

Court File No. CV-17-11846-00CL

**SEARS CANADA INC.,
AND RELATED APPLICANTS**

**SUPPLEMENT TO THE FIRST REPORT OF FTI CONSULTING CANADA INC., AS
MONITOR**

July 12, 2017

**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

**SUPPLEMENT TO THE FIRST REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR**

A. INTRODUCTION

1. On July 12, 2017, the Monitor filed the First Report to the Court (the “**First Report**”) in these CCAA Proceedings in relation to a motion by the Applicants, returnable July 13, 2017, for among other things, an order authorizing the suspension of Special Payments, Supplemental Plan Payments, PRB Health and Dental Payments and PRB Plan Payments (the “**Suspension Orders**”). Capitalized terms used herein and not otherwise defined in this Supplement to the First Report have the meanings given to them in the First Report.
2. This Supplement to the First Report is filed to provide an update on a resolution between the Applicants, the DIP Lenders, Representative Counsel, and PBGF regarding the

Suspension Orders, the DIP Facility and the provisions of the Initial Order, subject to approval of the Court.

B. THE SUSPENSION ORDERS

As reported in the First Report, the Sears Canada Group proposed to seek an order suspending the obligations of the Sears Canada Group to make: (i) the Special Payments; (ii) Supplemental Plan Payments; (iii) PRB Health and Dental Payments; and (iv) PRB Plan Payments, effective immediately.

Special Payments

3. The Special Payment obligations are required in respect of the DB Component of the Sears Canada Pension Plan. The Special Payment obligations arise as a result of a deficit that currently exists in the DB Component on a wind-up basis that was reported to be approximately \$266.8 million as at December 31, 2015.
4. The Special Payments are approximately \$3.7 million per month. The last payment was made on June 30, 2017.
5. Pension Representative Counsel and counsel to PBGF have noted that a deemed trust would arise upon a wind up of the DB Component of the Sears Pension Plan. However, at this time the DB Component has not been wound up.
6. PBGF and Pension Representative Counsel raised concerns about the impact of the proposed suspension of Special Payments upon the DB Component of the Sears Canada Pension Plan and also raised concerns about prejudice that may arise during these CCAA Proceedings as a result of potential increases to the wind-up deficit, the failure to continue to take steps through Special Payments to partially reduce that deficit; and depletion of assets claimed to be the subject of a potential deemed trust or priority interest described above.
7. PBGF and Pension Representative Counsel suggested they would oppose the immediate termination of Special Payments and may have other concerns regarding the implementation of the proposed SISP.

Supplemental Plan Payments

8. The Supplemental Plan Payments are made to enhance pension benefits for certain members of the DB Component of the Sears Pension Plan.
9. The Supplemental Plan Payments that the Applicants proposed to suspend under the Suspension Order are: (i) in the case of Pre-2010 SP Pensioners, payments from a trust fund known as the RCA and any Shortfall Amounts arising as a result of any deficiency of funds in the RCA; and (ii) in the case of Post-2010 SP Pensioners, payments from general revenues of approximately \$7,000 per month.
10. While in aggregate value the Supplemental Plan Payments are not material, the Sears Canada Group proposed to also suspend these payments in order to ensure consistent treatment between the beneficiaries of the Supplemental Plans and the beneficiaries of other pension and benefit arrangements described herein.

PRB Plan

11. Approximately 4,350 retirees and surviving spouses have coverage with respect to post-retirement health and dental benefits under the PRB Plan. The average cost of continuing to pay post-retirement health and dental benefits amounts is approximately \$765,000 monthly plus tax, with an additional monthly payment of approximately \$36,000 for administration fees.
12. In addition, approximately 3,700 individuals are entitled to life insurance benefits through a group life insurance policy with Sun Life under the PRB Plan. The cost of continuing to make life insurance premium payments under the policy amounts to approximately \$245,000 monthly plus tax.
13. As noted in the First Report, the suspension of these benefits would require beneficiaries under the PRB Plan to make alternate arrangements for life, health and dental coverage. It may be difficult for many affected individuals to obtain comparable coverage in the time afforded.

