

**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., 9370-2751 QUÉBEC INC.,  
191020 CANADA 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., 698874I CANADA INC., 10011711 CANADA INC.,  
1592580 ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531 CANADA INC.,  
168886 CANADA INC., AND 3339611 CANADA INC.**

The Applicants

**RESPONDING MOTION RECORD  
(MOTION RETURNABLE MARCH 2, 2018)**

**VOLUME I OF II**

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Lawyers for Mr. Edward S. Lampert, ESL  
Investments Inc., ESL Partners, L.P. and RBS  
Partners, L.P., SPE I Partners, LP, ESL  
Institutional Partners, L.P., SPE Master I, LP,  
CRK Partners, LLC and ESL Investors, LLC

**TO: THE SERVICE LIST**

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**TAB 1**

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

**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., 9370-2751 QUÉBEC INC.,  
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1592580 ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531 CANADA INC.,  
168886 CANADA INC., AND 3339611 CANADA INC.**

The Applicants

**AFFIDAVIT OF JONATHAN WYPYCH  
(Sworn March 1, 2018)**

I, Jonathan Wypych, of the City of Toronto, in the Province of Ontario, MAKE OATH AND SAY:

1. I am an associate at the law firm McMillan LLP ("**McMillan**"), legal counsel to the respondents Mr. Edward Lampert, ESL Investments Inc., ESL Partners, L.P., RBS Partners, L.P., SPE I Partners, LP, ESL Institutional Partners, LP, SPE Master I, LP, CRK Partners, LLC and ESL Investors, LLC. in this proceeding (the "**Respondent Equity Holders**"). As such, I have personal knowledge of the matters to which I herein depose, unless stated to be based on information and belief, in which case I state the source of my belief and believe it to be true.

**The ESL Respondents' Ownership Interests in Sears Canada, Inc.**

2. On November 13, 2012, the Respondent Equity Holders received equity interests in Sears Canada, Inc. ("**Sears Canada**") pursuant to a spin-off transaction by Sears Holdings Corporation ("**Sears Holdings**") in which Sears Holdings distributed some of

its shares in Sears Canada to Sears Holdings shareholders (the “**2012 Spin-Off Transaction**”).

3. Immediately after the 2012 Spin-Off Transaction, the Respondent Equity Holders held a minority position of approximately 27.6 percent of the outstanding Sears Canada shares, while Sears Holdings retained majority ownership with approximately 51 percent of outstanding Sears Canada shares.

4. Attached hereto as Exhibits “A” and “B” respectively are true copies of the Form 8-K filed by Sears Holdings on November 14, 2012 with the United States Securities and Exchange Commission (“SEC”) disclosing the terms of the 2012 Spin-Off Transaction and Schedule 13D filed by the Respondent Equity Holders with the SEC on November 21, 2012 disclosing the Respondent Equity Holders’ aggregate holdings in Sears Canada after the 2012 Spin-Off Transaction.

**The 2012 and 2013 Sears Canada Dividends**

5. The net earnings, cash reserves, and equity value for Sears Canada for 2011-2013 are set forth in the table below:

<b>Financial Year</b>	<b>Net Earnings (loss)<sup>1</sup></b>	<b>Dividend Declared</b>	<b>Equity Value at end of period</b>	<b>Cash and Cash Equivalents at end of period</b>
2011	(50.3)	0	1,092.0	400.2
2012	101.2	101.9	1,076.4	238.5
2013	446.5	509.4	1,073.8	513.8

<sup>1</sup> All figures are CAD\$ million.

6. Attached hereto as Exhibit “C” to this affidavit is a true copy of the 2013 Annual Report of Sears Canada, Inc., which includes the financial statements for Sears Canada for fiscal years 2011, 2012 and 2013.

7. Mr. Lampert did not serve on the board of Sears Canada when the board of directors of Sears Canada authorized the dividend paid by Sears Canada as of December 20, 2012 (the “**2012 Dividend**”) or the dividend paid by Sears Canada as of December 9, 2013 (the “**2013 Dividend**”).

8. Attached hereto as Exhibits “D”, “E”, “F” and “G” are true copies of the 2012, 2014, 2015 and 2016 annual reports of Sears Canada.

**The ESL Respondents Purchase Additional Shares in Sears Canada After the 2012 and 2013 Dividends**

9. Pursuant to a rights offering completed on October 26, 2014 (the “**2014 Rights Offering**”), the ESL Respondents paid approximately USD \$168.5 million to Sears Holdings in exchange for additional equity interests in Sears Canada. As a result of the 2014 Rights Offering, the ESL Respondents increased their aggregate equity holdings to 46.7% of the outstanding shares of Sears Canada.

10. Attached hereto as Exhibit “H” to this affidavit is a true copy of the October 26, 2014 Schedule 13D SEC filing by the ESL Respondents disclosing (i) the aggregate consideration paid by the ESL Respondents’ for Sears Canada shares in connection with the 2014 Rights Offering and (ii) the percentage of outstanding Sears Canada shares held by the ESL Respondents.

11. The market value of the ESL Respondents’ equity holdings in Sears Canada shortly after the 2014 Rights Offering was approximately USD \$270,000,000.

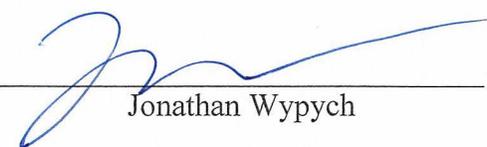
12. Attached hereto as Exhibit “I” to this affidavit is a true copy of the February 17, 2015 Form 13F SEC filing by the ESL Respondents disclosing the market value of the

ESL Respondents' equity interests in Sears Canada in the first reporting period after the 2014 Rights Offering.

AFFIRMED BEFORE ME at the City of Toronto, Province of Ontario, this 1st day of March, 2018.



\_\_\_\_\_  
A Commissioner for taking Affidavits *(or as may be)*

}   
\_\_\_\_\_  
Jonathan Wypych

**Shannon Beverley Ste. Marie, a Commissioner, etc.,  
Province of Ontario, while a Student-at-Law.  
Expires March 23, 2019.**

**TAB A**

This is Exhibit "A" referred to in the  
Affidavit of

**JONATHAN WYPYCH**

Sworn before me,  
this 1<sup>ST</sup> day of March, 2018



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A Commissioner for taking Affidavits

Shannon Beverley Ste. Marie, a Commissioner, etc.,  
Province of Ontario, while a Student-at-Law.  
Expires March 23, 2019.

8-K 1 d439446d8k.htm FORM 8-K

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 8-K**

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**CURRENT REPORT**

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 14, 2012

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**SEARS HOLDINGS CORPORATION**

(Exact name of registrant as specified in charter)

**Delaware**  
(State or Other Jurisdiction  
of Incorporation)

**000-51217**  
(Commission  
File Number)

**20-1920798**  
(IRS Employer  
Identification No.)

**3333 Beverly Road**  
**Hoffman Estates, Illinois**  
(Address of principal executive offices)

**60179**  
(Zip code)

Registrant's telephone number, including area code: (847) 286-2500

(Former name or former address, if changed since last report): Not Applicable

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
- 
-

**Item 8.01 Other Events.**

On November 14, 2012, Sears Holdings Corporation issued a press release regarding its previously announced spin-off of a portion of its interest in Sears Canada Inc. The press release is attached hereto as Exhibit 99.1.

**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits

99.1 Press release dated November 14, 2012.

2

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SEARS HOLDINGS CORPORATION

By: /s/ Robert A. Riecker

Robert A. Riecker

Vice President, Controller and Chief Accounting  
Officer

Date: November 14, 2012

**Exhibit Index**

99.1 Press Release dated November 14, 2012.

4

EX-99.1 2 d439446dex991.htm PRESS RELEASE DATED NOVEMBER 14, 2012

Exhibit 99.1

**NEWS MEDIA CONTACT:**  
Sears Holdings Public Relations  
(847) 286-8371

**FOR IMMEDIATE RELEASE:**  
Nov. 14, 2012

**SEARS HOLDINGS CORPORATION COMPLETES PARTIAL SPIN-OFF  
OF ITS INTEREST IN SEARS CANADA INC.**

HOFFMAN ESTATES, Ill. – Sears Holdings Corporation (NASDAQ: SHLD) (“Sears Holdings”) today announced that it completed its previously announced spin-off of a portion of its interest in Sears Canada Inc. (TSX: SCC) (“Sears Canada”). Sears Holdings distributed approximately 44.5% of the total issued and outstanding common shares of Sears Canada on a pro rata basis to holders of Sears Holdings common stock. Following the partial spin-off, Sears Holdings has an approximately 51% ownership interest in Sears Canada.

The partial spin-off was effective at 11:59 p.m. EST on November 13, 2012. At that time Sears Holdings’ stockholders received 0.4283 Sears Canada common shares for every share of Sears Holdings common stock held as of the close of business on November 1, 2012, the record date for the spin-off. The distribution is taxable to Sears Holdings’ stockholders for Canadian and U.S. federal income tax purposes.

Sears Holdings will continue to be listed on the NASDAQ Global Select Market under the symbol “SHLD,” and Sears Canada will continue to be listed on the Toronto Stock Exchange under the symbol “SCC”.

This press release shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state or country in which such offer, solicitation or sale would be unlawful.

**About Sears Holdings Corporation**

Sears Holdings Corporation is a leading integrated retailer with over 2,600 full-line and specialty retail stores in the United States and Canada and the home of SHOP YOUR WAY, a social shopping experience where members have the ability to earn points and receive benefits across a wide variety of physical and digital formats through ShopYourWay.com. Sears Holdings is the leading home appliance retailer as well as a leader in tools, lawn and garden, fitness equipment and automotive repair and maintenance. Key proprietary brands include Kenmore, Craftsman and DieHard, with a broad apparel offering, including such well-known labels as Lands’ End, the Kardashian Kollection, Jaelyn Smith and Joe Boxer, as well as Sofia by Sofia Vergara and The Country Living Home Collection. We are the nation’s largest provider of home services, with more than 15 million service and installation calls made annually and have a long-established commitment to those who serve in the military through initiatives like the Heroes at Home program. We have been named the 2011 Mobile Retailer of the Year, Recipient of the 2012 ENERGY STAR® “Corporate Commitment Award” for Product Retailing and Energy

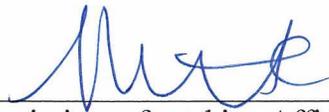
Management and one of the Top 20 Best Places to Work for Recent Grads. Sears Holdings Corporation operates through its subsidiaries, including Sears, Roebuck and Co. and Kmart Corporation. For more information, visit Sears Holdings' website at [www.searsholdings.com](http://www.searsholdings.com). Twitter: [@searsholdings](https://twitter.com/searsholdings) | Facebook: <http://www.facebook.com/SHCCareers>

**TAB B**

This is Exhibit "B" referred to in the  
Affidavit of

**JONATHAN WYPYCH**

Sworn before me,  
this 1<sup>ST</sup> day of March, 2018



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A Commissioner for taking Affidavits

Shannon Beverley Ste. Marie, a Commissioner, etc.,  
Province of Ontario, while a Student-at-Law.  
Expires March 23, 2019.

SC 13D/A 1 d443313dsc13da.htm SC 13D/A

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**SCHEDULE 13D**

**Under the Securities Exchange Act of 1934  
(Amendment No. 1)**

---

**Sears Canada Inc.**

(Name of Issuer)

---

**Common Shares, no par value**  
(Title of Class of Securities)

**81234D109**  
(CUSIP Number)

**William H. Hinman, Jr.**  
**Simpson Thacher & Bartlett LLP**  
**2550 Hanover Street**  
**Palo Alto, CA 94304**  
**(650) 251-5000**

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

**November 19, 2012**  
(Date of Event which Requires Filing of this Statement)

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If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. "

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240.13d-7 for other parties to whom copies are to be sent.

\* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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## CUSIP No. 81234D109

<b>1</b>	NAMES OF REPORTING PERSONS ESL Partners, L.P.	
<b>2</b>	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)  (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
<b>3</b>	SEC USE ONLY	
<b>4</b>	SOURCE OF FUNDS (See Instructions)  WC	
<b>5</b>	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)  ..	
<b>6</b>	CITIZENSHIP OR PLACE OF ORGANIZATION  Delaware	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	<b>7</b>	SOLE VOTING POWER  15,821,206
	<b>8</b>	SHARED VOTING POWER  0
	<b>9</b>	SOLE DISPOSITIVE POWER  15,821,206
	<b>10</b>	SHARED DISPOSITIVE POWER  10,433,088
<b>11</b>	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  26,254,294	
<b>12</b>	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions)  ..	
<b>13</b>	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11  25.8% (1)	
<b>14</b>	TYPE OF REPORTING PERSON (See Instructions)  PN	

- (1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Issuer's Registration Statement on Form 20-F that was filed by the Issuer with the Securities and Exchange Commission on October 23, 2012 (the "Registration Statement").

## CUSIP No. 81234D109

<b>1</b>	NAMES OF REPORTING PERSONS ESL Investors, L.L.C.	
<b>2</b>	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)  (a) <input type="checkbox"/> (b) <input type="checkbox"/>	
<b>3</b>	SEC USE ONLY	
<b>4</b>	SOURCE OF FUNDS (See Instructions)  N/A	
<b>5</b>	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)  <input type="checkbox"/>	
<b>6</b>	CITIZENSHIP OR PLACE OF ORGANIZATION  Delaware	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	<b>7</b>	SOLE VOTING POWER  0
	<b>8</b>	SHARED VOTING POWER  0
	<b>9</b>	SOLE DISPOSITIVE POWER  0
	<b>10</b>	SHARED DISPOSITIVE POWER  0
<b>11</b>	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  0	
<b>12</b>	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions)  <input type="checkbox"/>	
<b>13</b>	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11  0.0% (1)	
<b>14</b>	TYPE OF REPORTING PERSON (See Instructions)  OO	

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

## CUSIP No. 81234D109

<b>1</b>	NAMES OF REPORTING PERSONS SPE I Partners, LP	
<b>2</b>	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)  (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
<b>3</b>	SEC USE ONLY	
<b>4</b>	SOURCE OF FUNDS (See Instructions)  N/A	
<b>5</b>	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)  ..	
<b>6</b>	CITIZENSHIP OR PLACE OF ORGANIZATION  Delaware	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	<b>7</b>	SOLE VOTING POWER  830,852
	<b>8</b>	SHARED VOTING POWER  0
	<b>9</b>	SOLE DISPOSITIVE POWER  830,852
	<b>10</b>	SHARED DISPOSITIVE POWER  0
<b>11</b>	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  830,852	
<b>12</b>	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions)  ..	
<b>13</b>	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11  0.8% (1)	
<b>14</b>	TYPE OF REPORTING PERSON (See Instructions)  PN	

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

## CUSIP No. 81234D109

<b>1</b>	NAMES OF REPORTING PERSONS SPE Master I, LP	
<b>2</b>	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)  (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
<b>3</b>	SEC USE ONLY	
<b>4</b>	SOURCE OF FUNDS (See Instructions)  N/A	
<b>5</b>	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)  ..	
<b>6</b>	CITIZENSHIP OR PLACE OF ORGANIZATION  Delaware	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	<b>7</b>	SOLE VOTING POWER  1,068,522
	<b>8</b>	SHARED VOTING POWER  0
	<b>9</b>	SOLE DISPOSITIVE POWER  1,068,522
	<b>10</b>	SHARED DISPOSITIVE POWER  0
<b>11</b>	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  1,068,522	
<b>12</b>	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions)  ..	
<b>13</b>	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11  1.0% (1)	
<b>14</b>	TYPE OF REPORTING PERSON (See Instructions)  PN	

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

## CUSIP No. 81234D109

<b>1</b>	NAMES OF REPORTING PERSONS RBS Partners, L.P.	
<b>2</b>	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)  (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
<b>3</b>	SEC USE ONLY	
<b>4</b>	SOURCE OF FUNDS (See Instructions)  N/A	
<b>5</b>	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)  ..	
<b>6</b>	CITIZENSHIP OR PLACE OF ORGANIZATION  Delaware	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	<b>7</b>	SOLE VOTING POWER  17,720,580
	<b>8</b>	SHARED VOTING POWER  0
	<b>9</b>	SOLE DISPOSITIVE POWER  17,720,580
	<b>10</b>	SHARED DISPOSITIVE POWER  10,433,088
<b>11</b>	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  28,153,668	
<b>12</b>	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions)  ..	
<b>13</b>	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11  27.6% (1)	
<b>14</b>	TYPE OF REPORTING PERSON (See Instructions)  PN	

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

## CUSIP No. 81234D109

<b>1</b>	NAME OF REPORTING PERSON ESL Institutional Partners, L.P.	
<b>2</b>	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP  (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
<b>3</b>	SEC USE ONLY	
<b>4</b>	SOURCE OF FUNDS  N/A	
<b>5</b>	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)  ..	
<b>6</b>	CITIZENSHIP OR PLACE OF ORGANIZATION  Delaware	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	<b>7</b>	SOLE VOTING POWER  4,381
	<b>8</b>	SHARED VOTING POWER  0
	<b>9</b>	SOLE DISPOSITIVE POWER  4,381
	<b>10</b>	SHARED DISPOSITIVE POWER  0
<b>11</b>	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  4,381	
<b>12</b>	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES  ..	
<b>13</b>	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  0.0%(1)	
<b>14</b>	TYPE OF REPORTING PERSON (See Instructions)  PN	

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

## CUSIP No. 81234D109

1	NAMES OF REPORTING PERSONS RBS Investment Management, L.L.C.	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)  (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS (See Instructions)  N/A	
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)  ..	
6	CITIZENSHIP OR PLACE OF ORGANIZATION  Delaware	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER  4,381
	8	SHARED VOTING POWER  0
	9	SOLE DISPOSITIVE POWER  4,381
	10	SHARED DISPOSITIVE POWER  0
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  4,381	
12	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions)  ..	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11  0.0% (1)	
14	TYPE OF REPORTING PERSON (See Instructions)  OO	

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

## CUSIP No. 81234D109

1	NAMES OF REPORTING PERSONS CRK Partners, L.L.C.	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS (See Instructions) N/A	
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) ..	
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 319
	8	SHARED VOTING POWER 0
	9	SOLE DISPOSITIVE POWER 319
	10	SHARED DISPOSITIVE POWER 0
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 319	
12	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions) ..	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11 0.0% (1)	
14	TYPE OF REPORTING PERSON (See Instructions) OO	

