 1.25%;
- (c) **Unused Line Fee:** DIP Revolver: 0.375%; and
- (d) **Exit Fee:** DIP Term Loan 1.5%.

233. Certain prepayment and termination fees with respect to the Initial Term Loan (in the amount of approximately \$5 million) become due and payable as outstanding obligations under the GACP Credit Agreement upon the commencement of this CCAA proceeding. The DIP Term Loan Credit Agreement provides that these fees will not be payable provided that Sears Canada repay in full all amounts owing pursuant to the Initial Term Loan on or before a specified date using cash on hand or post-filing receipts.

234. As discussed above, there are a number of outstanding and undrawn LOCs under the Revolving Credit Facility. In the event that a beneficiary draws on an LOC from and after the commencement of these CCAA proceedings, Sears Canada's obligation to reimburse the Revolver Lenders is triggered (the "**Reimbursement Obligation**"). The DIP Facility provides that from and after the comeback hearing, the amount of any outstanding Reimbursement Obligation will be deemed to be an advance under the DIP Revolver secured by the DIP Revolver Charge (as defined below).

235. Undrawn LOCs remain obligations of Sears Canada under the Revolving Credit Facility. Pursuant to the DIP Agreement, the undrawn LOCs will be cash collateralized by Sears Canada following the comeback hearing from cash on hand or through use of the DIP Facility. The funds to cash collateralize the undrawn LOCs will be deposited into the L/C Collateral Account (as defined in the DIP Revolving Credit Agreement).

236. Pursuant to the DIP Credit Agreements, after the comeback hearing, any pre-filing amounts outstanding under the Revolving Credit Facility and Initial Term Loan will be repaid using cash on hand or post-filing receipts. Pre-filing amounts outstanding under the Revolving Credit Facility are to be paid down prior to pre-filing amounts outstanding under the

Initial Term Loan. The DIP Credit Agreements specifically provide that advances under the DIP Facility cannot be used to satisfy these pre-filing obligations.

237. It is a condition precedent to the availability of the DIP Facility that the Initial Order be in form and substance satisfactory to the DIP Lenders, including in respect of the granting of the DIP Lenders' Charges (as defined below). The maturity date of the DIP Facility is the earliest of (i) December 20, 2017, (ii) termination of the DIP Facility by Sears Canada, or (iii) the occurrence of an "Event of Default" to be defined in each applicable DIP Credit Agreement.

238. The DIP Credit Agreements require that the following milestones, among others, be met (all capitalized terms not previously defined as defined in the DIP Credit Agreements):

- (a) Sears Canada must commence CCAA proceedings and obtain the Initial Order on or prior to **June 23, 2017**;
- (b) The Comeback Motion in respect of the Initial Order, which shall be in form and substance satisfactory to each Agent, and which shall include seeking authority to implement the SISP and approve the DIP Lenders' Charges on a final basis, shall be heard on or before **July 13, 2017**;
- (c) On or before **July 21, 2017**, the Court shall enter an order approving the SISP (the "**SISP Order**"), which shall be in form and substance acceptable to each Agent;
- (d) **Within 3 Business Days** of the issuance of the SISP Order, Sears Canada shall forward process letters to potential bidders;

- (e) On or before **September 25, 2017**, Sears Canada, with the consent of each Agent and the DIP Lenders, shall have selected the binding bid(s) (the “**Successful Bid(s)**”) and negotiated definitive documentation in respect of the Successful Bid(s) in form and substance acceptable to each Agent and the DIP Lenders;
- (f) On or before **September 27, 2017**, Sears Canada, with the consent of each Agent and the DIP Lenders, shall have identified store locations, if any, where the inventory at such locations are not included in any Successful Bid(s) and shall have sought the required authority to and shall have commenced store closure sales for all such locations and inventory located thereon;
- (g) On or before **September 29, 2017**, Sears Canada shall have served a motion seeking approval of the Successful Bid(s) by the Court;
- (h) On or before **October 4, 2017**, the Court shall have approved the Successful Bid(s); and
- (i) On or before **October 25, 2017**, Sears Canada shall have consummated the Successful Bid(s), which shall be in form and substance acceptable to the Agent and the DIP Lenders.

239. The DIP Revolver and the DIP Term Loan are proposed to be secured by Court-ordered security interests, liens and charges (the “**DIP Revolver Charge**” and the “**DIP Term Loan Charge**”, respectively, and together the “**DIP Lenders’ Charges**”) on all of the present and future assets, property and undertaking of the Applicants, including any cash on hand at the

day of the filing (the “**Property**”). The DIP Lenders’ Charges will not secure any obligation that exists before the Initial Order is made.

240. The DIP Lenders’ Charges are to have priority over all other security interests, charges and liens other than the Administration Charge, the FA Charge, the KERP Priority Charge and the Directors’ Priority Charge (all as defined below, and collectively with the KERP Subordinated Charge and the Directors’ Subordinated Charge the “**Charges**”). The DIP Revolver Charge is to have priority over the DIP Term Loan Charge with respect to the Wells Fargo Priority Collateral. The DIP Term Loan Charge is to have priority over the DIP Revolver Charge with respect to all other Property (all as set out in the proposed Initial Order).

241. Notwithstanding any other provision of the proposed Initial Order, the L/C Collateral Account shall be deemed to be subject to a lien, security, charge and security interest in favour of Wells Fargo in its capacity as Agent under the DIP Revolving Credit Agreement (the “**DIP Revolver Agent**”). The charges as they may attach to the L/C Collateral Account, including by operation of law or otherwise: (a) shall rank junior in priority to the lien, security, charge and security interest in favour of the DIP Revolver Agent in respect of the L/C Collateral Account; and (b) shall attach to the L/C Collateral Account only to the extent of the rights, if any, of any Sears Canada Group entity to the return of any cash from the L/C Collateral Account in accordance with the DIP Revolving Credit Agreement.

242. The DIP Facility is critical to the successful restructuring of the Sears Canada Group, as it will provide the Applicants with the necessary liquidity and stability to operate as a going concern during these proceedings. Absent an injection of cash in accordance with the Cash

Flow Forecast, the Sears Canada Group will be forced to shut down its operations, which will have a catastrophic impact on its employees, suppliers, landlords and other stakeholders.

C. Monitor

243. It is proposed that FTI will act as Monitor in the CCAA proceedings if the proposed Initial Order is issued. FTI has consented to act as the Monitor of the Applicants. A copy of the Monitor's consent is attached as Exhibit "L".

244. The Sears Canada Group, with the assistance of FTI, has prepared a 13-week cash flow forecast (the "**Cash Flow Forecast**"), as required by the CCAA. A copy of the Cash Flow Forecast is attached as Exhibit "M" to this Affidavit. They show that the Sears Canada Group can continue operations during the proposed initial stay period.

245. I understand that FTI will file an initial pre-filing report with the Court as proposed Monitor in conjunction with the Applicants' request for relief under the CCAA.

D. Financial Advisor

246. The Applicants engaged BMO Capital Markets as their independent Financial Advisor to assist them in developing a contingency plan and implementing it in the event of any restructuring. The engagement letter for BMO Capital Markets is attached as a confidential Appendix to the Pre-Filing Report of the Monitor (the "**BMO Engagement Letter**"). The Applicants are asking, as part of the proposed Initial Order, for the Court to approve Sears Canada's engagement of BMO Capital Markets as its financial advisor and are seeking a charge in the amount of \$3.3 million (the "**FA Charge**") to secure the amounts payable under the BMO Engagement Letter. The FA Charge is proposed to rank *pari passu* with the Administration

Charge. As the BMO Engagement Letter contains commercially sensitive information, the proposed Initial Order also includes a request that the confidential Appendix to the Pre-Filing Report be sealed and not form part of the court record pending further Order of the Court.

247. It is my belief, and the belief of senior management of the Applicants, that BMO Capital Markets' significant investment banking experience and expertise, its extensive experience in running sales processes in insolvency proceedings and its capabilities in the area of debt restructuring have greatly benefited the Applicants in their restructuring efforts to date. Further, BMO Capital Markets led the negotiations that resulted in the DIP Facility. If the Applicants were deprived of the benefit of BMO Capital Markets' continued advice and assistance and were required to retain a new financial advisor, it would likely take a significant period of time for such financial advisor to acquire a similar working knowledge of the business and would make it extremely difficult to implement a restructuring.

248. It is also my belief that the quantum and nature of the fee structure provided for in the BMO Engagement Letter is fair and reasonable in the circumstances. Pursuant to the BMO Engagement Letter, BMO Capital Markets is entitled to be paid:

- (a) an engagement fee of \$750,000, which was paid upon the execution of the BMO Engagement Letter;
- (b) a work fee of \$100,000 per month or part thereof payable in cash in advance;
- (c) a financing fee (the "**Financing Fee**") equal to 1.0% of the principal amount or commitment amount (as applicable) of secured debt amended or raised, and 2.5%

of the amount of equity privately issued, sold or placed, if Sears Canada or any of its subsidiaries completes one or more Financings (as defined in the BMO Engagement Letter), including under the DIP Facility;

- (d) a success fee (the “**Contingency Plan Implementation Fee**”) in the amount of \$6.5 million payable in cash upon the implementation of a Contingency Plan (as defined in the BMO Engagement Letter) by Sears Canada or any of its subsidiaries; and
- (e) a fee of \$75,000 per lease payable upon the consummation of a Lease Negotiation (as defined in the BMO Engagement Letter) and an additional \$75,000 per such lease payable on the date that a Contingency Plan Implementation Fee becomes payable (collectively, the “**Lease Negotiation Fees**”). The minimum Lease Negotiation Fee is \$2.5 million in the event that a Contingency Plan Implementation Fee becomes payable and \$1.25 million in the event that the BMO Engagement Letter is terminated with no Contingency Plan Implementation Fee having become payable. The aggregate of all Lease Negotiation Fees shall not exceed \$5 million.

249. The BMO Engagement Letter also provides for the following credits for the benefit of Sears Canada: (i) in the event that a DIP Financing may be used as Exit Financing (as each such term is defined in the BMO Engagement Letter), then only one Financing Fee shall apply, but no Contingency Plan Credit (as defined below) shall apply in such circumstances; (ii) if a Financing Fee becomes payable with respect to an Exit Financing and a Contingency Plan Implementation Fee is also payable concurrently, then 50% of the lesser fee shall be creditable

against the higher fee (the “**Contingency Plan Credit**”); and (iii) Lease Negotiation Fees up to \$2.5 million shall be creditable against any Contingency Plan Implementation Fee payable.

250. As required by the BMO Engagement Letter, Sears Canada paid BMO Capital Markets \$4.2 million as a prepayment of amounts payable thereunder (the “**Prepayment Amount**”). Upon the termination of the BMO Engagement Letter and subject to a hold-back for amounts determined as payable thereunder by BMO Capital Markets, acting reasonably, the Prepayment Amount shall be returned to Sears Canada. In addition, to the extent that the FA Charge exceeds \$3.3 million, then, upon the expiry of any applicable appeal periods, BMO Capital Markets shall return to Sears Canada from the Prepayment Amount, an amount equal to the difference between the FA Charge and \$3.3 million.

E. Key Employee Retention Plan

251. The proposed Initial Order includes approval of a key employee retention plan (as set out below, the “**KERP**”) and the granting of a Court-ordered charge up to the maximum aggregate amount of \$9.2 million as security for payments under the KERP.

252. The KERP was developed by the Applicants, in consultation with Osler and with the involvement of FTI, to facilitate and encourage the continued participation of senior management and other key employees of the Applicants who are required to guide the business through the restructuring and preserve value for stakeholders. The KERP will provide its participants with additional payments as an incentive to continue their employment through the CCAA proceedings. These employees have significant experience and specialized expertise that cannot be easily replicated or replaced. Further, these key employees will likely have other, more certain employment opportunities and will be faced with a significantly increased workload

during the restructuring process. Additionally, certain senior store level employees are included in the KERP in order to facilitate a successful liquidation of the closing stores and an orderly exit from the premises.

253. The Applicants propose to include the following employees in the KERP:

Role	Approximate Number of Employees	Estimated Cost
HQ Employees	43	\$7.6 million
Closing Store Employees	116	\$1.6 million
Total	159	\$9.2 million

254. The KERP payments for the HQ employees will be made in three installments payable as follows: (i) 45 days after the filing date;¹⁶ (ii) 90 days after the filing date;¹⁷ and (iii) 180 days after the filing date.¹⁸ In the event of the completion of a successful restructuring plan in this CCAA proceeding and (where applicable) the successful completion of specified Key

¹⁶ In the case of nine executive employees who are KERP beneficiaries, this payment will be fully earned once the initial CCAA filing has been made, and will be payable to them on the earlier of: termination without cause or 45 days after the filing date. In the case of the other HQ employee KERP beneficiaries, if an employee is terminated without cause prior to 45 days after the CCAA filing, this first payment is prorated by the number of days employed from the filing date - for greater clarity it will be the number of days/45.

¹⁷ If an employee is terminated without cause after 45 days and prior to 90 days after the CCAA filing, this second payment is prorated by the number of days employed from the first payment date – for greater clarity the number of days after the 45th day and before the 90th day/45.

¹⁸ In the case of eight executive employees who are KERP beneficiaries, this third installment will only be paid upon completion of a successful restructuring plan. In the case of other HQ employee KERP beneficiaries, if an employee is terminated without cause between 90 and 180 days after the CCAA filing, this third payment is prorated by the number of days employed from the second payment date – for greater clarity the number of days after the 90th day and before the 180th day/90.

Performance Indicator (“**KPI**”) milestones (as determined by management), then all unpaid installments become payable.

255. The first, second and third installments will each be in an amount equal to 25 percent of the total KERP payment payable to the HQ employee in question. The final 25 percent of the total KERP payment only becomes payable upon the completion of the successful restructuring. The total KERP payments for the HQ employees range from 25 percent to 100 percent of the base salary of the relevant employees.

256. The KERP payments for the closing store employees will be made upon the closure of the store where the employee was employed and the successful achievement of certain KPIs. The KERP payments for the closing store employees are in an amount equal to 25 percent of the employees’ base salaries.

257. If the Sears Canada Group finds itself in a full liquidation scenario, any amounts not yet earned by HQ employees who are not part of the liquidation process would instead be eligible to be used to provide a KERP for store level personnel at the additional closing stores. The current version of the KERP only provides incentive payments for store level employees for stores that are known to be closing at the outset of the CCAA proceedings. It is therefore proposed that the Applicants, with the consent of the Monitor, be provided with the flexibility to transfer all or a portion of those unused KERP amounts for HQ employees who are not part of the liquidation process to store level employees in a full liquidation scenario. A copy of the KERP is attached as a confidential Appendix to the Pre-Filing Report of the Monitor. As the KERP contains commercially sensitive and personal information, the proposed Initial Order

includes a request that the confidential Appendix to the Pre-Filing Report be sealed and not form part of the court record pending further Order of the Court.

258. Assuming the Applicants are able to retain all of the key employees and all of the milestones are met, the total amount payable under the KERP would be a maximum of approximately \$9.2 million. The Applicants are seeking a charge (the “**KERP Charge**”) to secure the amounts payable under the KERP. A portion of the KERP Charge is proposed to rank immediately below the Administration Charge and FA Charge and immediately above the Directors’ Priority Charge (the “**KERP Priority Charge**”). The remainder of the KERP Charge is proposed to rank immediately below the DIP Lenders’ Charges and immediately above the Directors’ Subordinated Charge (the “**KERP Subordinated Charge**”).

F. Administration Charge

259. In connection with its appointment, it is proposed that the Monitor, along with its counsel, counsel to the Applicants, and counsel to Sears Canada’s board of directors and the Special Committee, will be granted a Court-ordered charge on all of the present and future assets, property and undertaking of the Applicants (the “**Property**”) as security for their respective fees and disbursements relating to services rendered in connection with this CCAA proceeding up to a maximum amount of \$5 million (the “**Administration Charge**”). The Administration Charge is proposed to rank *pari passu* with the FA Charge and to have priority over all other charges and security interests.

G. Directors’ and Officers’ Protection

260. A successful restructuring of the Sears Canada Group will only be possible with the continued participation of its directors (the “**Directors**”), management and employees. These

personnel are essential to the viability of the Applicants' continuing business and the preservation of enterprise value.

261. I am advised by Marc Wasserman of Osler and believe that, in certain circumstances, directors can be held liable for certain obligations of a company owing to employees and government entities, which may include unpaid accrued wages; unpaid accrued vacation pay; and unremitted sales, goods and services, and harmonized sales taxes. The Sears Canada Group estimates, with the assistance of FTI in its capacity as proposed Monitor, that these obligations may amount to as much as approximately \$64 million.

262. It is my understanding that the Sears Canada Group's present and former directors and officers who are or were employed by the Sears Canada Group are among the potential beneficiaries under liability insurance policies that cover an aggregate annual limit of USD \$50 million; however, I understand that the policy has various exceptions, exclusions and carve-outs where coverage may not be available. I do not believe that this insurance policy provides sufficient coverage against the potential liability that the directors and officers could incur in relation to this CCAA proceeding.

263. In light of the potential liabilities and the uncertainty surrounding available indemnities and insurance, I and the other directors and officers have indicated to the Applicants that our continued service and involvement in this proceeding is conditional upon the granting of an Order under the CCAA which grants a charge in favour of the directors and officers of Sears Canada in the amount of \$63.5 million on the Property (the "**Directors' Charge**"). The Directors' Charge would act as security for indemnification obligations for the Directors' and officers' potential liabilities as set out above. The Directors' Charge is bifurcated into a

“Directors’ Priority Charge” in the amount of \$44 million and the **“Directors’ Subordinated Charge”** in the amount of \$19.5 million. The Directors’ Priority Charge is proposed to stand in priority to the proposed DIP Lenders’ Charges and the KERP Subordinated Charge, but would be subordinate to the proposed Administration Charge, FA Charge, and KERP Priority Charge. The Directors’ Subordinated Charge is proposed to be subordinate to the DIP Lenders’ Charges and the KERP Subordinated Charge. The Directors’ Charge is necessary so that the Applicants may benefit from their directors’ and officers’ experience with the business and the multifaceted retail industry and so that its directors and officers can guide the Sears Canada Group’s restructuring efforts.

H. Postponement Of Annual Meeting Of Shareholders

264. As noted above, Sears Canada is a public company governed by the CBCA. As such, Sears Canada is required pursuant to section 133(1)(b) of the CBCA to call and, pursuant to the TSX rules, to hold an annual meeting of its shareholders by no later than July 28, 2017, being six months after the end of its preceding financial year which ended on January 28, 2017. Sears Canada’s annual meeting was scheduled to be held on June 14, 2017. On June 13, 2017, Sears Canada announced that, in light of recent developments, it was postponing the annual meeting to a date to be determined, the details of which would be announced when determined.

265. The management of Sears Canada are presently devoting their efforts to stabilizing the business of the Applicants with a view to implementing a going concern and value maximizing restructuring. Holding the annual meeting of shareholders during the CCAA proceedings would divert the attention of senior management away from the restructuring. Moreover, financial and other information is and will continue to be available to the public

through the Applicants' court filings which will be easily accessible on the proposed Monitor's website (cfcananda.fticonsulting.com/searscanada).

266. Under the circumstances, I believe it is impractical for Sears Canada to call and hold an annual meeting of shareholders during this CCAA proceeding. Therefore, the proposed Initial Order postpones the holding of such meeting until further order of the Court.

267. The articles of Sears Canada require a minimum of seven directors. As a result of recent resignations, Sears Canada currently has six directors. Nevertheless, Sears Canada's by-laws permit the board of directors to act as such provided there is a quorum in place (for which only three directors are required). As Sears Canada can still conduct business pursuant to its by-laws and the Applicants are focused on their restructuring, the proposed Initial Order provides that Sears Canada be relieved from the requirement to appoint any additional director until further order of the Court.

I. Payments During this CCAA Proceeding

268. During the course of this CCAA proceeding, the Applicants intend to make payments for goods and services supplied post-filing in the ordinary course as set out in the Cash Flow Forecast described above and as permitted by the draft Initial Order.

269. The Applicants expect third parties with contractual arrangements with the Sears Canada Group to continue to provide goods and services in accordance with the proposed Initial Order. However, in order to ensure uninterrupted business operations during the CCAA proceeding, the Applicants are proposing in the Initial Order that they be authorized, with the consent of the Monitor, but not required, to make certain payments, including payments owing in

arrears, to certain critical third parties that provide services that are integral to the Applicants' ability to operate during, and implement, their restructuring under these proceedings. These third parties include key logistics or supply chain providers, customs brokers and clearing houses, fuel providers, repair, maintenance and parts providers, armoured truck carriers, and providers of credit and debit processing services.

270. In addition, continued supply from certain overseas and domestic suppliers of both the Sears Canada Group's branded and private label merchandise is crucial to the success of this restructuring and the ordinary course operations of the Sears Canada Group's business. Thus, in order to ensure continued supply from certain suppliers during the CCAA proceedings and to preserve the Sears Canada Group's enterprise value, the Sears Canada Group is proposing, in limited circumstances, to pay such suppliers for amounts incurred before and after the commencement of these proceedings.

Conclusion

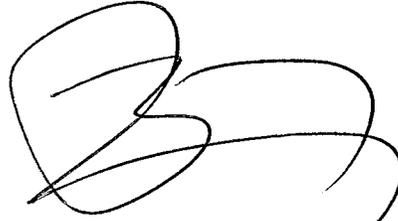
271. I am confident that granting the draft Initial Order sought by the Applicants is in the best interests of the Applicants and their stakeholders. Although the Sears Canada Group has made significant strides in recent years to transition itself into a modern Canadian retailer, it is currently in a very challenging financial position. Without the relief requested, including the stay of proceedings, the Sears Canada Group faces a cessation of going concern operations, the liquidation of its assets and the loss of its employees' jobs. The Sears Canada Group requires an immediate and realistic dialogue to ensue with and among its stakeholders with the goal of maximizing the ongoing value of the business and continuing employment for as many of its employees as is reasonably possible. The granting of the requested stay of proceedings will

maintain the “status quo” and permit an orderly restructuring and analysis of the Sears Canada Group’s affairs.

SWORN BEFORE ME at the City of
Toronto, in the Province of Ontario on
June 22, 2017.