14. Representative Counsel suggested they may oppose the immediate suspension of benefits under the PRB Plan.

C. RESOLUTION

15. With the assistance of the Monitor and in consultation with the DIP Lenders, the Sears Canada Group, Representative Counsel (on behalf of those retirees, employees and former employees represented) and PBGF engaged in extensive discussions leading to a resolution of the objections raised by PBGF and Representative Counsel to the Suspension Order and to the other relief sought by the Applicants on July 13th (the “**Suspension Motion Resolution**”).
16. The Suspension Motion Resolution is reflected in a term sheet attached hereto as Appendix “A” (the “**Suspension Term Sheet**”).
17. The draft Suspension Order, revised to reflect the terms of the Suspension Motion Resolution is attached hereto as Appendix “B”.
18. Subject to the specific terms of the Suspension Term Sheet, the Suspension Motion Resolution provides, among other things: (i) a delay before the suspension of the Special Payments, Supplemental Plan Payments, PRB Health and Dental Payments and PRB Plan Payments; and (ii) increased access to information regarding the Applicants’ financial performance, pension matters and progress of the CCAA Proceedings for PBGF and its legal and financial advisors as well as Representative Counsel and their legal and financial advisors.
19. A summary of terms of the Suspension Motion Resolution, as set out in more detail in the Suspension Term Sheet, is as follows¹:
 - (a) PBGF and Representative Counsel (on their own behalf and on behalf of the parties they represent) agree not to oppose the orders to be sought by the Applicants on July 13, 2017 approving: (i) the DIP Facilities and the court

¹ This summary is for information purposes only. In the case of any inconsistency between the summary contained in this Supplement to the First Report and the terms of the Suspension Term Sheet, the Suspension Term Sheet shall govern.

ordered charges securing the obligations thereunder; (ii) the terms of paragraph 46 of the proposed amended and restated Initial Order in respect of provisional execution of such amended and restated Initial Order and in respect of Variations (as described therein); and (iii) the SISP.

- (b) The proposed Suspension Order will be modified such that Special Payments, PRB Health and Dental Payments, PRB Plan Payments and Supplemental Plan Payments will continue up to and including, but not beyond, September 30, 2017, subject to further order of the Court. PBGF and Representative Counsel (on their own behalf and on behalf of the parties they represent) agree not to oppose the Suspension Order on these terms.
- (c) Subject to certain confidentiality restrictions, PBGF and its legal and financial advisors shall be provided with access to certain financial information regarding the Applicants, the SISP and, in the case of PBGF, the Sears Pension Plan. Representative Counsel and certain of their advisors will be also be provided with access to a subset of the foregoing information, again subject to confidentiality restrictions.
- (d) If required by the PBGF, at a time designated by the PBGF, the Monitor and Sears Canada shall use best efforts to facilitate a smooth transition of the administration of the Sears Pension Plan to a new administrator appointed by the Superintendent.
- (e) The DIP Lenders will agree that no credit bid can be made by them in the SISP without further order of the court.
- (f) All parties reserve certain rights as described in the Suspension Term Sheet in the event that the PBGF, Pension Representative Counsel (or the parties they represent) determine that the positions of the beneficiaries under the Sears Pension Plan with respect to any wind-up deficit that may exist or may arise under the Sears Pension Plan and/or other retiree claims are prejudiced by steps taken by Sears Canada in the CCAA proceedings.

20. Nothing in the Suspension Term Sheet derogates or takes away from PBGF, Pension Representative Counsel's or the pension beneficiaries' rights to claim priority as a result of a deemed trust and/or administrator's lien and charge in accordance with the PBA other than vis-à-vis the DIP Lenders (with respect to all pre- or post-filing obligations owed to them) and the other court-ordered charges contained in the Initial Order (as amended and restated).
21. Nothing in Suspension Term Sheet derogates or takes away from the rights of the PBGF or Pension Representative Counsel to bring a motion before the court to seek a wind-up of the Sears Pension Plan, without prejudice to the rights of the Applicants, the Monitor, the DIP Lenders, or any other party to the Suspension Term Sheet to take any positions that they deem appropriate in connection therewith.

D. Updated Cash Flow Forecast

22. The adjustment to the timing of suspension of the Special Payments, PRB Health and Dental Payments, PRB Plan Payments and Supplemental Plan Payments has resulted in changes to the Revised Cash Flow Forecast that was attached to and described in the First Report.
23. A further revised cash flow forecast (the "**Modified Cash Flow Forecast**") that covers the 14 week period ending October 7, 2017 is attached as Appendix "C" to this Supplement to the First Report.
24. The Modified Cash Flow Forecast shows an operational cash outflow of \$153.1 million, a net cash outflow of \$491.2 million, a paydown of pre-filing indebtedness in the amount of \$299.5 million, and professional fees of \$30.2 million for that period. The Modified Cash Flow Forecast is summarized below:

CAD in millions	
Operating Receipts	\$ 519.2
Operating Disbursements	(672.3)
Operating Cash Inflows / (Outflows)	(153.1)
Professional Fees	(30.2)
Repayment of Existing Credit Facilities	(299.5)
DIP Fees and Interest	(8.4)
Net Cash Inflows / (Outflows)	(491.2)
Cash	
Beginning Balance	160.7
Net Cash Inflows / (Outflows)	(491.2)
DIP Draws / (Repayments)	360.6
Ending Balance	\$ 30.1