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

## CUSIP No. 81234D109

<b>1</b>	NAMES OF REPORTING PERSONS ESL Investments, Inc.	
<b>2</b>	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)  (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
<b>3</b>	SEC USE ONLY	
<b>4</b>	SOURCE OF FUNDS (See Instructions)  N/A	
<b>5</b>	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)  ..	
<b>6</b>	CITIZENSHIP OR PLACE OF ORGANIZATION  Delaware	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	<b>7</b>	SOLE VOTING POWER 17,725,280
	<b>8</b>	SHARED VOTING POWER 0
	<b>9</b>	SOLE DISPOSITIVE POWER 17,725,280
	<b>10</b>	SHARED DISPOSITIVE POWER 10,433,088
<b>11</b>	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 28,158,368	
<b>12</b>	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions)  ..	
<b>13</b>	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11 27.6% (1)	
<b>14</b>	TYPE OF REPORTING PERSON (See Instructions)  CO	

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

## CUSIP No. 81234D109

<b>1</b>	NAMES OF REPORTING PERSONS Edward S. Lampert	
<b>2</b>	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)  (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
<b>3</b>	SEC USE ONLY	
<b>4</b>	SOURCE OF FUNDS (See Instructions)  PF	
<b>5</b>	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)  ..	
<b>6</b>	CITIZENSHIP OR PLACE OF ORGANIZATION  United States	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	<b>7</b>	SOLE VOTING POWER  28,158,368
	<b>8</b>	SHARED VOTING POWER  0
	<b>9</b>	SOLE DISPOSITIVE POWER  17,725,280
	<b>10</b>	SHARED DISPOSITIVE POWER  10,433,088
<b>11</b>	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  28,158,368	
<b>12</b>	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions)  ..	
<b>13</b>	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11  27.6% (1)	
<b>14</b>	TYPE OF REPORTING PERSON (See Instructions)  IN	

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

This Amendment No. 1 to Schedule 13D (this "Amendment") relates to common shares, no par value (the "Shares"), of Sears Canada Inc., a corporation organized under the laws of Canada (the "Issuer"). This Amendment amends the Schedule 13D, as previously filed with the Securities and Exchange Commission by ESL Partners, L.P., a Delaware limited partnership ("Partners"), ESL Investors, L.L.C., a Delaware limited liability company ("Investors"), SPE I Partners, LP, a Delaware limited partnership ("SPE I"), SPE Master I, LP, a Delaware limited partnership ("SPE Master I"), RBS Partners, L.P., a Delaware limited partnership ("RBS"), ESL Institutional Partners, L.P., a Delaware limited partnership ("Institutional"), RBS Investment Management, L.L.C., a Delaware limited liability company ("RBSIM"), CRK Partners, L.L.C, a Delaware limited liability company ("CRK"), ESL Investments, Inc., a Delaware corporation ("ESL"), and Edward S. Lampert, a United States citizen, by furnishing the information set forth below. Partners, Investors, SPE I, SPE Master I, RBS, Institutional, RBSIM, CRK, ESL and Mr. Lampert are collectively defined as the "Reporting Persons." Except as otherwise specified in this Amendment, all previous Items are unchanged. Capitalized terms used herein which are not defined herein have the meanings given to them in the Schedule 13D, as previously filed with the Securities and Exchange Commission.

The Reporting Persons are filing this Amendment to report the private sale by Investors of 680,533 Shares to Partners and 380,848 Shares to Mr. Lampert. Following this transaction, the aggregate number of Shares beneficially owned by the Reporting Persons did not change, but Investors no longer beneficially owns any Shares. Consequently, this will serve as an exit filing for Investors.

### **Item 3. Source and Amount of Funds or Other Consideration.**

Item 3 of the Schedule 13D is hereby amended and supplemented as follows:

On November 19, 2012, in a private sale, Investors sold 680,533 Shares to Partners for \$10.9868 per Share for an aggregate purchase price of approximately \$7,476,880 and 380,848 Shares to Mr. Lampert for the same price per Share for an aggregate purchase price of approximately \$4,184,301. Partners used working capital to purchase the Shares and Mr. Lampert used personal funds.

### **Item 4. Purpose of the Transaction.**

Item 4 of the Schedule 13D is hereby amended and restated in its entirety as follows:

On November 19, 2012, Investors sold 680,533 Shares to Partners and 380,848 Shares to Mr. Lampert in a private sale. Following this transaction, the aggregate number of Shares beneficially owned by the Reporting Persons did not change, but Investors no longer beneficially owns any Shares. Partners and Mr. Lampert purchased the Shares and Investors sold the Shares in this transaction as part of their ordinary course investment activities.

The Reporting Persons plan to review their investment in the Issuer on a continuing basis. Depending upon each factor discussed below and each other factor (which may be unknown at this time) that is or may become relevant, the Reporting Persons plan to consider, among other things: (a) the acquisition by the Reporting Persons of additional securities of the Issuer, or the disposition of securities of the Issuer; (b) an extraordinary corporate transaction, such as a merger, reorganization or liquidation, involving the Issuer or any of its subsidiaries; (c) a sale or transfer of a material amount of assets of the Issuer or any of its subsidiaries; (d) changes in the present board of directors or management of the Issuer; (e) a material change in the present capitalization or dividend policy of the Issuer; (f) any other material change in the Issuer's business or corporate structure; (g) changes in the Issuer's certificate of incorporation or bylaws or other actions which may impede the acquisition of control of the Issuer by any person; (h) causing any class of the Issuer's securities to be delisted from a national securities exchange or to cease to be authorized to be quoted in an inter-dealer quotation system of a registered national securities association; (i) a class of equity securities of the Issuer becoming eligible for termination of registration pursuant to Section 12(g)(4) of the Act; or (j) any action similar to those enumerated above.

Any open market or privately negotiated purchases or sales, acquisition recommendations or proposals or other transactions may be made at any time without prior notice. Any alternative may depend upon a variety of factors, including, without limitation, current and anticipated future trading prices of the securities, the financial condition, results of operations and prospects of the Issuer and general industry conditions, the availability, form and terms of financing, other investment and business opportunities, general stock market and economic conditions, tax considerations and other factors. Although the foregoing reflects plans and proposals presently contemplated by each Reporting Person with respect to the Issuer, the foregoing is subject to change at any time and dependent upon contingencies and assumed and speculative conditions, and there can be no assurance that any of the actions set forth above will be taken.

Except as described herein or to the extent that the foregoing may be deemed to be a plan or proposal, none of the Reporting Persons currently has any plans or proposals that relate to or would result in any of the actions specified in clause (a) through (j) of Item 4 of Schedule 13D. Depending upon the foregoing factors and to the extent deemed advisable in light of their general investment policies, or other factors, the Reporting Persons may, at any time and from time to time, formulate other purposes, plans or proposals regarding the Issuer or the Shares, or any other actions that could involve one or more of the types of transactions or have one or more of the results described in paragraphs (a) through (j) of Item 4 of Schedule 13D. The foregoing is subject to change at any time, and there can be no assurance that any of the Reporting Persons will take any of the actions set forth above.

#### **Item 5. Interest in Securities of the Issuer**

Item 5 of the Schedule 13D is hereby amended and restated in its entirety as follows:

(a)-(b) Each Reporting Person declares that neither the filing of this statement nor anything herein shall be construed as an admission that such person is, for the purposes of Section 13(d) or 13(g) of the Securities Exchange Act of 1934, as amended (the "Act"), or any other purpose, the beneficial owner of any securities covered by this statement.

Each Reporting Person other than Investors may be deemed to be a member of a group with respect to the Issuer or securities of the Issuer for the purposes of Section 13(d) or 13(g) of the Act. Each Reporting Person declares that neither the filing of this statement nor anything herein shall be construed as an admission that such person is, for the purposes of Section 13(d) or 13(g) of the Act or any other purpose, (i) acting (or has agreed or is agreeing to act) with any other person as a partnership, limited partnership, syndicate, or other group for the purpose of acquiring, holding, or disposing of securities of the Issuer or otherwise with respect to the Issuer or any securities of the Issuer or (ii) a member of any syndicate or group with respect to the Issuer or any securities of the Issuer.

As of November 21, 2012, the Reporting Persons may be deemed to beneficially own the Shares as set forth in the table below. 51,962,392 Shares held by Sears Holdings are excluded from the table below. As of November 1, 2012, Partners, Investors, SPE I, SPE Master I, RBS, ESL and Mr. Lampert beneficially owned 55.3%, 2.3%, 1.8%, 2.3%, 61.8%, 61.8% and 61.8%, respectively, of the total outstanding common stock of Sears Holdings. Institutional, RBSIM and CRK and each owned less than 0.1% of the total outstanding common stock of Sears Holdings as of November 1, 2012. The Reporting Persons disclaim beneficial ownership of the Shares held by Sears Holdings.

<u>FILING PERSON</u>	<u>NUMBER OF SHARES BENEFICIALLY OWNED</u>	<u>PERCENTAGE OF OUTSTANDING SHARES</u>	<u>SOLE VOTING POWER</u>	<u>SHARED VOTING POWER</u>	<u>SOLE DISPOSITIVE POWER</u>	<u>SHARED DISPOSITIVE POWER</u>
ESL Partners, L.P.	26,254,294	25.8%	15,821,206	0	15,821,206	10,433,088(6)
ESL Investors, L.L.C.	0	0.0%	0	0	0	0
SPE I Partners, LP	830,852	0.8%	830,852	0	830,852	0
SPE Master I, LP	1,068,522	1.0%	1,068,522	0	1,068,522	0
RBS Partners, L.P.	28,153,668	27.6%	17,720,580(1)	0	17,720,580(1)	10,433,088(6)
ESL Institutional Partners, L.P.	4,381	0.0%	4,381	0	4,381	0
RBS Investment Management, L.L.C.	4,381	0.0%	4,381(2)	0	4,381(2)	0
CRK Partners, L.L.C.	319	0.0%	319	0	319	0
ESL Investments, Inc.	28,158,368	27.6%	17,725,280(3)	0	17,725,280(3)	10,433,088(6)
Edward S. Lampert	28,158,368	27.6%	28,158,368(4)	0	17,725,280(5)	10,433,088(6)

- (1) This number consists of 15,821,206 Shares held by Partners, 830,852 Shares held by SPE I and 1,068,522 Shares held by SPE Master I. RBS is the general partner of, and may be deemed to indirectly beneficially own securities held by Partners, SPE I and SPE Master I.
- (2) This number consists of 4,381 Shares held by Institutional. RBSIM is the general partner of, and may be deemed to indirectly beneficially own securities held by, Institutional.
- (3) This number consists of 15,821,206 Shares held by Partners, 830,852 Shares held by SPE I, 1,068,522 Shares held by SPE Master I, 4,381 Shares held by Institutional and 319 Shares held by CRK. ESL is the general partner of RBS and is the sole member of CRK, and may be deemed to indirectly beneficially own securities that may be deemed to be indirectly beneficially owned by RBS and CRK. ESL is the manager of, and may be deemed to indirectly beneficially own securities that may be deemed to be indirectly beneficially owned by, RBSIM.
- (4) This number consists of 15,821,206 Shares held by Partners, 830,852 Shares held by SPE I, 1,068,522 Shares held by SPE Master I, 4,381 Shares held by Institutional, 319 Shares held by CRK and 10,433,088 Shares held by Mr. Lampert. Mr. Lampert is the Chairman, Chief Executive Officer and Director of, and may be deemed to indirectly beneficially own securities that may be deemed to be indirectly beneficially owned by, ESL.
- (5) This number consists of 15,821,206 Shares held by Partners, 830,852 Shares held by SPE I, 1,068,522 Shares held by SPE Master I, 4,381 Shares held by Institutional, and 319 Shares held by CRK. Mr. Lampert is the Chairman, Chief Executive Officer and Director of, and may be deemed to indirectly beneficially own securities that may be deemed to be indirectly beneficially owned by, ESL.

- (6) This number consists of 10,433,088 Shares held by Mr. Lampert. Partners has entered into a Lock-Up Agreement (the "Lock-Up Agreement") with Mr. Lampert that restricts the purchase and sale of securities held by Mr. Lampert. Pursuant to the Lock-Up Agreement, Partners may be deemed to have shared dispositive power over, and to indirectly beneficially own, securities held by Mr. Lampert. RBS, ESL and Mr. Lampert may also be deemed to have shared dispositive power over such securities.
- (c) Other than the transactions described in Item 3 hereof, since the filing of the Schedule 13D on November 13, 2012, there were no transactions in the Shares, or securities convertible into, exercisable for or exchangeable for the Shares, by the Reporting Persons.
- (d) Not applicable.
- (e) On November 19, 2012, Investors ceased to beneficially own any Shares.

**SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

November 21, 2012

**ESL PARTNERS, L.P.**

By: RBS Partners, L.P., as its general partner

By: ESL Investments, Inc., as its general partner

By: /s/ Edward S. Lampert

Name: Edward S. Lampert

Title: Chief Executive Officer

**ESL INVESTORS, L.L.C.**

By: RBS Partners, L.P., as its manager

By: ESL Investments, Inc., as its general partner

By: /s/ Edward S. Lampert

Name: Edward S. Lampert

Title: Chief Executive Officer

**SPE I PARTNERS, LP**

By: RBS Partners, L.P., as its general partner

By: ESL Investments, Inc., as its general partner

By: /s/ Edward S. Lampert

Name: Edward S. Lampert

Title: Chief Executive Officer

**SPE MASTER I, LP**

By: RBS Partners, L.P., as its general partner

By: ESL Investments, Inc., as its general partner

By: /s/ Edward S. Lampert

Name: Edward S. Lampert

Title: Chief Executive Officer

**RBS PARTNERS, L.P.**

By: ESL Investments, Inc., as its general partner

By: /s/ Edward S. Lampert

Name: Edward S. Lampert

Title: Chief Executive Officer

**ESL INSTITUTIONAL PARTNERS, L.P.**

By: RBS Investment Management, L.L.C., as its  
general partner

By: ESL Investments, Inc., as its manager

By: /s/ Edward S. Lampert

Name: Edward S. Lampert

Title: Chief Executive Officer

**RBS INVESTMENT MANAGEMENT, L.L.C.**

By: ESL Investments, Inc., as its manager

By: /s/ Edward S. Lampert

Name: Edward S. Lampert

Title: Chief Executive Officer

**CRK PARTNERS, L.L.C.**

By: ESL Investments, Inc., as its sole member

By: /s/ Edward S. Lampert

Name: Edward S. Lampert

Title: Chief Executive Officer

**ESL INVESTMENTS, INC.**

By: /s/ Edward S. Lampert

Name: Edward S. Lampert

Title: Chief Executive Officer

**EDWARD S. LAMPERT**

/s/ Edward S. Lampert

Edward S. Lampert

**TAB C**

This is Exhibit "C" referred to in the  
Affidavit of

**JONATHAN WYPYCH**

Sworn before me,  
this 1<sup>ST</sup> day of March, 2018



---

A Commissioner for taking Affidavits

Shannon Beverley Ste. Marie, a Commissioner, etc.,  
Province of Ontario, while a Student-at-Law.  
Expires March 23, 2019.



**2013**  
sears canada  
ANNUAL REPORT

a SOLID  
FOUNDATION FOR  
a STRONGER  
FUTURE

**Over the past year**, the Company has gone through a significant period of change: a rebuilding, a reinforcement of core values that helped to establish Sears initially, and the establishment of new priorities that will carry us forward through the next year and beyond.

**The strategy?** To create maximum value through the implementation of three core levers: merchandising value, efficiency value and network value. With a focus on the needs of Canadians, we will continue to serve customers as a major national retailer coast-to-coast, in stores and through our Direct channel, **now and in the future.**

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*Certain information in the accompanying "Letter to Our Shareholders" is forward-looking and is subject to important risks and uncertainties, which are described in the "Cautionary statement regarding forward-looking information" on page 12 of this Annual Report.*

## Financial Highlights

Unless otherwise noted, 2013 results reflect a 52-week period while 2012 results reflect a 53-week period.

<i>(in CAD millions, except per share amounts)</i>		<b>Fiscal 2013</b>		Fiscal 2012 <sup>1</sup>	
Total revenue	\$	<b>3,991.8</b>	\$	4,346.5	
Same store sales (%) <sup>2</sup>		<b>(2.7)%</b>		(5.6)%	
Adjusted EBITDA <sup>2</sup>		<b>35.7</b>		73.5	
Net earnings		<b>446.5</b>		101.2	
		<b>As at February 1, 2014</b>		As at February 2, 2013 <sup>1</sup>	
Cash and cash equivalents	\$	<b>513.8</b>	\$	238.5	
Working capital		<b>567.0</b>		410.7	
Inventories		<b>774.6</b>		851.4	
Total assets		<b>2,392.3</b>		2,504.7	
Total long-term obligations, including principal payments on long-term obligations due within one year		<b>35.9</b>		59.4	
Shareholders' equity		<b>1,073.8</b>		1,076.4	
		<b>As at February 1, 2014</b>		As at February 2, 2013 <sup>1</sup>	
Per share of capital stock					
Basic net earnings	\$	<b>4.38</b>	\$	0.99	
Diluted net earnings	\$	<b>4.38</b>	\$	0.99	
Shareholders' equity	\$	<b>10.54</b>	\$	10.57	

<sup>1</sup> Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".

<sup>2</sup> Same store sales and Adjusted EBITDA are operating performance and non-International Financial Reporting Standards ("IFRS") measures, respectively. See Section 1e "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings to Adjusted EBITDA".

- Revenue was \$3,991.8 million for the 52-week period ended February 1, 2014 ("Fiscal 2013") compared to \$4,346.5 million for the 53-week period ended February 2, 2013 ("Fiscal 2012"), a decrease of \$354.7 million. The decrease was primarily attributable to sales declines in home furnishings, fitness, home décor, Craftsman<sup>®</sup>, Air, Water & Paint ("CAWP") and electronics categories, partially offset by higher revenue from footwear, children's wear and men's wear. Other merchandise revenue decreased by \$134.8 million, primarily due to the licensing arrangement with SHS Services Management Inc. A further decrease of \$70.9 million was attributable to the closure of four Full-Line stores during Fiscal 2012. Revenue was also negatively impacted by approximately \$48.2 million due to the loss of the 53rd week compared to Fiscal 2012.
- Same store sales decreased 2.7% compared to Fiscal 2012. Same store sales is a measure of operating performance used by management, the retail industry and investors to compare store operations, excluding the impact of store openings and closures. See Section 1e "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings to Adjusted EBITDA."
- Gross margin rate was 36.2% for Fiscal 2013 compared to 36.7% in Fiscal 2012. The decrease in gross margin rate in Fiscal 2013 compared to Fiscal 2012 was due primarily to reduced margin in home furnishings, fitness, CAWP, electronics, and Major Appliances.
- Fiscal 2013 Adjusted EBITDA was \$35.7 million compared to \$73.5 million for Fiscal 2012. Adjusted EBITDA is a non-IFRS measure. See Section 1e "Use of Non-IFRS Measures, Measures of Operating Performance and

Reconciliation of Net Earnings to Adjusted EBITDA” regarding the use of non-IFRS measures and an explanation of components of Adjusted EBITDA for respective periods.