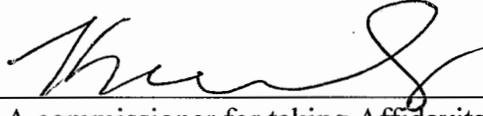
Commissioner for Taking Affidavits
Karin Sachar



Billy Wong

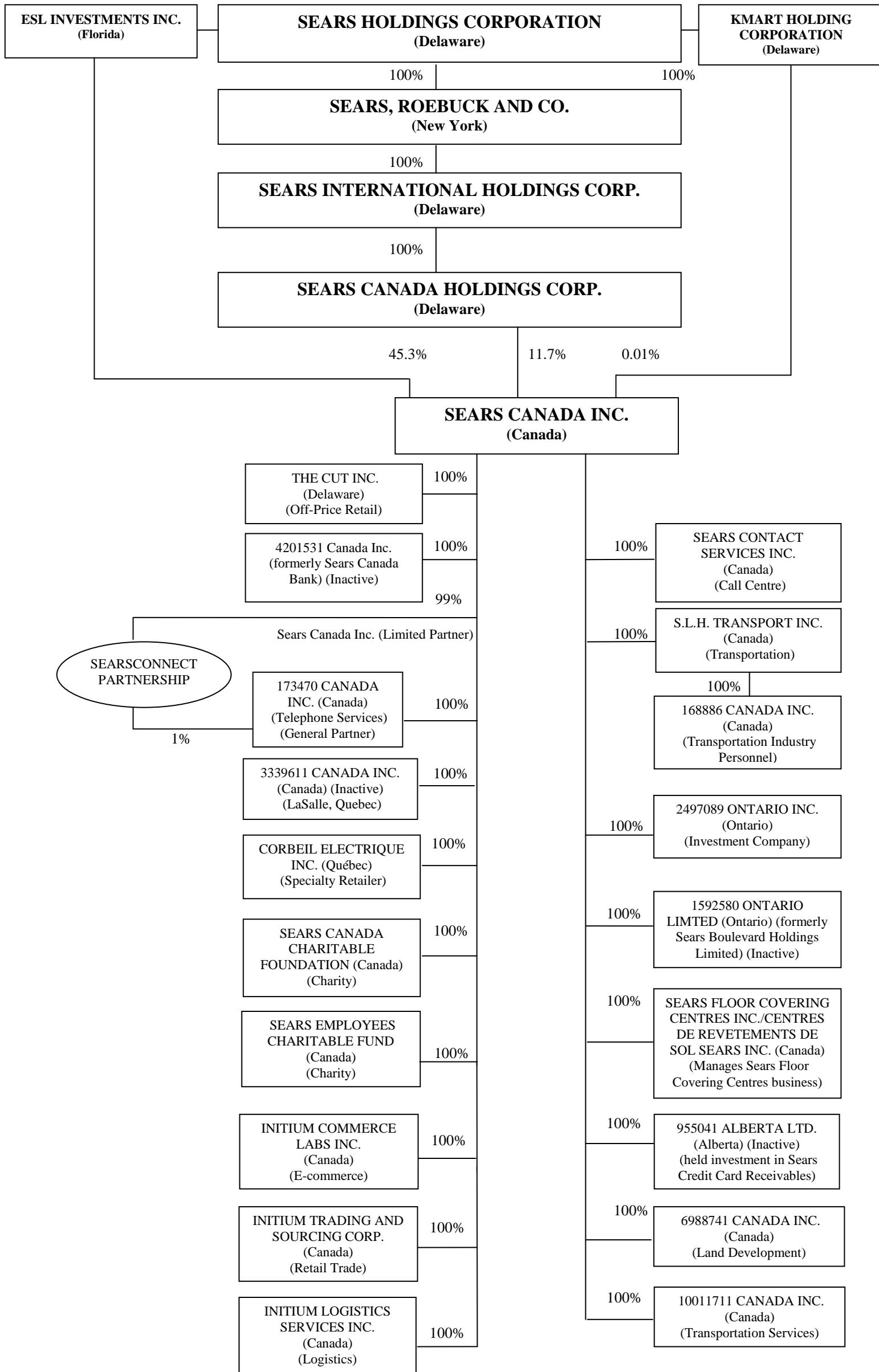
**THIS IS EXHIBIT "A" TO THE AFFIDAVIT
OF BILLY WONG SWORN BEFORE ME ON**

THIS 22nd DAY OF JUNE, 2017.

A handwritten signature in black ink, appearing to be 'Kenny', written over a horizontal line.

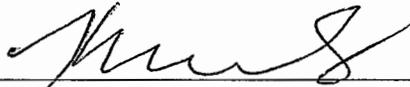
A commissioner for taking Affidavits

SEARS CANADA INC. ORGANIZATIONAL CHART



**THIS IS EXHIBIT "B" TO THE AFFIDAVIT
OF BILLY WONG SWORN BEFORE ME ON**

THIS 22nd DAY OF JUNE, 2017.



A commissioner for taking Affidavits

AGREEMENT

THIS AGREEMENT made this 26th day of January, 1987

B E T W E E N:

SEARS CANADA INC.
(hereinafter called SEARS CANADA)

OF THE FIRST PART,

-and-

SEARS, ROEBUCK AND CO.
(hereinafter called SEARS)

OF THE SECOND PART.

WHEREAS by agreement dated 18th September, 1952 among Simpsons, Limited ("Simpsons"), SEARS and SEARS CANADA, under its then name of Simpsons-Sears Limited, provision was made, among other things, for the purchase by SEARS CANADA of the mail order business of Simpsons and for the terms of the continuing relationship between the parties; and

WHEREAS in such agreement both SEARS and Simpsons agreed to assist SEARS CANADA in developing merchandising methods and administrative procedures in connection with a mail order and department store business and granted to SEARS CANADA the right to use, in Canada but not elsewhere during the term of such agreement, their respective trade marks and trade names; and

WHEREAS to carry out the provisions of such agreement relating to trade marks and trade names and subject to the terms thereof, SEARS assigned to SEARS CANADA the legal title to certain trade marks in Canada, being the only means which was thought to exist at that time legally to permit SEARS CANADA to use such trade marks, and consented to the registration in Canada by SEARS CANADA of certain other SEARS marks; and

WHEREAS by agreement dated 11th December, 1978 among Simpsons, SEARS and SEARS CANADA the said agreement was amended to reflect the intended distribution by way of dividend by Simpsons to its shareholders of its holdings of shares of SEARS CANADA; and

WHEREAS pursuant to the terms of the said agreement as amended, the said agreement was terminated by SEARS CANADA with respect to all matters contained therein pertaining to arrangements or understandings between SEARS CANADA and Simpsons; and

WHEREAS the said agreement as amended will continue to be binding upon SEARS and SEARS CANADA until the expiration

of a period of three (3) years after SEARS shall have ceased to hold, directly or indirectly, at least 25% of the voting shares of SEARS CANADA; and

WHEREAS the parties are desirous of further amending and restating the provisions of the said agreement to reflect more adequately the status of their present arrangements; and

WHEREAS under such present arrangements and reflecting the intention of the parties under the said agreement SEARS CANADA and SEARS will, contemporaneously with the execution of this agreement, reassign to SEARS the said trade marks and trade name and apply to make SEARS CANADA a registered user with respect to the said Sears trade marks pursuant to the provisions of this agreement;

WHEREAS SEARS and SEARS CANADA have each determined that it is in its best interest and for their mutual benefit to enter into this agreement;

NOW THEREFORE IT IS HEREBY AGREED by and between the parties as follows:

Definitions

1. In this agreement:

- a) "licenced trade marks" means those identified in Schedule A hereto, together with those further merchandising trade marks adopted or developed by SEARS, which are added to this agreement at the option of SEARS CANADA, and any further merchandising trade marks confusingly similar to the foregoing trade marks that SEARS and SEARS CANADA may together from time to time add to this agreement;
- b) "merchandising" means activities of the type presently carried on by SEARS CANADA and other activities of the type carried out from time to time by the Sears Merchandise Group in the United States of America during the term of this agreement, and reasonable extensions of such activities as agreed to by SEARS from time to time;
- c) "operational links" shall have the meaning given in paragraph 14 below;
- d) "territory" means the country of Canada.

Licenced Grant

2. SEARS hereby grants to SEARS CANADA, subject to the terms of this agreement, the exclusive royalty free right to use the licenced trade marks in the territory in relation to goods and services in the field of merchandising.

3. Any trade marks first adopted or developed by SEARS CANADA may be used in the United States by SEARS or one of its subsidiaries at the option of SEARS, pursuant to a licence from SEARS CANADA on the same terms as the licence herein which SEARS CANADA will grant to SEARS at SEARS request.

Quality Controls

4. SEARS CANADA undertakes to use the licenced trade marks in connection with goods and services in accordance with reasonable quality standards, specifications and/or instructions supplied by SEARS from time to time and which are consistent with the use of such trade marks by Sears Merchandise Group. SEARS confirms that the present standards of quality of goods and services of SEARS CANADA meet SEARS standards.

5. SEARS CANADA shall permit SEARS, or its authorized representatives, to inspect, at all reasonable times, any goods and services which are located in the premises of SEARS CANADA or which are located in the premises of any other person, firm, or corporation manufacturing or supplying merchandising goods or services for SEARS CANADA which utilize the licenced trade marks.

6. SEARS CANADA shall submit samples of the goods sold in association with the licenced trade marks to SEARS from time to time at SEARS request.

7. SEARS CANADA specifically recognizes, now and for the future, SEARS rights and title in and to the licenced trade marks and the trade name "Sears" and shall not at any time do or omit, or suffer to be done or omitted, any act or thing which may impair the trade mark and the trade name rights of SEARS. In the event that SEARS CANADA abandons or does not make bona fide use of any licenced trade mark, SEARS may terminate this licence with respect to said licenced trade mark.

8. The licence herein granted is not intended to be and shall not be construed as an assignment, in part or in whole, of any trade mark or trade name rights of SEARS.

Special Provisions Relating to the Trade Mark and Trade name "Sears"

9. SEARS CANADA acknowledges that SEARS is permitted to use the word "Sears" in the territory as a trade mark or a trade name in connection with any business or activity other than merchandising. To the extent that SEARS is using or is proposing to use "Sears" in the territory as a trade mark or as a trade name it shall consult with SEARS CANADA in respect of such use.

In respect of the name "Sears", SEARS CANADA shall be permitted to use such name to identify generally the business

which it carries on from time to time and in particular to use such name to identify its department stores and other freehold and leasehold premises and the premises of its catalogue agents and licensees and to identify its catalogue, provided that if and to the extent that SEARS CANADA carries on or permits to be carried on in such premises or advertises in such catalogue any business or activity which is not merchandising, such business or activity shall be carried on under a distinctive name not including the name "Sears" or any other of the licenced trade marks or any other word or symbol confusingly similar thereto. Any such business or activity, if owned, directly or indirectly, by SEARS CANADA, may, however, be designated in a factual manner only as being so owned. In respect of the use of such name as contemplated by this paragraph 9, SEARS CANADA'S merchandising business shall conform generally to the quality standards of the merchandising business carried on by Sears Merchandise Group.

Use by Others

10. The present licence is personal to SEARS CANADA and shall not be assigned, transferred, conveyed or pledged by it, and any attempt by SEARS CANADA to do so shall be void and of no force or effect. SEARS CANADA shall not sub-licence the use

of the licenced trade marks to others, but may arrange for persons, firms, or corporations manufacturing any of the goods on behalf of SEARS CANADA, to apply the licenced trade marks to goods manufactured for SEARS CANADA provided that such application complies in all respects with the conditions of this agreement. In addition SEARS CANADA may enter into individual concession agreements under which the concessionaire shall be permitted to use the trade mark "Sears" or other licensed trade marks in connection with a merchandising goods or services business to be carried on by such concessionaire, provided that i) each such concession agreement conforms to a general format previously approved by SEARS, and ii) the concessionaire enters into a registered user agreement with SEARS which shall require the concessionaire to maintain the same standards and specifications in respect of its business as if the same were carried on directly by SEARS CANADA. SEARS CANADA is to be the agent of SEARS for the purpose of exercising control over the use of the licenced trade marks by the concessionaire.

Registered User

11. SEARS CANADA shall execute appropriate registered user applications or agreements from time to time, for the purpose

of registering SEARS CANADA as a registered user under the Trade Marks Act, or any other such document as may be necessary to deem use by SEARS CANADA to be use by SEARS in connection with all licenced trade marks. A registered user application shall be filed for the licenced trade marks covered in Schedule A upon SEARS becoming recorded as the registered owner of the said trade marks. For future trade marks to be covered by this agreement, until the Canadian Trade Marks Office records SEARS CANADA as a registered user of the licenced trade marks, SEARS CANADA shall use the licenced trade marks with the prior approval of SEARS.

Marking and Advertising

12. SEARS CANADA in order to protect the licenced trade marks and the good will associated therewith agrees:

- a) to use only the licenced trade marks in the form as registered and as set forth in Schedule A hereto, without any accompanying words, hyphenated or otherwise, or symbols of any nature unless first approved in writing by SEARS.
- b) SEARS CANADA shall at the request of SEARS submit to SEARS representative samples of packaging, advertising and other material on which the licenced trade marks appear.

Operational Links

13. SEARS shall, without charge, disclose to and assist SEARS CANADA in developing and installing merchandising methods and administrative procedures which have proven successful in SEARS merchandising business in the United States in a substantially similar manner as has occurred since the creation of SEARS CANADA. SEARS shall have the right to adopt in its business, without charge, the merchandising methods and administrative procedures adopted by SEARS CANADA. All other services rendered or supplied to SEARS CANADA by SEARS or to SEARS by SEARS CANADA shall be paid for by the party receiving the services on the basis of the actual determinable cost thereof without profit or override.

14. For the purposes of Section 13 merchandising methods and administrative procedures shall include, without limitation, field operating bulletins; arrangements to permit both SEARS and SEARS CANADA so far as reasonably possible to purchase merchandise of the same quality and specifications and on the same terms and conditions as is from time to time purchased by the other; access to overseas buying offices and "store of the future" concepts; and any similar materials, information and access developed in future during the term hereof, all of which collectively are hereinafter referred to as operational links.

15. SEARS and SEARS CANADA acknowledge that arrangements exist between them in respect of information technology and computer and other automated systems related to their merchandising business based on the following general principles:

- a) common systems have been introduced by the parties based principally on the systems developed by SEARS;
- b) maintenance, improvement and development work related to such systems is to be shared by the parties pursuant to programs agreed upon from time to time;
- c) each party is to co-operate with the other to assist the other in making the most efficient and beneficial use of such systems.

The parties acknowledge the foregoing principles and agree that they shall enter into a separate written agreement in respect of their ownership and use of such systems.

Infringements

16. SEARS CANADA shall promptly notify SEARS of any attempt by any third person or legal entity to use the licenced trade marks, or any variation or imitation thereof and of any litigation involving the licenced trade marks that is instituted by any third person or legal entity. In the event SEARS, in its own discretion, undertakes the defence or prosecution of any

litigation relating to the licenced trade marks, SEARS CANADA shall execute any and all documents and do such acts and things as may, in the reasonable opinion of SEARS, be necessary to carry out such defence or prosecution. SEARS CANADA shall be entitled to enforce the licensed trade marks against third parties in the event SEARS fails to do so. In the event of any action taken by SEARS or SEARS CANADA, the other party may be represented by its own advisory counsel in such action.

Term, Transition and Termination

17.

- a) This agreement subject to paragraph 18 shall continue until the expiration of a period of three years after SEARS has ceased to hold directly or indirectly at least 25% of the voting shares of SEARS CANADA, provided that during such three year period, SEARS CANADA shall not have the option to add to this agreement any further SEARS merchandising trade marks or to require SEARS to disclose to or assist SEARS CANADA in developing any new merchandising methods or administrative procedures.

- b) If prior to the completion of the three (3) year period provided for in Subparagraph 17(a) it is reasonably

determined by SEARS CANADA that a longer transition period is necessary or desirable in order to permit SEARS CANADA to phase in a new trade name or new trade marks, operational links and procedures or to phase out the trade name of any particular trade mark or marks or any particular operational link or links, without undue inconvenience or interruption or financial hardship, SEARS shall extend the license granted hereunder in respect of the trade name or relevant trade mark or marks and/or continue to provide the relevant operational link or links for a further extended transition period not to exceed four years on and subject to the terms of this agreement. If any such extended period is reasonably found to be necessary or desirable by SEARS CANADA, SEARS CANADA shall reimburse SEARS for all reasonable costs and expenses which may be incurred by SEARS in continuing to provide such operational links, together with a royalty with respect to any licensed trade mark or marks the licence for which is so extended at a royalty rate to be agreed which shall be equal to the lesser of a fair market rate based on the value of such mark or the lowest rate which will provide a reasonable incentive to induce SEARS CANADA to phase out the use of such mark during such extended period.

- c) SEARS CANADA shall be deemed to be in default under this agreement and all rights granted herein shall automatically terminate without notice to SEARS CANADA, upon SEARS CANADA acknowledging its insolvency, or making a general assignment for the benefit of creditors, or if a petition of bankruptcy is filed or consented to by SEARS CANADA or if SEARS CANADA is adjudicated bankrupt, or if a receiver, trustee or other custodian of SEARS CANADA's assets or property, or any substantial part thereof, is appointed pursuant to any applicable law, provided that, SEARS CANADA shall not be in default for a period of 60 days from any such filing, adjudication or appointment if it is contesting such filing, adjudication or appointment or such longer period thereafter in respect of which a stay in the relevant proceedings is in effect.

The Corporate Name of SEARS CANADA

18. SEARS hereby confirms that it has consented to the use by SEARS CANADA of SEARS as part of its corporate name Sears Canada Inc. Notwithstanding sub-paragraph 17(a) but subject as hereinafter provided, the right of SEARS CANADA to use SEARS as part of its corporate name shall exist only so long as:

- a) SEARS holds directly or indirectly at least 25% of the voting shares of SEARS CANADA, and
- b) SEARS CANADA is not in default as referred to in paragraph 17(c) hereof.

If this licence agreement is terminated for any reason, or if SEARS CANADA is no longer related to SEARS in accordance with sub-paragraph 18(a) above, SEARS CANADA will immediately cease using the corporate name Sears Canada Inc. except to the extent such use is required by law and will initiate all steps necessary to change its corporate name to one not including SEARS or any of the other licensed trade marks or any confusingly similar term, such steps to include the use of its best efforts to cause its directors and shareholders to authorize such change. In the event that SEARS shall have entered into an agreement for the sale of its shares in SEARS CANADA so that SEARS CANADA will no longer be related to SEARS in accordance with sub-paragraph 18(a) above, SEARS CANADA will, at the request of SEARS, seek the necessary authorization of its directors and shareholders prior to such sale taking place conditional on such sale being completed. If SEARS CANADA has not changed its corporate name within 6 months of the termination of its right to use "Sears" as part of its corporate name, this agreement shall terminate.

Nothing in this section of this agreement affects the rights of SEARS CANADA to use the word "Sears" as provided herein as it applies to merchandising, including the right to display "Sears" on the front of a department store or other premises or on its catalogue.

19. SEARS hereby confirms that it has consented to the use of the name SEARS as part of the corporate name of Sears Acceptance Company Inc. and Sears Properties Inc. and consents to its continued use provided that i) each such corporation, at the request of SEARS, becomes a registered user of the trade mark SEARS and/or a trade mark consisting of the corporate name of such corporation; ii) such use shall cease and SEARS CANADA shall cause such corporation to immediately change its corporate name to one not including SEARS or any confusingly similar term in the event that such corporation ceases to be wholly owned by SEARS CANADA or in the event that SEARS CANADA is obliged to change its corporate name pursuant to paragraph 18. SEARS CANADA shall not permit the use of SEARS as part of the corporate name of any other subsidiary or related company without the prior written consent of SEARS.

Post-Term Obligations

20. Upon the termination or expiration of this agreement, or

upon expiry of the extended transition period provided for in paragraph 17, if applicable, SEARS CANADA shall cease to be a licensee of SEARS and SEARS CANADA shall immediately cease to use, directly or indirectly, in advertising or in any other manner whatever, the licenced trade marks and the trade name "Sears" and SEARS CANADA shall forthwith remove from its place of business, and change any and all signs, fixtures, furnishings, equipment, advertising material, invoices, supplies, forms or other products which display the licenced trade marks.

Independent Contractor

21. This agreement does not create a fiduciary relationship between the parties. SEARS CANADA shall be an independent contractor and so hold itself out to the public and nothing in this agreement is intended to make any party an agent, legal representative, joint venturer, partner, employee or servant of the other for any purpose.

Written Approvals and Waivers

22. Neither SEARS nor SEARS CANADA shall be deemed to have waived or impaired any right, power or option reserved by this

agreement by virtue of any failure by the other party to demand strict compliance with this agreement; or by virtue of any waiver, forbearance, delay, failure or omission by SEARS or SEARS CANADA to exercise any right, power, or option, whether of the same, similar or different nature, against the other party; absent notice to the contrary in writing. Any and all notices required to be given hereunder shall be in writing sent by registered mail, telex, courier or facsimile transmission

to SEARS:

Sears Roebuck and Co.,
Sears Tower,
Chicago Ill. 60684
Attention: General Counsel.

and to SEARS CANADA:

Sears Canada Inc.,
222 Jarvis Street,
Toronto, Ontario.
Attention: Secretary.

Default

23. SEARS CANADA shall not be deemed to be in breach of any of its obligations hereunder, except as provided in sub-paragraph 17(c), unless SEARS shall have given written notice to SEARS CANADA specifying in reasonable detail the particulars of such breach and SEARS CANADA shall have failed to remedy such breach within a period of 30 days or such longer period as shall be reasonably required to remedy such breach.

Co-operation

24. SEARS and SEARS CANADA shall each co-operate with the other in order to maintain, preserve and enhance the good will associated with the trade marks licenced hereunder and to achieve the maximum benefit from the use of the said trade marks in their respective businesses. Each party shall take such action as shall reasonably be requested by the other in order to give effect to the intent of this paragraph. The parties shall meet together on a regular basis, and at least once in each year, to discuss, review and co-ordinate their activities pursuant to this agreement and to establish efficient procedures in respect of registrations, agreements and other steps to be taken by the parties hereunder.

Restatement

25. This agreement is intended to restate and amend the provisions of the said agreement dated 18th September, 1952 between the parties, as heretofore amended, and thus shall supercede the provisions of the said agreement.

Severability

26.

- a) Except as expressly provided to the contrary herein, each section, part, term and provision of this agreement, or any portion thereof, shall be considered severable and if for any reason any such portion of this agreement is invalid, illegal or incapable of being enforced by reason of any rule of law or public policy, all other portions of this agreement shall, nevertheless, remain in full force and effect and no portion of this agreement shall be deemed dependent upon any other portion unless so expressed herein.

- b) All headings and captions in this agreement are intended solely for the convenience of the parties, and none shall

be deemed to affect the meaning or construction of any provision hereof.

c) Time is of the essence of this agreement.

Applicable Law

27. This agreement shall be interpreted and construed under the laws of the Province of Ontario.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this agreement in duplicate on the day and year first above written.