25. As shown in the Modified Cash Flow Forecast, the Sears Canada Group will require additional funding for operations totalling approximately \$360.6 million during the period ending October 7, 2017.
26. Pursuant to section 23(1)(b) of the CCAA² and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practice 09-1, the Monitor hereby reports to the Court as follows:
- (a) the Monitor has reviewed the Modified Cash Flow Forecast, which was prepared by Management for the purpose described in notes to the Cash Flow Forecast (the “**Forecast Notes**”), using the Probable Assumptions and Hypothetical Assumptions set out therein;
 - (b) the review consisted of inquiries, analytical procedures and discussion related to information provided by certain members of Management and employees of the Sears Canada Group. Since Hypothetical Assumptions need not be supported, the Monitor’s procedures with respect to the Hypothetical Assumptions were limited

² Section 23(1)(b) of the CCAA requires the Monitor to review the Sears Canada Group’s cash-flow statements as to its reasonableness and file a report with the court on the Monitor’s findings.

to evaluating whether the Hypothetical Assumptions were consistent with the purpose of the Modified Cash Flow Forecast. The Monitor has also reviewed the support provided by Management for the Probable Assumptions and the preparation and presentation of the Modified Cash Flow Forecast;

- (c) based on that review, and as at the date of this Supplement to the First Report, nothing has come to the attention of the Monitor that causes it to believe that:
 - (i) the Hypothetical Assumptions are inconsistent with the purpose of the Modified Cash Flow Forecast;
 - (ii) the Probable Assumptions are not suitably supported or consistent with the plans of the Sears Canada Group or do not provide a reasonable basis for the Modified Cash Flow Forecast, given the Hypothetical Assumptions; or
 - (iii) the Modified Cash Flow Forecast does not reflect the Probable and Hypothetical Assumptions;
- (d) since the Modified Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the forecast even if the Hypothetical Assumptions occur. Those variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Modified Cash Flow Forecast will be achieved. The Monitor also expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Supplement to the First Report, or relied upon by the Monitor in preparing this Supplement to the First Report; and
- (e) the Modified Cash Flow Forecast has been prepared solely for the purpose described in the Forecast Notes. The Modified Cash Flow Forecast should not be relied upon for any other purpose.

E. Recommendation

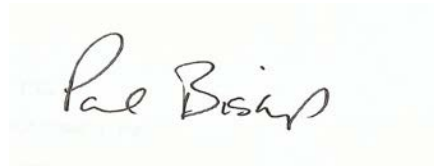
27. In the Monitor's view, the Suspension Motion Resolution, as described in the Suspension Term Sheet is a reasonable compromise in the circumstances, and will allow, subject to

this Honourable Court's approval of the DIP Order and the SISP Order, the immediate commencement of the SISP process and efforts to seek a transaction or transactions for the benefit of all stakeholders. The Suspension Motion Resolution will also provide a helpful extended transition period for beneficiaries under the PRB Plan before their benefits are suspended or potentially terminated. Accordingly, the Monitor respectfully recommends that the Court approve the Suspension Order, as revised to reflect the Suspension Motion Resolution and the Suspension Term Sheet.

The Monitor respectfully submits to the Court this, its Supplement to the First Report.

Dated this 12th day of July, 2017.

FTI Consulting Canada Inc.
In its capacity as Monitor of
Sears Canada Inc. and the other corporations in the Sears Canada Group

A handwritten signature in blue ink that reads "Paul Bishop". The signature is written in a cursive style with a large initial "P".

Paul Bishop
Senior Managing Director

A handwritten signature in blue ink that reads "Greg Watson". The signature is written in a cursive style with a large initial "G".

Greg Watson
Senior Managing Director

APPENDIX "A"
SUSPENSION TERM SHEET

**SEARS CANADA INC. / PENSION BENEFITS GUARANTEE FUND / PENSION REPRESENTATIVES /
EMPLOYEE REPRESENTATIVES AND COUNSEL**

TERM SHEET

Subject to the terms and conditions set out below, the Superintendent of Financial Services, as Administrator of the Pension Benefits Guarantee Fund, (“**PBGF**”), Koskie Minsky LLP as pension and benefits representative counsel (“**Pension Representative Counsel**”) and the representatives as defined in the Pension Representative Counsel order (as “**Pension Representatives**” and, together with Pension Representative Counsel and PBGF, the “**Pension Group**”) and Ursel Phillips Fellows Hopkinson LLP, as employee representative counsel (“**Employee Representative Counsel**”) and the representatives as defined in the Employee Representative Counsel order (together with Employee Representative Counsel and the Pension Group, the “**Pension and Employee Group**”) do not oppose the orders sought approving (i) the DIP Facilities and the court ordered charges securing the obligations thereunder; (ii) the terms of paragraph 46 of the proposed Amended and Restated Initial Order in respect of provisional execution of such order and in respect of Variations (as described therein); and (iii) the SISP, in each case on terms of the related draft orders (the “**Draft Orders**”) included in the motion record of Sears Canada Inc. and its affiliates, dated July 5, 2017 (the “**Motion Record**”), as subsequently modified including where necessary to reflect the terms and conditions set out below.