- Basic net earnings per common share was \$4.38 in Fiscal 2013 compared to a basic net earnings per common share of \$0.99 for Fiscal 2012.
- Total cash and cash equivalents was \$513.8 million as at February 1, 2014 compared to \$238.5 million as at February 2, 2013. The increase of \$275.3 million was primarily due to proceeds from lease terminations and lease amendments of \$590.5 million and proceeds from the sale of interests in certain joint arrangements of \$315.4 million in Fiscal 2013, partially offset by a \$509.4 million dividend payment in Fiscal 2013, purchases of \$70.8 million in property, plant and equipment and intangible assets, and settlement of long-term obligations of \$30.1 million primarily associated with the divested interest in certain joint arrangements.

## **A Solid Foundation for a Stronger Future**

### **Letter to Our Shareholders**

#### **A message from Douglas Campbell, President and Chief Executive Officer**

Sears Canada is focused on re-establishing business fundamentals, creating a solid foundation on which we can grow and establish a strong future. While there were visible improvements to Sears over the past few years, the foundation to support and sustain many of these improvements was not sufficient. Consequently, we did not see the long-term results on which we were counting. To ensure that initiatives in the future can have long-term success, we are improving our planning process, investing in systems and standardizing store execution principles.

The pace at which the enterprise has been moving since late 2013 and early 2014 to improve our results has been accelerating significantly. The management team is reviewing all areas of the organization and implementing continuing improvement initiatives.

Going forward, we will create maximum value through the use of three levers: merchandising, operating efficiency and network optimization. All three levers were used in 2013 and will continue to be employed in 2014.

#### **Merchandising**

The Merchandising lever incorporates those elements which relate to our relationship with the Canadian consumer and the goods and services we offer them. Our focus is on this lever because it is the key to long term organic growth in revenue and gross margin.

While there are several initiatives underway that relate to the work we are doing within this lever, the key ones center on:

- Sears Value Proposition
- Product Development
- Retail Fundamentals
- Direct Business

#### **Sears Value Proposition**

Sears history began over 60 years ago serving suburban and rural working Canadian families with a value proposition based on quality merchandise for a reasonable price. Today, Canadians of all walks of life, income levels and communities come to Sears because the elements of our value proposition still resonate.

Providing products to our customers that represent great value is paramount to our success. Value is a word that is thrown around a lot in the retail industry and often undefined. For Sears, it is a balance of price, quality and service. Those three elements presented in the right balance through the products we offer and the services we provide differentiate Sears in the marketplace. Many retailers are moving their proposition further and further upscale becoming more “exclusive” in the customers they serve. For Sears, we are focusing our value proposition on being an “inclusive” retailer serving all Canadians who share our view of value as that right balance of price, quality and service.

#### **Product Development**

We are increasing the products we offer under “Canada’s Best”, a seal of approval that is assigned to carefully selected fashion and home products that meet the highest standards in quality, style and innovation, and which we offer at unexpectedly reasonable prices. Our Alpinetek women’s downfilled winter parka at \$179.97, the Jessica women’s washable suit at \$79.97 and the 75,000 BTU Kenmore gas grill at \$499.97 are great examples of this program.

We continue to develop our private brands to resonate with the lifestyle of Canadians. Our Pure NRG Athletics women's activewear brand introduced in January of 2014 is an example of capitalizing on the growth of yoga, activewear and casual sportswear. The success of this line after just a few weeks is encouraging. We also introduced a private brand of casual men's sportswear in our Spring 2014 LOOK! *report*. The relaxed Logan Hill line of mix and match separates features cargo pants, chinos, shorts, sweaters, wovens, and knits from \$12.97.

Programs like these resonate well with customers and helped us gain a positive same-store sales increase in our Apparel and Accessories business of 4.2 percent in 2013 vs. 2012.

National Brands with exclusivity also provide value to Sears customers. We introduced Carter's and Osh Kosh children's apparel during the year, and Penningtons plus-sized apparel for women. We also launched Just Keep Livin' (JKL), the men's apparel line inspired by actor Matthew McConaughey's laid-back style. A portion of the proceeds of JKL support our long-time community partner, Boys and Girls Clubs of Canada. Brands like these help improve our apparel offering and complement the work we are doing with private brands.

We rebranded our Sears-O-Pedic mattress sets to Whole Home to broaden the scope of this home décor private brand. In addition, we continued to dominantly market Kenmore, Canada's number one brand of major appliances.

As we move forward in 2014, we will continue to introduce products in either private brands or exclusives to bring differentiation and innovation to our customers.

### **Retail Fundamentals**

By the end of 2013, we had refreshed or reset 58 of our full-line stores, with emphasis on merchandise presentation and standards. While we are pleased with how these stores look, we need to improve how we are executing on the fundamentals of the business.

It is futile to provide great shopping environments and not have what a customer wants when they want it. A great merchandise presentation isn't going to help sales without core sizes and colours being available to the customer. Going forward, we plan to invest in replenishment systems and training that are going to keep us in stock while improving inventory turns.

We also need to improve the balance of inventory we devote to frequently sought-after essentials. As we develop our retail fundamentals, we are focusing on stock levels in core merchandise as a priority, before moving on to other items which sometimes come with more risk.

Related to this is the tailoring of our assortments. In many categories, we are over assorted. For example, a selection of 20-plus toasters only confuses customers rather than help them. Our approach is to reduce the breadth of our assortment and use those dollars to buy adequate depth of the best items.

Effective management of inventory principles is another important retail fundamental. Reducing aged inventory allows us to buy current season goods in substantial enough quantities to stay in stock. We were successful in reducing our year-end inventory in 2013 by \$76.8 million versus the end of 2012. Taking advantage of the winter that lingered, our direction to stores was to clear out the remaining fall-winter inventory from store stockrooms and move everything to the floor priced to sell during January and February of 2014. Our intention going forward is to have inventory arrive in store and move directly to the selling floor where customers can see it. We need to flow the merchandise better on a consistent basis; this work represents a sizable amount of our effort in 2014 and we believe the payback will be significantly increased customer satisfaction and improved inventory turns.

**Direct Business**

As Canadians continue to embrace e-commerce, we are proactively managing a shift from catalogue to internet. In 2013, we experienced growth in internet that exceeded the catalogue decline. Our internet business and infrastructure to support it will be a focus of investment in 2014.

**Operating Efficiency**

Operating efficiency centers on prudent expense management and identifying inefficiencies within the business. In the immediate term, this is a priority for Sears because the initiatives we are undertaking are giving us time and capacity to establish the retail fundamentals that support our improved merchandising.

Three key components of the Operating Efficiency lever where we undertook substantial initiatives during 2013 are:

- Expense Management
- Outsourcing
- Right-Sizing

**Expense Management**

When we remove the transformation expenses which are primarily related to severance, we reduced total operating expenses in 2013 by \$98 million versus 2012. The reductions we implemented are the result of a stringent review of our business practices, and the identification of where we can be more cost efficient without affecting profitable revenue generation or customer service.

**Outsourcing**

Outsourcing is a practice we consider for non-core activities requiring significant investment when we can find a partner who can provide our customers with the level of service they would expect from Sears. For example, during 2013 we announced outsourcing for some of our customer call centre activities, some information technology, some finance, accounting and payroll, and some indirect procurement. To maintain these operations as part of Sears would have taken significant investments in technology and resources. Doing so would take away from the investment we want to make to support our core business, such as stores, marketing, replenishment system upgrades and other important information technology enhancements.

**Right-Sizing**

We also took the opportunity in 2013 to right-size the organization, including the restructure of certain businesses such as Repair Services and Parts and the de-layering of the management structure. We will continue to optimize the structure of the Company to more closely align to the size and needs of the current business.

**Network Optimization**

The Network Optimization lever is focused on maximizing the return the Company receives through its assets such as real estate and non-core businesses. In considering its real estate, the Company will evaluate opportunities that may become available to monetize assets when the market value of those assets exceeds the retailing value. Concurrently, the Company seeks creative ways to optimize and unlock the value of non-core assets in the network such as specialized businesses or non-retail related services.

Three key initiatives during 2013 which we announced were:

- Store leases
- Joint Arrangement
- Burnaby Development

**Store Leases**

In 2013, in response to substantial offers from landlords, we terminated leases early on seven stores, with an option on an eighth, for total consideration of \$591 million. While the stores involved were profitable, the value of the transaction far exceeded the EBITDA we could have realized in those stores even over a period of many years. While we have no plans to vacate additional stores, we continue to review our portfolio and may consider proposals that will substantially create value without affecting our presence as a major national retailer, or our focus on suburban, mid-market and rural locations.

**Joint Arrangement**

We sold a 50% joint arrangement interest for \$315 million in eight properties that we owned. The properties involved are comprised of four regional shopping centres, two strip centres and two open-format retail centres. While some of these properties contain a Sears location, any Sears store currently situated on these properties will remain in operation and we expect no impact on customers or associates in these stores as a result of this transaction.

**Burnaby Development**

In association with Concord Pacific Group of Companies, we are pursuing the development of the Sears site located at one of Canada's most important shopping centres, Metropolis at Metrotown in Burnaby, British Columbia. Sears submitted an application to the City of Burnaby regarding nine acres of the Company's property on and adjacent to its store at that location. The vision of the redevelopment is a major urban-infill project consisting of seven residential and office high-rises along with ground-level retail. While it is still too early to tell if conditions will allow the project to proceed, it is important to note that the Company has the potential to use assets to earn potential income and continue to operate a store with access to a great number of new condo residents and workers who will occupy the buildings planned for this space.

**A Solid Foundation for a Stronger Future**

Establishing a solid foundation for a stronger future requires the commitment of everybody in the organization. I want to thank our associates, coast to coast, for their support and hard work as we plan for the future of Sears Canada. I am excited by the energy of our team and their desire to make the Company better. Together, we are taking steps today that will allow us to continue serving customers as a major national retailer in stores and through our Direct channel now and in the years ahead.

Sincerely,



Douglas Campbell,  
President and Chief Executive Officer

### Letter from the Chief Financial Officer

The year 2013 was one that had significant challenges while, at the same time, one that had significant opportunities. When I assumed the responsibilities of the Chief Financial Officer in March 2013, I did so because I recognized both aspects and was excited to work with the rest of the management team to deal with those challenges while also capitalizing on what I believed were significant opportunities.

The financial results for the year were disappointing. Adjusted EBITDA declined to \$35.7 million in 2013 from \$73.5 million in 2012. That translates to an EBITDA margin of only 0.9% of our total revenue. This measurement, which has decreased from 5.9% only three years ago, is an area of focus for us. Over the last several years, we have been faced with continuing sales declines while our cost structure had not changed to keep pace. In the latter half of 2013, we began to take actions to correct the cost structure to more appropriately match our revenue base and continue to operate the business effectively. We will continue to carefully scrutinize costs as we learn to work smarter and more efficiently.

The Company had the opportunity to capitalize on real estate valuations in Canada to realize cash proceeds of \$906.4 million from the early termination of seven leases and the sale of certain interests in joint arrangements. The cash was received in 2013 and related pre-tax gains totaling \$643.5 million were recognized in Net Earnings in our Consolidated Statements of Net Earnings and Comprehensive Income.

It was also a year of opportunity with respect to working capital management. We generated \$73.3 million in cash from better use of working capital during 2013. This improvement was driven by lower inventory of \$76.8 million. We will continue to focus on the returns that our inventory generates for us, with better efficiency anticipated by analyzing, at the SKU level, items that do not meet a threshold level of adjusted gross profit return on average inventory (AGPROI). Consequently, the elimination of these items should result in less inventory that has to be sold at clearance prices.

We also had an opportunity to return capital to shareholders in 2013. We believe that if we cannot re-invest capital in our business with an adequate expected return, then we should return capital to our shareholders. We have allocated adequate capital investment to support the business and, therefore, were able to return capital to our shareholders. In 2013, we declared a \$5.00/share dividend and returned \$509.4 million to our shareholders.

Our financial position as we ended 2013 was strong. We had \$513.8 million of cash with no significant debt. In addition, we were undrawn on our credit facility at year-end. Based on our borrowing base and net of outstanding letters of credit of \$24.0 million, we had availability under our senior secured revolving credit facility of approximately \$374.0 bringing our total liquidity to \$887.8 million.

I would like to acknowledge and recognize the efforts of associates throughout the Sears Canada organization over the past year. We have accomplished much, but much is still left to do in 2014 to meet the challenges we face and capitalize on the opportunities that exist.



E.J. Bird  
Executive Vice-President and Chief Financial Officer

Five Year Summary	IFRS		IFRS		CGAAP		CGAAP	
	Fiscal 2013 <sup>1</sup>	Fiscal 2012 <sup>1,2</sup>	Fiscal 2011 <sup>1</sup>	Fiscal 2010 <sup>1</sup>	Fiscal 2010 <sup>3</sup>	Fiscal 2009 <sup>4</sup>		
<i>Results for the year (in CAD millions)</i>								
Total revenue	\$ 3,991.8	\$ 4,346.5	\$ 4,619.3	\$ 4,938.5	\$ 4,957.8	\$ 5,200.6		
Depreciation and amortization	111.4	126.5	114.9	123.6	104.6	117.4		
Earnings (Loss) before income taxes	490.0	114.2	(56.9)	187.1	219.8	347.6		
Income tax (expense) recovery	(43.5)	(13.0)	6.6	(62.1)	(70.0)	(112.9)		
Net earnings (loss)	446.5	101.2	(50.3)	125.0	149.8	234.7		
Dividends declared	509.4	101.9	—	753.4	753.4	—		
Capital expenditures <sup>5</sup>	70.8	101.6	84.3	60.0	62.4	65.7		
<i>Year end position (in CAD millions)</i>								
Accounts receivable, net	\$ 83.3	\$ 77.7	\$ 116.2	\$ 144.0	\$ 143.2	\$ 131.1		
Inventories	774.6	851.4	823.9	953.2	953.2	852.3		
Property, plant and equipment	785.5	1,118.5	872.0	900.7	577.4	620.2		
Total assets	2,392.3	2,504.7	2,730.7	2,907.5	2,509.8	3,404.8		
Working capital	567.0	410.7	471.0	536.9	610.6	1,114.7		
Total long-term obligations, including principal payments on long-term obligations due within one year	35.9	59.4	122.7	129.1	136.1	350.7		
Shareholders' equity	1,073.8	1,076.4	1,092.0	1,260.4	1,000.5	1,657.5		
<i>Per share of capital stock</i>								
Basic net earnings (loss)	\$ 4.38	\$ 0.99	\$ (0.48)	\$ 1.16	\$ 1.40	\$ 2.18		
Dividends declared	5.00	1.00	—	7.00	7.00	—		
Shareholders' equity	10.54	10.57	10.63	11.96	9.32	15.40		
<i>Financial ratios</i>								
Return on average shareholders equity (%) <sup>6</sup>	41.5	9.3	(4.3)	7.7	11.3	14.9		
Current ratio	1.7	1.5	1.5	1.5	1.6	1.8		
Return on total revenues (%)	11.2	2.3	(1.1)	2.5	3.0	4.5		
Debt/equity ratio (%)	3.3	5.5	11.2	10.2	13.6	21.2		
Pre-tax margin (%)	12.3	2.6	(1.2)	3.8	4.4	6.7		
<i>Breakdown of the Company's locations</i>								
Full-line Department stores	118	118	122	122	122	122		
Sears Home stores	48	48	48	48	48	48		
Outlet stores	11	11	11	11	11	12		
Specialty type: Appliances and Mattresses	4	4	4	4	4	4		
Hometown Dealer stores	234	261	285	268	268	186		
Sears Home Services Showrooms	8	9	13	13	13	13		
Corbeil	34	33	30	30	30	30		
Logistics centres	6	6	6	6	6	6		
Sears Floor Covering Centres	—	—	17	20	20	22		
Cantrex	—	—	799	768	768	793		
Travel offices	97	101	108	108	108	108		
Catalogue merchandise pick-up locations	1,446	1,512	1,734	1,822	1,822	1,853		

<sup>1</sup> The 2013 fiscal year ("Fiscal 2013"), 2012 fiscal year ("Fiscal 2012"), 2011 fiscal year ("Fiscal 2011") and 2010 fiscal year ("Fiscal 2010") refers to the 52-week period ended February 1, 2014, the 53-week period ended February 2, 2013, the 52-week period ended January 28, 2012, and the 52-week period ended January 29, 2011, respectively, reported under International Financial Reporting Standards ("IFRS").

<sup>2</sup> Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".

<sup>3</sup> The 2010 fiscal year ("Fiscal 2010") represents the 52-week period ended January 29, 2011, reported under Canadian Generally Accepted Accounting Principles ("CGAAP").

<sup>4</sup> The 2009 fiscal year ("Fiscal 2009") represents the 52-week period ended January 30, 2010, reported under CGAAP.

<sup>5</sup> Capital expenditures represents purchases for which payment has been made by the end of the fiscal year.

<sup>6</sup> The return on average shareholders' equity (%) for IFRS Fiscal 2010 was calculated taking net earnings for Fiscal 2010, divided by the average of Shareholders' equity for the period ended January 29, 2011 (\$1,260.4 million) and the opening Consolidated Statement of Financial Position as at January 31, 2010 (\$2,004.4 million) reported under IFRS.

## Quarterly Performance

The Company's operations are seasonal in nature. Accordingly, merchandise and service revenue, as well as performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch), referred to as commission revenue, will vary by quarter based upon consumer spending behaviour. Historically, the Company's revenue and earnings are higher in the fourth quarter than in any of the other three quarters due to the holiday season. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a disproportionate level of earnings in the fourth quarter. Other factors that affect the Company's sales and financial performance include actions by its competitors, timing of its promotional events, and changes in population and other demographics. Accordingly, the Company's results for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, or the full year, and comparable store sales for any particular period may increase or decrease.