SEARS CANADA INC

by:



Chairman of the Board



Secretary

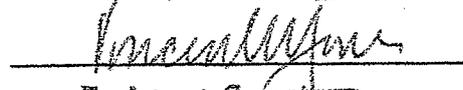
SEARS, ROEBUCK AND CO.

by:



Chairman and CEO

SEARS MERCHANDISE GROUP



Assistant Secretary

SCHEDULE "A"

REGISTERED TRADE MARKS

<u>Name</u>	<u>Reg. No.</u>
ADAGIOS	115,196
AH-H BRA	249,225
ALLSTATE	27,886
ALLSTATE GUARDSMAN 44	142,857
AUTOCRUISE	300,518
BATHSHOP COLORMATES & DESIGN	235,816
BENCHMADE	236,367
BONNET	280,203
BRADLEY	29,122
CARRIAGE COURT	302,634
CARRIAGE COURT...ITALIA & DESIGN	318,957
CLING-ALON	134,776
COLDSPOT	27,902
COLDSPOT	313,292
COLORMATES	253,558
COUNTRY INN	45,377
COUNTRY INN & DESIGN	229,253
CRAFTSMAN	27,901
CRAFTSMAN CUSTOM	252,054
CRUISAIRE	43,031
DASHMATE	218,897
DYNABOND	228,823
EAGER 1	188,712
EASY LIVING PAINT	220,376
ELASTO-FIT	147,595
ENDURABLES	248,623
FABRIC MASTER	182,308
FASHIONLITE	180,939
FIRM LINE	119,556
FORECAST	124,224
FREEDOMFLOR	228,737
FREE SPIRIT	198,026
FREEZER-MATE	106,315

GAMEFISHER	181,680
GOLD COAT	242,892
GREEN KARPET	102,948
GUARDSMAN	109,125
HAPPI-TIME	27,897
HARMONY HOUSE	106,021
HILLARY	254,014
HOMART	27,884
HOMESTEAD	220,909
HONEYSUCKLE	27,895
HOSTESS SHOP & DESIGN	230,728
INCREDICELL	306,220
JEANS FOR MEN & DESIGN	279,477
JEEPERS	142,999
JEUNE BOUTIQUE & DESIGN	187,350
JEUNE BOUTIQUE & DESIGN	187,335
JUNIOR BAZAAR	154,290
JUNIOR BAZAAR	203,294
KENMORE	27,933
KENMORE CONCEPT SUPRA	285,993
KENMORE DELUXE	147,486
KENMORE SILHOUETTE	146,109
KENMORE TRUE SIMMER	169,885
KENMORE UP AND OVER	285,906
KERRYBROOKE	30,953
KINGS CROWN	159,993
LADY KENMORE	266,135
LADY KENMORE CLASSIC	146,111
LADY KENMORE SILHOUETTE	146,110
LA RESISTANTE	273,377
LAURENTIAN	101,174
LEAPIN' JEEPERS	142,997
LEGTRICITY	210,264
LI'L JEEPERS	142,998
LOCATION DE VOITURES SEARS	282,491
LXI SERIES	259,394
MASTERPIECE	154,632
MATCHMATES	254,732
MEDLEY	250,840
MIRA-COLD	122,168
MUZZLER	297,723

NOTHING ELSE	223,700
PANTS THAT FIT & DESIGN	195,752
PERMA-SMOOTH	122,460
PILLOW SOFT	218,930
PLACE DE LA MODE & DESIGN	255,124
POWERMATE	251,850
POWER-MATE	274,802
PUTTER SUIT	210,032
ROADHANDLER	215,679
ROADMATES	262,256
ROADMATES & DESIGN	262,791
ROCK BOTTOMS	265,952
ROUGH HOUSERS	250,307
ROUGHSHOD	117,218
SANI-GARD	136,039
SEAROFIL	300,525
SEARS	39,780
SEARS	304,115
SEARS (new application)	476,403
SEARS DIVISION	304,882
SEARS ELECTRONICS DESIGN	237,390
SEARS ELECTRONICS & DESIGN	275,769
SEARS-O-PEDIC	120,321
SEARS OPTICAL CENTRE & DESIGN	235,392
SEARS SET & DESIGN	230,055
SEARS SHAPE SHOP & DESIGN	239,637
SENSOR TOUCH	227,608
SEROFOAM	119,412
SERVISTWIST	104,528
SILVERGUARD	246,310
SILVERTONE	31,615
SIMPLE & FACILE	252,029
SIMPSONS-SEARS DESIGN	45,597
SIMPSONS-SEARS TEX	193,078
SLUMBER SHOP & DESIGN	231,092
SOFT HEAT	183,377
SPACEMASTER	44,617
SPECTRUM	190,703
SPECTRUM PLUS	279,327
SPECTRUM PLUS MILEAGE	274,780
SPORTSMAN	246,786
STEADYRIDER RT	268,026
STELLARIS	199,104
STEP LIVELY DESIGN	227,625
SUIT-YOUR-SIZE	193,962
SUPER ROTOSWIRL AGITATOR	183,652

SUPRAMATIC	44,753
SUPERPLUSH II & DESIGN	254,189
SURVIVOR	272,937
SUTEKI	297,389
TED WILLIAMS DESIGN	133,754
THE BIG TOY CHEST	241,764
THE DOESN'T PANTY	260,663
THE FASHION PLACE	232,713)
THE FASHION PLACE & DESIGN	245,070)
THE GATHERING	210,657
THE LABEL OF CONFIDENCE	229,082
THE LITTLE SEARS & DESIGN	228,009
THE SHOE PLACE	213,593
THE WINNER	202,104
TOUGHMATES	253,658
TOUGHSKINS	195,729
TOUGHSKINS	223,698
TOUGH JEANS TERRITORY	216,974
TRADITION	27,862
TREE & TENT DESIGN	258,020
TRIM TO FIT & DESIGN	215,600
TRIPLE DUTY	267,417
TRIPLE EMPLOI	267,418
TWIN SKINS	248,650
UNE PLUIE	250,858
UN SERVICE DE CONFIANCE	292,305
UN SERVICE DE CONFIANCE & DESIGN	289,016
VIDEO ARCADE	218,787
VISI BAKE	45,195
WEARMASTER	27,861
WEARMASTER DESIGN (WM)	254,269
WEATHER BEATER	202,425
WEATHERBEATER	274,233
WEATHER-MATIC	126,588
WE INSTALL CONFIDENCE	288,260
WE INSTALL CONFIDENCE & DESIGN	290,434
WHITE SHIELD	115,723
WINTERSKINS	236,392
WORKMASTER	27,955
WRINKLE GUARD	182,309
X-CARGO & DESIGN	288,251

TRADE MARKS APPLIED FOR BUT NOT YET REGISTERED

<u>Trade Mark</u>	<u>Serial No.</u>
GAMEFISHER (ext/wares) GOOLAGONG	531,988
INTELLIGENTE (Fr. Smart)	not yet issued
OAKTON	568,640
OPEN HOME	517,211
OPEN HOME & Design	523,056
SCI	557,182
SEARS & Design	485,961
SEARS & Design	535,349
SEARS BEST	369,899
SEARS CATALOGUE CLEARANCE	409,132
SEARS CATALOGUE DE LIQUIDATION (Fr.)	409,133
SEARS COLLECTION	544,776
SEARS-RENT-A-CAR (BUDGET)	373,353
SEARS REST	553,223
SEARS REPOS (Fr.)	557,218
SMART	563,737

AMENDING AGREEMENT

THIS AMENDING AGREEMENT is made as of the 15th day of October, 2014 (this “**Amending Agreement**”)

A M O N G:

SEARS, ROEBUCK AND CO., a New York corporation having its principal place of business in Hoffman Estates, Illinois

(hereinafter referred to as “**Sears**”)

-and-

SEARS CANADA INC., a Canadian corporation having its principal place of business in Toronto, Ontario

(hereinafter referred to as “**Sears Canada**”)

WHEREAS Sears and Sears Canada entered into an agreement dated as of January 26, 1987, as amended, pursuant to which Sears granted to Sears Canada the exclusive right to use certain trademarks in Canada in relation to goods and services in the field of merchandising (the “**License Agreement**”);

AND WHEREAS Sears Holdings Corporation has announced an offering to its existing shareholders of rights to acquire 40,000,000 common shares of Sears Canada owned by Sears Holdings Corporation (the “**Offering**”);

AND WHEREAS as a result of the Offering, it is expected that Sears will cease to own, directly or indirectly, at least 25% of the voting shares of Sears Canada;

AND WHEREAS Sears and Sears Canada wish to make certain amendments to the License Agreement effective as of the date hereof;

NOW THEREFORE for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

1.1 Amendments. The parties hereby agree to amend the terms of the License Agreement as follows:

1.1.1 The sixth recital of the License Agreement is hereby deleted in its entirety and replaced with:

“WHEREAS the said agreement as amended will continue to be binding upon SEARS and SEARS CANADA until the expiration of a period of five (5) years after SEARS shall have ceased to hold, directly or indirectly, at least 10% of the voting shares of SEARS CANADA;”.

1.1.2 Section 17(a) of the License Agreement is hereby deleted in its entirety and replaced with:

“This agreement subject to paragraph 18 shall continue until the expiration of a period of five years after SEARS has ceased to hold directly or indirectly at least 10% of the voting shares of SEARS CANADA, provided that during such five year period, SEARS CANADA shall not have the option to add to this agreement any further SEARS merchandising trade marks or to

require SEARS to disclose to or assist SEARS CANADA in developing any new merchandising methods or administrative procedures.”

1.1.3 Section 17(b) of the License Agreement is hereby amended to delete the opening phrase of “If prior to the completion of the three (3) year period” and replace it with “If prior to the completion of the five (5) year period”.

1.1.4 Section 18(a) of the License Agreement is hereby deleted in its entirety and replaced with:

“SEARS holds directly or indirectly at least 10% of the voting shares of SEARS CANADA, and”

1.1.5 The following is added as Section 28 of the License Agreement:

“Rights of SEARS CANADA

28. SEARS CANADA and Sears agree that the License Agreement is an integral part of a series of longstanding agreements and relationships between SEARS CANADA and Sears relating to the use of intellectual property shared by those entities, including the power of attorney, dated as of February 4, 1994, relating to this agreement and the Information Technology Agreement, dated as of January 1, 1995, as amended. It is further agreed that SEARS CANADA’S rights under the License Agreement shall survive the filing by Sears of a petition for relief under the United States Bankruptcy Code, and that SEARS CANADA shall be treated as, and is fully entitled to, the rights of a licensee of intellectual property under Section 365(n) of the Bankruptcy Code.”

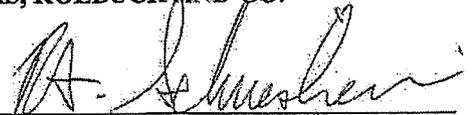
- 1.2 **Effectiveness.** This Amending Agreement shall be effective as of the date hereof.
- 1.3 **Ratification.** Except as amended hereby, the License Agreement and all of its terms, conditions and obligations are ratified and confirmed.
- 1.4 **Enurement.** This Amending Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assignees.
- 1.5 **Headings.** Headings of sections hereof are inserted for convenience of reference only and shall not affect the construction and interpretation of this Amending Agreement.
- 1.6 **Governing Law.** This Amending Agreement shall be interpreted in accordance with the laws of the Province of Ontario (and the laws of Canada applicable therein) and the courts of said Province shall have jurisdiction to hear all matters arising hereunder.
- 1.7 **Counterparts.** This Amending Agreement may be executed by the parties in separate counterparts which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. A faxed or electronic copy shall be considered an original.

[Signature page follows]

IN WITNESS WHEREOF the parties hereto have duly executed this Amending Agreement as of the date first written above.

SEARS, ROEBUCK AND CO.

By:



Name: Robert A. Schwesheim
Title: EVP & CFO

SEARS CANADA INC.

By: _____

Name:
Title:

IN WITNESS WHEREOF the parties hereto have duly executed this Amending Agreement as of the date first written above.

SEARS, ROEBUCK AND CO.

By: _____
Name:
Title:

SEARS CANADA INC.

By: EJ Bird
Name: E.J. Bird
Title: CFO

AMENDING AGREEMENT

THIS AMENDING AGREEMENT is made as of the 15th day of October, 2014 (this "Amending Agreement")

A M O N G:

SEARS, ROEBUCK AND CO., a New York corporation having its principal place of business in Hoffman Estates, Illinois

(hereinafter referred to as "Sears")

-and-

SEARS CANADA INC., a Canadian corporation having its principal place of business in Toronto, Ontario

(hereinafter referred to as "Sears Canada")

WHEREAS Sears and Sears Canada entered into an agreement dated as of January 26, 1987, as amended, pursuant to which Sears granted to Sears Canada the exclusive right to use certain trademarks in Canada in relation to goods and services in the field of merchandising (the "License Agreement");

AND WHEREAS Sears Holdings Corporation has announced an offering to its existing shareholders of rights to acquire 40,000,000 common shares of Sears Canada owned by Sears Holdings Corporation (the "Offering");

AND WHEREAS as a result of the Offering, it is expected that Sears will cease to own, directly or indirectly, at least 25% of the voting shares of Sears Canada;

AND WHEREAS Sears and Sears Canada wish to make certain amendments to the License Agreement effective as of the date hereof;

NOW THEREFORE for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

1.1 Amendments. The parties hereby agree to amend the terms of the License Agreement as follows:

1.1.1 The sixth recital of the License Agreement is hereby deleted in its entirety and replaced with:

"WHEREAS the said agreement as amended will continue to be binding upon SEARS and SEARS CANADA until the expiration of a period of five (5) years after SEARS shall have ceased to hold, directly or indirectly, at least 10% of the voting shares of SEARS CANADA;"

1.1.2 Section 17(a) of the License Agreement is hereby deleted in its entirety and replaced with:

"This agreement subject to paragraph 18 shall continue until the expiration of a period of five years after SEARS has ceased to hold directly or indirectly at least 10% of the voting shares of SEARS CANADA, provided that during such five year period, SEARS CANADA shall not have the option to add to this agreement any further SEARS merchandising trade marks or to

require SEARS to disclose to or assist SEARS CANADA in developing any new merchandising methods or administrative procedures.”

1.1.3 Section 17(b) of the License Agreement is hereby amended to delete the opening phrase of “If prior to the completion of the three (3) year period” and replace it with “If prior to the completion of the five (5) year period”.

1.1.4 Section 18(a) of the License Agreement is hereby deleted in its entirety and replaced with:

“SEARS holds directly or indirectly at least 10% of the voting shares of SEARS CANADA, and”

1.1.5 The following is added as Section 28 of the License Agreement:

“Rights of SEARS CANADA

28. SEARS CANADA and Sears agree that the License Agreement is an integral part of a series of longstanding agreements and relationships between SEARS CANADA and Sears relating to the use of intellectual property shared by those entities, including the power of attorney, dated as of February 4, 1994, relating to this agreement and the Information Technology Agreement, dated as of January 1, 1995, as amended. It is further agreed that SEARS CANADA’S rights under the License Agreement shall survive the filing by Sears of a petition for relief under the United States Bankruptcy Code, and that SEARS CANADA shall be treated as, and is fully entitled to, the rights of a licensee of intellectual property under Section 365(n) of the Bankruptcy Code.”

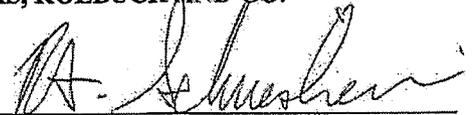
- 1.2 Effectiveness.** This Amending Agreement shall be effective as of the date hereof.
- 1.3 Ratification.** Except as amended hereby, the License Agreement and all of its terms, conditions and obligations are ratified and confirmed.
- 1.4 Enurement.** This Amending Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assignees.
- 1.5 Headings.** Headings of sections hereof are inserted for convenience of reference only and shall not affect the construction and interpretation of this Amending Agreement.
- 1.6 Governing Law.** This Amending Agreement shall be interpreted in accordance with the laws of the Province of Ontario (and the laws of Canada applicable therein) and the courts of said Province shall have jurisdiction to hear all matters arising hereunder.
- 1.7 Counterparts.** This Amending Agreement may be executed by the parties in separate counterparts which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. A faxed or electronic copy shall be considered an original.

[Signature page follows]

IN WITNESS WHEREOF the parties hereto have duly executed this Amending Agreement as of the date first written above.

SEARS, ROEBUCK AND CO.

By:



Name: Robert A. Schwesheim
Title: EVP & CFO

SEARS CANADA INC.

By: _____

Name:
Title:

IN WITNESS WHEREOF the parties hereto have duly executed this Amending Agreement as of the date first written above.

SEARS, ROEBUCK AND CO.

By: _____
Name:
Title:

SEARS CANADA INC.

By: EJ Bird
Name: E.J. Bird
Title: CFO

SECOND AMENDING AGREEMENT

THIS SECOND AMENDING AGREEMENT, dated as of March 6, 2017 and effective as of the Effective Date (as defined below), is entered into by and between Sears, Roebuck and Co., a New York corporation ("Sears") and Sears Canada Inc., a Canadian corporation ("Sears Canada"). Reference is made to that certain license agreement, dated as of January 26, 1987 (as amended, the "Agreement"), by and between Sears and Sears Canada, as further amended by the amending agreement, dated as of October 15, 2014 (the "Amending Agreement" and, together with the Agreement, the "License Agreement"), by and between Sears and Sears Canada. Sears and Sears Canada are hereinafter referred to individually as a "party" and collectively as the "parties."

WHEREAS, pursuant to the License Agreement, Sears granted to Sears Canada an exclusive right to use the licensed trade marks (as defined in the License Agreement) in Canada in relation to goods and services in the field of merchandising;

WHEREAS, Sears Canada and Stanley Black & Decker Inc. ("SBD") will execute a trademark license agreement in respect of the Craftsman Marks (as defined below) (the "Trademark License Agreement"); and

WHEREAS, Sears and Sears Canada wish to amend the License Agreement as set forth herein.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and intending to be legally bound, the parties hereby agree as follows:

1.1 Amendments. The parties hereby agree to amend the terms of the License Agreement as follows:

1.1.1 Schedule A to the License Agreement is hereby amended by deleting therefrom each and every mark that includes the word "Craftsman" and any similar names or marks or any derivatives thereof, and the marks listed on Exhibit A hereto (collectively, the "Craftsman Marks").

1.1.2 The definition of "licenced trade marks," which refers to "those further merchandising trade marks adopted or developed by SEARS, which are added to this agreement at the option of SEARS CANADA, and any further merchandising trade marks confusingly similar to the foregoing trade marks that SEARS and SEARS CANADA may together from time to time add to this agreement," is hereby amended to exclude any past, current or future Craftsman Marks, whether adopted or developed from time to time by Sears or its affiliates or otherwise.

1.2 Effectiveness. This Second Amending Agreement shall be subject to Sears Canada and SBD executing the Trademark License Agreement and effective as of the Closing Date (as defined in the Purchase and Sale Agreement, dated as of January 5, 2017, by and

between Sears Holdings Corporation and Stanley Black & Decker, Inc.) (the “Effective Date”). Sears Canada shall notify Sears of the execution of the Trademark License Agreement. Sears shall notify Sears Canada of the Effective Date on or promptly following such date.

1.3 Good Faith Negotiation.

1.3.1 In consideration of Sears Canada entering into the Second Amending Agreement, Sears agrees that until the conclusion of the Negotiation Period (as defined below), Sears will, and will cause its subsidiaries to, (i) negotiate in good faith with respect to further mutually agreeable amendments to the License Agreement and/or a sale of any trademarks and trade names including the word “Sears” for use in Canada (provided, that neither party shall have any obligation to enter into any additional agreement) and (ii) not take any action that would cause Sears to hold directly or indirectly less than 10% of the voting shares of Sears Canada.

1.3.2 For purposes of this Second Amending Agreement, the term “Negotiation Period” shall mean the period commencing on the Effective Date and ending on the earliest of (i) 60 days from the date of the Effective Date (provided that such 60-day period shall be automatically extended an additional 30 days if, in the reasonable discretion of the parties, good faith negotiations are ongoing at the expiration of the 60-day period), (ii) the date Sears Canada informs Sears that it no longer wishes to continue negotiations, (iii) the date Sears Canada enters into a definitive agreement with respect to, or publicly announces that it plans to enter into, a transaction involving all or a controlling portion of Sears Canada’s equity securities or all or substantially all of the Sears Canada’s assets (whether by merger, consolidation, business combination, tender or exchange offer, recapitalization, restructuring, sale, equity issuance or otherwise) and (iv) the date a third party commences a tender offer or exchange offer for all or a controlling portion of Sears Canada’s equity securities.

1.4 Miscellaneous.

1.4.1 Headings. The section headings contained in this Second Amending Agreement are inserted for convenience of reference only and shall not be deemed to affect the meaning or interpretation of this Second Amending Agreement.

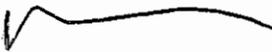
1.4.2 Entire Agreement. The License Agreement and this Second Amending Agreement constitutes the entire agreement between the parties with respect to the Craftsman Marks and supersede and replace any prior discussions, correspondence, negotiations, term sheets, understandings, arrangements or agreements between the parties with respect thereto, and each such prior agreement is hereby terminated with respect to the Craftsman Marks. In the event of any conflict between this Second Amending Agreement and any other agreement between the parties with respect to the Craftsman Marks, this Second Amending Agreement shall control.

- 1.4.3 Ratification.** Except as amended by this Second Amending Agreement, the License Agreement remains unmodified and in full force and effect in accordance with its terms.
- 1.4.4 Inurement.** This Second Amending Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and permitted assignees.
- 1.4.5 Governing Law.** This Second Amending Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario (and the laws of Canada applicable therein). The courts of the Province of Ontario shall have jurisdiction to hear all matters arising hereunder.
- 1.4.6 Counterparts.** This Second Amending Agreement may be executed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument, and shall become effective when one or more counterparts have been signed by each party and delivered (by telecopy, electronic delivery or otherwise) to the other party. Signatures to this Second Amending Agreement transmitted by facsimile transmission, by electronic mail in “portable document format” (“.pdf”) form, or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing the original signature.

[Remainder of page left intentionally blank]

IN WITNESS WHEREOF, the parties have duly executed this Second Amending Agreement as of the date first written above.

SEARS, ROEBUCK AND CO.

By: 
Name: Robert A. Riecker
Title: Controller and Head of Capital
Market Activities

SEARS CANADA INC.

By: _____
Name:
Title:

IN WITNESS WHEREOF, the parties have duly executed this Second Amending Agreement as of the date first written above.

SEARS, ROEBUCK AND CO.

By: _____
Name:
Title:

SEARS CANADA INC.

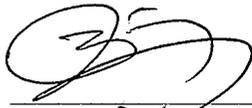
By:  _____
Name: Billy Wong
Title: CFO

Exhibit A

Brushwhacker

Drillzall

Evolv

Nextec

Speed Start

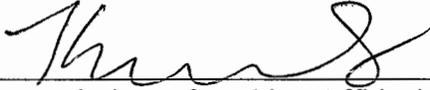
Steerable Trac

Turn Tight Technology

Weedwhacker

**THIS IS EXHIBIT "C" TO THE AFFIDAVIT
OF BILLY WONG SWORN BEFORE ME ON**

THIS 22nd DAY OF JUNE, 2017.