The non-opposition of the Pension and Employee Group set out above is subject to the following conditions:

Payment of special payments and other post-retirement benefits under the PRB Plan

Payment of special payments and other post-retirement benefits (including life insurance), and payment of the supplemental pension benefits other than those paid from the RCA Trust, shall be made up to and including, but not beyond, September 30, 2017, subject to further order of the court, and the draft orders shall be reflected to provide as such.

Pension Deemed Trust

Nothing in this term sheet derogates or takes away from PBGF, Pension Representative Counsel’s or pension beneficiaries’ rights to claim a deemed trust and/or administrator’s lien and charge in accordance with the Pension Benefits Act, R.S.O. 1990, c P.8 and the Personal Property Security Act, R.S.O. 1990, c P.10 in respect of all creditors save and except for the DIP Lenders (with respect to all pre- or post-filing obligations owed to them) and the other court-ordered charges contained in the Amended and Restated Initial Order, and the PBGF, Pension Representative Counsel and pension beneficiaries reserve all of their rights to assert such a deemed trust and lien.

Nothing in this term sheet derogates or takes away from the rights of the Pension Representatives to bring a motion before the court to seek a wind-up of the pension plan, without prejudice to the rights of the Applicants, the Monitor, the DIP Lenders, or any other party to this Term Sheet to take any positions that they deem appropriate in connection therewith.

Confidentiality

The provision of information contemplated herein shall be subject to the execution of a confidentiality agreement by the PBGF, in a form acceptable to Sears Canada Inc. and the Monitor, in each case acting reasonably, or as approved by the court. For greater certainty, PBGF will not be permitted to share information subject to such confidentiality agreement with the other members of the Pension and Employee Group.

Prior to receiving any information hereunder, Pension Representative Counsel, Employee Representative Counsel and their respective financial advisors shall also have entered into a confidentiality agreement in a form acceptable to Sears Canada Inc. and the Monitor, in each case acting reasonably

Access to Financial Information

The PBGF will be provided with historical data and updates from the Monitor and the Company (and/or its financial advisors) at the same frequency and on the same basis as the DIP Lenders, including but not limited to the Reporting Requirements and Collateral Monitoring and Review provisions referenced in para 6.01 (j) and 6.01 (k) of the Senior Secured Superpriority Debtor-In-Possession Amended and Restated Credit Agreement dated June 22, 2017 ("DIP Agreement"), on the status of the business optimization plan of Sears Canada Inc., proceeds received from the liquidation of assets at closing stores, as well as the cash flows, inventory and working capital balances of Sears Canada Inc. and its subsidiaries.

The persons who have signed confidentiality agreements as noted above will be provided with:

- (a) an estimated liquidation value of any remaining Company assets, which are not included in the initial store closings by August 31, 2017; or as soon as practically available thereafter;
- (b) each Variance Report (as defined in the DIP ABL Credit Agreement (as defined below)), and at the times specified in the DIP ABL Credit Agreement;
- (c) updated cash flow forecasts at the times specified in the DIP ABL Credit Agreement (and in no event shall the interval of reporting exceed two weeks);
- (d) Monitor's analysis of variances to the extent provided to the DIP Lenders;
- (e) Borrowing Base Certificates (as defined in the DIP ABL Credit Agreement) at the times specified in the DIP ABL Credit Agreement (and in no event shall the interval of reporting exceed 7 days); and
- (f) regular SISP updates, including: number of parties contacted as part of the SISP; number of parties signing NDAs; and number of parties declining the opportunity.

Access to Pension Information

Sears Canada Inc. as administrator of the pension plan shall immediately provide the PBGF with complete transparency into and access to all information about and concerning the pension plan and its administration, including but not limited to pension data and analysis and any work product, including in respect of any December 31, 2016 pension valuation information and analysis.

Pension administration

If and when required by the PBGF, at a time designated by the

transition

PBGF, the Monitor, Sears Canada Inc., and the pension plan administrator shall use best efforts to facilitate a smooth transition of the administration of the pension plan to a new administrator appointed by the Superintendent.