The table below outlines select financial data for the eight most recently completed quarters. The quarterly results are unaudited and have been prepared under IFRS.

<i>(in CAD millions, except per share amounts)</i>	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	2013	2012 <sup>1</sup>	2013	2012 <sup>1</sup>	2013	2012 <sup>1</sup>	2013	2012 <sup>1</sup>
Total revenue	\$ 1,182.3	\$ 1,307.2	\$ 982.3	\$ 1,049.4	\$ 960.1	\$ 1,061.9	\$ 867.1	\$ 928.0
Net earnings (loss)	\$ 373.7	\$ 39.9	\$ (48.8)	\$ (21.9)	\$ 152.8	\$ (9.8)	\$ (31.2)	\$ 93.1
Basic net earnings (loss) per share	\$ 3.67	\$ 0.39	\$ (0.48)	\$ (0.22)	\$ 1.50	\$ (0.10)	\$ (0.31)	\$ 0.91
Diluted net earnings (loss) per share	\$ 3.67	\$ 0.39	\$ (0.48)	\$ (0.22)	\$ 1.50	\$ (0.10)	\$ (0.31)	\$ 0.91

<sup>1</sup> Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".

## Common Share Market Information

The table below provides prices for the Company's common shares traded on the Toronto Stock Exchange (symbol: SCC).

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	2013 <sup>1</sup>	2012 <sup>1</sup>	2013	2012	2013	2012	2013	2012
High	\$ 19.20	\$ 12.98	\$ 14.50	\$ 11.79	\$ 13.25	\$ 13.73	\$ 9.94	\$ 14.24
Low	\$ 12.07	\$ 9.50	\$ 11.70	\$ 10.10	\$ 8.96	\$ 9.76	\$ 8.85	\$ 11.60
Close	\$ 13.00	\$ 9.50	\$ 14.41	\$ 10.69	\$ 12.92	\$ 10.16	\$ 9.46	\$ 13.50
Average daily trading volume	86,585	122,655	25,813	23,487	146,327	16,694	34,326	7,784

<sup>1</sup> During Q4 2013 and Q4 2012, the Company distributed an extraordinary cash dividend to holders of common shares, of \$5.00 per share and \$1.00 per share, respectively.

## **Management's Discussion and Analysis**

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## Management's Discussion and Analysis

"Sears", "Sears Canada", "we", "us", "our" or "the Company" refers to Sears Canada Inc. and its subsidiaries, together with its investments in real estate joint arrangements.

Management's Discussion and Analysis ("MD&A") contains commentary from the Company's management regarding strategy, operating results and financial position. Management is responsible for its accuracy, integrity and objectivity, and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

This MD&A should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements for the 52-week period ended February 1, 2014 ("Fiscal 2013" or "2013"). The 2012 fiscal year refers to the 53-week period ended February 2, 2013 ("Fiscal 2012" or "2012"). The fourth quarter unaudited results for Fiscal 2013 and Fiscal 2012 reflect the 13-week period ended February 1, 2014 ("Q4 2013") and the 14-week period ended February 2, 2013 ("Q4 2012"), respectively. The 2011 fiscal year refers to the 52-week period ended January 28, 2012 ("Fiscal 2011" or "2011"). The 2014 fiscal year refers to the 52-week period ending January 31, 2015 ("Fiscal 2014" or "2014"). The 2015 fiscal year refers to the 52-week period ending January 30, 2016 ("Fiscal 2015" or "2015").

This MD&A is current as of March 13, 2014 unless otherwise stated.

Additional information relating to the Company, including the Company's Annual Information Form ("AIF") dated March 13, 2014 and the Management Proxy Circular dated March 13, 2014, can be obtained by contacting the Company at 416-941-4428. The 2013 Annual Report, together with the AIF and Management Proxy Circular, have been filed electronically with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the U.S. Securities Exchange Commission ("SEC") website at [www.sec.gov](http://www.sec.gov).

Unless otherwise indicated, all amounts are expressed in Canadian dollars.

### Cautionary Statement Regarding Forward-Looking Information

Certain information in the Annual Report and in this MD&A is forward-looking and is subject to important risks and uncertainties. Forward-looking information concerns, among other things, the Company's future financial performance, business strategy, plans, expectations, goals and objectives, and includes statements concerning possible or assumed future results set out under Section 1 "Company Performance", Section 3 "Consolidated Financial Position, Liquidity and Capital Resources", Section 4 "Financial Instruments", Section 7 "Shareholders' Equity", Section 9 "Accounting Policies and Estimates" and Section 11 "Risks and Uncertainties". Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "intends", "anticipates" or "does not anticipate" or "believes", or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although the Company believes that the estimates reflected in such forward-looking information are reasonable, such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information, and undue reliance should not be placed on such information.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the ability of the Company to successfully implement its strategic initiatives; productivity improvement and cost reduction initiatives and whether such initiatives will yield the expected benefits; the results achieved pursuant to the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase Bank, N.A. (Toronto Branch), ("JPMorgan Chase"); general economic conditions; competitive conditions in the businesses in which the Company participates; changes in consumer spending; seasonal weather patterns; weaker business performance in the subsequent quarter; customer preference toward product offerings; ability to retain senior management and key personnel; ability of the Company to successfully manage its inventory levels; disruptions to the Company's computer systems; economic, social, and political instability in jurisdictions where suppliers are located; the Company's reliance on third parties in outsourcing arrangements; structural integrity and fire safety of foreign factories; increased shipping costs, potential transportation delays and interruptions; damage to the reputations of the brands the Company sells; changes in the Company's relationship

with its suppliers; the outcome of product liability claims; any significant security compromise or breach of the Company's customer, associate or Company information; the credit worthiness and financial stability of tenants, partners and co-arrangers, with respect to the Company's real estate joint arrangements; the credit worthiness and financial stability of the Company's licensees and business partners; possible changes in the Company's ownership by Sears Holdings Corporation ("Sears Holdings") and other significant shareholders; possible limits on our access to capital markets and other financing sources; interest rate fluctuations and other changes in funding costs and investment income; fluctuations in foreign currency exchange rates; the possibility of negative investment returns in the Company's pension plan or an increase to the defined benefit obligation; the impairment of goodwill and other assets; new accounting pronouncements, or changes to existing pronouncements, that impact the methods we use to report our financial position and results from operations; uncertainties associated with critical accounting assumptions and estimates; the outcome of pending legal proceedings; compliance costs associated with environmental laws and regulations; maintaining adequate insurance coverage; the possible future termination of certain intellectual property rights associated with the "Sears" name and brand names if Sears Holdings reduces its interest in the Company to less than 25%; and changes in laws, rules and regulations applicable to the Company. Information about these factors, other material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in preparing forward-looking information, may be found in this MD&A and in the Company's 2013 Annual Report under Section 11 "Risks and Uncertainties" and elsewhere in the Company's filings with securities regulators. The forward-looking information in the Annual Report and in this MD&A are, unless otherwise indicated, stated as of the date hereof and are presented for the purpose of assisting investors and others in understanding our financial position and results of operations as well as our objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

## 1. Company Performance

### a. Business Segments

Sears classifies its operations in two reportable business segments: merchandising and real estate joint arrangements.

#### Merchandising Operations

The Company's merchandising segment includes the sale of goods and services through the Company's Retail channels, which includes its Full-Line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electrique Inc. ("Corbeil") stores and its Direct (catalogue/internet) channel. It also includes service revenue related primarily to product repair. Commission revenue includes travel, home improvement services, insurance and performance payments received from JPMorgan Chase under the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has a multi-year licensing arrangement with TravelBrands Inc. ("TravelBrands"), (formerly known as Thomas Cook Canada Inc.), under which TravelBrands manages the day-to-day operations of all Sears Travel offices and provides commissions to the Company. The Company also entered into a multi-year licensing arrangement with SHS Services Management Inc. ("SHS"), under which SHS oversaw the day-to-day operations of all Sears Home Installed Products and Services business ("HIPS"). Licensee fee revenues are comprised of payments received from licensees, including TravelBrands and SHS, that operate within the Company's stores.

#### Retail Channel

**Full-Line Department stores** – Sears Full-Line Department stores are located primarily in suburban enclosed shopping centres. 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, electronics and leisure, and seasonal products.

Major Appliances - refrigeration, laundry, ranges, floorcare and sewing.

Although merchandise varies by store, the merchandise sales mix between the three major categories are approximately 60% Apparel & Accessories, 20% Home & Hardlines and 20% Major Appliances.

Full-Line Department stores include a Sears catalogue merchandise pick-up location. Sears Travel offices and licensed businesses, such as optical centres and portrait studios, are also located in many of the Company's Full-Line Department stores.

**Sears Home stores** – Sears Home stores are typically located in power centres and present an extensive selection of furniture, mattresses and box-springs, and major appliances, as well as a limited selection of electronics. The majority of these stores range in size from 35,000 to 60,000 square feet.

**Hometown Dealer stores** – Sears Hometown Dealer locations are primarily independently operated and offer major appliances, furniture, mattresses and box-springs, electronics, outdoor power equipment as well as a catalogue merchandise pick-up location. Most Hometown Dealer stores are located in markets that lack the population to support a Full-Line department store.

**Outlet stores** – Sears Outlet stores offer clearance merchandise, particularly from the Company's Full-Line Department stores and Direct channel, as well as surplus big-ticket items from all channels.

**Appliances and Mattresses stores** – The Sears Appliances and Mattresses stores are part of the Company's strategy to bring its product categories to a growing number of customers who shop in conveniently located power centres. These stores are smaller in size (approximately 10,000 to 15,000 square feet) and feature a wide selection of major appliances, and mattresses and box-springs, and include Sears private labels and a variety of national brands.

**Corbeil** – Corbeil is a chain of major appliance specialty stores located throughout Québec, the Greater Toronto Area and Eastern Ontario. There are 34 stores in the chain, 16 of which are franchised. The chain also includes one liquidation centre and one distribution centre in Montreal. Stores average approximately 6,500 square feet in size.

**Sears Travel** – Sears Travel service operates within 97 Sears locations across Canada, an online travel service at [www.searstravel.ca](http://www.searstravel.ca) and 1-866-FLY-SEARS, which connects customers to the nearest geographical branch. From January 30, 2011, TravelBrands commenced management of the day-to-day operations of all Sears Travel offices and the Sears Travel website.

### *Sears Home Services*

In 2012, Sears combined HIPS, and Repair Services and Parts, under the brand name Sears Home Services. In March 2013, the HIPS business was licensed to SHS, an independent third party, which continued to operate under the Sears Home Services brand. In December 2013, SHS entered receivership and all offers of services provided by SHS ceased. In January 2014, pursuant to an order of the Ontario Superior Court of Justice (Commercial List), PricewaterhouseCoopers Inc. was appointed receiver, without security, of all of the assets, undertakings and property of SHS. Sears Home Services no longer offers HIPS services. Repair Services and Parts, carpet and upholstery cleaning services, and installation and assembly of products purchased at Sears stores continue to be offered by Sears under the Sears Home Services brand. Refer to Note 14 “Financial instruments” of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

### *Direct Channel*

The Company’s Direct channel is comprised of its catalogue business, which is Canada’s largest general merchandise catalogue business, and [Sears.ca](http://Sears.ca), one of Canada’s leading online shopping destinations with over 89 million visits in Fiscal 2013. With two distribution centres exclusively dedicated to servicing the Direct channel and 1,446 catalogue merchandise pick-up locations nationwide, Sears can deliver orders in most areas of the country. Orders can be placed by telephone at 1-800-26-SEARS, by mail, by fax, online at [Sears.ca](http://Sears.ca) or in person through Sears stores and catalogue agents. At the end of Fiscal 2013, 1,279 of the total 1,446 catalogue merchandise pick-up locations were independently operated under local ownership, with the remaining 167 units located within Sears locations.

**Catalogue** – In Fiscal 2013, 16 different catalogues were distributed throughout Canada. In addition, during Fiscal 2013, Sears distributed 11 Specialogues designed to offer more seasonally relevant merchandise to specific customers.

**Sears.ca** – The Company’s website, [Sears.ca](http://Sears.ca), enables the Company to provide new merchandise offers directly to web customers and highlights the Company’s extensive general merchandise selection. In Fiscal 2013, the Company continued to invest in its online capabilities to improve the user experience, and engage new customers and demographics. Sears is committed to maintaining its reputation as a trusted Canadian retailer by focusing on customer privacy, security, and satisfaction when shopping on [Sears.ca](http://Sears.ca).

### *Logistics*

**National Logistics Centre (“NLC”)** – Sears operates six logistics centres strategically located across the country. The logistics centres are comprised of seven owned and three leased warehouse facilities which serve all channels of the business. The total floor area of these logistics centres was 6.5 million square feet at the end of Fiscal 2013, of which 5.6 million square feet is devoted to warehouse and logistics operations. The remainder of the space is utilized for other Sears operations, including call centre services. The Regina, Saskatchewan, logistics centre will be closed in Fiscal 2014 and will be replaced by a new logistics centre located in Calgary, Alberta. See Note 29 “Assets classified as held for sale” of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

**S.L.H. Transport Inc. (“SLH”)** – The Company’s wholly-owned subsidiary, SLH, transports merchandise to stores, catalogue merchandise pick-up locations, and directly to customers. SLH is responsible for providing logistics services for the Company’s merchandising operations by operating a fleet of tractors and trailers to provide carrier services for Sears and contract carrier services to commercial customers who are unrelated to Sears. The arrangements with third parties increase SLH’s fleet utilization and improve the efficiency of its operations. SLH has developed a nationwide distribution network to provide better and more consistent service to its customers.

As at the end of Fiscal 2013, Fiscal 2012, and Fiscal 2011, the Company’s locations were distributed across the country as follows:

	Atlantic	Québec	Ontario	Prairies	Pacific	As at February 1, 2014 Total	As at February 2, 2013 Total	As at January 28, 2012 Total
Full-Line Department	12	27	45	20	14	118	118	122
Sears Home stores	2	12	19	10	5	48	48	48
Outlet stores	1	1	6	1	2	11	11	11
Specialty type: Appliances and Mattresses stores	—	—	3	1	—	4	4	4
<b>Corporate stores</b>	15	40	73	32	21	181	181	185
<b>Hometown Dealer stores</b>	47	26	51	65	45	234	261	285
<b>Sears Home Services Showrooms</b>	—	2	3	1	2	8	9	13
Corbeil Franchise stores	—	14	2	—	—	16	17	19
Corbeil Corporate stores	—	12	6	—	—	18	16	11
<b>Corbeil</b>	—	26	8	—	—	34	33	30
NLCs	—	1	2	2	1	6	6	6
<b>Sears Floor Covering Centres</b>	—	—	—	—	—	—	—	17
<b>Cantrex</b>	—	—	—	—	—	—	—	799
<b>Travel offices</b>	7	21	38	17	14	97	101	108
<b>Catalogue merchandise pick-up locations</b>	206	333	406	362	139	1,446	1,512	1,734

In Fiscal 2013, the Company closed 28 Hometown Dealer stores, four Travel offices, and 66 Catalogue merchandise pick-up locations. The Company also opened a Hometown Dealer store. Five Full-Line stores will be closed during the first quarter of 2014 and an additional two Full-Line stores will be closed during the first quarter of 2015. Refer to Note 28 "Gain on lease terminations and lease amendments" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

In Fiscal 2012, the Company closed four Full-Line stores as a result of the lease terminations and lease amendments that occurred during the year. The Company also closed 222 Catalogue merchandise pick-up locations, 24 Hometown Dealer stores and 17 Floor Covering Centres. During the second quarter of 2012, Cantrex Group Inc. ("Cantrex") was sold. Refer to Note 30 "Sale of Cantrex Group Inc." of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

In Fiscal 2011, the Company opened 20 Hometown Dealer stores and 3 Catalogue merchandise pick-up locations. The Company also closed three Hometown Dealer stores, three Floor Covering Centres and 91 Catalogue merchandise pick-up locations.

As of the end of Fiscal 2013, the number of selling units leased and owned by the Company was as follows:

	Leased	Owned	Total
Full-Line Department <sup>1</sup>	104	14	118
Sears Home stores	46	2	48
Outlet stores	11	—	11
Specialty type: Appliances and Mattresses stores	4	—	4
Hometown Dealer stores <sup>2</sup>	13	—	13
Corbeil <sup>2</sup>	30	—	30
<b>Total<sup>3</sup></b>	<b>208</b>	<b>16</b>	<b>224</b>

<sup>1</sup> Full-Line Department stores include Sears stores that are part of the joint arrangements with Ivanhoe Cambridge Properties.

<sup>2</sup> Only Hometown Dealer and Corbeil stores that are not independently owned and operated are included.

<sup>3</sup> Sears Home Services Showrooms, Travel offices and Catalogue merchandise pick-up locations are located in other Sears stores or local businesses, and therefore not included.

As at the end of Fiscal 2013, Fiscal 2012, and Fiscal 2011, the gross square footage for corporate store locations and NLCs was as follows:

(square feet, millions)	As at February 1, 2014	As at February 2, 2013	As at January 28, 2012
Full-Line Department stores	15.2	15.2	16.5
Sears Home stores	2.1	2.1	2.1
Outlet stores	0.8	0.8	0.8
Appliances and Mattresses stores	0.1	0.1	0.1
Corbeil	0.1	0.1	0.1
NLCs	6.5	6.5	6.5
<b>Total</b>	<b>24.8</b>	<b>24.8</b>	<b>26.1</b>

Gross square footage for corporate store locations as at February 1, 2014 remained the same as compared to February 2, 2013. As of March 1, 2014, the gross square footage for Full-Line Department stores decreased to 14.5 million square feet due to three Full-Line store closures as a result of lease terminations and lease amendments during Fiscal 2013 as described in Note 28 "Gain on lease terminations and lease amendments" of the Notes to the Consolidated Financial Statements for Fiscal 2013.

Gross square footage for corporate store locations as at February 2, 2013 decreased compared to January 28, 2012 due to four Full-Line store closures as a result of lease terminations and lease amendments during Fiscal 2012.

### Real Estate Joint Arrangements

Sears has joint arrangement interests in three shopping centres across Canada and records these interests in the Company's financial statements. Joint arrangement interests in the shopping centres range from 15% to 20%, and are co-owned with Ivanhoe Cambridge Properties ("Ivanhoe"). Sears is not involved in the day-to-day management of the shopping centres, but the major decisions regarding these joint arrangements requires the unanimous consent of Ivanhoe and the Company.