A commissioner for taking Affidavits

Exhibit C

List of Stores the Applicants Intend to Close

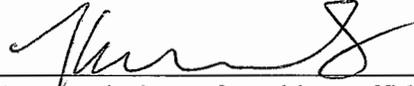
	STORE	CHANEL
1.	007642-SPRUCE GROVE DS	Hometown Store
2.	007668-FORT MCMURRAY F&A DS	Hometown Store
3.	007678-ST. ALBERT AB DS	Hometown Store
4.	007697-SHERWOOD PARK AB	Hometown Store
5.	007183-OKOTOKS DS	Hometown Store
6.	007585-COLD LAKE DS	Hometown Store
7.	007692-LEDUC AB	Hometown Store
8.	007898-SECHELT DS	Hometown Store
9.	007669-CRESTON DS	Hometown Store
10.	007909-GRAND FORKS DS	Hometown Store
11.	007582-KAPUSKASING DS	Hometown Store
12.	007471-ORANGEVILLE DS	Hometown Store
13.	007534-RIMOUSKI DS	Hometown Store
14.	007872-ROUYN NORANDA DS	Hometown Store
15.	001417-REGINA - CORNWALL	Full-Line Department Store
16.	001678-SAINT JOHN	Full-Line Department Store
17.	001430-GRANDE PRAIRIE	Full-Line Department Store
18.	001311-ST GEORGE DE BEAUCE	Full-Line Department Store
19.	001646-BATHURST	Full-Line Department Store
20.	001434-PRINCE ALBERT	Full-Line Department Store
21.	001082-SAULT STE. MARIE	Full-Line Department Store

22.	001019-OTTAWA-HULL	Full-Line Department Store
23.	001647-CORNERBROOK	Full-Line Department Store
24.	001383-DRUMMONDVILLE	Full-Line Department Store
25.	001624-DARTMOUTH	Full-Line Department Store
26.	001431-MOOSE JAW	Full-Line Department Store
27.	001618-TRURO	Full-Line Department Store
28.	001435-LLOYDMINSTER	Full-Line Department Store
29.	001047-BROCKVILLE	Full-Line Department Store
30.	001029-CHICOUTIMI	Full-Line Department Store
31.	001839-KAMLOOPS - ABERDEEN MALL	Full-Line Department Store
32.	001448-RED DEER RELOCATION	Full-Line Department Store
33.	001318-ALMA	Full-Line Department Store
34.	001428-MEDICINE HAT	Full-Line Department Store
35.	001382-EDMONTON NORTH HOME	Sears Home Store
36.	001357-CALGARY SOUTH HOME	Sears Home Store
37.	001336-ANCASTER HOME	Sears Home Store
38.	001353-LONDON HOME	Sears Home Store
39.	001395-WINDSOR HOME	Sears Home Store
40.	001354-SCARBOROUGH HOME	Sears Home Store
41.	001342-WOODBRIDGE HOME	Sears Home Store
42.	003801-ORILLIA HOME	Sears Home Store
43.	001381-SUDBURY HOME	Sears Home Store
44.	001364-KINGSTON HOME	Sears Home Store
45.	001365-OTTAWA EAST HOME	Sears Home Store
46.	001348-LAVAL HOME	Sears Home Store

47.	001346-ST. BRUNO HOME	Sears Home Store
48.	001352-QUEBEC CITY HOME	Sears Home Store
49.	001394-STE FOY HOME	Sears Home Store
50.	001835-ABBOTSFORD	Outlet Store
51.	001424-WINNIPEG - GARDEN CITY	Outlet Store
52.	001664-HALIFAX OUTLET	Outlet Store
53.	001039-CHATHAM	Outlet Store
54.	001238-CAMBRIDGE	Outlet Store
55.	001036-CORNWALL	Outlet Store
56.	001384-TIMMINS	Outlet Store
57.	001080-ST EUSTACHE	Outlet Store
58.	001084-PLACE VERTU	Outlet Store
59.	001391-SOREL	Outlet Store

**THIS IS EXHIBIT "D" TO THE AFFIDAVIT
OF BILLY WONG SWORN BEFORE ME ON**

THIS 22nd DAY OF JUNE, 2017.



A commissioner for taking Affidavits

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The preparation and presentation of the Company's consolidated financial statements and the overall accuracy and integrity of the Company's financial reporting are the responsibility of management. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and include certain amounts that are based on management's best estimates and judgments. Financial information contained elsewhere in this Annual Report is consistent with the information set out in the consolidated financial statements.

In fulfilling its responsibilities, management has developed and maintains an extensive system of disclosure controls and procedures and internal control over financial reporting processes that are designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and reported within the required time periods, and financial records are reliable for the preparation of the financial statements. The Company's internal auditors also review and evaluate internal controls on behalf of management.

The Board of Directors monitors management's fulfillment of its responsibilities for financial reporting and internal controls principally through the Audit Committee. The Audit Committee, which is comprised solely of independent directors, meets regularly with management, the internal audit department and the Company's external auditors to review and discuss audit activity and results, internal accounting controls and financial reporting matters. The external auditors and the internal audit department have unrestricted access to the Audit Committee, management and the Company's records. The Audit Committee is also responsible for recommending to the Board of Directors the proposed nomination of the external auditors for appointment by the shareholders. Based upon the review and recommendation of the Audit Committee, the consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors.

The Company's external auditors, Deloitte LLP, have audited the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the IASB.



Brandon G. Stranzl
Executive Chairman



Billy Wong
Chief Financial Officer

Toronto, Ontario
April 26, 2017

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. The control framework used by the Company's management to assess the effectiveness of the Company's internal control over financial reporting is the *Internal Control - Integrated Framework 2013* (COSO framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Internal control systems, regardless of superiority in design, have inherent limitations. Therefore, even those systems that have been determined to have been designed effectively can only provide reasonable assurance with respect to financial reporting and financial statement preparation.

Management of the Company, including its Executive Chairman and Chief Financial Officer, has evaluated the Company's internal control over financial reporting and has concluded that it was effective as at January 28, 2017.

Deloitte LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements for the fiscal year ended January 28, 2017, has issued its opinion on the Company's internal control over financial reporting as stated in their report included herein.



Brandon G. Stranzl
Executive Chairman



Billy Wong
Chief Financial Officer

Toronto, Ontario
April 26, 2017

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Sears Canada Inc.

We have audited the accompanying consolidated financial statements of Sears Canada Inc. and subsidiaries (the “Company”), which comprise the consolidated statements of financial position as at January 28, 2017 and January 30, 2016, and the consolidated statements of net loss and comprehensive loss, consolidated statements of changes in shareholders’ equity, and consolidated statements of cash flows for the 52-week periods ended January 28, 2017 and January 30, 2016, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sears Canada Inc. and subsidiaries as at January 28, 2017 and January 30, 2016, and their financial performance and their cash flows for the 52-week periods ended January 28, 2017 and January 30, 2016 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of January 28, 2017, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 26, 2017 expressed an unqualified opinion on the Company’s internal control over financial reporting.



Chartered Professional Accountants
Licensed Public Accountants
April 26, 2017
Toronto, Canada

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Sears Canada Inc.

We have audited the internal control over financial reporting of Sears Canada Inc. and subsidiaries (the “Company”) as of January 28, 2017, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2017, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the 52 week-period ended January 28, 2017 of the Company and our report dated April 26, 2017 expressed an unmodified/unqualified opinion on those financial statements.

DeWitt LLP

Chartered Professional Accountants
Licensed Public Accountants
April 26, 2017
Toronto, Canada

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(in CAD millions)</i>	Notes	As at January 28, 2017	As at January 30, 2016
ASSETS			
Current assets			
Cash	5	\$ 235.8	\$ 313.9
Accounts receivable, net	6,13,15	67.1	59.4
Income taxes recoverable	21	12.3	35.9
Inventories	7	598.5	664.8
Prepaid expenses	8	34.5	31.0
Derivative financial assets	13	0.1	6.6
Assets classified as held for sale	28	57.0	22.1
Total current assets		1,005.3	1,133.7
Non-current assets			
Property, plant and equipment	9,18	227.1	444.1
Investment properties	9	2.0	17.0
Intangible assets	10	2.0	22.5
Deferred tax assets	21	0.7	0.6
Other long-term assets	11,13,15,16	7.3	15.3
Total assets		\$ 1,244.4	\$ 1,633.2
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	13,14	\$ 319.8	\$ 332.7
Deferred revenue	12	136.1	158.3
Provisions	15	61.6	75.8
Income taxes payable		0.6	2.6
Other taxes payable		22.3	17.3
Derivative financial liabilities	13	0.6	—
Current portion of long-term obligations	13,16,18,23	3.7	4.0
Total current liabilities		544.7	590.7
Non-current liabilities			
Long-term obligations	13,16,18,23	16.6	20.2
Deferred revenue	12	69.4	74.2
Retirement benefit liability	13,19	308.6	326.9
Other long-term liabilities	15,17	82.9	67.0
Total liabilities		1,022.2	1,079.0
SHAREHOLDERS' EQUITY			
Capital stock	22	14.9	14.9
Share-based compensation reserve	22	3.1	—
Retained earnings		418.0	739.0
Accumulated other comprehensive loss		(213.8)	(199.7)
Total shareholders' equity	23	222.2	554.2
Total liabilities and shareholders' equity		\$ 1,244.4	\$ 1,633.2

The accompanying notes are an integral part of these consolidated financial statements.

On Behalf of the Board of Directors,



B.G. Stranzl
Executive Chairman and Director



G. Savage
Director

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
For the 52-week periods ended January 28, 2017 and January 30, 2016

<i>(in CAD millions, except per share amounts)</i>	Notes	2016	2015
Revenue	24	\$ 2,613.6	\$ 3,145.7
Cost of goods and services sold	7,13,25	1,900.5	2,145.9
Selling, administrative and other expenses	9,10,13,18,19,25	1,135.5	1,298.1
Operating loss		(422.4)	(298.3)
Gain on lease termination and sale and leaseback transactions	26	105.9	67.2
Gain on termination of credit card arrangement	27	—	170.7
Gain on settlement of retirement benefits	19, 25	—	5.1
Finance costs	16,18,21	8.9	9.7
Interest income	5	7.2	2.3
Loss before income taxes		(318.2)	(62.7)
Income tax (expense) recovery			
Current	21	(0.3)	(8.1)
Deferred	21	(2.5)	2.9
		(2.8)	(5.2)
Net loss		\$ (321.0)	\$ (67.9)
Basic and diluted net loss per share	31	\$ (3.15)	\$ (0.67)
Net loss		\$ (321.0)	\$ (67.9)
Other comprehensive (loss) income, net of taxes:			
Items that may subsequently be reclassified to net loss:			
(Loss) gain on foreign exchange derivatives		(12.6)	19.2
Reclassification to net loss of loss (gain) on foreign exchange derivatives		5.0	(18.7)
Items that will not subsequently be reclassified to net loss:			
Remeasurement (loss) gain on net defined retirement benefit liability	19,21	(6.5)	50.8
Total other comprehensive (loss) income, net of taxes		(14.1)	51.3
Total comprehensive loss		\$ (335.1)	\$ (16.6)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the 52-week periods ended January 28, 2017 and January 30, 2016

<i>(in CAD millions)</i>	Notes	Capital stock	Share-based compensation reserve	Retained earnings	Accumulated other comprehensive loss			Shareholders' equity
					Foreign exchange derivatives designated as cash flow hedges	Remeasurement (loss) gain	Total accumulated other comprehensive loss	
Balance as at January 30, 2016		\$ 14.9	\$ —	\$ 739.0	\$ 7.2	\$ (206.9)	\$ (199.7)	\$ 554.2
Net loss				(321.0)	—	—	—	(321.0)
<i>Other comprehensive (loss) income</i>								
Loss on foreign exchange derivatives, net of income tax recovery of \$2.6	13				(12.6)	—	(12.6)	(12.6)
Reclassification of net loss on foreign exchange derivatives, net of income tax recovery of nil	13				5.0	—	5.0	5.0
Remeasurement loss on net defined retirement benefit liability	19,21				—	(6.5)	(6.5)	(6.5)
Total other comprehensive loss		—	—	—	(7.6)	(6.5)	(14.1)	(14.1)
Total comprehensive loss		—	—	(321.0)	(7.6)	(6.5)	(14.1)	(335.1)
Share-based compensation	22	—	3.1	—	—	—	—	3.1
Balance as at January 28, 2017		\$ 14.9	\$ 3.1	\$ 418.0	\$ (0.4)	\$ (213.4)	\$ (213.8)	\$ 222.2
Balance as at January 31, 2015		\$ 14.9	\$ —	\$ 806.9	\$ 6.7	\$ (257.7)	\$ (251.0)	\$ 570.8
Net loss				(67.9)	—	—	—	(67.9)
<i>Other comprehensive income (loss)</i>								
Gain on foreign exchange derivatives, net of income tax expense of \$7.1	13				19.2	—	19.2	19.2
Reclassification of gain on foreign exchange derivatives, net of income tax expense of \$6.9	13				(18.7)	—	(18.7)	(18.7)
Remeasurement gain on net defined retirement benefit liability	19,21				—	50.8	50.8	50.8
Total other comprehensive income		—	—	—	0.5	50.8	51.3	51.3
Total comprehensive (loss) income		—	—	(67.9)	0.5	50.8	51.3	(16.6)
Balance as at January 30, 2016		\$ 14.9	\$ —	\$ 739.0	\$ 7.2	\$ (206.9)	\$ (199.7)	\$ 554.2

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 52-week periods ended January 28, 2017 and January 30, 2016

<i>(in CAD millions)</i>	Notes	2016	2015
Cash flow used for operating activities			
Net loss		\$ (321.0)	\$ (67.9)
Adjustments for:			
Depreciation and amortization expense	9,10	31.4	48.4
Share-based compensation	22	3.1	(0.4)
(Gain) loss on disposal of property, plant and equipment		(4.4)	0.3
Net impairment losses	9,10,28	52.3	63.3
Gain on lease termination and sale and leaseback transactions	26	(105.9)	(67.2)
Gain on termination of credit card arrangement	27	—	(170.7)
Finance costs	16,18,21	8.9	9.7
Interest income	5	(7.2)	(2.3)
Retirement benefit plans expense	19	14.1	18.9
Gain on settlement of retirement benefits	19	—	(5.1)
Short-term disability expense	19	4.6	4.9
Income tax expense	21	2.8	5.2
Interest received	5	7.4	1.1
Interest paid	16	(3.4)	(2.7)
Retirement benefit plans contributions	19	(43.5)	(48.6)
Income tax refunds, net	21	25.0	87.6
Changes in non-cash working capital balances	32	0.1	(64.3)
Changes in non-cash long-term assets and liabilities	33	(5.7)	(11.7)
		(341.4)	(201.5)
Cash flow generated from investing activities			
Purchases of property, plant and equipment and intangible assets	9,10	(27.4)	(45.4)
Proceeds from sale of property, plant and equipment		3.1	0.3
Proceeds from termination of credit card arrangement	27	—	174.0
Net proceeds from lease termination and sale and leaseback transactions	26	295.0	130.0
		270.7	258.9
Cash flow used for financing activities			
Interest paid on finance lease obligations	16,18	(1.7)	(1.9)
Repayment of long-term obligations		(3.9)	(3.9)
		(5.6)	(5.8)
Effect of exchange rate on cash at end of period		(1.8)	3.3
(Decrease) increase in cash		(78.1)	54.9
Cash at beginning of period		\$ 313.9	\$ 259.0
Cash at end of period	5	\$ 235.8	\$ 313.9

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Sears Canada Inc. is incorporated in Canada. The address of its registered office and principal place of business is 290 Yonge Street, Suite 700, Toronto, Ontario, Canada M5B 2C3. The principal activities of Sears Canada Inc. and its subsidiaries (the “Company”) include the sale of goods and services through the Company’s Retail channels, which includes its full-line department, Sears Home, Hometown, Outlet, Corbeil Electric Inc. stores, and its Direct (catalogue/internet) channel.

2. Significant accounting policies

2.1 Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

2.2 Basis of preparation and presentation

The principal accounting policies of the Company have been applied consistently in the preparation of its consolidated financial statements for all periods presented. These financial statements follow the same accounting policies and methods of application as those used in the preparation of the 2015 Annual Consolidated Financial Statements. The Company’s significant accounting policies are detailed in Note 2.

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments, measured at fair value, and the retirement benefit liability, which is the net total of retirement benefit plan assets and the present value of accrued retirement benefit plan obligations. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company as well as all of its subsidiaries.

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to January 31. The fiscal years for the 2016 and 2015 consolidated financial statements represent the 52-week period ended January 28, 2017 (“Fiscal 2016” or “2016”) and the 52-week period ended January 30, 2016 (“Fiscal 2015” or “2015”), respectively.

The Company’s consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency.

2.5 Uses and sources of liquidity

The Fiscal 2016 financial statements have been prepared on the basis of management’s assessment of the Company’s ability to continue as a going concern (the “assessment”). In determining whether the assessment is appropriate, management has considered available information for the 12 months from the issuance of the Fiscal 2016 financial statements. Management acknowledges that the Company continues to face a challenging competitive environment with recurring operating losses and negative cash flows from operating activities in the last five fiscal years. While the Company continues to focus on its overall profitability, it reported a net loss in Fiscal 2016 and the Company was required to fund cash used in operating activities with cash from investing activities. Management also considered the impact of the disclosures made by Sears Holdings Corporation (“Sears Holdings”), the beneficial holder of 11.7% of the common shares of the Company, with respect to Sears Holding’s ability to continue operating on a going concern basis. In addition, management also evaluated its licensing arrangement with Sears Holdings (see Note 29), and assumed that there was no significant impact to its assessment. In the preparation of the Fiscal 2016 financial statements, management has applied significant judgments to determine that no material uncertainties exist related to events or conditions that cast significant doubt on the Company’s ability to continue as a going concern.

In response to the recurring operating losses and negative cash flows from operating activities, the Company has taken a number of actions to enhance its financial flexibility, to fund its ongoing business operations and to meet its obligations. During Fiscal 2016, the Company completed a lease termination and a series of sale and leaseback transactions, as described in Note 26, for total net proceeds of \$295.0 million. Subsequent to Fiscal 2016, the Company completed two sale and leaseback transactions, as described in Note 34, for a total consideration of \$57.0 million less customary closing adjustments.

Subsequent to Fiscal 2016, the Company entered into a Credit Agreement (the “Term Credit Agreement”) dated March 20, 2017 with a syndicate of lenders for a five-year secured term loan (the “Term Loan”) of up to \$300.0 million. The Term Loan is in addition to the Company’s existing \$300.0 million secured revolving credit facility pursuant to a Credit Agreement (the “Amended Credit Facility”) with a different syndicate of lenders dated September 10, 2010, as amended (see Note 16). As at January 28, 2017, the Company had no funded borrowings on the Amended Credit Facility and the availability under the Amended Credit Facility was \$192.3 million. The Amended Credit Facility matures on May 28, 2019. The Term Loan is available in two tranches: a first tranche of \$125.0 million (before transaction fees) which was drawn in full on March 20, 2017, and a second tranche of up to a further \$175.0 million (before transaction fees and to be secured by qualifying owned and leased real estate), which is available to be drawn at the Company’s option, subject to the satisfaction of various conditions including receipt of satisfactory appraisals and environmental reports. The Amended Credit Facility and the Term Credit Agreement are secured by a first charge on the Company’s inventory, credit card receivables and related assets, and a selection of the Company’s owned and leased real estate that is to be mutually agreed and which satisfies eligibility criteria. The respective rights of the lenders under the Term Credit Agreement and the lenders under the Amended Credit Facility as to the security and the priority of their security are governed by an intercreditor agreement between each group of lenders.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula that takes into account the value of inventory and receivables less applicable reserves. Similarly, availability under the Term Loan is also determined pursuant to a borrowing base formula that also takes into account the value of the real estate that forms part of the security for the second tranche less applicable reserves. On a monthly basis, where the amount of loans outstanding exceeds the amount of the applicable borrowing base, the Company is required to repay the amount of such excess.

The Company has established a sales strategy on key merchandising initiatives and is actively working with suppliers to align future merchandise cost prices with more competitive out-the-door selling prices. With the expected higher margins and continued adjustments made to pricing and product assortment to better align to the market and customer preferences, the Company expects improved profitability in Fiscal 2017.

If the Company’s actual performance differs materially from its plans and continues to experience operating losses, and is not able to receive the full amount of the second tranche of the Term Credit Agreement, the Company may need to pursue additional sources of liquidity. Management expects that obtaining the additional liquidity from the second tranche up to a further \$175.0 million (before transaction fees, to be secured by qualifying owned and leased real estate), the continued focus on expense management and obtaining additional liquidity from the owned and leased properties, will provide the necessary cash position to support operations for 12 months from the issuance of the Fiscal 2016 financial statements.

Based on the above significant judgments, the Company expects to end with a positive cash balance and continue as a going concern for 12 months from the issuance of the Fiscal 2016 financial statements.

2.6 Segments

The Company is comprised of one reportable segment, Merchandising. The Company’s operations include the sale of goods and services through its operating segments, the Retail channels and the Direct channel. The Company’s chief operating decision maker, identified as the Executive Chairman, allocates resources and assesses performance of the business and other activities at the operating segment level.

2.7 Cash

Cash is considered to be restricted when it is subject to contingent rights of a third party customer, vendor, government agency or financial institution. Cash is also considered to be restricted when it is pledged voluntarily as collateral under the senior secured revolving credit facility to provide additional security to lenders.

2.8 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method, based on individual items. The cost is comprised of the purchase price, plus the costs incurred in bringing the inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. Rebates and allowances received from vendors are recognized as a reduction to the cost of inventory, unless the rebates clearly relate to the reimbursement of specific expenses. A provision for shrinkage and obsolescence is calculated based on historical experience. All inventories consist of finished goods.

2.9 Property, plant and equipment

Property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. Property, plant and equipment within one of the Company’s retail stores and one of the Company’s logistics centres have been classified as held for sale in the Consolidated Statements of Financial Position (see Note 28).

When the significant parts of an item of property, plant and equipment have varying useful lives, they are accounted for as separate components of property, plant and equipment. Depreciation is calculated based on the depreciable amount of the asset or significant component thereof, if applicable, which is the cost of the asset or significant component less its residual value. Depreciation is recognized using the straight-line method for each significant component of an item of property, plant and equipment and is recorded in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss. The estimated useful lives are 2 to 13 years for equipment and fixtures and 10 to 50 years for buildings and building improvements. The estimated useful lives, residual values and depreciation methods for property, plant and equipment are reviewed annually and adjusted, if appropriate, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds from sale or the cost of retirement and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

For a discussion on the impairment of tangible assets, refer to Note 2.12. Property, plant and equipment are reviewed at the end of each reporting period to determine if there are any indicators of impairment.

2.10 Investment properties

The Company’s investment properties consist of vacant land which is not currently used in its operations. Investment properties are measured at their deemed cost less accumulated impairment losses.

The fair value of an investment property is estimated using observable data based on the current cost of acquiring a comparable property within the market area and the capitalization of the property’s anticipated revenue. The Company engages independent qualified third parties to conduct appraisals of its investment properties, when needed.

The gain or loss arising from the disposal or retirement of an investment property is determined as the difference between the proceeds from sale or the cost of retirement, and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

For a discussion on the impairment of tangible assets, refer to Note 2.12. Investment properties are reviewed at the end of each reporting period to determine if there are any indicators of impairment.

2.11 Intangible assets

Intangible assets consist primarily of finite life purchased and internally developed software. Finite life intangible assets are carried at cost less accumulated amortization and accumulated impairment losses and are amortized on a straight-line basis over their estimated useful lives which range from 2 to 5 years. The useful lives of primarily all intangible assets are finite. Certain intangible assets have an indefinite useful life, as there is no foreseeable limit to the period during which the Company expects the assets to generate net cash inflows. Amortization expense is included in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss. The estimated useful lives and amortization methods for intangible assets are reviewed annually, with the effect of any changes in estimates being accounted for on a prospective basis.