Access to DIP Information

PBGF will be provided with copies of Notices of Borrowing on the date those Notices are provided to the DIP Lenders, and with updates from the Monitor on the status and amount of Aggregate Commitments, Borrowing Base, Line Cap, Excess Availability and other similar information (all as defined in the Senior Secured Superpriority Debtor-In-Possession Amended and Restated Credit Agreement dated as of June 22, 2017, marked as Exhibit D to the Affidavit of Billy Wong sworn June 22, 2017 (the "**DIP ABL Credit Agreement**"))

Access to SISP Information

Paliare Roland Rosenberg Rothstein LLP, as legal counsel to PBGF, Farber Financial, as financial advisor to PBGF and specified individual representatives of PBGF (collectively the "**Permitted Recipients**") shall be provided with the same updates with respect to the SISP as those updates provided to representatives of the DIP Lenders that are Restricted Process Observers (as defined in the SISP).

For greater certainty, the Permitted Recipients will be provided, as soon as practical, information on the key economic terms of the bids, and shall be subject to the same restrictions as Restricted Process Observers under the SISP and may not share any Bid Information (as defined in the SISP) with any other person, including any other representative of or advisor to the PBGF that is not also a Permitted Recipient

Application to Court

If any party within the Pension Group determines that the positions of the beneficiaries under the Sears Pension Plan with respect to any wind-up deficit that may exist or may arise under the Sears Pension Plan and/or other retiree claims is prejudiced by steps taken by Sears Canada Inc. in the CCAA proceedings, the consent of any party in the Pension Group as contained herein shall not prejudice the rights of such party in the Pension Group to propose an alternative structure to monetize the assets and businesses of the Sears Canada Group, including but not limited to replacement and repayment in full of the DIP Lenders (which must provide for both pre-filing and post-filing obligations to the DIP Lenders) with an alternative DIP, on not less than four (4) days prior notice to Sears Canada Inc., the Monitor, the DIP Lenders and any other affected parties, or such lesser period as the court may permit (the "**Application**").

Sears Canada Inc. and its affiliates, as well as the DIP Lenders do not consent to, and reserve all rights to oppose, any such Application by any party in the Pension Group.

If any such Application is made in the CCAA proceedings, and it is determined by the court in favour of the Pension Group, or if such Application remains outstanding when any payment obligations noted

immediately below are due, the Pension and Employee Group agrees that obligations set out herein for the Sears Canada Group to make special payments, supplementary plan payments or to make other post-retirement benefits (including life insurance) payments shall immediately be suspended, subject to further order of the court and the draft orders shall be reflected to provide as such.

**No Credit Bid by DIP
Lenders**

The DIP Lenders will agree that no credit bid can be made by them without further order of the court.

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APPENDIX "B"
DRAFT SUSPENSION ORDER

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE MR.)	THURSDAY, THE 13 TH
)	
JUSTICE HAINEY)	DAY OF JULY, 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 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**”)

ORDER

**(Suspension of Special Payments, Supplemental Plan Payments and PRB Plan Payments,
Approval of Term Sheet and Stay Extension)**

THIS MOTION, made by the Applicants pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), for an order, *inter alia*: (i) authorizing the suspension of the Special Payments (as defined below); (ii) approving the suspension of the Supplemental Plan Payments (as defined below); (iii) approving the suspension of the PRB Plan Payments (as defined below); (iv) declaring that the directors, officers, officials and agents of the Applicants and SearsConnect (the “**Partnership**” and collectively with the Applicants, the “**Sears Canada Entities**”) shall not incur any liability as a result of the failure of the Sears Canada Entities to make any of the Special Payments during the Stay Period (as

defined below), and during any extension of same; (v) approving the Term Sheet (as defined below); and (vi) extending the Stay Period to and including October 4, 2017, and certain related relief, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Notice of Motion of the Applicants, the Affidavit of Billy Wong sworn July 5, 2017 including the exhibits thereto (the “**Second Wong Affidavit**”), the First Report of FTI Consulting Canada Inc., in its capacity as Monitor (the “**Monitor**”), and the Supplement to the First Report of the Monitor (the “**Supplemental Report**”), filed, and on hearing the submissions of respective counsel for the Sears Canada Entities, counsel to the Monitor, counsel to the Board of Directors and the Special Committee of the Board of Directors of Sears Canada Inc., counsel to Wells Fargo Capital Finance Corporation Canada as administrative agent under the DIP ABL Credit Agreement, counsel to GACP Finance Co., LLC as administrative agent under the DIP Term Credit Agreement, and such other counsel as were present, no one else appearing although duly served as appears from the Affidavits of Service of Sonja Pavic sworn July 6, 2017, filed:

SERVICE AND DEFINITIONS

1. THIS COURT ORDERS that the time for service of the Notice of Motion and the Motion Record herein is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof.
2. THIS COURT ORDERS that any capitalized term used and not defined herein shall have the meaning ascribed thereto in the Second Wong Affidavit.