The primary objective of the Company's real estate joint arrangements is to maximize the returns on its investment in shopping centre real estate. Sears reviews the performance of these joint arrangements on a regular basis. Shopping centres are considered non-core assets.

The Company's shopping centre joint arrangements are in partnership with Ivanhoe. The jointly controlled entities and the Company's ownership interest in each as at February 1, 2014 are listed below:

Entity Name	Properties	Joint Arrangement Partner	Ownership Interest
Kildonan Place	Kildonan Place	Ivanhoe Cambridge	20%
Regionaux (Les Rivières Shopping Centre)	Les Rivières Shopping Centre	Ivanhoe Cambridge	15%
Regionaux (Les Galeries de Hull)	Les Galeries de Hull	Ivanhoe Cambridge	15%

During the fourth quarter of 2013, the Company sold its interest in the properties co-owned with The Westcliff Group of Companies ("Westcliff") for total proceeds of \$315.4 million, recognizing a pre-tax gain of \$66.3 million on the sale. During the fourth quarter of 2012, the Company sold its share of assets in Medicine Hat for net proceeds of \$38.3 million, recognizing a pre-tax gain of \$8.6 million on the sale.

### b. Core Capabilities

The Company's key resources and capabilities include its associates, brand equity, specialized services, national presence and logistics. The Company's ability to raise funds and working capital to support its operations is also a key capability and is discussed further in Section 3 "Consolidated Financial Position, Liquidity and Capital Resources" of this MD&A.

#### *Associates*

- Sears associates are a critical asset to the Company. Sears works to inspire its associates to be committed to building lifelong customer relationships built on trust;

#### *Brand equity*

- The Company works closely with its suppliers in product development, design and quality standards. Many lines of merchandise are manufactured with features exclusive to Sears and are sold under the Company's private label brands, such as Jessica<sup>®</sup>, Nevada<sup>®</sup>, Attitude<sup>®</sup>, Whole Home<sup>®</sup>, Kenmore<sup>®</sup> and Craftsman<sup>®</sup>. The Company believes that its private label and national brands have significant recognition and value with customers;

#### *Specialized services*

- Apart from retail merchandise, the Company also offers a wide range of specialized services to attract a broad customer base. These services include product repair, parts provision, portrait studios, optical services, travel, floral delivery, wireless and long distance plans, insurance and deferred financing;

#### *National Presence*

- The Company's expansive physical and online presence puts it in proximity to customers all across Canada. Sears operates 118 Full-Line Department stores, 331 specialty stores (including 48 Sears Home stores, 11 Outlet stores, 4 Appliances and Mattresses stores, 234 Hometown Dealer stores primarily operated under independent local ownership and 34 Corbeil stores), 97 Sears Travel offices and over 1,400 merchandise pick-up locations for orders placed through the catalogue or online at [www.sears.ca](http://www.sears.ca); and

#### *Logistics*

- The ability to move merchandise efficiently to stores, merchandise pick-up locations, or directly to customers, is one of the Company's key capabilities. The Company's wholly-owned subsidiary, SLH, is responsible for providing transportation services for the Company's merchandising operations and has arrangements with third parties to increase SLH's revenue and fleet utilization, and improve its operating effectiveness. The Company conducts operations in six NLCs located in Vancouver, Calgary, Regina, Vaughan, Belleville and Montreal.

### **c. Strategic Initiatives**

During Fiscal 2013, Sears Canada undertook a number of strategic initiatives to continue improving the performance of the Company. These initiatives are designed to allow the Company to continue serving customers as a national retailer in stores and through its Direct channel.

The overarching goal of the Company is to maximize total value by using three value levers as follows:

1. **Merchandising Value:** Establishing a focus on the Sears value proposition that provides customers with a balance of quality, price, and service. The Company's buying and marketing strategies are designed to deliver the value proposition consistently across all products, stores and formats.
2. **Operating Efficiency Value:** Managing expenses prudently and identifying inefficiencies within the business. The Company has undertaken right-sizing and outsourcing initiatives and will modify business models when appropriate to ensure the size of the Company is aligned to the current volume of business.
3. **Network Optimization Value:** Maximizing return on assets such as real estate and non-core businesses. The Company will evaluate opportunities to monetize non-core assets when the market value of those assets exceeds the retailing value, while seeking ways to optimize and unlock the value of the network.

During Fiscal 2013, the Company undertook the following key initiatives to maximize total value and improve the performance of its operations.

#### **Merchandising Value**

- Building on the launch of two refreshed Sears Home stores in Ancaster and Whitby, Ontario in July 2013, Sears opened a redesigned Sears Home store in Burlington, Ontario in November 2013. The new store format offers Canada's largest selection of customizable furniture and new brand offerings that help customers give their homes a unique and personal touch. Major appliances are offered via appliance specialist Corbeil, and are presented as a Corbeil 'store-within-a-store'

in each location. It also features a number of self-contained boutique rooms that bring the product to life and allows customers to see an entire collection or look displayed together;

- Introduced the Carter's® family of baby and children's wear brands to Sears. The well-loved Carter's® and OshKosh B'gosh® labels feature thoughtful design details and quality craftsmanship, and make a great addition to "The Baby's Room," the nursery and infant accessories department at Sears. The launch was celebrated at the Toronto Eaton Centre on Ontario's Family Day, February 18, 2013, with an event in The Baby's Room, where families could enjoy kid-friendly refreshments and entertainment while they shopped for all things kids and baby;
- Created additional "hero" categories with footwear, dresses, suits and home décor to drive consumers' consideration of Sears when purchasing these products. In the first quarter of Fiscal 2013, Sears launched a footwear digest; introduced Canada's Best Dress shirt in the Men's Suit Shop; and launched a new Whole Home® Serveware line;
- Introduced private label Nevada® apparel in Fall 2013, designed by the Buffalo Group, and introduced a relationship with international supermodel and actress Bar Refaeli, to be the face of Nevada®;
- Following Sears successful Black Friday promotion that coincided with Canadian Thanksgiving in October, the first of its kind in Canada, the Company celebrated its annual November Black Friday sale in stores and online at [www.sears.ca](http://www.sears.ca). This promotion helped kick off the final month of the Holiday shopping season. It ran from Thursday, November 28 to Monday, December 2. Sears offered hundreds of items at specially marked prices backed by a price match guarantee; and
- Introduced Penningtons plus-size apparel to Catalogue, online and in five retail stores. Four two-page ads featured styles for the upcoming season and provided Catalogue customers with access to this popular and fashionable brand.

#### **Operating Efficiency Value**

- Announced the future opening of a new state-of-the-art distribution centre located in Calgary, Alberta to handle small ticket customer orders placed through the Company's Direct channel destined for homes in Western Canada, as part of the Company's initiative to improve customer service. The new facility is expected to allow for faster processing and fulfillment of orders, and cut down on shipping times for most orders. To accommodate this new facility, Sears announced that it would close an NLC located in Regina, Saskatchewan;
- Modified our store structure to improve efficiency and increase the effectiveness of the chain of communication between management and the store associate teams within the stores, primarily by eliminating a mid-tier level of leads within the Company's Full-Line stores. This move is expected to help reduce inefficiencies and result in better store execution and consistency of merchandise presentation and standards;
- Entered into an agreement with third party vendor IBM Canada Limited ("IBM") to outsource certain work currently being performed at three internal Sears Customer Contact Centres. The move to IBM is expected to enable Sears to realize capability upgrades which are expected to result in better processes, controls and tracking, and an overall improvement in the customer experience. The transfer of responsibility, which is designed to be seamless to customers, will take place over a nine month period ending in September 2014;
- Entered into agreements with third party suppliers to outsource certain work currently performed by internal Sears resources in four areas: the Application Development and Application Management function in the Information Technology ("IT") group, Indirect Procurement, Finance and Accounting, and Payroll. The third party suppliers, IBM for IT and Indirect Procurement, and Wipro Limited ("Wipro") for Finance and Accounting and Payroll, will provide an overall improvement in efficiency, allowing Sears to focus more on its core retailing business;
- Implemented a number of significant changes to the Repair Services and Parts businesses designed to improve efficiency, profitability and overall customer experience. In Repair Services, the Company will shift to using Sears-authorized contracted technicians in mid-markets, while major markets will continue to be primarily serviced by a streamlined team of Sears technicians. In the Parts division, 16 existing stand-alone Parts processing locations and a central processing centre in Belleville, Ontario will be consolidated into three major fulfillment centres located in Calgary, Toronto and Montreal. Where a Parts processing location is closed outside of these three cities, a Parts counter will open in a nearby Sears location; and

- Announced that in connection with these initiatives, Sears has reduced staffing levels in its head office and logistics team, to align the Company's support structure with the size and volume of the organization as well as take advantage of improved internal processes that have been recently implemented to improve efficiency.

#### **Network Optimization Value**

- Entered into a binding agreement with Concord Pacific Group of Companies ("Concord") to pursue the development of the Sears site located at the Metropolis at Metrotown in Burnaby, British Columbia (the "Project"). On June 7, 2013, Sears confirmed that it had submitted an application to the City of Burnaby regarding a proposed comprehensive mixed-use project including a new Sears store located on nine acres of the Company's property and adjacent to its store at that location. The arrangement contemplates the sale of a 50% interest in the site for a value of approximately \$140.0 million, subject to adjustments, and the retention of Concord on customary terms to manage most facets of the development. The estimated cost, funded by Concord, to fully develop and build the Project as contemplated is currently in excess of \$1.0 billion;
- Announced and closed a transaction with Montez Income Properties Corporation to sell the Company's 50% joint arrangement interest in eight properties Sears co-owned with Westcliff. The agreement covered four regional shopping centres, two strip centres and two open-format retail centres. Total gross proceeds on the transaction was \$315.4 million. The Sears stores that are currently situated on the impacted properties will remain in operation; there will be no impact on customers or associates in these stores as a result of this transaction; and
- Closed transactions to amend or terminate the leases of the Company's stores at Sherway Gardens (Toronto), Markville Shopping Centre (Markham), Masonville Place (London), Richmond Centre (British Columbia), Yorkdale Shopping Centre (Toronto), and Square One Shopping Centre (Mississauga), and terminated the lease on the retail floors at the Toronto Eaton Centre ("TEC"). These transactions provided the Company total consideration of \$591.0 million. The Company will continue to use the office floors of the TEC as its headquarters under terms consistent with the existing lease. Sears vacated the TEC, Sherway Gardens and Masonville Place stores by February 28, 2014, and expects to vacate the Yorkdale Shopping Centre and Square One Shopping Centre by March 31, 2014, and the Markville Shopping Centre and Richmond Centre by February 28, 2015.

#### ***"Live Green" Initiatives***

The Company conducts its operations with a commitment to achieving success on economic, social and environmental levels. The Company continues to build upon the following three-point plan on environmental sustainability:

1. Enable customers to "Live Green", reduce their energy bills and create a healthy home;
2. Reduce the environmental impact of Sears Canada's operations; and
3. Nurture a culture of sustainability among the Company's associates, customers and the communities in which the Company operates.

Sears continued to focus on these three priorities by implementing the following initiatives during Q4 2013:

- Received the Fundraiser of the Year Award from WWF Canada through its Living Planet @ Work program. The award is in recognition of Sears Canada's participation and fundraising efforts in the 2013 WWF Canada CN Tower Climb in which 75 Sears associates participated and over \$21,000 was raised. This is the second consecutive year that Sears has received the Fundraiser of the Year Award from WWF Canada;
- Named the 2013 ENERGY STAR<sup>®</sup> Retailer of the Year by Natural Resources Canada. This is the sixth consecutive year that Sears received this prestigious award from the Government of Canada for empowering customers to reduce their energy use, and the seventh time overall since the program was launched in 2003; and
- Have been collecting waste styrofoam at our NLC in Calgary from various Sears locations, diverting this waste from landfill. The styrofoam was deposited into a WC3000 densifier machine, which produced approximately 30 tons of compacted foam for 2013. The compacted foam was then shipped to a third party to be made into picture frames.

### *Corporate Social Responsibility*

The following is a summary of the results of the Company and its associates' corporate social responsibility efforts during Fiscal 2013:

- Completed fund-raising campaigns for the Canadian Red Cross Alberta Floods and Lac-Mégantic Train Derailment disaster relief efforts. Sears, along with our customers and associates, facilitated the donation of \$100,000 to the Canadian Red Cross Alberta Flood effort and over \$10,000 in Québec for the Lac-Mégantic campaign. In addition, Sears also provided special discount programs to assist residents in flood zones in Alberta with needed purchases;
- Raised over \$390,000 by sponsoring the 26th Annual Sears Boys & Girls Club Golf Tournament in Stouffville, Ontario, in August, and the annual Opération Enfant Soleil ("OES") Golf Tournament held at Elm Ridge Golf Club near Montréal. The tournaments support children and youth development and children's pediatrics in Québec, respectively;
- The Sears Great Canadian Run completed its third year with community-based relays from Ottawa to Montebello and from Toronto to Blue Mountain/Collingwood, donating almost \$600,000 to regional and national children's oncology programs and research supported by the Sears Canada Charitable Foundation;
- Sponsored the sixth annual Sears National Kids Cancer Ride (the "Ride"), in cooperation with Coast to Coast Against Cancer Foundation. This 7,000 km cycling journey rolled across Canada from September 5-21, 2013, raising funds and awareness for the fight against childhood cancer. This year, Sears, its customers and its associates raised or donated over \$550,000 in funds and logistical support and services for the Ride;
- Supported over 300 local store charity partners through the sale of our Holiday charity plush, Nate<sup>TM/MC</sup> the bear. Sears charity plush has been helping children since 1998, raising over \$1.4 million since 2005. Two dollars from the sale of each bear supported the healthy development of Canadian youth through after-school and children's health initiatives as well as the Canadian Association of Military Family Resource Centres; and
- The Sears Tree of Wishes in Sears Full-Line and select Home, Outlet and Hometown Dealer stores helped to bring joy to less fortunate children who may have otherwise not received a gift this Holiday season. For the 2013 Holiday season, the Tree of Wishes program helped to bring smiles to about 8,000 children, with Sears customers and associates donating gifts valued at over \$237,000.

#### **d. Outlook**

As Canadians' needs in a shopping experience evolve, Sears Canada is focused on keeping pace with emerging trends and innovative delivery of products and services, and is reinvigorating its business to better serve and grow with its customers. For the upcoming year, Sears will refocus attention on retail fundamentals. This will include enhancements to systems and processes in order to improve our ability to have the right merchandise in the right locations at the right time in the right quantity at the right price. Some of the priorities for Fiscal 2014 include the following:

- Leveraging the Company's merchandising capability to effectively establish and communicate the Sears' value proposition, which is its balance of quality, price and service to Canadians coast to coast across all products, locations and formats. Marketing will be centered on customers who are seeking quality products at reasonable prices, as Sears responds to the needs of this segment of the population most effectively;
- Improving the Company's efficiency by ensuring that costs and expenses are managed carefully to support the needs of the business and are competitive with other major retailers operating in the Canadian marketplace; and
- Creating additional value for the Company by looking for opportunities to monetize non-core assets, such as real estate.

Although management believes that Sears will achieve its long-term goal of sustainable and profitable growth, there can be no assurance that the Company will successfully implement these strategic initiatives or whether such initiatives will yield the expected results. For a discussion of the risks and uncertainties inherent in the Company's business, refer to Section 11 "Risks and Uncertainties".

#### e. Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings to Adjusted EBITDA

The Company's consolidated financial statements are prepared in accordance with IFRS. Management uses IFRS, non-IFRS and operating performance measures as key performance indicators to better assess the Company's underlying performance and provides this additional information in this MD&A.

Same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. The same store sales metric excludes the Direct channel. Same store sales represents merchandise sales generated through operations in the Company's Full-Line, Sears Home, Hometown Dealer and Corbeil stores that were continuously open during both of the periods being compared. More specifically, the same store sales metric compares the same calendar weeks for each period and represents the 13 and 52-week periods ended February 1, 2014 and the 14 and 53-week periods ended February 2, 2013. The calculation of same store sales is a performance metric and may be impacted by store space expansion and contraction.

A reconciliation of the Company's total revenue to same store sales is outlined in the following table:

<i>(in CAD millions)</i>	Fourth Quarter		Fiscal	
	2013 <sup>1</sup>	2012	2013 <sup>1</sup>	2012
Total revenue	\$ 1,169.2	\$ 1,298.0	\$ 3,945.8	\$ 4,300.7
Non-comparable store sales	335.4	364.5	1,003.5	1,169.6
Same store sales	833.8	933.5	2,942.3	3,131.1
Percentage change in same store sales	(6.4)%	(3.8)%	(2.7)%	(5.6)%
Percentage change in same store sales by category				
Apparel & Accessories	1.1 %	0.4 %	4.2 %	(5.9)%
Home & Hardlines	(15.5)%	(12.8)%	(10.8)%	(11.2)%
Major Appliances	(9.0)%	(0.4)%	(4.2)%	0.5 %

<sup>1</sup> Same store sales were adjusted to exclude the impact of the extra week in Fiscal 2012 and Q4 2012.

Adjusted EBITDA is a non-IFRS measure and excludes finance costs, interest income, income tax expense or recovery, depreciation and amortization and income or expenses of a non-recurring, unusual or one-time nature. Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's operating performance, ability to incur and service debt, and as a valuation metric. The Company uses Adjusted EBITDA to evaluate the operating performance of its business as well as an executive compensation metric. While Adjusted EBITDA is a non-IFRS measure, management believes that it is an important indicator of operating performance because it excludes the effect of financing and investing activities by eliminating the effects of interest and depreciation and removes the impact of certain non-recurring items that are not indicative of our ongoing operating performance. Therefore, management believes Adjusted EBITDA gives investors greater transparency in assessing the Company's results of operations.

These measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Adjusted EBITDA should not be considered in isolation or as an alternative to measures prepared in accordance with IFRS.