Internally developed software costs are capitalized when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- The Company intends to complete the software product;
- The Company has an ability to use the software;
- The Company can demonstrate how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization are limited to those that are directly related to each software development project.

2.12 Impairment of tangible assets and intangible assets

At the end of each reporting period, the Company reviews property, plant and equipment, investment properties and intangible assets for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the assets are then grouped together into the smallest group of assets that generate independent cash inflows from continuing use (the “cash generating unit” or “CGU”) and a recoverable amount is estimated for that CGU. The Company has determined that its CGUs are primarily its retail stores.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs. Otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the asset or CGU will be reduced to its recoverable amount and an impairment loss is recognized immediately. If an impairment for a CGU has been identified, an impairment loss is recognized as a reduction in the carrying amount of the assets included in the CGU on a pro rata basis.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is revised to an estimate of its recoverable amount limited to the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately.

2.13 Leasing arrangements

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.13.1 The Company as lessor

The Company has entered into a number of agreements to sub-lease premises to third parties. All sub-leases to third parties are classified as operating leases. Rental income from operating leases is recognized as a reduction of rent expense on a straight-line basis over the term of the lease.

2.13.2 The Company as lessee

Assets held under finance leases are initially recognized by the Company at the lower of the fair value of the asset and the present value of the minimum lease payments. The corresponding current and non-current liabilities to the lessor are included in the Consolidated Statements of Financial Position as a finance lease obligation in “Current portion of long-term obligations” and “Long-term obligations”, respectively. The assets are depreciated using the same accounting policy as applicable to property, plant and equipment (see Note 2.9).

Lease payments are apportioned between finance costs and the lease obligation in order to achieve a constant rate of interest on the remaining balance of the liability. The minimum lease payments are allocated between the land and building element in proportion to the relative fair values of the leasehold interests, in each of these elements of the lease.

Assets under operating leases are not recognized by the Company. Operating lease payments are recognized in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss.

In the event that lease incentives are received from the landlord, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.14 Retirement benefit plans

The Company currently maintains a defined contribution and a defined benefit registered pension plan, which covers eligible regular full-time and part-time employees, a non-registered supplemental savings arrangement and a defined benefit non-pension retirement plan, which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust.

2.14.1 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed or matching contributions based on employee contributions into a separate legal entity and has no further legal or constructive obligation to pay additional amounts. Company contributions to the defined contribution retirement benefit plan are recognized as an expense when employees have rendered services entitling them to the contributions.

2.14.2 Defined benefit plans

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations prepared by independent qualified actuaries at least every three years. Remeasurements comprised of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognized immediately in the Consolidated Statements of Financial Position with a charge or credit to “Other comprehensive (loss) income, net of taxes” (“OCI”) in the Consolidated Statements of Net Loss and Comprehensive Loss, in the period in which they occur. The Company performs remeasurements at least annually. Remeasurements recorded in OCI are not subsequently reclassified into profit or loss. However, the entity may transfer those amounts recognized in OCI within “Accumulated other comprehensive loss” (“AOCL”) in the Consolidated Statements of Changes in Shareholders’ Equity. Past service cost is recognized in profit or loss in the period of plan amendment. Net-interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Defined benefit costs are split into three categories:

- service cost, past-service cost, gains and losses on curtailments and settlements;
- net interest expense or income;
- remeasurements.

The Company presents the first two components of defined benefit costs in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss.

Remeasurements are recorded in OCI.

The retirement benefit obligation recognized in the Consolidated Statements of Financial Position represents the actual deficit or surplus in the Company’s defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

2.14.3 Termination benefits

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

2.15 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes. Revenue is reduced for estimated customer returns, discounts and other similar allowances.

2.15.1 Sale of goods

Revenue from the sale of goods is recognized upon delivery of goods to the customer. In the case of goods sold in-store, delivery is generally complete at the point of sale. For goods subject to delivery such as furniture or major appliances, and goods sold online or through the catalogue, delivery is complete when the goods are delivered to the customers’ selected final destination or picked up from a catalogue/online agent. In the case of goods subject to installation, such as home improvement products, revenue is recognized when the goods have been delivered and the installation is complete.

2.15.2 Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

Extended warranty service contracts

The Company sells extended warranty service contracts with terms of coverage generally between 12 and 60 months. Revenue from the sale of each contract is deferred and amortized on a straight-line basis over the term of the related contract.

Product repair, handling and installation services

Product repair, handling and installation services revenue is recognized once the services are complete. These services are performed within a short timeframe.

2.15.3 Commission and licensee fee revenue

The Company earns commission revenue by selling various products and services that are provided by third parties, such as sales of travel services, home improvement products and insurance programs. As the Company is not the primary obligor in these transactions, these commissions are recognized upon sale of the related product or service.

Fee revenue is received from a variety of licensees that operate in the Company’s stores. Revenue earned is based on a percentage of licensee sales. Revenue is recorded upon sale of the related product or service.

Revenue was received from JPMorgan Chase Bank, N.A. (Toronto Branch) (“JPMorgan Chase”) relating to credit sales in Fiscal 2015. Revenue was primarily based on a percentage of sales charged on the Sears Card or Sears MasterCard and was included in revenue when the sale occurred (see Note 27 for additional information).

2.15.4 Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be reliably measured. Interest income is accrued on a periodic basis by reference to the principal outstanding and the applicable interest rate.

2.15.5 Customer loyalty program

The Sears Club Points Program (the “Program”) allows members to earn points from eligible purchases made on any tender accepted by the Company. Members can then redeem points in accordance with the Program rewards schedule for merchandise. When points are earned, the Company defers revenue equal to the fair value of the awards adjusted for expected redemptions.

When awards are redeemed, the redemption value of the awards is charged against deferred revenue and recognized as revenue. The expected future redemption rates are reviewed on an ongoing basis and are adjusted based upon expected future activity.

2.15.6 Gift cards

The Company sells gift cards through its retail stores, websites and third parties with no administrative fee charges or expiration dates. No revenue is recognized at the time gift cards are sold. Revenue is recognized as a merchandise sale when the gift card is redeemed by the customer. The Company also recognizes income when the likelihood of the gift card being redeemed by the customer is remote, which is generally at the end of 18 months subsequent to issuance, estimated based on historical redemption patterns.

2.15.7 Cost of goods and services sold

Cost of goods and services sold includes the purchase price of merchandise sold, freight and handling costs incurred in preparing the related inventory for sale, installation costs incurred relating to the sale of goods subject to installation, write-downs taken on inventory during the period, physical inventory losses and costs of services provided during the period relating to services sold, less rebates from suppliers relating to merchandise sold.

2.16 Foreign currency translation

Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rates prevailing at that date.

Exchange differences arising on re-translation are recognized in the Consolidated Statements of Net Loss and Comprehensive Loss in the period in which they arise, except for exchange differences on certain foreign currency hedging transactions (see Note 13.3).

Non-monetary assets and liabilities denominated in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction and are not retranslated.

2.17 Consideration from a vendor

The Company has arrangements with its vendors that provide for rebates subject to binding contractual agreements. Rebates on inventories subject to binding agreements are recognized as a reduction of the cost of sales or related inventories for the period, provided the rebates are probable and reasonably estimable. Rebates on advertising costs subject to binding agreements are recognized as a reduction of the advertising expense for the period, provided the rebates are probable and reasonably estimable.

2.18 Taxation

Income tax expense represents the sum of current tax expense and deferred tax expense.

2.18.1 Current tax

Tax currently payable or recoverable is based on taxable earnings or loss for the reporting period. Taxable income differs from earnings as reported in the Consolidated Statements of Net Loss and Comprehensive Loss, due to income or expenses that are taxable or deductible in other years and items that are not taxable or deductible for tax purposes. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as at the end of the reporting period and includes any adjustments to taxes payable and/or taxes recoverable in respect of prior years.

2.18.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable earnings or loss.

Deferred tax liabilities are typically recognized for taxable temporary differences. Deferred tax assets are typically recognized for deductible temporary differences to the extent that it is probable that taxable income will be available, against which deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable net earnings or loss nor the accounting income or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and written down to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applicable in the period in which the liability is settled or the asset is realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax assets and liabilities are not discounted.

2.18.3 Current and deferred tax for the period

Current and deferred tax are recognized as a tax expense or recovery in the Consolidated Statements of Net Loss and Comprehensive Loss, except when they relate to items that are recognized outside of earnings or loss (whether in OCI, or directly in equity), in which case, the tax is also recognized outside of earnings or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination. Interest on the Company's tax position is recognized as a finance cost.

2.19 Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties specific to the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of such cash flows.

When some or all of the economic resources required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.19.1 Onerous contract provisions

An onerous contract provision is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations. The provision is measured at the present value of the lower of the expected cost of terminating the contract or the expected cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract. The onerous contract provision is included in "Other provisions" as seen in Note 15.

2.19.2 General liability provisions

The Company purchases third party insurance for automobile, damage to a claimant's property or bodily injury from use of a product and general liability claims that exceed a certain dollar level. However, the Company is responsible for the payment of claims under these insured limits. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies which are based on historical data and validated by an independent third party. Loss estimates are adjusted based on actual claims settlements and reported claims (see Note 15).

2.19.3 Warranty provisions

An estimate for warranty provisions is made at the time the merchandise is sold based on historical warranty trends (see Note 15).

2.19.4 Returns and allowances provisions

Provisions for returns and allowances are made based on historical rates which represent the expected future outflow of economic resources on current sales (see Note 15).

2.19.5 Environmental provisions

The Company is exposed to environmental risks as an owner, lessor and lessee of property. Under federal and provincial laws, the owner, lessor or lessee could be liable for the costs of removal and remediation of certain hazardous substances on its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could lead to claims against the Company. The provision is based on assessments conducted by third parties, as well as historical data (see Note 15).

2.20 Financial assets

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value plus transaction costs, except for those financial assets at 'fair value through profit or loss' ("FVTPL") for which the transaction costs are expensed as incurred.

Financial assets and liabilities are offset with the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified into the following categories: financial assets at FVTPL, ‘available-for-sale’ (“AFS”) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2.20.1 Effective interest method

The effective interest method calculates the amortized cost of a financial asset or financial liability and allocates interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flow (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest income or expense is recognized on an effective interest basis for financial assets and financial liabilities other than those classified as at FVTPL.

2.20.2 Financial assets at FVTPL

Financial assets are classified at FVTPL when the financial asset is either held-for-trading or it is designated as at FVTPL.

2.20.3 AFS financial assets

Gains and losses arising from changes in fair value of AFS are recognized in OCI, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized in “Selling, administrative and other expenses” or “Interest income” in the Consolidated Statements of Net Loss and Comprehensive Loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously included in AOCL is reclassified to “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss.

2.20.4 Loans and receivables

Cash held by the bank and restricted cash are classified as ‘loans and receivables’ and are measured at amortized cost.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are also classified as ‘loans and receivables’. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables, where the recognition of interest would be immaterial.

2.20.5 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that the estimated future cash flow of the financial asset have been negatively affected as a result of events that have occurred after its initial recognition.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- probability that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of any impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flow discounted at the financial asset’s initial effective interest rate. When a subsequent event causes the amount of any impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Statements of Net Loss and Comprehensive Loss.

The carrying amount of the financial asset is reduced by any impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, its carrying amount is written off including any amounts previously recorded in the allowance account. Subsequent recoveries of amounts previously written off are credited to “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss. Changes in the carrying amount of the allowance account are also recognized in “Selling, administrative and other expenses”.

2.20.6 Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flow from the asset expire, or when substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.21 Financial liabilities and equity instruments

2.21.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2.21.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

2.21.3 Financial liabilities

Financial liabilities are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

2.21.4 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when they are either held-for-trading or designated as at FVTPL. Currently, the Company does not have any financial liabilities that have been designated as at FVTPL upon initial recognition.

2.21.5 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost with interest expense recognized on an effective interest method.

The Company amortizes debt issuance transaction costs over the life of the debt using the effective interest method.

2.21.6 Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

2.22 Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details on derivative financial instruments are disclosed in Note 13.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized immediately in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss, unless the derivative is designated and effective as a hedging instrument, in which case, the timing of the recognition depends on the nature of the hedge relationship. The Company designates certain derivatives as hedges of highly probable forecasted transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognized as a financial asset, whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

2.22.1 Hedge accounting

The Company designates certain hedging instruments, which include derivatives, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedging relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedging transactions. At the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 13 sets out details of the fair values of the derivative instruments used for hedging purposes.

2.22.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. The gain or loss relating to the ineffective portion is recognized immediately in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss. Amounts previously recognized in OCI and accumulated in AOCL within equity are reclassified in the periods when the hedged items are recognized (i.e. to “Cost of goods and services sold” in the Consolidated Statements of Net Loss and Comprehensive Loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gains or losses accumulated in AOCL within equity at the time of discontinuation remain in equity and are transferred to “Cost of goods and services sold” in the Consolidated Statements of Net Loss and Comprehensive Loss when the forecasted transaction is ultimately recognized. When a forecasted transaction is no longer expected to occur, the gains or losses accumulated in equity are recognized immediately.

2.23 Net loss per share

Net loss per share is calculated using the weighted average number of shares outstanding during the reporting period. Diluted net loss per share is determined using the ‘treasury stock method,’ which considers the potential for the issuance of new shares created by unexercised in-the-money options, if any such options are outstanding.

2.24 Share-based compensation

The Company granted restricted share units (“RSUs”) to an employee in Fiscal 2015 under an equity-based compensation plan. For equity-settled awards, the fair value of the grant of RSUs is recognized as a compensation expense over the period that the related service is rendered with a corresponding increase in equity. The total amount expensed is recognized over a three-year vesting period on a tranche basis, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the estimate of the number of equity interests that are expected to vest is revised. The impact of the revision to original estimates, if any, is recognized in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss.

3. Issued standards not yet adopted

The Company monitors the standard setting process for new standards and interpretations issued by the IASB that the Company may be required to adopt in the future.

In January 2016, the IASB issued the following new standard:

IFRS 16, Leases (“IFRS 16”)

IFRS 16 replaces IAS 17, *Leases* (“IAS 17”). This standard will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. Adoption of IFRS 16 is mandatory and will be effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. During Fiscal 2016, the Company has formed an implementation team who is currently in the process of assessing the impact of adopting this standard on the Company’s consolidated financial statements and related note disclosures.

In July 2014, the IASB issued the final publication of the following standard:

IFRS 9, Financial Instruments (“IFRS 9”)

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows. This standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will permit more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Adoption of IFRS 9 is mandatory and will be effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. During Fiscal 2016, the Company has formed an implementation team who is currently in the process of assessing the impact of adopting this standard on the Company’s consolidated financial statements and related note disclosures.

In May 2014, the IASB issued the following new standard:

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 replaces IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. During Fiscal 2016, the Company has formed an implementation team who is currently in the process of assessing the impact of adopting this standard on the Company’s consolidated financial statements and related note disclosures.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company’s accounting policies, management is required to make judgments, estimates and assumptions with regards to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company’s accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities.

4.1 Legal liabilities

Assessing the financial outcome of uncertain legal positions requires judgment to be made regarding the relative merits of each claim and the extent to which a claim is likely to be successful. The assessments are based on reviews conducted by internal and external counsel, when appropriate.

Changes in estimates or assumptions could cause changes to “Provisions” on the Consolidated Statements of Financial Position and a charge or credit to “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 15.

4.2 Inventory

4.2.1 Obsolescence, valuation and inventory stock losses

Inventory is written down to reflect future losses on the disposition of obsolete merchandise. Future losses are estimated based on historical trends that vary depending on the type of inventory.

An adjustment is made each period to value inventory at the lower of cost and net realizable value. This adjustment is estimated based on historical trends that vary depending on the type of inventory.

Inventory is adjusted to reflect estimated inventory stock losses incurred in the year based on recent historical inventory count data.

4.2.2 Vendor rebates

Inventory is adjusted to reflect vendor rebates received or receivable based on vendor agreements. This adjustment is estimated based on historical data and current vendor agreements.

4.2.3 Freight

Inbound freight incurred to bring inventory to its present location is estimated each reporting period and is included in the cost of inventory. This estimate is based on historical freight costs incurred.

Changes in estimates may result in changes to “Inventories” on the Consolidated Statements of Financial Position and a charge or credit to “Cost of goods and services sold” in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 7.

4.3 Impairment of property, plant and equipment and intangible assets

The Company's property, plant and equipment and intangible assets have been allocated to CGUs. At the end of each reporting period, the carrying amounts of property, plant and equipment and intangible assets are assessed to determine if there is any evidence that an asset is impaired. Determining if there are any facts and circumstances indicating impairment loss is a subjective process involving judgment and a number of estimates and assumptions. If there are such facts and circumstances, the recoverable amount of the asset is estimated.

Assets that cannot be tested individually for impairment are grouped into the smallest group of assets that generates cash inflows through continued use that are largely independent of the cash inflows from other assets or groups of assets (cash generating unit or CGU).

The recoverable amount of an asset or a CGU is the higher of its value in use and fair value less costs to sell. To determine value in use, expected future cash flows are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In the process of measuring expected future cash flows, the Company makes assumptions about future operating profit. These assumptions relate to future events and circumstances. Although the assumptions are based on market information available at the time of the assessment, actual results may vary.

The Company's corporate and intangible assets do not generate separate cash flows. If there is evidence that a corporate or intangible asset is impaired, the recoverable amount is determined for the CGU to which the corporate asset belongs. Impairments are recorded when the carrying amount of the CGU to which the corporate asset belongs is higher than its recoverable amount.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 9 and Note 10.

4.4 Retirement benefit liability

The retirement benefit liability is estimated based on certain actuarial assumptions, including the discount rate, inflation rate, salary growth and mortality rates. New regulations and market driven changes may impact the assumptions made.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and OCI in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 19.

4.5 Loyalty program deferred revenue

The fair value of Sears Club points granted is deferred at the time of the related initial sale transaction and is recognized upon redemption of the points for merchandise. The redemption value of the points is estimated at the initial sale transaction, based on historical behaviour and trends in redemption rates and redemption values, as well as an adjustment for the percentage of points that are expected to be converted to reward cards, but for which the likelihood of redemption is remote ("reward card breakage").

Changes in estimates may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 12.

4.6 Derivative assets and liabilities

All derivatives are measured at fair value. U.S. dollar forward contracts are traded over-the-counter and give holders the right to buy a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of fuel swaps is based on counterparty confirmations tested for reasonableness by discounting estimated future cash flows derived from the terms and maturity of each contract using market fuel prices at the measurement date. The Company is required to estimate various inputs which are used in these calculations that are a combination of quoted prices and observable market inputs. The fair values of derivatives include an adjustment for credit risk when appropriate.

Changes in estimates may result in changes to "Derivative financial assets" and "Derivative financial liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold", "Selling, administrative and other expenses" or OCI in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 13.

4.7 Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Revenue", "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 15.

4.8 Leasing arrangements

The Company has applied judgment in the classification of its leasing arrangements, which is determined at the inception of the lease and is based on the substance of the transaction, rather than its legal form. The Company's leases were evaluated based on certain significant assumptions including the discount rate, economic life of an asset, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Current portion of long-term obligations" and "Long-term obligations" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and "Finance costs" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 18.

4.9 Taxes

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, certain matters are periodically challenged by tax authorities. The Company applies judgment and routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and its net loss will be affected positively or negatively. The Company also uses judgment in assessing the likelihood that deferred income tax assets will be recovered from future taxable income by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax assets", "Other long-term assets", "Income and other taxes payable" and "Deferred tax liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Income tax (expense) recovery" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 21.

4.10 Gift cards

The gift card liability is based on the total amount of gift cards outstanding which have not yet been redeemed by customers. The Company also recognizes income when the likelihood of redeeming the gift card is remote ("gift card breakage"). Gift card breakage is estimated based on historical redemption patterns. Changes in estimates of the redemption patterns may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net Loss and Comprehensive Loss.

5. Cash and interest income

Cash

The components of cash were as follows:

<i>(in CAD millions)</i>		As at January 28, 2017		As at January 30, 2016
Cash	\$	134.7	\$	306.9
Restricted cash		101.1		7.0
Total cash	\$	235.8	\$	313.9

As at January 28, 2017, restricted cash of \$100.0 million (January 30, 2016: nil) was pledged voluntarily as collateral under the senior secured revolving credit facility to provide additional security to lenders. The other components of restricted cash are further discussed in Note 20.

Interest income

Interest income for the fiscal year ended January 28, 2017 totaled \$7.2 million (2015: \$2.3 million). During Fiscal 2016, the Company received \$7.4 million (2015: \$1.1 million) in cash related to interest income. Interest income for the fiscal year ended January 28, 2017 of \$3.1 million (2015: \$1.1 million) related to refund interest on net cash income tax receipts (see Note 21 for additional information), \$1.7 million related to interest income recognized on maturity of an investment, with the balance related primarily to cash.

6. Accounts receivable, net

The components of accounts receivable, net were as follows:

<i>(in CAD millions)</i>	As at January 28, 2017	As at January 30, 2016
Deferred receivables	\$ 0.2	\$ 0.2
Other receivables	66.9	59.2
Total accounts receivable, net	\$ 67.1	\$ 59.4

Other receivables primarily consist of amounts due from customers and amounts due from vendors.

Included in the accounts receivable balances above are amounts that are past due but are not provided for, as the Company considers the balances to be collectible. These past due accounts receivable balances are listed below:

<i>(in CAD millions)</i>	As at January 28, 2017	As at January 30, 2016
Greater than 30 days	\$ 9.9	\$ 5.1
Greater than 60 days	3.4	2.4
Greater than 90 days	11.6	8.3
Total	\$ 24.9	\$ 15.8

The following is a continuity of the Company's allowances for uncollectable accounts receivable:

<i>(in CAD millions)</i>	As at January 28, 2017	As at January 30, 2016
Allowances, beginning of year	\$ 6.0	\$ 8.3
Net additions (write-off)	0.1	(2.3)
Allowances, end of year	\$ 6.1	\$ 6.0

7. Inventories

The amount of inventory recognized as an expense during Fiscal 2016 was \$1,700.8 million (2015: \$1,943.8 million), which included \$42.6 million (2015: \$66.2 million) of inventory write-downs to reduce the carrying amount of inventory to net realizable value. These expenses were included in "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss. Inventory write-downs included reversals of prior period inventory write-downs for Fiscal 2016 of \$3.1 million (2015: \$1.6 million), due to an increase in net realizable value.