SUSPENSION OF SPECIAL PAYMENTS

3. THIS COURT ORDERS that the obligation of the Sears Canada Entities to make special payments (whether pursuant to the Ontario *Pension Benefits Act*, RSO 1990, c. P-8 and regulations made thereunder or to the terms of the Sears Pension Plan) in respect of the defined benefit component of the Sears Pension Plan (such payments being the “**Special Payments**”), shall be suspended effective on and after October 1, 2017, for the duration of the Sears Canada Entities’ CCAA proceedings (the “**CCAA Proceedings**”), subject to further Order of this Court. For greater certainty, the obligations of the Sears Canada Entities to make Special Payments prior to October 1, 2017 are expressly subject to the terms set forth in the Term Sheet, and the

suspension of Special Payments hereunder does not constitute a disclaimer or termination by the Sears Canada Entities of any component of the Sears Pension Plan.

4. THIS COURT ORDERS that for the duration of the CCAA Proceedings, no Person (as defined in the Initial Order), including employees and former employees of the Sears Canada Entities (or the surviving spouse of any such person) entitled to a benefit under the defined benefit component of the Sears Pension Plan (whether or not such member was represented by a union when the member was employed by the Sears Canada Entities) (the “**Retirees**”) or the Superintendent of Financial Services, shall commence any action or other proceeding in connection with the suspension of the Special Payments or because the Sears Canada Entities have not made the Special Payments.

5. THIS COURT ORDERS that the Sears Canada Entities and each of their respective directors, officers, officials, and agents shall not incur any obligation or liability, whether by way of debt, damages for breach of any duty whether statutory, fiduciary, common law or otherwise, or for breach of trust, nor shall any trust be imposed, whether express, implied, constructive, resulting, deemed or otherwise, as a result of the suspension of the Special Payments in accordance with the terms of this Order.

6. THIS COURT ORDERS that if any claim, lien, charge or trust, including deemed trust, arises as a result of the suspension of the Special Payments, no such claim, lien, charge or trust, including deemed trust, shall have priority over the Charges (as defined in the Initial Order) in these CCAA Proceedings, or in any subsequent receivership, interim receivership or bankruptcy of the Sears Canada Entities.

SUSPENSION OF SUPPLEMENTAL PLAN PAYMENTS

7. THIS COURT ORDERS that the obligation of the Sears Canada Entities to make (i) any payments in respect of the Supplemental Plan to the Post-2010 SP Pensioners and (ii) any payment required in respect of any SP Shortfall Amounts in respect of the Pre-2010 SP Pensioners (collectively, such payments being the “**Supplemental Plan Payments**”), shall be suspended effective on and after October 1, 2017, for the duration of the CCAA Proceedings, subject to further Order of this Court. For greater certainty, the obligations of the Sears Canada Entities to make Supplemental Plan Payments prior to October 1, 2017 are expressly subject to

the terms set forth in the Term Sheet, and the suspension of Supplemental Plan Payments, hereunder does not constitute a disclaimer or termination by the Sears Canada Entities of the Supplemental Plan.

8. THIS COURT ORDERS that for the duration of the CCAA Proceedings, no Person, including employees and former employees of the Sears Canada Entities (or the surviving spouse of any such person) entitled to a benefit under the Supplemental Plan (whether or not such member was represented by a union when the member was employed by the Sears Canada Entities) shall commence any action or other proceeding in connection with the suspension of the Supplemental Plan Payments or because the Sears Canada Entities have not made the Supplemental Plan Payments.

SUSPENSION OF PRB PLAN PAYMENTS

9. THIS COURT ORDERS that the obligation of the Sears Canada Entities to make any payments in respect of the post-retirement health and dental benefits under the PRB Plan (such payments being the “**PRB Health and Dental Payments**”), shall be suspended effective on and after October 1, 2017, for all claims submitted and received after such date, for the duration of the CCAA Proceedings, subject to further Order of this Court. For greater certainty, the obligations of the Sears Canada Entities to make PRB Health and Dental Payments prior to October 1, 2017 are expressly subject to the terms set forth in the Term Sheet, and the suspension of PRB Health and Dental Payments, hereunder does not constitute a disclaimer or termination by the Sears Canada Entities of the PRB Plan.

10. THIS COURT ORDERS that the obligation of the Sears Canada Entities to make any payments in respect of the life insurance benefits under the PRB Plan, including premiums for life insurance coverage (such payments, together with the PRB Health and Dental Payments, the “**PRB Plan Payments**”), shall be suspended effective on and after October 1, 2017, for the duration of the CCAA Proceedings, subject to further Order of this Court. For greater certainty, the obligations of the Sears Canada Entities to make PRB Plan Payments prior to October 1, 2017 are expressly subject to the terms set forth in the Term Sheet, and the suspension of the PRB Plan Payments hereunder does not constitute a disclaimer or termination by the Sears Canada Entities of the PRB Plan.