A reconciliation of the Company's net earnings to Adjusted EBITDA is outlined in the following table:

<i>(in CAD millions, except per share amounts)</i>	Fourth Quarter		Fiscal	
	2013	2012 <sup>12</sup>	2013	2012 <sup>12</sup>
Net earnings	\$ 373.7	\$ 39.9	\$ 446.5	\$ 101.2
Transformation expense <sup>1</sup>	51.2	12.6	72.9	12.6
Gain on lease terminations and lease amendments <sup>2</sup>	(391.5)	—	(577.2)	(167.1)
Gain on sale of interest in joint arrangements <sup>3</sup>	(66.3)	(8.6)	(66.3)	(8.6)
Gain on settlement and amendment of retirement benefits <sup>4</sup>	(42.5)	(21.1)	(42.5)	(21.1)
Lease exit costs <sup>5</sup>	5.4	2.0	5.6	8.0
Accelerated tenant inducement and average rent amortization <sup>6</sup>	2.3	—	(2.2)	(4.0)
Goodwill impairment <sup>7</sup>	—	—	6.1	—
Regina impairment <sup>8</sup>	—	—	16.5	—
Other asset impairment <sup>9</sup>	11.2	2.2	11.2	2.2
SHS warranty costs <sup>10</sup>	2.0	—	2.0	—
Depreciation and amortization expense	23.6	30.5	111.4	126.5
Finance costs	2.7	2.9	10.8	15.1
Interest income	(1.0)	(0.9)	(2.6)	(4.3)
Income tax expense	47.2	8.0	43.5	13.0
Adjusted EBITDA <sup>11</sup>	\$ 18.0	\$ 67.5	\$ 35.7	\$ 73.5
Basic net earnings per share	\$ 3.67	\$ 0.39	\$ 4.38	\$ 0.99

<sup>1</sup> Transformation expense during 2013 and 2012 relates primarily to severance costs incurred during the year.

<sup>2</sup> Gain on lease terminations and lease amendments represents the pre-tax gain on the early vacating of properties described in Note 28 of the Company's consolidated financial statements for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013.

<sup>3</sup> Gain on sale of interest in joint arrangements represents the gain associated with selling the Company's interest in the properties co-owned with the Westcliff Group of Companies, described in Note 11 of the Company's consolidated financial statements for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013.

<sup>4</sup> Gain on settlement and amendment of retirement benefits primarily represents the settlement and freezing of retirement benefits of eligible members covered under the non-pension retirement plan described in Note 20 of the Company's consolidated financial statements for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013.

<sup>5</sup> Lease exit costs represent costs incurred to exit properties referred to in footnote 2 above.

<sup>6</sup> Accelerated tenant inducement and average rent amortization represents the accelerated amortization of lease inducements and average rent assets relating to the properties in footnote 2 above.

<sup>7</sup> Goodwill impairment represents the charge related to the writeoff of goodwill allocated to the HIPS cash generating unit described in Note 10 of the Company's consolidated financial statements for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013.

<sup>8</sup> Regina impairment represents the charge related to writing down the carrying value of the property, plant and equipment and investment property of one of the Regina logistics centres ("RLC"), to the fair value less costs to sell described in Note 29 of the Company's consolidated financial statements for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013.

<sup>9</sup> Other asset impairment represents the charge related to writing down the carrying value of the property, plant and equipment of certain cash generating units described in Note 9 of the Company's consolidated financial statements for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013.

<sup>10</sup> SHS warranty costs represents the estimated costs to the Company related to potential claims for work that had been performed by SHS, prior to SHS announcing it was in receivership described in Note 14 of the Company's consolidated financial statements for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013.

<sup>11</sup> Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's performance, ability to incur and service debt, and as a valuation metric. Adjusted EBITDA is a non-IFRS measure.

<sup>12</sup> Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".

## f. Consolidated Financial Results

<i>(in CAD millions)</i>	Fiscal		
	2013	% Chg 2013 vs 2012	2012
Revenue	\$ 3,991.8	(8.2)%	\$ 4,346.5
Cost of goods and services sold	2,548.1	(7.3)%	2,749.2
Selling, administrative and other expenses	1,631.5	(2.3)%	1,669.1
<b>Operating loss</b>	<b>(187.8)</b>	<b>(161.6)%</b>	<b>(71.8)</b>
Gain on lease terminations and lease amendments	577.2	245.4 %	167.1
Gain on sale of interest in joint arrangement	66.3	670.9 %	8.6
Gain on settlement and amendment of retirement benefits	42.5	101.4 %	21.1
Finance costs	10.8	(28.5)%	15.1
Interest income	2.6	(39.5)%	4.3
<b>Earnings before income taxes</b>	<b>490.0</b>	<b>329.1 %</b>	<b>114.2</b>
Income tax expense	(43.5)	(234.6)%	(13.0)
<b>Net earnings</b>	<b>\$ 446.5</b>	<b>341.2 %</b>	<b>\$ 101.2</b>

**2013 compared with 2012** – Total revenue in Fiscal 2013 decreased 8.2% to \$3,991.8 million compared to \$4,346.5 million during the same period in Fiscal 2012. Same store sales decreased by 2.7% in Fiscal 2013 compared to Fiscal 2012. Revenue for Fiscal 2013 relating to Home & Hardlines decreased by \$127.0 million compared to the same period in Fiscal 2012, due to sales volume declines in almost all product categories. Same store sales in Home & Hardlines decreased by 10.8%. Revenue for Fiscal 2013 relating to Major Appliances decreased \$53.0 million, compared to Fiscal 2012, due to sales volume decreases in all products within Major Appliances. Same store sales in Major Appliances decreased by 4.2%. Revenue relating to Apparel & Accessories decreased by \$11.4 million compared to Fiscal 2012, primarily due to sales volume decreases in cosmetics, jewellery and women's intimates, partially offset by increases in luggage, footwear, children's wear and men's wear. Same store sales in Apparel & Accessories increased by 4.2%. Other merchandise revenue for Fiscal 2013 decreased by \$134.8 million compared to Fiscal 2012, primarily due to the licensing arrangement with SHS. Included in the total revenue decrease for Fiscal 2013 described above, was the impact of the closure of four Full-Line stores during the second half of Fiscal 2012, which negatively impacted revenue for Fiscal 2013 by \$70.9 million, compared to Fiscal 2012. Also included in the total revenue decrease for Fiscal 2013 described above was the loss of the 53rd week compared to Fiscal 2012, which negatively impacted revenue for Fiscal 2013 by approximately \$48.2 million.

Total revenue recognized from points redemption under the loyalty program for Fiscal 2013 was \$39.7 million (Fiscal 2012 : \$35.1 million) and total revenue deferred related to points issuances was \$41.7 million (Fiscal 2012 : \$33.3 million). Total revenue recognized for unredeemed points in Fiscal 2013 (by exclusion from deferral in the loyalty point redemption rate) increased to \$7.6 million (Fiscal 2012 : \$5.5 million) due to an increase in points issuance during Fiscal 2013. The increase in total revenue deferred related to increased points issuance was primarily due to the introduction of a points-based bonus that replaced a coupon-based bonus for new customers during Fiscal 2013.

Cost of goods and services sold was \$2,548.1 million in Fiscal 2013 compared to \$2,749.2 million in Fiscal 2012, a 7.3% decrease year-over-year. This decrease was attributable to both the licensing arrangement with SHS and lower sales volumes, which included the impact of the closure of four Full-Line stores during the second half of Fiscal 2012.

The Company's gross margin rate was 36.2% for Fiscal 2013 compared to 36.7% in Fiscal 2012. The decrease in the gross margin rate in Fiscal 2013 compared to Fiscal 2012 was due primarily to reduced margin in home furnishings, fitness, CAWP, electronics, and Major Appliances.

Selling, administrative and other expenses, including depreciation and amortization expense, decreased by \$37.6 million or 2.3% to \$1,631.5 million in Fiscal 2013 compared to Fiscal 2012. The decrease in expense was primarily driven by reduced spending in advertising and payroll. Advertising expense decreased primarily due to reductions in flyer and catalogue circulation, and page counts. Payroll expense decreased primarily due to the reduction in associates compared to Fiscal 2012, as a result of previous transformation actions during Q4 2012 and throughout Fiscal 2013. Transformation expenses are included in selling, administrative and other expenses and increased by \$60.3 million to \$72.9 million in Fiscal 2013, compared to Fiscal 2012. Foreign exchange loss also increased expenses by \$7.0 million in Fiscal 2013 compared to Fiscal 2012.

Depreciation and amortization expense in Fiscal 2013 decreased by \$15.1 million to \$111.4 million compared to Fiscal 2012, primarily due to the disposal of assets relating to the closure of four Full-Line stores, the sale of the Medicine Hat Mall joint arrangement in Fiscal 2012 and certain property, plant and equipment being fully depreciated in Fiscal 2013.

During Fiscal 2013, the Company incurred transformation expenses totaling \$72.9 million. Transformation expenses of \$18.7 million were primarily due to the impact of the agreements with IBM and Wipro to outsource some of the work currently performed by internal Sears resources in portions of IT, Finance and Accounting, and Payroll. Transformation expenses for Fiscal 2013 also included \$12.3 million of severance costs from the lease terminations of the five stores announced on October 29, 2013, \$3.1 million of severance costs due to the closure of the RLC, and \$1.3 million related to the outsourcing of Indirect Procurement. As a result of further announcements in Q4 2013, transformation expenses also included severance costs of \$23.2 million related to Customer Contact Centres, head office, logistics team, and the Repair Services and Parts businesses. Pension curtailment costs of \$4.8 million related to the various announcements were also included in transformation expenses. It is anticipated that the changes from the Fiscal 2013 announcements will result in approximately \$60.0 million to \$70.0 million in savings in Fiscal 2014 and approximately \$80.0 million to \$90.0 million of annualized savings commencing in Fiscal 2015 (See "Cautionary Statement Regarding Forward-Looking Information").

On June 14, 2013, the Company announced its intention to enter into a series of transactions related to its leases on two properties: Yorkdale Shopping Centre (Toronto) and Square One Shopping Centre (Mississauga). The landlords approached the Company with a proposal to enter into a series of lease amendments for a total consideration of \$191.0 million, being the amount the landlords were willing to pay for the right to require the Company to vacate the two locations.

On June 24, 2013, the Company received proceeds of \$191.0 million upon closing of the transaction which gave the landlords the right to require the Company to vacate the two locations by March 31, 2014. The landlords exercised such right on July 25, 2013. The transaction resulted in a pre-tax gain of \$185.7 million, net of legal costs and the de-recognition of leasehold improvements of \$5.3 million.

The Company also granted the owners of the Scarborough Town Centre (Toronto) property an option to enter into certain lease amendments in exchange for \$1.0 million, which was paid on June 24, 2013. The option may be exercised at any time up to and including June 20, 2018, and would require the Company to complete certain lease amendments in exchange for \$53.0 million. Such lease amendments would allow the owners to require the Company to close its store. As of February 1, 2014, the option had not been exercised and was included in "Accounts payable and accrued liabilities" in the Consolidated Statements of Financial Position for Fiscal 2013.

On October 29, 2013, the Company announced that it would terminate its leases in respect of four stores and partially terminate its lease in a fifth location, for a total consideration of \$400.0 million. Four of the five stores are owned by Cadillac Fairview and are located in Ontario: Toronto Eaton Centre, Sherway Gardens, Markville Shopping Centre and London-Masonville Place. The fifth store is located at Richmond Shopping Centre in British Columbia and is co-owned by Ivanhoé Cambridge II Inc. and Cadillac Fairview. The transaction requires Sears to vacate Sherway Gardens, London-Masonville Place and the retail floors of the Toronto Eaton Centre ("TEC"), by February 28, 2014, and Markville and Richmond Shopping Centres by February 28, 2015. On November 12, 2013, the Company received proceeds of \$400.0 million for these transactions, resulting in a pre-tax gain of \$391.5 million, net of legal costs and the de-recognition of leasehold improvements and furniture and fixtures of \$9.5 million.

During Q4 2013, the Company sold its interest in the properties co-owned with Westcliff for total proceeds of \$315.4 million, recognizing a pre-tax gain of \$66.3 million on the sale. In connection with this transaction, the Company determined that because it had surrendered substantially all of its rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the eight properties, immediate gain recognition was appropriate.

In December 2013, the Company amended the early retirement provision of its pension plan to eliminate a benefit for associates who voluntarily resign prior to age of retirement, with effect January 1, 2015, recognizing a gain of \$13.0 million. Also, the Company amended its pension plan for improvements that increase portability of associates' benefit, with effect March 1, 2014, and implemented fixed indexing at 0.5% per annum for eligible retirees, with effect January 1, 2014, recognizing an expense of \$14.0 million. Lastly, in December 2013, the Company amended the non-pension retirement benefit plan to freeze future benefits as at January 1, 2015, recognizing a gain of \$43.5 million (\$43.8 million net of \$0.3 million of expenses). The Company recognized a gain on settlement and amendment of retirement benefits of \$42.5 million during Q4 2013 as a result of these transactions.

Finance costs in Fiscal 2013 decreased by 28.5% to \$10.8 million compared to \$15.1 million during Fiscal 2012. Fiscal 2012 included interest expense on uncertain tax positions of \$3.9 million.

Interest income decreased by 39.5% to \$2.6 million in Fiscal 2013 compared to \$4.3 million in Fiscal 2012 primarily due to interest income of \$1.6 million earned on deposits made to tax authorities in Fiscal 2012. Refer to Note 22 "Income taxes" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

Income tax expense was \$43.5 million for Fiscal 2013 compared to an income tax expense of \$13.0 million in Fiscal 2012. The year-over-year change was primarily attributable to higher taxable earnings as a result of the gains recognized on the termination of the eight joint arrangements co-owned by Westcliff and seven lease terminations during Fiscal 2013.

#### g. Fourth Quarter Results

<i>(in CAD millions)</i>	Fourth Quarter		
	2013	% Chg 2013 vs 2012	2012
Revenue	\$ 1,182.3	(9.6)%	\$ 1,307.2
Cost of goods and services sold	792.2	(6.7)%	848.7
Selling, administrative and other expenses	467.8	6.7 %	438.3
<b>Operating (loss) earnings</b>	<b>(77.7)</b>	<b>(484.7)%</b>	<b>20.2</b>
Gain on lease terminations and lease amendments	391.5	100.0 %	—
Gain on sale of interest in joint arrangement	66.3	670.9 %	8.6
Gain on settlement and amendment of retirement benefits	42.5	101.4 %	21.1
Finance costs	2.7	(6.9)%	2.9
Interest income	1.0	11.1 %	0.9
<b>Earnings before income taxes</b>	<b>420.9</b>	<b>778.7 %</b>	<b>47.9</b>
Income tax expense	(47.2)	(490.0)%	(8.0)
<b>Net earnings</b>	<b>\$ 373.7</b>	<b>836.6 %</b>	<b>\$ 39.9</b>

**Q4 2013 compared with Q4 2012** – Total revenue in Q4 2013 decreased by 9.6% to \$1,182.3 million compared to \$1,307.2 million in Q4 2012, with same store sales decline of 6.4% in Q4 2013. The revenue relating to Home & Hardlines decreased by \$53.1 million compared to the same period in Fiscal 2012, primarily due to sales volume declines in home furnishings, home décor, CAWP and electronics, partially offset by increases in seasonal. Same store sales in Home & Hardlines decreased by 15.5%. The revenue relating to Major Appliances decreased by \$32.0 million in Q4 2013 compared to the same period in Fiscal 2012, due to sales volume decreases in all products within Major Appliances. Same store sales in Major Appliances decreased by 9.0%. The revenue relating to Apparel & Accessories decreased by \$3.6 million in Q4 2013 compared to the same period in Fiscal 2012, primarily due to sales volume decreases in cosmetics, women's intimates and women's apparel, partially offset by increases in footwear, children's wear and men's wear. Same store sales in Apparel & Accessories increased by 1.1%. Other merchandise revenue decreased by \$27.8 million in Q4 2013 compared to the same period in 2012, due to the licensing arrangement with SHS. Included in the total revenue decrease for Q4 2013 described above, was the impact of the timing change from a 53-week period ended February 2, 2013 to a 52-week period ending February 1, 2014, which negatively impacted revenue for Q4 2013 by \$29.1 million, compared to Q4 2012. Also included in the total revenue decrease for Q4 2013 described above, was the loss of the 14th week compared to Q4 2012, which negatively impacted revenue for Q4 2013 by approximately \$48.2 million. Revenue for Q4 2013 was also negatively impacted by unusual weather, which caused extended power failures and unsafe road conditions.

Total revenue recognized from points redemption under the loyalty program in Q4 2013 was \$13.7 million (Q4 2012: \$9.3 million) and total revenue deferred related to points issuances in Q4 2013 was \$14.1 million (Q4 2012: \$12.8 million). Total revenue recognized in Q4 2013 for unredeemed points (by exclusion from deferral in the loyalty point redemption rate) increased to \$3.0 million (Q4 2012: \$2.0 million) due to an increase in points issuance during Fiscal 2013. The increase in total revenue deferred related to increased points issuance was primarily due to the introduction of a points-based bonus that replaced a coupon-based bonus for new customers during Fiscal 2013.

Cost of goods and services sold was \$792.2 million in Q4 2013 compared to \$848.7 million in Q4 2012, a 6.7% decrease. This decrease was attributable to the licensing arrangement with SHS and lower sales volumes, which included the impact of the 14th week in Q4 2012.

The Company's gross margin rate was 33.0% in Q4 2013 compared to 35.1% in Q4 2012. The decrease in the gross margin rate was due primarily to reduced margins in home furnishings, fitness, home décor, electronics, footwear and children's wear resulting from increased clearance activity.

Selling, administrative and other expenses, including depreciation and amortization expense increased by \$29.5 million or 6.7% to \$467.8 million in Q4 2013 compared to Q4 2012. The increase in expense was primarily driven by the inclusion of transformation expenses of \$51.2 million, impairment loss of \$11.2 million on a number of retail stores, as described in Note 9 "Property, plant and equipment and investment property" of the Notes to the Consolidated Financial Statements for Fiscal 2013, and foreign exchange losses of \$4.0 million. Excluding these non-recurring items, selling, administrative and other expenses in Q4 2013 declined \$21.2 million or 5.0% compared to Q4 2012. The decrease in expenses excluding non-recurring items is attributable to lower spending on payroll in Q4 2013 compared to Q4 2012, primarily due to the reduction in associates, as a result of previous transformation actions.

Depreciation and amortization expense in Q4 2013 decreased by \$6.9 million, as compared to Q4 2012, primarily due to the disposal of assets relating to the lease terminations and lease amendments of two Full-Line stores in the second quarter of 2013, and the sale of the Medicine Hat Mall joint arrangement in Q4 2012.