8. Prepaid expenses

The components of prepaid expenses were as follows:

<i>(in CAD millions)</i>	As at January 28, 2017	As at January 30, 2016
Rent	\$ 9.5	\$ 10.7
Contracts	13.7	11.5
Supplies	3.0	2.8
Insurance	1.0	0.8
Other	7.3	5.2
Total prepaid expenses	\$ 34.5	\$ 31.0

9. Property, plant and equipment and investment properties

The following is a continuity of property, plant and equipment:

<i>(in CAD millions)</i>	Land	Buildings and Leasehold Improvements	Finance Lease Buildings	Finance Lease Equipment	Equipment and Fixtures	Total
Cost or deemed cost						
Balance at January 31, 2015	\$ 228.4	\$ 1,086.4	\$ 41.5	\$ 1.0	\$ 1,136.0	\$ 2,493.3
Additions	—	14.0	—	0.1	9.6	23.7
Disposals	(52.1)	(16.3)	(3.5)	—	(13.7)	(85.6)
Net movement to assets held for sale ²	(2.5)	(16.3)	—	—	(7.0)	(25.8)
Balance at January 30, 2016	\$ 173.8	\$ 1,067.8	\$ 38.0	\$ 1.1	\$ 1,124.9	\$ 2,405.6
Additions	—	13.6	—	—	11.5	25.1
Disposals	(57.2)	(84.2)	(5.0)	—	(40.7)	(187.1)
Net movement to assets held for sale ²	(45.0)	(130.0)	—	—	(36.0)	(211.0)
Balance at January 28, 2017	\$ 71.6	\$ 867.2	\$ 33.0	\$ 1.1	\$ 1,059.7	\$ 2,032.6
Accumulated depreciation and impairment						
Balance at January 31, 2015	\$ —	\$ 847.9	\$ 34.1	\$ 0.5	\$ 1,043.2	\$ 1,925.7
Depreciation expense ¹	—	19.7	2.0	0.3	22.9	44.9
Disposals	—	(15.6)	(3.5)	—	(13.7)	(32.8)
Net impairment losses ¹	—	10.5	5.4	—	23.3	39.2
Net movement to assets held for sale ²	—	(8.5)	—	—	(7.0)	(15.5)
Balance at January 30, 2016	\$ —	\$ 854.0	\$ 38.0	\$ 0.8	\$ 1,068.7	\$ 1,961.5
Depreciation expense ¹	—	11.7	—	0.3	15.6	27.6
Disposals	—	(38.1)	(5.0)	—	(38.1)	(81.2)
Impairment losses ¹	—	8.9	—	—	15.2	24.1
Net movement to assets held for sale ²	—	(91.9)	—	—	(34.6)	(126.5)
Balance at January 28, 2017	\$ —	\$ 744.6	\$ 33.0	\$ 1.1	\$ 1,026.8	\$ 1,805.5
Net balance at January 28, 2017	\$ 71.6	\$ 122.6	\$ —	\$ —	\$ 32.9	\$ 227.1
Net balance at January 30, 2016	\$ 173.8	\$ 213.8	\$ —	\$ 0.3	\$ 56.2	\$ 444.1

¹ Depreciation expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

² Represents the balances related to certain retail stores and logistics centres. Refer to Note 28 "Assets classified as held for sale" for additional information.

Impairment losses

The Company performed an impairment analysis on its CGUs as required by IAS 36, *Impairment of Assets*. The net impairment losses (reversals) recognized for the current and prior fiscal years were as follows:

<i>(in CAD millions)</i>	2016	2015
Sears full-line department stores	\$ 11.6	\$ 43.1
Direct channel	10.5	6.5
Other	2.0	4.7
Distribution centre	—	(15.1)
Total net impairment losses	\$ 24.1	\$ 39.2

The impairment losses were due to indicators (in particular a decrease in revenue or decrease in cash flows) that the recoverable amounts were less than the carrying values. The recoverable amounts of the CGUs tested were determined as the higher of fair value less costs to sell, or value in use. In calculating fair value less costs to sell, the Company conducted appraisals of certain land and building properties that it owned or leased, with the assistance of independent qualified third party appraisers. The valuation methods used to determine fair value included the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land. In calculating value in use, the Company used the present value of the estimated cash flows over management's best estimate of the useful life of the CGUs' assets, as applicable. A pre-tax discount rate of 14.0% was based on management's best estimate of the CGUs' weighted average cost of capital considering the risks facing the CGUs.

Impairment reversal

In prior years, an impairment loss of \$44.4 million was recorded related to the Montreal distribution centre. During Fiscal 2015, an impairment reversal of \$15.1 million was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss in Fiscal 2015. The impairment reversal was included in the net impairment losses for 2015 in "Buildings and Leasehold Improvements."

Investment properties

Investment properties owned by the Company represent vacant land with no operating activity. During Fiscal 2016, there were disposals of \$19.7 million of investment properties and no additions, impairment losses or reversals.

As at January 28, 2017, the carrying value was \$2.0 million of which nil was included in "Assets held for sale" (January 30, 2016: \$21.7 million of which \$4.7 million was included in "Assets held for sale"). The fair value of investment properties was \$2.8 million (January 30, 2016: \$30.3 million). The fair value of the investment properties are classified within Level 3 of the fair value hierarchy (described further in Note 13.6). The Company engaged independent qualified third party appraisers to conduct appraisals and the fair value was determined using direct sales comparisons.

10. Intangible assets

The following is a continuity of intangible assets:

<i>(in CAD millions)</i>	Application Software	Information System Software and Other	Total
Cost or deemed cost			
Balance at January 31, 2015	\$ 66.0	\$ 136.2	\$ 202.2
Additions	27.1	3.0	30.1
Disposals	—	(0.1)	(0.1)
Balance at January 30, 2016	\$ 93.1	\$ 139.1	\$ 232.2
Additions	3.2	0.1	3.3
Disposals	—	(0.1)	(0.1)
Balance at January 28, 2017	\$ 96.3	\$ 139.1	\$ 235.4
Accumulated amortization			
Balance at January 31, 2015	\$ 57.2	\$ 128.8	\$ 186.0
Amortization expense ¹	3.4	0.1	3.5
Disposals	—	(0.1)	(0.1)
Impairment losses ¹	20.3	—	20.3
Balance at January 30, 2016	\$ 80.9	\$ 128.8	\$ 209.7
Amortization expense ¹	3.7	0.1	3.8
Disposals	—	—	—
Impairment losses ¹	11.1	8.8	19.9
Balance at January 28, 2017	\$ 95.7	\$ 137.7	\$ 233.4
Net balance at January 28, 2017	\$ 0.6	\$ 1.4	\$ 2.0
Net balance at January 30, 2016	\$ 12.2	\$ 10.3	\$ 22.5

¹ Amortization expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

Impairment loss

During Fiscal 2016, the Company recognized an impairment loss of \$19.9 million (2015: \$20.3 million) on intangible assets of a number of Sears full-line department stores, Sears Home stores, Hometown stores, Sears Travel locations, the Direct channel and Sears Home Services. The impairment loss was due to indicators (in particular a decrease in revenue or decrease in cash flows) that the recoverable amount was less than the carrying value. The loss was included in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss.

11. Other long-term assets

The components of other long-term assets were as follows:

<i>(in CAD millions)</i>		As at January 28, 2017		As at January 30, 2016
Income taxes recoverable	\$	—	\$	3.8
Prepaid rent		4.8		5.2
Receivables		0.1		1.8
Investments		—		1.3
Unamortized debt transaction costs		2.4		3.2
Other long-term assets	\$	7.3	\$	15.3

12. Deferred revenue

The components of deferred revenue were as follows:

<i>(in CAD millions)</i>		As at January 28, 2017		As at January 30, 2016
Arising from extended warranty service contracts ⁽ⁱ⁾	\$	122.7	\$	131.2
Arising from unshipped sales ⁽ⁱⁱ⁾		40.4		50.8
Arising from customer loyalty program ⁽ⁱⁱⁱ⁾		29.5		34.1
Arising from gift card issuances ^(iv)		8.1		10.7
Other ^(v)		4.8		5.7
Total deferred revenue	\$	205.5	\$	232.5
Current	\$	136.1	\$	158.3
Non-current		69.4		74.2
Total deferred revenue	\$	205.5	\$	232.5

The following explanations describe the Company’s deferred revenue:

- (i) Deferred revenue arising from the sale of extended warranty service contracts, which provide coverage for product repair services over the term of the contracts.
- (ii) Deferred revenue arising from the sale of merchandise which has not yet been delivered to or picked up by the customer. The revenue is recognized once the merchandise is delivered to the customer.
- (iii) Deferred revenue arising from the Sears Club loyalty program.
- (iv) Deferred revenue arising from the purchase of gift cards by customers that have not yet been redeemed for merchandise. The revenue is recognized primarily upon redemption of the gift card.
- (v) Other includes deferred revenue for services that have not yet been fully rendered. The revenue is recognized when the goods have been delivered or by reference to the stage of completion of the service.

13. Financial instruments

In the ordinary course of business, the Company enters into financial agreements with banks and other financial institutions to reduce underlying risks associated with interest rates, foreign currency, and commodity prices. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Financial instrument risk management

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange, interest rate, fuel price and natural gas price risk.

13.1 Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash, accounts receivable and other long-term assets.

Cash, accounts receivable, derivative instruments and investments included in other long-term assets totaling \$303.0 million as at January 28, 2017 (January 30, 2016: \$381.2 million) expose the Company to credit risk should the borrower default on maturity of the instruments. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from third parties as a result of ongoing credit evaluations and review of accounts receivable collectability. An allowance account included in "Accounts receivable, net" in the Consolidated Statements of Financial Position totaled \$6.1 million as at January 28, 2017 (January 30, 2016: \$6.0 million). As at January 28, 2017, no individual party represented 10.0% or more of the Company's net accounts receivable (January 30, 2016: no individual party represented 10% or more of the Company's net accounts receivable).

13.2 Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains access to adequate funding sources to seek to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at January 28, 2017:

(in CAD millions)	Carrying Amount	Contractual Cash Flow Maturities				
		Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	\$ 319.8	\$ 319.8	\$ 319.8	\$ —	\$ —	\$ —
Finance lease obligations including payments due within one year ¹	20.3	24.6	5.0	9.9	6.9	2.8
Operating lease obligations ²	—	380.2	82.9	135.5	85.8	76.0
Royalties ²	—	11.6	3.1	5.9	2.6	—
Purchase agreements ^{2,3}	—	22.4	15.2	6.7	0.5	—
Retirement benefit plans obligations ⁴	308.6	207.4	47.9	88.4	71.1	—
	\$ 648.7	\$ 966.0	\$ 473.9	\$ 246.4	\$ 166.9	\$ 78.8

¹ Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.7%.

² Operating lease obligations, royalties and certain purchase agreements are not reported in the Consolidated Statements of Financial Position.

³ Certain vendors require minimum purchase commitment levels over the term of the contract. A portion of these obligations are included in "Other long-term liabilities" in the Consolidated Statements of Financial Position.

⁴ Payments are based on a funding valuation as at December 31, 2015 which was completed on September 27, 2016. Any obligation beyond 2021 would be based on a funding valuation to be completed as at December 31, 2018 or earlier at the Company's discretion.

Market risk

Market risk exists as a result of the potential for losses caused by changes in market factors such as foreign currency exchange rates, interest rates and commodity prices.

13.3 Foreign exchange risk

The Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at January 28, 2017, there were forward contracts outstanding with a notional value of U.S. \$82.0 million (January 30, 2016: U.S. \$168.0 million) and a fair value of \$0.6 million included in “Derivative financial liabilities” (January 30, 2016: \$6.6 million included in “Derivative financial assets”) in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to June 2017. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under IAS 39. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods purchased for resale (“hedged item”). As at January 28, 2017, the designated portion of these hedges was considered effective.

While the notional principal of these outstanding financial instruments is not recorded in the Consolidated Statements of Financial Position, the fair value of the contracts is included in “Derivative financial assets” or “Derivative financial liabilities”, depending on the fair value, and classified as current or long-term, depending on the maturities of the outstanding contracts. Changes in the fair value of the designated portion of contracts are included in OCI for cash flow hedges, to the extent the designated portion of the hedges continues to be effective, with any ineffective portion included in “Cost of goods and services sold” in the Consolidated Statements of Net Loss and Comprehensive Loss. Amounts previously included in OCI are reclassified to “Cost of goods and services sold” in the same period in which the hedged item impacts net loss.

During Fiscal 2016, the Company recorded a gain of \$1.1 million (2015: loss of \$3.2 million), in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss, relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash, accounts receivable and accounts payable.

The year end exchange rate was 0.7612 U.S. dollars to one Canadian dollar. A 10% appreciation or depreciation of the U.S. dollar and/or the Canadian dollar exchange rate was determined to have an after-tax impact on net loss of less than \$0.1 million for U.S. dollar denominated balances included in cash and accounts payable.

13.4 Interest rate risk

Interest rate risk reflects the sensitivity of the Company’s financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive.

Net assets included in cash and other long-term assets, and borrowings under the Amended Credit Facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at January 28, 2017 was a net asset of \$235.8 million (January 30, 2016: net asset of \$315.2 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net loss of \$0.4 million for net assets subject to interest rate risk included in cash and other long-term assets at the end of Fiscal 2016.

13.5 Fuel and natural gas price risk

The Company entered into fuel and natural gas derivative contracts to manage the exposure to diesel fuel and natural gas prices and help mitigate volatility in cash flow for the transportation service business and utilities expense, respectively. As at January 28, 2017, the fixed to floating rate swap contracts outstanding had a fair value of \$0.1 million included in “Derivative financial assets” (January 30, 2016: less than \$0.1 million included in “Derivative financial assets”) in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to January 31, 2017 with monthly settlement of maturing contracts.

13.6 Classification and fair value of financial instruments

The estimated fair values of financial instruments presented are based on relevant market prices and information available at those dates. The following table summarizes the classification and fair value of certain financial instruments as at the specified dates. The Company determines the classification of a financial instrument when it is initially recorded, based on the underlying purpose of the instrument. As a significant number of the Company’s assets and liabilities, including inventories and capital assets, do not meet the definition of financial instruments, values in the tables below do not reflect the fair value of the Company as a whole.

The fair value of financial instruments are classified and measured according to the following three levels, based on the fair value hierarchy.

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data

(in CAD millions)

Classification	Balance Sheet Category	Fair Value Hierarchy	As at January 28, 2017	As at January 30, 2016
Fair value through profit or loss				
U.S. \$ derivative contracts	Derivative financial (liabilities) assets	Level 2	\$ (0.6)	\$ 6.6
Fuel and natural gas derivative contracts	Derivative financial assets	Level 2	0.1	—
Long-term investments	Other long-term assets	Level 3	—	1.3

All other assets that are financial instruments not listed in the chart above have been classified as “Loans and receivables”. All other financial instrument liabilities have been classified as “Other liabilities” and are measured at amortized cost in the Consolidated Statements of Financial Position. The carrying value of these financial instruments approximate fair value given that they are primarily short-term in nature. During Fiscal 2016, no transfers of financial instruments occurred between levels of the fair value hierarchy (2015: nil).

14. Accounts payable and accrued liabilities

The components of “Accounts payable and accrued liabilities” as included in the Consolidated Statements of Financial Position were as follows:

(in CAD millions)	As at January 28, 2017	As at January 30, 2016
Total accounts payable	\$ 167.9	\$ 162.5
Accrued liabilities		
Payroll and employee benefits	22.9	29.0
Merchandise accruals	56.0	65.6
Short-term leasehold inducements	8.0	8.3
Advertising accruals	6.9	11.9
Other accrued liabilities	58.1	55.4
Total accrued liabilities	\$ 151.9	\$ 170.2
Total accounts payable and accrued liabilities	\$ 319.8	\$ 332.7

15. Provisions

The following is a continuity which shows the change in provisions during Fiscal 2016 and Fiscal 2015:

(in CAD millions)	As at January 30, 2016	Additional Provisions	Release of Provisions	Reversed Provisions	As at January 28, 2017
Insurance ⁽ⁱ⁾	\$ 12.1	\$ 5.4	\$ (5.2)	\$ —	\$ 12.3
Returns and allowances ⁽ⁱⁱ⁾	11.1	9.3	(8.3)	—	12.1
Warranties ⁽ⁱⁱⁱ⁾	5.2	—	(1.0)	—	4.2
Sales tax ^(iv)	26.7	2.8	(2.4)	(24.6)	2.5
Severance ^(v)	16.4	36.1	(25.7)	(3.5)	23.3
Environmental ^(vi)	6.4	1.6	(1.9)	(0.3)	5.8
Other provisions ^(vii)	2.9	13.5	(5.5)	—	10.9
Total provisions	\$ 80.8	\$ 68.7	\$ (50.0)	\$ (28.4)	\$ 71.1
Current	\$ 75.8	\$ 64.2	\$ (50.0)	\$ (28.4)	\$ 61.6
Non-current ^{(iii), (vi)}	5.0	4.5	—	—	9.5
Total provisions	\$ 80.8	\$ 68.7	\$ (50.0)	\$ (28.4)	\$ 71.1

<i>(in CAD millions)</i>	As at January 31, 2015		Additional Provisions		Release of Provisions		Reversed Provisions		As at January 30, 2016	
Insurance ⁽ⁱ⁾	\$	13.7	\$	3.2	\$	(4.8)	\$	—	\$	12.1
Returns and allowances ⁽ⁱⁱ⁾		12.0		6.5		(7.4)		—		11.1
Warranties ⁽ⁱⁱⁱ⁾		8.2		0.6		(3.6)		—		5.2
Sales tax ^(iv)		6.0		22.1		(1.4)		—		26.7
Severance ^(v)		11.9		28.7		(18.3)		(5.9)		16.4
Environmental ^(vi)		6.1		2.7		(2.1)		(0.3)		6.4
Other provisions ^(vii)		5.5		—		(2.4)		(0.2)		2.9
Total provisions	\$	63.4	\$	63.8	\$	(40.0)	\$	(6.4)	\$	80.8
Current	\$	58.6	\$	63.6	\$	(40.0)	\$	(6.4)	\$	75.8
Non-current ^{(iii) (vi)}		4.8		0.2		—		—		5.0
Total provisions	\$	63.4	\$	63.8	\$	(40.0)	\$	(6.4)	\$	80.8

The following explanations describe the Company's provisions:

- (i) The provision for insurance, or general liability claims, represents the Company's best estimate of the future outflow of economic resources due to automobile, product and other general liability claims. Insurance claims relating to this provision are expected to be paid over the next several years; however, as the Company has no unconditional right to defer the settlement past at least 12 months, this provision is considered to be current. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies validated by an independent third party. These actuarial methodologies utilize historical data to project future incurred losses. Loss estimates are adjusted based on reported claims and actual settlements.
- (ii) The provision for returns and allowances represents the Company's best estimate of the future outflow of economic resources due to merchandise returns and allowances. Returns and allowances relating to this provision are expected to be realized over the next 12 months. Uncertainty exists relating to the amount and timing of returns and allowances, therefore, historical data has been used to arrive at this estimate.
- (iii) The provision for warranty claims represents the Company's best estimate of the future outflow of economic resources that will be required due to the Company's warranty obligations. Uncertainty exists relating to the number of incidents requiring merchandise repair and the related costs. This provision is estimated based on historical warranty trends and costs. The provision for warranty claims is primarily expected to be realized within 72 months, with the balance included in "Provisions" and "Other long-term liabilities" in the Consolidated Statements of Financial Position.
- (iv) The Company maintains provisions for sales tax assessments under active discussion, audit, dispute or appeal with tax authorities. These provisions represent the Company's best estimate of the amount expected to be paid based on qualitative and quantitative assessments. Though uncertainty exists around the timing of settlement of the disputes or appeals with tax authorities, the Company expects that sales tax provisions will be settled within four years. However, as the Company has no unconditional right to defer the settlement of these provisions past at least 12 months, these provisions are classified as current.
- (v) The provision for severance represents the Company's best estimate of the future outflow of payments to terminated employees. Uncertainty exists in certain cases relating to the amount of severance that will be awarded in court proceedings. As the Company has no unconditional right to defer these payments past at least 12 months, this provision is classified as current.
- (vi) The environmental provision primarily represents the costs to remediate environmental contamination associated with decommissioning auto centres to meet regulatory requirements. The provision is based on assessments conducted by third parties as well as historical data. The timing of payments for remediation is uncertain and as the Company has no unconditional right to defer most of these payments past at least 12 months, the balance is included primarily in "Provisions", with the remainder of the balance included in "Other long-term liabilities" in the Consolidated Statements of Financial Position.
- (vii) Other provisions primarily relate to onerous contracts. The provision for onerous contracts represents the Company's best estimate of the future outflow of payments when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected. Uncertainty exists in certain cases relating to the expected economic benefits under an onerous contract, however the Company expects the onerous contract provisions to be settled within five years. The liability that is expected to be settled within 12 months is included in "Provisions", with the remainder of the balance included in "Other long-term liabilities" in the Consolidated Statements of Financial Position.

16. Long-term obligations and finance costs

Long-term obligations

The Company's debt consists of finance lease obligations. In September 2010, the Company entered into an \$800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015.

On May 28, 2014, the Company announced that it had extended the term of the Credit Facility (the "Amended Credit Facility") to May 28, 2019 and reduced the total credit limit to \$300.0 million. The Amended Credit Facility is secured with a first lien on inventory and credit card receivables.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula, up to a maximum availability of \$300.0 million. Availability under the Amended Credit Facility was \$192.3 million as at January 28, 2017 (January 30, 2016: \$120.1 million). In 2013, as a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company provided additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply. As at January 28, 2017, four properties in Canada had been pledged to the lenders under the Amended Credit Facility. The reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the value of real estate assets pledged as additional collateral.

The Amended Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at January 28, 2017.

As at January 28, 2017, the Company had no funded borrowings on the Amended Credit Facility. The Company had unamortized transaction costs associated with the Amended Credit Facility of \$2.4 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (January 30, 2016: no funded borrowings and unamortized transaction costs of \$3.2 million included in "Other long-term assets"). In addition, the Company had \$107.7 million (January 30, 2016: \$63.3 million) of letters of credit outstanding under the Amended Credit Facility. These letters of credit cover various payment obligations. Interest on drawings under the Amended Credit Facility and letter of credit fee are determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Amended Credit Facility are due monthly and are added to principal amounts outstanding.

As at January 28, 2017, the Company had no outstanding merchandise letters of credit (January 30, 2016: U.S. \$4.8 million) used to support the Company's offshore merchandise purchasing program.

Finance costs

Interest expense on long-term obligations, including finance lease obligations, the current portion of long-term obligations, amortization of transaction costs, accretion on the long-term portion of provisions and commitment fees on the unused portion of the Amended Credit Facility for Fiscal 2016 totaled \$7.2 million (2015: \$6.3 million). Interest expense was included in "Finance costs" in the Consolidated Statements of Net Loss and Comprehensive Loss. Also included in "Finance costs" for Fiscal 2016, was an expense of \$1.7 million for interest on income tax assessments and reassessments of the current and prior years (2015: expense of \$3.4 million).

The Company's cash payments for interest on long-term obligations, including finance lease obligations, the current portion of long-term obligations and commitment fees on the unused portion of the Credit Facility for Fiscal 2016 totaled \$5.1 million (2015: \$4.6 million).

17. Other long-term liabilities

The components of other long-term liabilities were as follows:

<i>(in CAD millions)</i>	As at		As at	
	January 28, 2017		January 30, 2016	
Leasehold inducements	\$	35.3	\$	43.3
Straight-line rent liability		33.4		11.7
Miscellaneous		14.2		12.0
Total other long-term liabilities	\$	82.9	\$	67.0

The non-current portions of the warranties and environmental provisions (see Note 15) are reflected in the miscellaneous component of "Other long-term liabilities" in the Consolidated Statements of Financial Position.