11. THIS COURT ORDERS that for the duration of the CCAA Proceedings, no Person, including the Retirees and surviving spouses who have coverage with respect to post-retirement health and dental benefits and/or with respect to life insurance benefits under the PRB Plan (whether or not such member was represented by a union when the member was employed by the Sears Canada Entities) shall commence any action or other proceeding in connection with the suspension of the PRB Plan Payments or due to the Sears Canada Entities having not made the PRB Plan Payments.

APPROVAL OF TERM SHEET

12. **THIS COURT ORDERS** that the term sheet attached as Appendix “A” to the Supplemental Report (the “**Term Sheet**”) between: (a) the Sears Canada Entities; (b) the Superintendent of Financial Services, as Administrator of the Pension Benefits Guarantee Fund; (c) Koskie Minsky LLP, as Representative Counsel and on behalf of the Representatives (as each such term is defined in the Representative Counsel Order for Pensions and Post-Retirement Benefits issued by this Court in the CCAA Proceedings on July 13, 2017); (d) the Representatives; (e) Ursel Phillips Fellows Hopkinson LLP, as Employee Representative Counsel and on behalf of the Employee Representatives (as each such term is defined in the Employee Representative Counsel Order issued by this Court in the CCAA Proceedings on July 13, 2017); and (f) the Employee Representatives, is hereby approved and the parties thereto shall comply with their obligations thereunder.

EXTENSION OF STAY PERIOD

13. THIS COURT ORDERS that the Stay Period (as defined in paragraph 14 of the Initial Order) is hereby extended from July 22, 2017 until and including October 4, 2017.

GENERAL

14. THIS COURT ORDERS that this Order shall have full force and effect in all provinces and territories in Canada.

15. 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 of America, to give effect to this Order and to assist the Applicants, 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 Applicants 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 Applicants and the Monitor and their respective agents in carrying out the terms of this Order.

APPENDIX "C"
MODIFIED CASH FLOW FORECASTS

Sears Canada Group

CCAA Cash Flow Forecast

(CAD in thousands)

Week Ending (Saturday)	8-Jul-17	15-Jul-17	22-Jul-17	29-Jul-17	5-Aug-17	12-Aug-17	19-Aug-17	26-Aug-17	2-Sep-17	9-Sep-17	16-Sep-17	23-Sep-17	30-Sep-17	7-Oct-17	14-Week	
CCAA Filing Week	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Total	
Receipts																
Trade Receipts	[2]	37,528	32,797	34,126	34,045	30,380	25,575	31,513	34,757	32,701	29,676	29,350	29,737	30,349	30,229	442,761
Other Receipts	[3]	-	3,028	35,249	2,746	4,112	3,334	16,286	2,483	1,885	1,290	1,281	4,233	555	-	76,483
Total Receipts		37,528	35,825	69,374	36,792	34,491	28,909	47,800	37,240	34,586	30,965	30,632	33,970	30,903	30,229	519,244
Operating Disbursements																
Payroll and Employee Related Costs	[4]	(17,980)	(1,989)	(13,025)	(6,110)	(17,822)	(256)	(9,352)	(4,152)	(15,615)	(256)	(9,056)	(6,863)	(10,125)	(5,830)	(118,431)
Merchandise Vendors	[5]	(5,977)	(22,501)	(19,512)	(15,125)	(22,568)	(28,014)	(25,077)	(23,885)	(27,307)	(22,758)	(27,526)	(30,085)	(41,308)	(42,026)	(353,669)
Non-Merchandise Vendors	[6]	(4,926)	(12,004)	(11,326)	(10,326)	(14,539)	(5,632)	(6,310)	(5,632)	(17,021)	(5,223)	(4,884)	(5,562)	(4,884)	(10,746)	(119,018)
Rent and Property Taxes	[7]	(2,647)	(9,075)	-	-	(9,049)	-	(4,808)	-	(9,046)	-	(4,808)	-	-	(8,117)	(47,551)
Sales Taxes	[8]	-	-	(852)	(10,087)	-	-	(4,330)	-	-	-	-	(694)	(1,206)	-	(17,169)
Pension	[9]	-	-	-	-	(3,685)	-	-	-	(3,685)	-	-	-	(3,685)	-	(11,055)
IT Costs	[10]	-	-	-	-	(12,767)	-	-	-	-	-	-	-	-	-	(12,767)
Recovery of Expenses from Agent	[11]	-	-	1,820	660	2,552	964	2,552	535	2,207	535	1,761	612	1,226	-	15,423
Capital Expenditures	[12]	(0)	(897)	(897)	(897)	(730)	(730)	(730)	(630)	(424)	(424)	(424)	(424)	(424)	(518)	(8,151)
Total Operating Disbursements		(31,530)	(46,466)	(43,791)	(41,884)	(78,608)	(33,669)	(43,726)	(38,095)	(70,892)	(28,127)	(44,938)	(43,018)	(60,407)	(67,237)	(672,389)
Net Operating Cash Inflows / (Outflows)		5,998	(10,642)	25,584	(5,093)	(44,117)	(4,760)	4,074	(855)	(36,307)	2,838	(14,306)	(9,048)	(29,504)	(37,008)	(153,145)
Net Cash Inflows / (Outflows)																
Professional Fees	[13]	(3,395)	(2,401)	(7,322)	(1,842)	(1,672)	(1,588)	(1,446)	(1,446)	(1,446)	(1,644)	(1,503)	(1,503)	(1,503)	(1,503)	(30,215)
Repayments of Existing Credit Facilities	[14]	-	(131,037)	(69,374)	(36,792)	(34,491)	(27,834)	-	-	-	-	-	-	-	-	(299,528)
DIP Fees and Interest Paid	[15]	-	(4,104)	(354)	(354)	(354)	(354)	(354)	(354)	(354)	(354)	(354)	(354)	(354)	(354)	(8,355)
Net Cash Inflows / (Outflows)		2,604	(148,184)	(51,467)	(44,080)	(80,635)	(34,536)	2,273	(2,656)	(38,107)	840	(16,163)	(10,905)	(31,361)	(38,865)	(491,243)
Cash																
Beginning Balance		160,678	163,282	165,097	128,830	92,150	57,815	30,079	30,052	30,097	30,090	30,029	30,066	30,061	30,000	160,678
Net Cash Inflows / (Outflows)		2,604	(148,184)	(51,467)	(44,080)	(80,635)	(34,536)	2,273	(2,656)	(38,107)	840	(16,163)	(10,905)	(31,361)	(38,865)	(491,243)
DIP Draws / (Repayments)	[16]	-	150,000	15,200	7,400	46,300	6,800	(2,300)	2,700	38,100	(900)	16,200	10,900	31,300	38,900	360,600
Ending Balance		163,282	165,097	128,830	92,150	57,815	30,079	30,052	30,097	30,090	30,029	30,066	30,061	30,000	30,035	30,035