During Q4 2013, the Company incurred transformation expenses totaling \$51.2 million, primarily related to Customer Contact Centres, head office, logistics team, and the Repair Services and Parts businesses. Pension curtailment costs of \$4.8 million were also included in transformation expenses.

On October 29, 2013, the Company announced that it would terminate its leases in respect of four stores and partially terminate its lease in a fifth location, for a total consideration of \$400.0 million. Four of the five stores are owned by Cadillac Fairview and are located in Ontario: Toronto Eaton Centre, Sherway Gardens, Markville Shopping Centre and London-Masonville Place. The fifth store is located at Richmond Shopping Centre in British Columbia and is co-owned by Ivanhoé Cambridge II Inc. and Cadillac Fairview. The transaction requires Sears to vacate Sherway Gardens, London-Masonville Place and the retail floors of the Toronto Eaton Centre ("TEC"), by February 28, 2014, and Markville and Richmond Shopping Centres by February 28, 2015. On November 12, 2013, the Company received proceeds of \$400.0 million for these transactions, resulting in a pre-tax gain of \$391.5 million, net of legal costs and the de-recognition of leasehold improvements and furniture and fixtures of \$9.5 million.

During Q4 2013, the Company sold its interest in the properties co-owned with Westcliff for total proceeds of \$315.4 million, recognizing a pre-tax gain of \$66.3 million on the sale. In connection with this transaction, the Company determined that because it had surrendered substantially all of our rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the eight properties, immediate gain recognition was appropriate.

In December 2013, the Company amended the early retirement provision of its pension plan to eliminate a benefit for associates who voluntarily resign prior to age of retirement, with effect January 1, 2015, recognizing a gain of \$13.0 million. Also, the Company amended its pension plan for improvements that increase portability of associates' benefit, with effect March 1, 2014, and implemented fixed indexing at 0.5% per annum for eligible retirees, with effect January 1, 2014, recognizing an additional cost of \$14.0 million. Lastly, in December 2013, the Company amended the non-pension retirement benefit plan to freeze future benefits as at January 1, 2015, recognizing a gain of \$43.5 million (\$43.8 million net of \$0.3 million of expenses). The Company recognized a gain on settlement and amendment of retirement benefits of \$42.5 million during Q4 2013 as a result of these transactions.

Finance costs in Q4 2013 of \$2.7 million were comparable to finance costs in Q4 2012.

Interest income in Q4 2013 of \$1.0 million was comparable to interest income in Q4 2012.

Income tax expense increased to \$47.2 million in Q4 2013 compared to \$8.0 million in Q4 2012 due to higher taxable earnings as a result of the gain recognized on the termination of the eight joint arrangements co-owned by Westcliff and the five lease terminations during Q4 2013.

## 2. Segment Performance

### Results of Merchandising Operations

<i>(in CAD millions)</i>	Fourth Quarter			Fiscal		
	2013	% Chg 2013 vs 2012	2012	2013	% Chg 2013 vs 2012	2012
<b>Total Revenue</b>	\$ 1,169.2	(9.9)%	\$ 1,298.0	\$ 3,945.8	(8.3)%	\$ 4,300.7
Cost of goods and services sold, operating, administrative and selling expenses	1,157.5	(6.3)%	1,235.0	3,934.7	(7.5)%	4,252.2
<b>Adjusted EBITDA</b>	\$ 11.7	(81.4)%	\$ 63.0	\$ 11.1	(77.1)%	\$ 48.5

**Comparative Analysis** - Revenue for the Company's merchandise operations decreased by 9.9% in Q4 2013 and 8.3% in Fiscal 2013, as compared to the same periods in Fiscal 2012. Adjusted EBITDA decreased by 81.4% in Q4 2013 and 77.1% in Fiscal 2013, as compared to the same periods in Fiscal 2012. Refer to Section 1f "Consolidated Financial Results" and 1g "Fourth Quarter Results" for additional information.

### Results from Real Estate Joint Arrangements

<i>(in CAD millions)</i>	Fourth Quarter			Fiscal		
	2013	% Chg 2013 vs 2012	2012 <sup>1</sup>	2013	% Chg 2013 vs 2012	2012 <sup>1</sup>
<b>Total Revenue</b>	\$ 13.1	42.4%	\$ 9.2	\$ 46.0	0.4 %	\$ 45.8
Cost of goods and services sold, operating, administrative and selling expenses	6.8	44.7%	4.7	21.4	2.9 %	20.8
<b>Adjusted EBITDA</b>	\$ 6.3	40.0%	\$ 4.5	\$ 24.6	(1.6)%	\$ 25.0

<sup>1</sup> Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".

**Comparative Analysis** - Revenue for the Company's real estate joint arrangements for Q4 2013 and Fiscal 2013 increased by 42.4% and 0.4%, respectively, as compared to the same periods in Fiscal 2012. Adjusted EBITDA for Q4 2013 increased by 40.0%, as compared to Q4 2012. Q4 2013 revenue and adjusted EBITDA were positively impacted by transaction adjustments associated with the sale of certain Westcliff joint arrangements, and higher occupancy within the various shopping malls. Adjusted EBITDA for Fiscal 2013 decreased by 1.6%, as compared to Fiscal 2012. The results for Fiscal 2013 were impacted by the sale of the Medicine Hat real estate joint arrangement during Q4 2012.

## 3. Consolidated Financial Position, Liquidity and Capital Resources

Current assets as at February 1, 2014 were \$215.1 million higher than as at February 2, 2013 due primarily to the improvement of \$275.3 million in cash and cash equivalents and a reclassification of \$13.3 million in assets classified as held for sale related to the RLC, partially offset by a decrease of \$76.8 million in inventory.

Current liabilities as at February 1, 2014 were \$58.8 million higher than as at February 2, 2013 due primarily to an increase of \$43.1 million in provisions due to severances from transformation initiatives which are expected to be paid during Fiscal 2014, and \$52.2 million in income taxes payable due to higher taxable earnings resulting from the gains on the lease terminations and amendments as well as the sale of the Company's interest in certain joint arrangements, partially offset by a decrease of \$45.0 million in accounts payable and accrued liabilities, primarily due to lower inventory receipts and the timing of vendor payments.

Inventories were \$774.6 million as at February 1, 2014 compared to \$851.4 million as at February 2, 2013. The \$76.8 million decrease in the inventory balance is primarily due to a reduction in inventory reserve balances due to improved inventory quality, and improved management of inventory receipts compared to Fiscal 2012.

Total cash and cash equivalents was \$513.8 million as at February 1, 2014 compared to \$238.5 million as at February 2, 2013. The increase of \$275.3 million was primarily due to \$590.5 million in proceeds from lease terminations and lease

amendments received during Fiscal 2013, and \$315.4 million received for the sale of the Company's interest in certain joint arrangements, partially offset by a \$509.4 million dividend payment during Q4 2013, the purchase of \$70.8 million in property, plant and equipment and intangible assets during Fiscal 2013, and settlement of long-term obligations of \$30.1 million associated with the divested joint arrangements during Q4 2013.

Total assets and liabilities as at the end of Fiscal 2013 and Fiscal 2012 are as follows:

<i>(in CAD millions)</i>	<b>As at February 1, 2014</b>	<b>As at February 2, 2013</b>
Total assets	\$ 2,392.3	\$ 2,504.7
Total liabilities	\$ 1,318.5	\$ 1,428.3

Total assets as at February 1, 2014 decreased by \$112.4 million to \$2,392.3 million compared to \$2,504.7 million as at February 2, 2013, due primarily to lower property, plant and equipment as a result of the sale of the Company's interests in certain joint arrangements which occurred during Q4 2013, and lower inventory, partially offset by increases in cash and cash equivalents.

Total liabilities as at February 1, 2014 decreased by \$109.8 million to \$1,318.5 million compared to \$1,428.3 million as at February 2, 2013, due primarily to lower retirement benefit liability as a result of amending the non-pension retirement benefit plan to freeze future benefits, lower accounts payable and accrued liabilities, and long-term obligations, partially offset by increases in provisions and income taxes payable.

**Cash flow used for operating activities** - Cash flow used for operating activities decreased by \$28.9 million during Fiscal 2013 to \$25.8 million compared to cash flow used for operating activities of \$54.7 million during Fiscal 2012. The Company's primary source of operating cash flow is the sale of goods and services to customers, while the primary use of cash in operating activities is the purchase of merchandise inventories. The increase in cash from operating activities is attributable to favourable changes in inventories, provisions, and income and other taxes payable and recoverable, partially offset by unfavourable changes in accounts receivable, accounts payable and accrued liabilities, and deferred revenue.

**Cash flow generated from investing activities** - Cash flow generated from investing activities increased by \$719.6 million during Fiscal 2013 to \$837.0 million compared to cash flow generated from investing activities of \$117.4 million during Fiscal 2012 primarily due to proceeds received from lease terminations and lease amendments of \$590.5 million and proceeds received from the sale of the Company's interests in certain joint arrangements of \$315.4 million. Cash flow generated from these transactions was partially offset by \$70.8 million of capital expenditures incurred during the year, as compared with \$101.6 million for Fiscal 2012. Fiscal 2012 included proceeds received from lease terminations and lease amendments of \$175.0 million and proceeds received from the sale of the Company's interest in a joint arrangement of \$38.3 million.

**Cash flow used for financing activities** - Cash flow used for financing activities increased by \$313.0 million to \$537.5 million during Fiscal 2013 compared to \$224.5 million during Fiscal 2012. The increase in cash flow used is primarily due to an extraordinary dividend payment of \$509.4 million which occurred during Q4 2013. Fiscal 2012 included an extraordinary dividend payment of \$101.9 million, and repayments on the credit facility of \$93.1 million.

### **Contractual Obligations**

Contractual obligations, including payments due over the next five fiscal years and thereafter, are shown in the following table:

(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	\$ 438.7	\$ 438.7	\$ 438.7	\$ —	\$ —	\$ —
Finance lease obligations including payments due within one year <sup>1</sup>	33.0	43.0	7.2	11.3	10.0	14.5
Real estate joint arrangement obligations including payments due within one year <sup>2</sup>	2.9	3.0	3.0	—	—	—
Operating lease obligations <sup>3</sup>	n/a	481.7	94.8	151.4	109.9	125.6
Royalties <sup>3</sup>	n/a	3.5	0.8	1.5	1.2	—
Purchase agreements <sup>3,5</sup>	n/a	16.9	7.9	9.0	—	—
Retirement benefit plans obligations <sup>4</sup>	286.0	88.0	2.4	58.7	26.9	—
	<b>\$ 760.6</b>	<b>\$ 1,074.8</b>	<b>\$ 554.8</b>	<b>\$ 231.9</b>	<b>\$ 148.0</b>	<b>\$ 140.1</b>

<sup>1</sup> 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 7.5%. The Company had no borrowings on the Credit Facility at February 1, 2014.

<sup>2</sup> Cash flow maturities related to real estate joint arrangement obligations, including payments due within one year, include annual interest on mortgage obligations at a weighted average rate of 2.8%.

<sup>3</sup> Purchase agreements, operating lease obligations, and royalties are not reported in the Consolidated Statements of Financial Position.

<sup>4</sup> Payments beyond 2013 are subject to a funding valuation to be completed as at December 31, 2013. Until then, the Company is obligated to fund in accordance with the most recent valuation completed as at December 31, 2010. The Company prefunded 2014 contributions of \$15 million in December 2013.

<sup>5</sup> Certain vendors require minimum purchase commitment levels over the term of the contract.

### Retirement Benefit Plans

In Fiscal 2013, the Company's retirement benefit plan obligations decreased by \$129.7 million to \$286.0 million compared to Fiscal 2012 primarily due to plan amendments to retirement benefit plans, as described below, and also as a result of higher asset returns on pension plan assets.

In December 2013, the Company amended the early retirement provision of its pension plan to eliminate a benefit for associates who voluntarily resign prior to age of retirement, with effect January 1, 2015. Also, the Company amended its pension plan for improvements that increase portability of associates' benefits, with effect March 1, 2014, and implemented fixed indexing at 0.5% per annum for eligible retirees, with effect January 1, 2014. Lastly, in December 2013, the Company amended the non-pension retirement benefit plan to freeze future benefits as at January 1, 2015.

In Q4 2013, the Company recorded a pre-tax gain of \$42.5 million (\$42.8 million net of \$0.3 million of expenses) as shown on the Consolidated Statements of Net Earnings and Comprehensive Income related to amendments described above to the retirement benefit plans.

In the first quarter of 2014, the Company will make another voluntary offer to settle health and dental benefits covered under the non-pension retirement plan. The Company expects to settle any acceptances from the offer in the second quarter of 2014. Also in the first quarter of 2014, the Company will offer lump sum settlements to those terminated associates who previously elected to defer the payment of their defined benefit pension until retirement. The Company expects to settle accepted offers through the third quarter of 2014. The amount of these settlement offers is currently not determinable.

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, 2010. The next actuarial valuation assessment is required as of December 31, 2013, and due to be completed by Q3 2014. An actuarial valuation of the health and welfare trust is performed at least every three years, with the last valuation completed as of September 1, 2011.

During Fiscal 2011, the Company changed the target asset allocation to 55-75% fixed income and 25-45% equity for the registered and non-registered pension plans. For the assets in the health and welfare trust, included in Other Benefit Plans, the Company changed the asset allocation to 100% fixed income. As at the end of Fiscal 2013 and 2012, the assets were in line with the target allocation range, with the transitioning of assets from alternative investments near completion. 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 by 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.

### Capital Resources

The Company's capital expenditures, working capital needs, debt repayment and other financing needs are funded primarily through cash generated from operations and existing cash on hand. In selecting appropriate funding choices, the Company's objective is to manage its capital structure in such a way as to diversify its funding sources, while minimizing its funding costs and risks. Sears expects to be able to satisfy all of its financing requirements through cash on hand, cash generated by operations and, if necessary, availability under the Company's credit facility as described below. The Company's cost of funding is affected by general economic conditions, including the overall interest rate environment, as well as the Company's financial performance, credit ratings and fluctuations of its credit spread over applicable reference rates.

The Company's debt consists of a secured credit facility and finance lease obligations and the Company's share of its real estate joint arrangement 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. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability as determined by the Company's borrowing base under the Credit Facility was \$374.0 million as at February 1, 2014 (February 2, 2013: \$501.5 million, January 28, 2012: \$415.1 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately \$197.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to \$150.0 million. As at February 1, 2014, three properties in Ontario have been registered under the amendment to the Credit Facility agreement. The additional 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 amount of real estate assets pledged as additional collateral.

The proceeds of \$590.5 million received by the Company during Fiscal 2013 for the lease terminations and lease amendments was used towards the distribution of an extraordinary cash dividend of \$509.4 million during Q4 2013. The remaining proceeds in addition to the \$315.4 million of proceeds received by the Company in Q4 2013 for the sale of their interest in certain joint arrangements, will be used towards capital expenditures and other general corporate purposes. The Company regularly monitors its sources and uses of cash and its level of cash on hand, and considers the most effective use of cash on hand including stock purchases and dividends.

As at February 1, 2014, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of \$4.4 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (February 2, 2013: no borrowings and net of unamortized transaction costs of \$6.2 million included in "Other long-term assets", January 28, 2012: borrowings of \$93.1 million, net of unamortized transaction costs of \$8.0 million, included in "Long-term obligations"). In addition, the Company had \$24.0 million (February 2, 2013: \$19.7 million, January 28, 2012: \$6.3 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments primarily relating to utility commitments and defined benefit plan deficit funding (see Note 20 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information). Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at February 1, 2014, the Company had outstanding merchandise letters of credit of U.S. \$9.0 million (February 2, 2013: U.S. \$7.9 million, January 28, 2012: U.S. \$5.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

#### 4. Financial Instruments

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange and interest rate risk. See Note 14 "Financial instruments" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

##### 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 and cash equivalents, accounts receivable and other long-term assets.

Cash and cash equivalents, accounts receivable, derivative instruments and investments included in other long-term assets totaling \$605.8 million as at February 1, 2014 (February 2, 2013: \$317.7 million, January 28, 2012: \$519.3 million) expose the Company to credit risk should the borrower default on maturity of the investment. 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 customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at February 1, 2014, one party represented 11.3% of the Company's accounts receivable (February 2, 2013: no party represented greater than 10.0% of the Company's accounts receivable, January 28, 2012: one party represented 26.5% of the Company's accounts receivable).

##### 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 ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

##### 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.

From time to time, 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 February 1, 2014, there were forward contracts outstanding with a notional value of US \$90.0 million (February 2, 2013: nil, January 28, 2012: nil) and a fair value of \$7.2 million, based on current market rates, included in "Derivative financial assets" (February 2, 2013: nil, January 28, 2012: nil) in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to July 2014. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under IAS 39, *Financial Instruments: Recognition and Measurement*. 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 February 1, 2014, 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 Earnings and Comprehensive Income. Amounts previously included in Other Comprehensive Income "OCI" are reclassified to "Cost of goods and services sold" in the same period in which the hedged item impacted Net Earnings.

During Fiscal 2013, the Company recorded a loss of \$7.6 million (2012: loss of \$0.6 million), in "Selling, administrative and other expenses", relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The year end exchange rate was 0.8978 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net earnings of \$0.6 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable at the end of Fiscal 2013.

### Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. As at February 1, 2014, the Company had no interest rate swap contracts in place (February 2, 2013: nil, January 28, 2012: nil).

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.

Cash and cash equivalents and borrowings under the Credit Facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at February 1, 2014 was a net asset of \$515.1 million (February 2, 2013: net asset of \$239.8 million, January 28, 2012: net asset of \$300.4 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net earnings of \$0.9 million for net assets subject to interest rate risk included in cash and cash equivalents and other long-term assets at the end of Fiscal 2013.

## 5. Funding Costs

The funding costs for the Company in Fiscal 2013 and Fiscal 2012 are outlined in the table below:

<i>(in CAD millions)</i>	Fourth Quarter		Fiscal	
	2013	2012 <sup>4</sup>	2013	2012 <sup>4</sup>
<b>Interest costs</b>				
Total long-term obligations at end of period <sup>1</sup>	\$ 35.9	\$ 59.4	\$ 35.9	\$ 59.4
Average long-term obligations for period <sup>2</sup>	44.5	62.4	52.1	78.7
Long-term funding costs <sup>3</sup>	1.0	1.1	4.1	4.6
Average rate of long-term funding	9.0%	7.1%	7.9%	7.8%

<sup>1</sup> Includes current portion of long-term obligations.