18. Leasing arrangements

18.1 Finance lease arrangements – Company as lessee

As at January 28, 2017, the Company had finance lease arrangements related to the building and equipment components of certain leased properties, which include retail, office and warehouse locations. The related land components of these properties have been separately classified as operating leases. The buildings and equipment held under finance leases are used in the normal course of operations and do not contain significant unusual or contingent lease terms or restrictions. Building leases typically run for a period of 1 to 10 years, with some leases providing multiple options to renew after that date. Equipment leases typically run for a period of 1 to 5 years, with some leases providing an option to renew after that date.

Finance lease buildings and equipment are included in the Consolidated Statements of Financial Position under “Property, plant and equipment”. Note 9 provides further details on the net carrying value of these assets, which as at January 28, 2017 was nil (January 30, 2016: \$0.3 million).

As at January 28, 2017, the corresponding finance lease obligations, current and non-current, were \$3.7 million (January 30, 2016: \$4.0 million) and \$16.6 million (January 30, 2016: \$20.2 million), included in the Consolidated Statements of Financial Position under “Current portion of long-term obligations” and “Long-term obligations,” respectively (see Note 16).

The table below presents the future minimum lease payments of the Company’s finance lease obligations:

(in CAD millions)	As at January 28, 2017			As at January 30, 2016		
	Finance lease payments	Future finance costs	Present value of minimum lease payments	Finance lease payments	Future finance costs	Present value of minimum lease payments
Within 1 year	\$ 5.0	\$ 1.3	\$ 3.7	\$ 5.6	\$ 1.6	\$ 4.0
2 years	5.0	1.1	3.9	5.0	1.5	3.5
3 years	4.9	0.8	4.1	5.0	1.1	3.9
4 years	3.8	0.5	3.3	4.9	0.8	4.1
5 years	3.1	0.3	2.8	3.8	0.5	3.3
Thereafter	2.8	0.3	2.5	5.9	0.5	5.4
Total minimum payments	\$ 24.6	\$ 4.3	\$ 20.3	\$ 30.2	\$ 6.0	\$ 24.2

Interest on finance lease obligations is recognized in “Finance costs” in the Consolidated Statements of Net Loss and Comprehensive Loss (see Note 16). Included in total “Finance costs” in Fiscal 2016, was \$1.7 million (2015: \$1.9 million) of interest paid related to finance lease obligations.

18.2 Operating lease arrangements – Company as lessee

As at January 28, 2017, the Company had operating lease arrangements related to leased land, retail and office properties as well as equipment assets. The leases typically run for a period of 1 to 10 years, with some leases providing an option to renew after that date. Some leases include additional or contingent rent payments that are based on sales and step rent payments which are recognized on a straight-line basis over the term of the lease. During Fiscal 2016, contingent rent recognized as an expense in respect of operating leases totaled \$0.8 million (2015: \$0.3 million). Rental expense for all operating leases totaled \$106.2 million in Fiscal 2016 (2015: \$99.9 million). These expenses are included in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss.

The table below presents the contractual maturities of future minimum lease payments for the Company’s operating leases:

(in CAD millions)	As at January 28, 2017	As at January 30, 2016
	Within 1 year	\$ 82.9
2 years	72.1	71.4
3 years	63.4	58.8
4 years	53.1	46.4
5 years	32.7	35.1
Thereafter	76.0	83.4
Total operating lease obligations¹	\$ 380.2	\$ 376.3

¹ Operating lease obligations are not reported in the Consolidated Statements of Financial Position.

The Company has a number of agreements to sub-lease premises to third parties, which are all classified as operating leases. During Fiscal 2016, total sub-lease income from leased premises was \$2.0 million (2015: \$2.4 million). As at January 28, 2017, total future minimum lease payments receivable from third party tenants were \$12.9 million (2015: \$15.0 million).

19. Retirement benefit plans

The Company currently maintains a hybrid registered pension plan with a defined benefit component and a defined contribution component which covers eligible, regular full-time employees as well as some of its part-time employees. The defined benefit component provides pensions based on length of service and final average earnings. In addition to a registered retirement savings plan, the pension plan includes a non-registered supplemental savings arrangement in respect to the defined benefit component. The non-registered portion of the plan is maintained to enable certain employees to continue saving for retirement in addition to the registered limit as prescribed by the Canada Revenue Agency. The Company also maintains a defined benefit non-pension retirement plan which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust (“Other Benefits Plan”). Also provided for under the health and welfare trust are short-term disability payments for active employees. The Company’s accounting policies related to retirement benefit plans are described in Note 2.14.

In July 2008, the Company amended its pension plan and introduced a defined contribution component. The defined benefit component continues to accrue benefits related to future compensation increases although no further service credit is earned, and no contributions are made by employees. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for employees who had not achieved the eligibility criteria for these non-pension retirement benefits as at December 31, 2008.

In December 2009, the Company made the decision to change funding for non-pension retirement benefits from an actuarial basis to a pay-as-you-go basis to allow the surplus in the health and welfare trust to be utilized to make benefit payments. In addition, to further utilize the surplus, short-term disability payments of eligible employees are paid on a pay-as-you-go basis from the health and welfare trust. Beginning in February 2015, the Company began funding the Other Benefits Plan payments as well as short-term disability payments of active employees since the surplus in the health and welfare trust has been depleted.

In December 2013, the Company amended the early retirement provision of its defined benefit plan to eliminate a benefit for employees who voluntarily resign prior to age of retirement, with effect January 1, 2015. In addition, the Company amended the defined benefit plan for improvements that increase portability of employee benefits, with effect March 1, 2014. In December 2013, the Company froze the benefits offered under the Other Benefits Plan to benefits levels as at January 1, 2015.

During Fiscal 2015, the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits plan. The Company paid \$4.0 million to settle acceptances from the Other Benefits plan offer and recorded a pre-tax gain on settlement of retirement benefits of \$5.1 million (\$5.4 million settlement gain less fees of \$0.3 million) during Fiscal 2015 related to these offers. This payment is included in “Retirement benefit plans contributions” in the Consolidated Statements of Cash Flows. To determine the settlement gain, the Other Benefits plan was remeasured as at the date of settlement, which also resulted in a \$2.0 million increase to “Other comprehensive income (loss)” (“OCI”).

Risks associated with retirement benefit plans

There is no assurance that the Company’s retirement benefit plans will be able to earn the assumed rate of return. New regulations and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates. Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses. In any year, actual experience differing from the assumptions may be material.

Plan assets consist primarily of cash, alternative investments and marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions. Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase.

Plan amendments, curtailments and settlements

In Fiscal 2012, the Company amended the non-registered supplemental savings arrangement in respect to the defined benefit plan to allow the use of letters of credit to satisfy the funding requirement of its deficit. As at January 28, 2017, a letter of credit with a notional value of \$6.8 million was on deposit with the Trustee for the non-registered portion of the defined benefit plan (January 30, 2016: notional value of \$2.1 million).

Maturity profile of retirement benefit plan obligations

The weighted average durations of the Registered Retirement Plans, Non-registered Pension Plan and Other Benefits Plan are all approximately 10.2 years (2015: approximately 10.3 years).

The Company’s contractual cash flow maturity relating to retirement benefit plan obligation payments is included under “Liquidity risk” in Note 13.

19.1 Retirement benefit asset and liability

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2015, which was completed on September 27, 2016. An actuarial valuation of the health and welfare trust is performed at least every three years, with the last valuation completed as of January 31, 2014.

(in CAD millions)	2016				2015			
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Defined benefit plan assets								
Fair value, beginning balance	\$ 1,106.5	\$ 48.1	\$ 1.5	\$1,156.1	\$ 1,217.8	\$ 50.8	\$ 1.9	\$1,270.5
Interest income	33.2	1.4	—	34.6	39.1	1.6	—	40.7
Remeasurement gain (loss) on return on plan assets	32.0	0.1	0.6	32.7	(36.5)	(1.5)	(0.1)	(38.1)
Employer contributions	18.6	2.6	17.1	38.3	20.3	0.8	21.1	42.2
Administrative expenses	(0.5)	—	—	(0.5)	(0.5)	—	—	(0.5)
Benefits paid ¹	(139.1)	(4.2)	(17.6)	(160.9)	(133.7)	(3.6)	(21.4)	(158.7)
Fair value of plan assets, ending balance	\$ 1,050.7	\$ 48.0	\$ 1.6	\$1,100.3	\$ 1,106.5	\$ 48.1	\$ 1.5	\$1,156.1
Defined benefit plan obligations								
Accrued obligations, beginning balance	\$ 1,226.6	\$ 52.9	\$ 203.5	\$1,483.0	\$ 1,391.7	\$ 55.1	\$ 231.1	\$1,677.9
Interest cost	35.8	1.5	5.7	43.0	44.5	1.7	6.9	53.1
Benefits paid	(139.1)	(4.2)	(13.0)	(156.3)	(133.6)	(3.6)	(16.5)	(153.7)
Settlement gain	—	—	—	—	—	—	(5.4)	(5.4)
Actuarial losses (gain)	37.7	0.1	1.4	39.2	(76.0)	(0.3)	(12.6)	(88.9)
Accrued plan obligations, ending balance	\$ 1,161.0	\$ 50.3	\$ 197.6	\$1,408.9	\$ 1,226.6	\$ 52.9	\$ 203.5	\$1,483.0
Funded status of plan – (deficit)	(110.3)	(2.3)	(196.0)	(308.6)	(120.1)	(4.8)	(202.0)	(326.9)
Retirement benefit liability at end of fiscal year, net	\$ (110.3)	\$ (2.3)	\$ (196.0)	\$ (308.6)	\$ (120.1)	\$ (4.8)	\$ (202.0)	\$ (326.9)

¹ Benefits paid from the funded assets include retiree benefits and short-term disability of active employees. Other benefits consist of retiree health and dental claims.

19.2 Fair value of plan assets

The fair value of plan assets disaggregated by asset class and fair value hierarchy level was as follows (measured at January 31, 2017 and January 31, 2016):

(in CAD millions)	As at January 28, 2017				As at January 30, 2016			
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
<i>Cash and cash equivalents</i>								
Level 2	\$ 12.4	\$ 23.0	\$ 1.6	\$ 37.0	\$ 166.1	\$ 23.0	\$ —	\$ 189.1
<i>Corporate bonds and notes</i>								
Level 2	305.2	—	—	305.2	369.4	—	—	369.4
Level 3	136.7	—	—	136.7	141.5	—	1.5	143.0
Subtotal	441.9	—	—	441.9	510.9	—	1.5	512.4
<i>Common stock, preferred stock and REITS</i>								
Level 1	294.3	—	—	294.3	193.9	—	—	193.9
<i>Common or collective trusts</i>								
Level 2	160.5	24.4	—	184.9	150.8	24.9	—	175.7
<i>Short-term collective investment funds</i>								
Level 2	136.4	0.6	—	137.0	101.6	0.2	—	101.8
Level 3	1.5	—	—	1.5	—	—	—	—
Subtotal	137.9	0.6	—	138.5	101.6	0.2	—	101.8
<i>Hedge funds</i>								
Level 3	0.6	—	—	0.6	1.1	—	—	1.1
<i>Receivables (liabilities)</i>								
Level 1	4.2	—	—	4.2	5.8	—	—	5.8
Level 2	4.2	—	—	4.2	(21.3)	—	—	(21.3)
Subtotal	8.4	—	—	8.4	(15.5)	—	—	(15.5)
<i>Miscellaneous other liabilities</i>								
Level 1	(5.3)	—	—	(5.3)	(2.4)	—	—	(2.4)
Total fair value of plan assets	\$ 1,050.7	\$ 48.0	\$ 1.6	\$ 1,100.3	\$ 1,106.5	\$ 48.1	\$ 1.5	\$ 1,156.1

The three levels of the fair value hierarchy referenced above are discussed in Note 13.6.

19.3 Plan assets investment allocation

During Fiscal 2016, the Company changed the target asset allocation to 50-70% fixed income and 30-50% equity for the defined benefit registered pension plan. For the assets in the health and welfare trust, included in Other Benefits Plan, the asset allocation is 100% fixed income. As at the end of Fiscal 2016 and 2015, the assets were in line with the target allocation range. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

The plan's target allocation is determined taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

As at the end of the current and prior fiscal years, plan assets were invested in the following classes of securities:

	As at January 28, 2017			As at January 30, 2016		
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Fixed income securities	58.3%	75.5%	100.0%	69.6%	69.5%	100.0%
Alternative investments	0.1%	—%	—%	0.1%	—%	—%
Equity securities	41.6%	24.5%	—%	30.3%	30.5%	—%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

19.4 Pension assumptions

The significant actuarial assumptions were as follows (weighted average assumptions):

	As at January 28, 2017			As at January 30, 2016		
	Registered Retirement Plans	Non- Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non- Registered Pension Plan	Other Benefits Plan
Discount rate used in calculation of Accrued benefit plan obligations	3.70%	3.60%	3.60%	3.80%	3.70%	3.70%
Benefit plans expense	3.00%	2.90%	2.90%	3.00%	3.00%	2.90%
Rate of compensation increase used in calculation of Accrued benefit plan obligations	3.30%	3.30%	3.30%	3.50%	3.50%	3.50%
Benefit plans expense	3.30%	3.30%	3.30%	3.50%	3.50%	3.50%
Expected long-term rate of return on plan assets used in calculation of benefit plans expense	3.00%	2.90%	2.90%	3.00%	3.00%	2.90%
Health care cost trend rates						
Used in calculation of accrued benefit plan obligations			4.47%			4.62%
Used in calculation of benefit plans expense			4.62%			4.77%
Cost trend rate declines to			2.45%			2.45%
Year that the rate reaches assumed constant			2030			2030

19.5 Sensitivity of significant actuarial assumptions

The following table summarizes the sensitivity of significant actuarial assumptions on the Company's defined benefit obligation:

<i>(in CAD millions)</i>	2016			2015		
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate sensitivity						
Accrued benefit plan obligations						
100 basis point increase in discount rate	\$ (122.0)	\$ (4.8)	\$ (18.3)	\$ (130.7)	\$ (5.1)	\$ (21.2)
100 basis point decrease in discount rate	148.6	5.8	21.7	160.3	6.1	25.2
Benefit plans expense						
100 basis point increase in discount rate	(3.6)	(0.1)	0.9	(5.7)	(0.2)	1.0
100 basis point decrease in discount rate	1.8	0.1	(1.1)	3.2	0.1	(1.3)
Rate of compensation increase sensitivity						
Accrued benefit plan obligations						
50 basis point increase in rate of compensation increase	6.6	0.2	n/a	8.1	0.3	n/a
50 basis point decrease in rate of compensation increase	(6.1)	(0.2)	n/a	(7.2)	(0.2)	n/a
Benefit plans expense						
50 basis point increase in rate of compensation increase	0.2	—	n/a	0.4	—	n/a
50 basis point decrease in rate of compensation increase	(0.2)	—	n/a	(0.3)	—	n/a
Health care cost trend rate sensitivity						
Accrued benefit plan obligations						
100 basis point increase in health care trend rate	n/a	n/a	16.0	n/a	n/a	18.6
100 basis point decrease in health care trend rate	n/a	n/a	(13.8)	n/a	n/a	(16.0)
Benefit plans expense						
100 basis point increase in health care trend rate	n/a	n/a	0.5	n/a	n/a	0.6
100 basis point decrease in health care trend rate	n/a	n/a	(0.4)	n/a	n/a	(0.5)

The methods and assumptions used in determining the above sensitivity are consistent with the methods and assumptions used to determine the pension plan obligations and with the methods and assumptions used in Fiscal 2015.

19.6 Retirement benefit plans expense and contributions

The expense for the defined benefit, defined contribution and Other Benefits Plan for Fiscal 2016 and Fiscal 2015, was as follows:

(in CAD millions)	2016				2015			
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Net interest	\$ 2.8	\$ 0.1	\$ 5.7	\$ 8.6	\$ 5.4	\$ 0.1	\$ 6.9	\$ 12.4
Settlement gain	—	—	—	—	—	—	(5.4)	(5.4)
Administrative expenses	0.5	—	—	0.5	0.5	—	0.3	0.8
Net defined benefit plans expense	\$ 3.3	\$ 0.1	\$ 5.7	\$ 9.1	\$ 5.9	\$ 0.1	\$ 1.8	\$ 7.8
Net defined contribution plan expense	4.8	—	0.2	5.0	5.8	—	0.2	6.0
Total retirement benefit plans expense ¹	\$ 8.1	\$ 0.1	\$ 5.9	\$ 14.1	\$ 11.7	\$ 0.1	\$ 2.0	\$ 13.8

¹ Not included in total expense recognized are short-term disability payments of \$4.6 million (2015: \$4.9 million) that were paid from the health and welfare trust. Both short-term disability and the retirement benefit plans expense are included in "Selling, administrative and other expenses", unless disclosed elsewhere, in the Company's Consolidated Statements of Net Loss and Comprehensive Loss.

Total cash contributions made by the Company to its defined benefit, defined contribution and Other Benefits Plans, for the fiscal year ended January 28, 2017 were \$43.5 million (2015: \$48.6 million), which included \$4.6 million (2015: \$4.9 million), related to short-term disability payments and nil during Fiscal 2016 (2015: \$4.0 million) to settle acceptances from the Other Benefits Plan offers mentioned above. During the 52-week period ending February 3, 2018, it is estimated that the Company will make contributions of approximately \$69.0 million to its defined benefit, defined contribution and Other Benefits Plan, which include funding obligations as described in Note 13.2.

19.7 Remeasurements of the net defined retirement benefit liability

(in CAD millions)	2016				2015			
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Actuarial gain (loss) on difference between expected interest income and actual return on plan assets	\$ 32.0	\$ 0.1	\$ 0.6	\$ 32.7	\$ (36.5)	\$ (1.5)	\$ (0.1)	\$ (38.1)
Actuarial (loss) gain due to change in financial assumptions	(18.2)	0.7	(3.4)	(20.9)	68.0	2.4	9.7	80.1
Actuarial (loss) gain due to all other experiences	(19.5)	(0.8)	2.0	(18.3)	8.0	(2.1)	2.9	8.8
Total remeasurement (loss) gain, net of income taxes ¹	\$ (5.7)	\$ —	\$ (0.8)	\$ (6.5)	\$ 39.5	\$ (1.2)	\$ 12.5	\$ 50.8

¹ Total remeasurement (loss) gain, net of income taxes, is included in "Total other comprehensive income (loss)" in the Company's Consolidated Statements of Net Loss and Comprehensive Loss.

The actuarial losses associated with changes in financial assumptions are due to decreases in the discount rate as at January 28, 2017 for the Registered Retirement Plans of 0.1% (2015: 0.5% increase), Non-registered Pension Plan of 0.1% (2015: 0.4% increase), and Other Benefits Plan of 0.1% (2015: 0.5% increase).

20. Contingent liabilities

20.1 Legal proceedings

The Company is involved in various legal proceedings incidental to the normal course of business. The Company takes into account all available information, including guidance from experts (such as internal and external legal counsel) at the time of reporting to determine if it is probable that a present obligation (legal or constructive) exists, if it is probable that an outflow of resources embodying economic benefit will be required to settle such obligation and whether the Company can reliably measure such obligation at the end of the reporting period. The Company is of the view that, although the outcome of such legal proceedings cannot be predicted with certainty, the final disposition is not expected to have a material adverse effect on the consolidated financial statements, including its Consolidated Statements of Financial Position, Consolidated Statements of Net Loss and Comprehensive Loss, and Consolidated Statements of Cash Flows.

20.2 Commitments and guarantees

Commitments

As at January 28, 2017, cash that was restricted represented cash pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program of nil (January 30, 2016: \$7.0 million, which is equal to U.S. \$5.0 million), and cash pledged as collateral with a counterparty related to outstanding derivative contracts of \$1.1 million (January 30, 2016: nil), which was equal to U.S. \$0.8 million (January 30, 2016: nil).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 13.2 "Liquidity risk".

Guarantees

The Company has provided the following significant guarantees to third parties:

Royalty License Agreements

The Company pays royalties under various merchandise license agreements, which are generally based on the sale of products. Certain license agreements require a minimum guaranteed payment of royalties over the term of the contract, regardless of sales. Total future minimum royalty payments under such agreements were \$11.6 million as at January 28, 2017 (January 30, 2016: \$15.9 million).

Other Indemnification Agreements

In the ordinary course of business, the Company has provided indemnification commitments to counterparties in transactions such as leasing transactions, royalty agreements, service arrangements, investment banking agreements and director and officer indemnification agreements. The foregoing indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of changes in laws and regulations, or as a result of litigation or statutory claims, or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and typically do not provide for any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the consolidated financial statements with respect to these indemnification commitments.

21. Income taxes

The average combined federal and provincial statutory income tax rate applied to the Company was 26.9% for Fiscal 2016 (2015: 26.8%). A reconciliation of income taxes at the average statutory tax to actual income tax expense for Fiscal 2016 and Fiscal 2015 is as follows:

<i>(in CAD millions)</i>	2016		2015	
Loss before income taxes	\$	(318.2)	\$	(62.7)
Income tax recovery at the average statutory tax rate	\$	(85.6)	\$	(16.8)
(Decrease) increase in income taxes resulting from				
Non-taxable portion of capital gain		(16.1)		(33.3)
Non-deductible items		1.5		1.0
Prior year adjustments		11.3		—
Non-recognition of deferred taxes assets, net		94.6		56.7
Others		(2.6)		(2.6)
		3.1		5.0
Effective tax rate before the following adjustments		(1.0)%		(8.0)%
Changes in tax rates or imposition of new taxes		(0.3)		0.2
Total income tax expense	\$	2.8	\$	5.2
Effective tax rate		(0.9)%		(8.3)%

The Company's total net cash refunds of income taxes for the current year was \$25.0 million (2015: net refund of \$87.6 million), primarily relating to the settlement for fiscal years 2006 to 2008 and the carry back of losses generated by the Company in Fiscal 2014, and included refund interest on net cash income tax receipts of \$3.1 million (2015: \$1.1 million) (see Note 5 for additional information).

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. During Fiscal 2016, the Company recorded an expense of \$1.7 million for interest on income tax assessments and reassessments of the current and prior years (2015: expense of \$3.4 million).

The Company routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits, and believes that the final disposition of tax audits will not have a material adverse effect on its liquidity.