Notes:

[1] The purpose of this cash flow forecast is to estimate the liquidity requirements of the Sears Canada Group during the forecast period.

[2] Forecast Trade Receipts include collections from the sale of merchandise and services performed, net of returns, and inclusive of sales taxes. The sales forecast is based on historical sales patterns, seasonality and management's current expectations.

[3] Forecast Other Receipts include proceeds from the third-party liquidator relating to the sale of merchandise from the 45 closing stores.

[4] Forecast Payroll and Employee Related Costs are based on recent payroll amounts and include amounts to be paid under a Key Employee Retention Plan (KERP), subject to approval of the Court.

[5] Forecast Merchandise Vendor disbursements include payments to vendors for purchase of merchandise goods and other products.

[6] Forecast Non-Merchandise Vendor disbursements include selling, general, and administrative costs excluding rent, property taxes, sales taxes, pension costs, and some IT costs.

[7] Forecast Rent and Property Taxes includes payment to landlords, common-area maintenance costs, and property taxes paid on properties.

[8] Forecast Sales Taxes reflects net GST, HST, and PST amounts remitted to/from the federal and provincial governments. Payments are generally made one month in arrears.

[9] Forecast Pensions reflect monthly payments related to the defined benefit pension plan. The regular payments relating to the defined contribution pension plan are included in the Payroll and Employee Related Costs line above.

[10] Forecast IT Costs reflect disbursements made to the large IT-related vendors based on existing terms and conditions of the contract.

[11] Forecast Recovery of Expenses from Agent reflect reimbursements provided by the third-party liquidator agent of certain costs incurred by Sears Canada Group relating to the 45 closing stores.

[12] Forecast Capital Expenditures reflect estimated capital spending required to maintain the stores in the normal course of business.

[13] Forecast Professional Fees include legal and financial advisor fees associated with the CCAA proceedings and are based on estimates provided by the advisors.

[14] Forecast Repayments of Existing Credit Facilities reflect repayment of the existing credit facilities.

[15] Forecast DIP Fees and Interest Paid reflect all payments relating to the DIP facilities including commitment and other fees during the forecast period.

[16] Forecast DIP Draws / (Repayments) are based on funding requirements and maintaining a minimum \$30 million cash balance for the Sears Canada Group.

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., *et al.*

Court File No:

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**SUPPLEMENT TO FIRST REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR**

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