The tax effects of the significant components of temporary timing differences giving rise to the Company's net deferred tax assets were as follows:

<i>(in CAD millions)</i>	As at January 30, 2016	Recognized in earnings	Recognized in equity	As at January 28, 2017
Deferred revenue	\$ 0.6	\$ 0.3	\$ —	\$ 0.9
Other long term liabilities	19.1	(3.0)	—	16.1
Derivative financial assets	(2.7)	—	2.8	0.1
Property, plant and equipment	(4.2)	—	—	(4.2)
Investment property	(21.5)	11.9	—	(9.6)
Intangible assets	1.1	0.5	—	1.6
Retirement benefit obligations	87.6	(6.2)	1.7	83.1
Provisions	60.8	(8.4)	—	52.4
Non-capital losses	51.5	88.8	—	140.3
Other	8.2	8.2	—	16.4
Write down of deferred tax assets	(122.0)	—	—	(122.0)
Non-recognition of deferred tax assets	(77.9)	(94.6)	(1.9)	(174.4)
Total deferred tax assets, net	\$ 0.6	\$ (2.5)	\$ 2.6	\$ 0.7

<i>(in CAD millions)</i>	As at January 31, 2015	Recognized in earnings	Recognized in equity	As at January 30, 2016
Deferred revenue	\$ 0.5	\$ 0.1	\$ —	\$ 0.6
Other long term liabilities	21.8	(2.7)	—	19.1
Derivative financial assets	(2.5)	(0.4)	0.2	(2.7)
Property, plant and equipment	(7.9)	3.7	—	(4.2)
Investment property	(28.0)	6.5	—	(21.5)
Intangible assets	1.1	—	—	1.1
Retirement benefit obligations	108.2	(7.0)	(13.6)	87.6
Provisions	49.6	11.2	—	60.8
Non-capital losses	10.4	41.1	—	51.5
Other	1.1	7.1	—	8.2
Write down of deferred tax assets, net	(122.0)	—	—	(122.0)
Non-recognition of deferred tax assets	(35.0)	(56.7)	13.8	(77.9)
Total deferred tax (liabilities) assets, net	\$ (2.7)	\$ 2.9	\$ 0.4	\$ 0.6

The Company assesses the likelihood that the deferred tax assets will be realizable at the end of each reporting period and adjusts the carrying amount accordingly, by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws. The Company has determined that it was not appropriate to recognize all of its deferred tax assets as it was not probable that sufficient taxable income would be available to allow part of the assets to be recovered. This accounting treatment has no effect on the Company's ability to utilize deferred tax assets to reduce future cash tax payments. As of January 28, 2017, the Company has not recognized the benefit of approximately \$520.8 million of loss carry forwards on its Financial Statements (which expire in the taxation years from 2035 to 2037) and approximately \$4.9 million in Ontario minimum tax, which could be used to reduce taxes payable in future periods. The aggregate amount of net deductible temporary differences and loss carry forwards as at January 28, 2017, was approximately \$1,083.6 million, and the tax benefit associated with these items was approximately \$291.5 million using the statutory tax rate of 26.9%, which together with the Ontario minimum tax recoverable of approximately \$4.9 million amounted to a total tax benefit of \$296.4 million.

During Fiscal 2014, the Company recognized a write down of the deferred tax assets for \$122.0 million. \$88.6 million of this charge was included in “Deferred income tax recovery (expense)”, and as a portion of the deferred tax assets originated through equity, \$33.4 million of this charge was included in OCI in the Consolidated Statements of Net Loss and Comprehensive Loss in accordance with IAS 12, *Income Taxes*. The aggregate amount of deductible temporary differences for which no deferred tax asset is recognized as at January 28, 2017, is approximately \$1,083.6 million (January 30, 2016: \$727.6 million).

22. Capital stock and share-based compensation

Capital Stock

ESL Investments, Inc., and investment affiliates including Edward S. Lampert, collectively “ESL”, form the largest shareholder of the Company, both directly through ownership in the Company, and indirectly through shareholdings in Sears Holdings.

As at January 28, 2017, ESL was the beneficial holder of 46,162,515 or 45.3%, of the common shares of the Company (January 30, 2016: 46,162,515 or 45.3%). Sears Holdings was the beneficial holder of 11,962,391 or 11.7%, of the common shares of the Company as at January 28, 2017 (January 30, 2016: 11,962,391 or 11.7%). The issued and outstanding shares are fully paid and have no par value.

The authorized common share capital of the Company consists of an unlimited number of common shares without nominal or par value and an unlimited number of class 1 preferred shares, issuable in one or more series. As at January 28, 2017, the total number of common shares issued and outstanding of the Company was 101,877,662 (January 30, 2016: 101,877,662) with stated value of \$14.9 million (January 30, 2016: \$14.9 million).

Share-based compensation

During Fiscal 2016, the Company granted 500,000 RSUs to an executive under an equity-based compensation plan. These RSUs had a grant-date fair value of \$4.2 million. The fair value of the grant was determined based on the Company’s share price at the date of grant. The RSUs are entitled to accrue common share dividends equivalent to those declared by the Company, which would be settled by a grant of additional RSUs to the executive.

During Fiscal 2014, the Company granted 225,000 RSUs to an executive under an equity-based compensation plan, which were forfeited in Fiscal 2015. These RSUs had a grant-date fair value of \$1.9 million. The fair value of the grant was determined based on the Company’s share price at the date of grant, and was entitled to accrue common share dividends equivalent to those declared by the Company, which would be settled by a grant of additional RSUs to the executive.

Compensation expense related to RSUs included in “Selling, administrative and other expenses” for Fiscal 2016 was \$3.1 million (2015: recovery of \$0.4 million).

23. Capital disclosures

The Company’s objectives when managing capital are:

- Maintain financial flexibility thus allowing the Company to preserve its ability to meet financial objectives and continue as a going concern;
- Provide an appropriate return to shareholders; and
- Maintain a capital structure that allows the Company to obtain financing should the need arise.

The Company manages and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets. In order to maintain or adjust the capital structure, the Company may pay a dividend or return capital to shareholders, modify debt levels or sell assets.

The Company defines capital as follows:

- Long-term obligations, including the current portion of long-term obligations (“Total long-term obligations”); and
- Shareholders’ equity.

The following table presents summary quantitative data with respect to the Company’s capital resources:

<i>(in CAD millions)</i>	As at January 28, 2017	As at January 30, 2016
Total long-term obligations	\$ 20.3	\$ 24.2
Shareholders’ equity	222.2	554.2
Total	\$ 242.5	\$ 578.4

24. Revenue

The components of the Company's revenue were as follows:

<i>(in CAD millions)</i>		2016		2015
Apparel and Accessories	\$	994.4	\$	1,108.6
Home and Hardlines		1,143.4		1,476.4
Other merchandise revenue		205.8		207.0
Services and other		237.6		245.6
Commission and licensee revenue		32.4		108.1
Total revenue	\$	2,613.6	\$	3,145.7

25. Employee benefits expense

The components of the Company's employee benefits expense were as follows:

<i>(in CAD millions)</i>		2016		2015
Wages and salaries	\$	376.5	\$	432.6
Paid absences ¹		35.0		40.0
Benefits				
Provincial healthcare costs		9.4		10.3
Flex benefits		10.1		12.4
Retirement benefit plans expense ²		14.0		13.5
Statutory deductions ³		27.0		30.9
Severance		36.1		25.3
Other employer paid benefits		10.4		5.6
Total benefits expense	\$	518.5	\$	570.6

¹ Paid absences are expenses related to vacation, statutory holidays and sick days.

² Included in Retirement benefit plans expense for Fiscal 2016 was nil related to the settlement of retirement benefits under the non-pension retirement benefit plan (2015: \$5.4 million gain related to the settlement of retirement benefits under the non-pension retirement benefit plan excluding fees of \$0.3 million).

³ Statutory deductions consist of the employer portion of payment for the Canada Pension Plan and Employment Insurance.

These expenses are included in "Cost of goods and services sold", "Selling, administrative and other expenses" and "Gain on settlement of retirement benefits" in the Consolidated Statements of Net Loss and Comprehensive Loss.

26. Gain on lease termination and sale and leaseback transactions

During Fiscal 2016, the Company completed a real estate transaction, as previously announced on December 9, 2016, for net proceeds of \$62.1 million (total consideration of \$62.9 million less adjustments). The transaction mainly consisted of a sale and leaseback of a retail store located in Kitchener, Ontario, and a lease termination of the office floors of the Toronto Eaton Centre located in Toronto, Ontario. The total gain on the transaction was \$51.7 million which was recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2016, the Company completed the sale and leaseback of its logistics centre located in Port Coquitlam, British Columbia, for net proceeds of \$22.4 million. The total gain on the sale and leaseback transaction was \$9.7 million which was recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2016, the Company completed the sale of its Broad Street logistics centre located in Regina, Saskatchewan, for net proceeds of \$8.5 million. The total loss on the sale was \$1.5 million which was recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2016, the Company completed the sale of its Park Street logistics centre located in Regina, Saskatchewan, for net proceeds of \$18.1 million. The total gain on the sale was \$5.4 million which was recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2016, the Company completed the sale and leaseback of its logistics centre located in Calgary, Alberta, for net proceeds of \$83.9 million. The total gain on this sale and leaseback transaction was \$40.1 million, \$15.2 million of which was recognized immediately in the Consolidated Statements of Net Loss and Comprehensive Loss. The remaining \$24.9 million of the gain was deferred and is being amortized over the term of the lease as a reduction in rent expense, included in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss. In determining the appropriate amount of gain to defer in accordance with IAS 17, the Company conducted an appraisal of the property to determine its fair value, with the assistance of independent qualified third party appraisers. The valuation method used to determine the fair value of the property was the direct sales comparison approach for land. The deferred gain was included in “Other long-term liabilities” and “Accounts payable and accrued liabilities” in the Consolidated Statements of Financial Position.

During Fiscal 2016, the Company completed the sale and leaseback of its logistics centre located in Vaughan, Ontario, for net proceeds of \$100.0 million. The total gain on this sale and leaseback transaction was \$25.4 million which was recognized immediately in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2015, the Company completed the sale and leaseback of three properties to the Concord Pacific Group of Companies (“Concord”), for net proceeds of \$130.0 million (\$140.0 million of total consideration less \$10.0 million of adjustments). The properties in the transactions included the Company’s stores and surrounding area located at the North Hill Shopping Centre in Calgary, Alberta, Metropolis at Metrotown in Burnaby, British Columbia and Cottonwood Mall in Chilliwack, British Columbia. The total gain on the sale and leaseback transactions was \$76.9 million, \$67.2 million of which was recognized immediately in the Consolidated Statements of Net Loss and Comprehensive Loss. The remaining \$9.7 million of the gain was deferred and is being amortized between four to seven years as a reduction in rent expense, included in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss. In determining the appropriate amount of gain to defer in accordance with IAS 17, the Company conducted appraisals of each property to determine their fair values, with the assistance of independent qualified third party appraisers. The valuation method used to determine the fair values of each property was the direct sales comparison approach for land. The deferred gain was included in “Other long-term liabilities” and “Accounts payable and accrued liabilities” in the Consolidated Statements of Financial Positions. Upon completion of the sale and leaseback transactions, the Company was released from all previous agreements with Concord, and the demand mortgage for \$25.0 million previously secured by the property in Burnaby, British Columbia, was discharged.

27. Gain on termination of credit card arrangement

On November 23, 2015, the Company received a payment of \$174.0 million from JPMorgan Chase as a result of the sale of their portfolio of credit card accounts and related receivables related to the Sears credit card and Sears Mastercard. The Company recognized a net gain of \$170.7 million in the Consolidated Statements of Net Loss and Comprehensive Loss. The Company’s credit card marketing and servicing alliance agreement with JPMorgan Chase ended on November 15, 2015.

28. Assets classified as held for sale

Land and buildings are transferred to assets classified as held for sale, from property, plant and equipment and investment property, when they meet the criteria to be assets classified as held for sale in accordance to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (“IFRS 5”). The proposed sale transactions have been approved by senior management of the Company and are expected to close within the next 12 months.

As at January 28, 2017, the assets of one retail store and one logistics centre were separately classified as held for sale in the Consolidated Statements of Financial Position. As at January 30, 2016, the assets of certain logistics centres were separately classified as held for sale in the Consolidated Statements of Financial Position.

The following is a continuity of assets classified as held for sale:

<i>(in CAD millions)</i>		Retail Store		Logistics Centre		Total
Balance at January 31, 2015	\$	—	\$	13.3	\$	13.3
Additions		—		12.6		12.6
Disposals		—		—		—
Impairment losses		—		(3.8)		(3.8)
Balance at January 30, 2016	\$	—	\$	22.1	\$	22.1
Additions ¹		17.6		69.7		87.3
Disposals ²		(10.2)		(33.9)		(44.1)
Impairment losses		(0.4)		(7.9)		(8.3)
Balance at January 28, 2017	\$	7.0	\$	50.0	\$	57.0

¹ Included in additions were the assets of one retail store and one logistics centre which were classified as held for sale and subsequently disposed of in Fiscal 2016. See Note 26 "Gain on lease termination and sales leaseback transactions" for additional information regarding disposals.

² See Note 26 "Gain on lease termination and sales leaseback transactions" for additional information regarding disposals.

Impairment loss

The carrying values of the property, plant and equipment and investment property on one retail store and certain logistics centres were higher than the estimated fair values less costs to sell, and as a result, the Company recognized an impairment loss of \$8.3 million in Fiscal 2016 (2015: \$3.8 million on one logistics centre). The impairment losses were included in the "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

The Company will continue to assess the fair value less costs to sell of the assets classified as held for sale at the end of each reporting period and adjust the carrying amounts accordingly. To determine the fair value less costs to sell of the assets classified as held for sale, the Company will consider factors such as expected future cash flows using appropriate market rental rates, the estimated costs to sell and an appropriate discount rate to calculate the fair value. The carrying amounts of the assets classified as held for sale are not necessarily indicative of their fair values, as they have been recorded at the lower of their carrying amounts and fair values less costs to sell in accordance with IFRS 5.

The operations of the retail stores and logistics centres classified as held for sale, were not presented as discontinued operations in the Consolidated Statements of Net Loss and Comprehensive Loss, as they did not represent a separate geographical area of operations or a separate major line of business.

29. Related party transactions

The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Delaware). Details of transactions between the Company and a related party are disclosed below.

During Fiscal 2016 and Fiscal 2015, the Company entered into the following transactions with a related party:

<i>(in CAD millions)</i>	2016				2015			
	Purchase of goods	Services received	Other	Total	Purchase of goods	Services received	Other	Total
Sears Holdings Corporation	\$ —	\$ 2.8	\$ 0.2	\$ 3.0	\$ —	\$ 3.8	\$ 0.2	\$ 4.0

The following balances were outstanding as at January 28, 2017 and January 30, 2016:

<i>(in CAD millions)</i>	Amounts receivable from a related party	
	As at January 28, 2017	As at January 30, 2016
Sears Holdings Corporation	\$ —	\$ 0.2

<i>(in CAD millions)</i>	Amounts payable to a related party	
	As at January 28, 2017	As at January 30, 2016
Sears Holdings Corporation	\$ 0.2	\$ 0.5

Intangible Properties

The Company has a license from Sears, Roebuck and Co. (a wholly-owned subsidiary of Sears Holdings) to use the name “Sears” as part of its corporate name and other brand names including Kenmore® and DieHard®, collectively referred to as the “License Agreement”. The Company has established procedures to register and otherwise vigorously protect its intellectual property, including the protection of the Sears Holdings’ trademarks used by the Company in Canada.

The License Agreement states that, if Sears Holdings’ ownership interest in the Company is reduced to less than 10.0%, the License Agreement would remain in effect for a period of five years after such reduction in ownership, (subject to an extension of up to four years at a royalty rate to be agreed equal to the lesser of a fair market rate based on the value of such mark or the lowest rate which will provide a reasonable incentive to induce the Company to phase out the use of such mark during such extended period, if the Company reasonably determines that a longer transition is necessary) after which the Company would no longer be permitted to use the “Sears” name and certain other brand names. In addition, the License Agreement also provides that the Company’s license to use the “Sears” name and certain other brand names will terminate on the occurrence of certain bankruptcy events involving the Company. In addition, in the event of a bankruptcy proceeding involving Sears Holdings, there is a risk of the License Agreement being terminated under applicable U.S. insolvency legislation. Losing such rights could significantly diminish the Company’s competitiveness in the marketplace and could materially harm the business. If the license agreement is terminated, the Company may attempt to renegotiate such agreement although the terms of any such renegotiated agreement may be less favourable to the Company.

Import Services and Consulting Services

Pursuant to an agreement between Sears Holdings and the Company dated January 1, 1995, Sears Canada utilizes the international merchandise purchasing services of Sears Holdings. Sears Holdings may provide assistance to the Company with respect to monitoring and facilitating the production, inspection and delivery of imported merchandise and the payment to vendors. Sears Canada pays Sears Holdings a fee based on a stipulated percentage of the value of the imported merchandise.

The related party transactions with Sears Holdings are in the ordinary course of business for shared merchandise purchasing services. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. These balances are included in “Accounts payable and accrued liabilities” and “Accounts receivable, net” in the Consolidated Statements of Financial Position.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior fiscal periods for bad or doubtful debts in respect of the amounts owed by Sears Holdings.

The Company’s Audit Committee is responsible for pre-approving all related party transactions that have a value greater than \$1.0 million.

30. Key management personnel compensation

Key management personnel are those individuals having the authority and responsibility for planning, directing and controlling the activities of the Company. The total compensation expense for the Company’s key management personnel was as follows:

<i>(in CAD millions)</i>		2016		2015
Salaries and perquisites	\$	13.0	\$	11.4
Annual incentive plans and other bonuses		3.2		3.7
Pensions		0.1		0.1
Termination benefits		1.6		4.9
Total key management personnel compensation	\$	17.9	\$	20.1

31. Net loss per share

A reconciliation of the number of shares used in the net loss per share calculation is as follows:

<i>(Number of shares)</i>		2016		2015
Weighted average number of shares per basic net loss per share calculation		101,877,662		101,877,662
Effect of dilutive instruments outstanding		—		—
Weighted average number of shares per diluted net loss per share calculation		101,877,662		101,877,662

“Net loss” as disclosed in the Consolidated Statements of Net Loss and Comprehensive Loss was used as the numerator in calculating the basic and diluted net loss per share. For 2016 and 2015, there were no outstanding dilutive instruments.

32. Changes in non-cash working capital balances

Cash used for non-cash working capital balances were comprised of the following:

<i>(in CAD millions)</i>		2016		2015
Accounts receivable, net	\$	(7.7)	\$	12.5
Inventories		66.3		(23.4)
Prepaid expenses		(3.5)		(2.3)
Derivative financial assets		(3.1)		1.3
Accounts payable and accrued liabilities		(18.6)		(35.3)
Deferred revenue		(22.2)		(12.9)
Provisions		(14.2)		17.2
Income and other taxes payable and recoverable		1.3		(18.1)
Effect of foreign exchange rates		1.8		(3.3)
Cash used for non-cash working capital balances	\$	0.1	\$	(64.3)

33. Changes in non-cash long-term assets and liabilities

Cash used for non-cash long-term assets and liabilities were comprised of the following:

<i>(in CAD millions)</i>		2016		2015
Other long-term assets	\$	7.2	\$	4.3
Other long-term liabilities		(13.5)		(16.3)
Other		0.6		0.3
Cash used for non-cash long-term assets and liabilities	\$	(5.7)	\$	(11.7)

34. Events after the reporting period

On March 1, 2017, the Company announced it had completed the sale and leaseback transaction of its logistics centre located in Ville St. Laurent, Quebec, for a total consideration of \$50.0 million less customary closing adjustments. This property, including land, building and equipment, had a net carrying value of approximately \$50.0 million included in “Assets classified as held for sale” in the Consolidated Statements of Financial Position as at January 28, 2017. The accounting impact will be determined during the 13-week period ending April 29, 2017.

Concurrently with the sale by Sears Holdings of its Craftsman business, including the Craftsman® brand, to Stanley, Black & Decker, Inc., the Company’s license agreement with Sears Holdings was amended to remove the Craftsman® brand and the Company entered into a trademark license agreement dated March 8, 2017 directly with Stanley, Black & Decker, Inc. for a non-exclusive license (the first 15 years of which are royalty free) to use the Craftsman® brand in Canada.

On March 20, 2017, the Company entered into a Credit Agreement with a syndicate of lenders for a five-year secured term loan of up to \$300.0 million. The loan is available in two tranches, of which \$125.0 million has been drawn, and up to \$175.0 million is available on a delayed-draw basis at the Company’s option, subject to mutually agreed assets being contributed to the borrowing base. The loan is available for general corporate purposes.

On March 27, 2017, the Company closed the sale and leaseback transaction of its retail store located in Regina, Saskatchewan, for a total consideration of \$7.0 million less customary closing adjustments. This property, including land, building and equipment, had a net carrying value of approximately \$7.0 million included in “Assets classified as held for sale” in the Consolidated Statements of Financial Position as at January 28, 2017. The accounting impact will be determined during the 13-week period ending April 29, 2017.

35. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on April 25, 2017.

DIRECTORS AND OFFICERS

Board of Directors

Shahir Guindi

Managing Partner, Montreal Office
Osler, Hoskin & Harcourt LLP

R. Raja Khanna^{1,2,4}

Chief Executive Officer
Blue Ant Media Inc.

Deborah E. Rosati^{1,4}

Corporate Director and Advisor

Anand A. Samuel^{2,3}

Analyst
ESL Investments Inc.

Graham Savage^{1,2,4}

Corporate Director

S. Jeffrey Stollenwerck³

President, Sears Real Estate Business
Sears Holdings Corporation

Brandon G. Stranzl³

Executive Chairman of the Corporation

Heywood Wilansky²

President and Chief Executive Officer
Strategic Management Resources LLC

Officers

Brandon G. Stranzl

Executive Chairman

Philip Mohtadi

General Counsel and Corporate Secretary

Billy Wong

Executive Vice-President and Chief Financial Officer

Becky Penrice

Executive Vice-President and Chief Operating
Officer

Committees

- 1 Audit Committee
- 2 Human Resources and Compensation Committee
- 3 Investment Committee
- 4 Nominating and Corporate Governance Committee

CORPORATE INFORMATION

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Website: sears.ca
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For more information about the Company, or for additional copies of the Annual Report, write to the Corporate Communications Department at the Head Office of Sears Canada Inc., or call 416-941-4422.

The Company's regulatory filings can be found on the SEDAR website at sedar.com and on the U.S. Securities Exchange Commission (SEC) website at sec.gov.

Stock Exchange Listing

Toronto Stock Exchange
Trading symbol: SCC
NASDAQ
Trading symbol: SRSC

Transfer Agents and Registrars

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American Stock Transfer & Trust Company, LLC
6201 15th Avenue
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Annual Meeting

The Annual Meeting of the Shareholders of Sears Canada Inc. will be held on Wednesday, June 14, 2017 at 8:00 a.m. in the Auditorium, Fourth floor, 290 Yonge Street, Toronto, Ontario Canada.

Édition française du rapport annuel

On peut se procurer l'édition française de ce rapport en écrivant au :

Service national des communications
Sears Canada Inc.
290 Yonge Street
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Pour de plus amples renseignements au sujet de la Société, veuillez écrire au service national des communications, ou composer le 416-941-4422.

Les dépôts réglementaires de la Société se trouvent sur le site Web de SEDAR à l'adresse sedar.com et sur le site Web de la Securities Exchange Commission (« SEC ») des États-Unis à l'adresse sec.gov.

IN THE MATTER OF the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended

Court File No:

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF SEARS CANADA INC., CORBEIL ÉLECTRIQUE INC., S.L.H. TRANSPORT INC., THE CUT INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP., SEARS FLOOR COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC., AND 3339611 CANADA INC.

Applicants

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

APPLICATION RECORD OF THE APPLICANTS
Volume 1

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