<sup>2</sup> The average long-term debt obligations is calculated as an average of the opening and ending balance for the period.

<sup>3</sup> Excludes standby fee on the unused portion of the Credit Facility, amortization of debt issuance costs, interest accrued related to uncertain tax positions and sales tax assessments.

<sup>4</sup> Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".

See Section 3 "Consolidated Financial Position, Liquidity and Capital Resources" of this MD&A for a description of the Company's funding sources.

## 6. Related Party Transactions

As at March 13, 2014, ESL Investments, Inc., and investment affiliates including Edward S. Lampert, (collectively "ESL"), is the beneficial holder of 28,158,368 or 27.6%, of the common shares of the Company. Sears Holdings is the beneficial holder of 51,962,391 common shares, representing approximately 51 % of the Company's total outstanding common shares.

In the ordinary course of business, the Company and Sears Holdings periodically share selected services, associates, and tangible and intangible assets. Transactions between the Company and Sears Holdings are recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. See Note 31 "Related party transactions" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for a detailed description of these related party transactions.

### Intangible Properties

The Company has a license from Sears, Roebuck & Co. (“Sears Roebuck”) to use the name “Sears” as part of its corporate name. The Company also has licenses from Sears Roebuck to use other brand names, including Kenmore<sup>®</sup>, Craftsman<sup>®</sup>, and DieHard<sup>®</sup>. The Company has established procedures to register and otherwise vigorously protect its intellectual property, including the protection of the Sears Roebuck trademarks used by the Company in Canada.

### Cross Border Vendor Agreement

The Company is party to a cross border vendor agreement with Sears Roebuck establishing collaboration and allowing the Company and Sears Roebuck to use each others’ websites to sell merchandise in the United States and Canada. Merchandise sold pursuant to the agreement will obligate the Company or Sears Roebuck, as applicable, to pay fees to the other party equal to (i) for some transactions, a percentage of merchandise selling prices, and (ii) for other transactions, a percentage of the revenue booked by the applicable seller. This agreement can be terminated by either party on 60 days’ written notice and will also terminate upon a transaction that results in the Company no longer being an affiliate of Sears Holdings.

### Software Agreement

The Company and Sears Roebuck are party to an information technology agreement for the sharing of information technology and software development, ownership and costs, which agreement (i) either party may terminate on 90 days’ written notice, or (ii) will terminate if Sears Holdings ceases to control 50% of the voting power of Sears Canada.

### Import Services

Pursuant to an agreement between Sears Roebuck 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 stipulated percentage of the value of the imported merchandise. In Fiscal 2013, Sears Canada paid \$4.8 million to Sears Holdings in connection with this agreement compared to \$5.1 million in Fiscal 2012.

### Review and Approval

Material related party transactions are currently reviewed by the Audit Committee of the Company’s Board of Directors (the “Audit Committee”). The Audit Committee is responsible for pre-approving all related party transactions that have a value greater than \$1.0 million.

## 7. Shareholders’ Equity

The only outstanding shares of the Company are common shares. The number of outstanding common shares at the end of Fiscal 2013 and Fiscal 2012 Consolidated Statement of Financial Position are as follows:

	As at February 1, 2014	As at February 2, 2013
Outstanding common shares	<u>101,877,662</u>	<u>101,877,662</u>

In Fiscal 2013, no common shares were issued (2012: no common shares were issued) with respect to the exercise of options pursuant to the Employees Stock Plan. Refer to Section 8 “Stock-Based Compensation” for information.

On November 19, 2013, the Company announced that it would distribute \$509.4 million to holders of common shares as an extraordinary cash dividend. Payment in the amount of \$5.00 per common share was made on December 6, 2013.

On May 22, 2013, the Toronto Stock Exchange (“TSX”) accepted the Company’s Notice of Intention to make a Normal Course Issuer Bid (“2013 NCIB”). The 2013 NCIB permits the Company to purchase for cancellation up to 5% of its issued and outstanding common shares, representing 5,093,883 of the issued and outstanding common shares as at May 10, 2013. Under the 2013 NCIB, purchases were allowed to commence on May 24, 2013 and must terminate by May 23, 2014 or on such earlier date as the Company may complete its purchases pursuant to the 2013 NCIB. The total purchase of common shares by the Company pursuant to the 2013 NCIB will not exceed, in the aggregate, 5% of all outstanding

common shares, and is subject to the limits under the TSX rules, including a daily limit of 25% of the average daily trading volume (which cannot exceed 19,689 common shares a day), and a limit of one block purchase per week. As of March 13, 2014, the Company has not made any purchases of common shares under the 2013 NCIB.

From time to time, when the Company did not possess material undisclosed information about itself or its securities, it entered into a pre-defined plan with a designated broker to allow for the repurchase of common shares at times when the Company ordinarily would not have been active in the market due to its own internal trading blackout periods, insider trading rules, or otherwise. Any such plans entered into with the Company's designated broker were adopted in accordance with the requirements of applicable Canadian securities laws.

As at March 13, 2014, there were 101,877,662 common shares outstanding.

Shareholders may obtain, without charge, a copy of the Notice of 2013 NCIB that the Company filed with the TSX by contacting the Company at 416-941-4428 or [invest@sears.ca](mailto:invest@sears.ca).

## **8. Stock-Based Compensation**

### ***Stock Option and Share Purchase Plans for Employees and Directors***

The Company has three stock-based compensation plans: the Employees Stock Plan, the Stock Option Plan for Directors and the Directors' Share Purchase Plan.

The Employees Stock Plan, which expired on April 19, 2008, provided for the granting of options and Special Incentive Shares and Options, which vested over three years and expired ten years from the grant date. The Employee Stock Plan permitted the issuance of tandem awards. Following the last grant in 2004, the Company discontinued the granting of options and Special Incentive Shares and Options under the Employees Stock Plan. Notwithstanding the expiry of the Employees Stock Plan, all outstanding stock options could be exercised or allowed to expire in accordance with the terms of their grants. The last grant of stock options expired on February 1, 2014 and as a result, there are zero options outstanding under the Employees Stock Plan (February 2, 2013: 5,440 options outstanding). The Stock Option Plan for Directors provides for the granting of stock options to Directors who are not employees of the Company or Sears Holdings. Options granted under the Stock Option Plan for Directors generally vest over three years and are exercisable within ten years from the grant date. No stock options have been granted under the Stock Option Plan for Directors since the last grant in 2003.

The Directors' Share Purchase Plan provides for the granting of common shares to Directors, to be purchased by the Company on the TSX, as part of their annual remuneration for services rendered on the Board. Following the last grant in 2005, the Company has discontinued the granting of shares under the Directors' Share Purchase Plan.

## **9. Accounting Policies and Estimates**

### ***a. Critical Accounting Estimates***

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 within the next fiscal year.

#### ***9.1 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 Earnings and Comprehensive Income. See Note 16 “Provisions” of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

## *9.2 Inventory*

### *9.2.1 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.

### *9.2.2 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.

### *9.2.3 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 Earnings and Comprehensive Income. See Note 7 “Inventories” of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

## *9.3 Impairment of property, plant and equipment and intangible assets*

The Company’s property, plant and equipment and intangible assets have been allocated to CGUs, which are generally Full-Line stores. Determining whether the CGU is impaired requires an estimation of the recoverable amount of the CGU, which is the higher of the fair value less costs to sell and its value in use. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating the expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

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 Earnings and Comprehensive Income. See Note 9 “Property, plant and equipment and investment property” and Note 10 “Goodwill and intangible assets” of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

## *9.4 Impairment of goodwill*

Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the CGU to which the goodwill is allocated. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to “Goodwill” on the Consolidated Statements of Financial Position and a charge to “Selling, administrative and other expenses” in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 10 “Goodwill and intangible assets” of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

### *9.5 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" in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 20 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

### *9.6 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 based on historical behaviour and trends in redemption rates and redemption values.

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" and/or "Cost of goods and services sold" in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 13 "Deferred revenue" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

### *9.7 Derivative assets and liabilities*

All derivatives are measured at fair value. U.S. dollar option contracts are traded over-the-counter and give holders the right to buy, or sell, a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar option contracts are derived using a Black-Scholes valuation model. The Company is required to estimate various inputs which are used in this model 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 "Other comprehensive income" in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 14 "Financial instruments" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

### *9.8 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 "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 16 "Provisions" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

### *9.9 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 a building, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Principal payments on long-term obligations due within one year" 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 Earnings and Comprehensive Income. See Note 19 "Leasing arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

### 9.10 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 earnings will be affected positively or negatively.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax 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 Earnings and Comprehensive Income. See Note 22 "Income taxes" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

### 9.11 Gift Card

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, and 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" on the Consolidated Statements of Net Earnings and Comprehensive Income.

### 9.12 Classification of joint arrangements

The Company has classified its 15-20% interest in real estate joint arrangements related to three shopping centres as joint operations. In doing so, the Company determined that the decisions regarding relevant activities require unanimous consent of the parties sharing control. In the event of a dispute between parties sharing control of the joint arrangements, settlement occurs through unbiased arbitration, legal action, or a sale of the party's interest to the other party. The Company examined the legal structure, contractual arrangements and other relevant facts and circumstances for each joint arrangement and determined that it had rights to the assets and obligations to the liabilities of each joint arrangement. Therefore, the Company has determined that its real estate joint arrangements are joint operations and have been recognized in accordance with the Company's interest in the assets and liabilities of these arrangements. See Note 11 "Joint arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

## **b. Changes in Accounting Policy**

### *IFRS 11, Joint Arrangements ("IFRS 11")*

The Company adopted IFRS 11 in the first quarter of 2013. On May 12, 2011 the International Accounting Standards Board ("IASB") issued IFRS 11 and required that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly. The Company has real estate joint arrangements related to three shopping centres, for which decisions regarding relevant activities require unanimous consent of the parties sharing control. In the event of a dispute between the parties sharing control of the joint arrangements, settlement occurs through unbiased arbitration, legal action, or a sale of the party's interest in the joint arrangement to the other party. The Company examined the legal structure, contractual arrangements and other relevant facts and circumstances of each joint arrangement, and the Company determined that it had rights to the assets and obligations to the liabilities of each joint arrangement. Therefore, the Company has determined that its real estate joint arrangements are joint operations and have been recognized in accordance with the Company's interest in the assets and liabilities of these arrangements.

IFRS 11 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The amendments are required to be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

As the Company implemented IFRS 11 in the first quarter of 2013, the Company has retrospectively adjusted the assets and liabilities as at February 2, 2013 and January 28, 2012 and income, expenses and cash flow for the Fiscal 2012.

A summary of the impact arising from the application of the change in accounting policy is as follows:

*Consolidated Statements of Financial Position*

<i>(Increase (decrease) in CAD millions)</i>	February 2, 2013	As at January 28, 2012
Cash and cash equivalents	\$ 1.5	\$ 2.8
Accounts receivable, net	1.5	1.4
Prepaid expenses	(1.5)	—
Net change to current assets	1.5	4.2
Property, plant and equipment	278.5	324.1
Investment in joint arrangements	(263.4)	(301.4)
Other long-term assets	9.0	9.8
Net change to total assets	25.6	36.7
Accounts payable and accrued liabilities	1.7	4.0
Deferred revenue	0.3	—
Other taxes payable	0.1	0.1
Current portion of long-term obligations	4.0	4.1
Net change to current liabilities	6.1	8.2
Long-term obligations	19.3	27.2
Deferred tax liabilities	0.2	0.3
Other long-term liabilities	—	1.0
Net change to total liabilities	25.6	36.7

*Consolidated Statements of Net Earnings*

<i>(Increase (decrease) in CAD millions)</i>	53-Week Period Ended February 2, 2013
Revenue	\$ 45.8
Selling, administrative and other expenses	34.7
Finance costs	1.8
Interest income	0.2
Share of income from joint arrangements	(9.5)

*Consolidated Statements of Cash Flows*

<i>(Increase (decrease) in cash flow arising from items noted below in CAD millions)</i>	53-Week Period Ended February 2, 2013
Depreciation and amortization	\$ 13.2
Impairment loss	2.2
Share of income from joint arrangements	9.5
Finance costs	1.8
Interest income	(0.2)
Interest paid	(1.8)
Changes in non-cash working capital	0.7
Changes in long-term assets and liabilities	(1.2)
Additions of property, plant & equipment and intangible assets	(4.1)
Repayment on long-term obligations	(4.0)
Dividends received from joint arrangements	(18.4)

### **c. 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. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

On December 16, 2011, the IASB issued amendments to two previously released standards. They are as follows:

#### *IAS 32, Financial Instruments: Presentation ("IAS 32")*

The IASB amended IAS 32 to address inconsistencies in current practice in the application of offsetting criteria. The amendments provide clarification with respect to the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

#### *IFRS 9, Financial Instruments ("IFRS 9")*

This standard will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* in phases. The first phase of IFRS 9 was issued on November 12, 2009 and addresses the classification and measurement of financial assets. The second phase of IFRS 9 was issued on October 28, 2010 incorporating new requirements on accounting for financial liabilities. On December 16, 2011, the IASB amended the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. The amendment also provides relief from the requirement to recast comparative financial statements for the effect of applying IFRS 9. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. On November 19, 2013, the IASB withdrew the mandatory effective date of IFRS 9. The Company will evaluate the overall impact on the Company's consolidated financial statements when the final standard, including all phases, is issued.

On May 20, 2013, the IASB issued the following interpretation:

#### *IFRIC 21, Levies ("IFRIC 21")*

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with *IAS 37, Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. This interpretation is applicable for annual periods on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

## **10. Disclosure Controls and Procedures**

### ***Disclosure Controls and Procedures***

Management of the Company is responsible for establishing and maintaining a system of disclosure controls and procedures ("DC&P") that are designed to provide reasonable assurance that information required to be disclosed by the Company in its public disclosure documents, including its Annual and Interim MD&A, Annual and Interim Financial Statements, and Annual Information Form is recorded, processed, summarized and reported within required time periods and includes controls and procedures designed to ensure that the information required to be disclosed by the Company in its public disclosure documents is accumulated and communicated to the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to allow timely decisions regarding required DC&P.

Management of the Company, including the CEO and CFO, has caused to be evaluated under their supervision, the Company's DC&P, and has concluded that the Company's DC&P was effective for the year ended February 1, 2014.

### ***Internal Control over Financial Reporting***

Management of the Company is also 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 IFRS.

Management of the Company, including the CEO and CFO, has caused to be evaluated the internal control over financial reporting and has concluded, based on that evaluation, that the Company's internal control over financial reporting was effective as at the fiscal year-end, being February 1, 2014. Additionally, Management of the Company evaluated whether there were changes in the internal control over financial reporting during Fiscal 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting and has determined that no material changes occurred during this period.

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.

## 11. Risks and Uncertainties

### Risks Relating to Our Business

*If the Company is unable to compete effectively in the highly competitive retail industry, the Company's business and results of operations could be materially adversely affected.*

The Canadian retail market remains highly competitive as key players and new entrants compete for market share. International retailers continue to expand into Canada while existing competitors enhance their product offerings and become direct competitors. The Company's competitors include traditional full-line department stores, discount department stores, wholesale clubs, 'big-box' retailers, internet retailers and specialty stores offering alternative retail formats. Failure to develop and implement appropriate competitive strategies and the performance of the Company's competitors could have a material adverse effect on the Company's business, results of operations, and financial condition.

In order to stay competitive and relevant to our customers, the Company's strategic plan for 2014 is centered on three strategic levers: merchandising value, cost and efficiency value, and the value of our network and assets. The achievement of strategic goals may be adversely affected by a wide range of factors, many of which are beyond the Company's control. The inability to execute and integrate strategic plans could have a negative impact on the Company's current operations, market reputation, customer satisfaction and financial position. The Company's ability to implement and achieve its long-term strategic objectives is dependent on the achievement of these strategic plans and initiatives. There can be no assurance that such plans and initiatives will yield the expected results, either of which could cause the Company to fall short in achieving financial objectives and long-range goals.

Additional risk may arise when foreign retailers carrying on business in Canada in competition with the Company engage in marketing activities which are not in full compliance with Canadian legal requirements regarding advertising and labeling rules and product quality standards. Such retailers may gain an unfair advantage and their activities may negatively affect the Company's business and results of operations.

The majority of the performance payments earned pursuant to the credit card marketing and servicing alliance with JPMorgan Chase are related to customers' purchases using the Sears Card and Sears MasterCard. The credit card industry is highly competitive as credit card issuers continue to expand their product offerings to distinguish their cards. As competition increases, there is a risk that a reduction in the percentage of purchases charged to the Sears Card and Sears MasterCard may negatively impact the Company's results of operations and financial condition.

*Due to the seasonality of the Company's business, the Company's results of operations would be adversely affected if the Company's business performed poorly in the fourth quarter or as a result of unseasonable weather patterns.*

The Company's operations are seasonal in nature with respect to results of operations and in products and services offered. Merchandise and service revenues, as well as performance payments received from JPMorgan Chase, vary by quarter based upon consumer spending behavior. Historically, the Company's revenues and earnings have been higher in the fourth quarter due to the holiday season and we have reported a disproportionate level of earnings in that quarter. As a result, the fourth quarter results of operations significantly impacts the Company's annual results of operations. The Company's fourth quarter results of operations may fluctuate significantly based on many factors, including holiday spending patterns and weather conditions. In addition, the Company offers many seasonal goods and services. The Company establishes budgeted inventory levels and promotional activity in accordance with its strategic initiatives and expected consumer demand. Businesses that

generate revenue from the sale of seasonal merchandise and services are subject to the risk of changes in consumer spending behavior as a result of unseasonable weather patterns.

***If the Company fails to offer merchandise and services that the Company's customers want, the Company's sales may be limited, which would reduce the Company's revenues and profits and adversely impact the Company's results of operations.***

To be successful, the Company must identify, obtain supplies, and offer to customers attractive, relevant and high-quality merchandise and services on a continuous basis. Customers' preferences may change over time. If we misjudge either the demand for products and services the Company sells or the Company's customers' purchasing habits and tastes, the Company may be faced with excess inventories of some products and missed opportunities for products and services the Company chose not to offer. This could have a negative effect on the Company's revenues and profits and adversely impact our results of operations.

***The Company's failure to retain our senior management team and to continue to attract qualified new personnel could adversely affect the Company's business and results of operations.***

The Company's success is dependent on its ability to attract, motivate and retain senior leaders and other key personnel. The loss of one or more of the members of the Company's senior management may disrupt the Company's business and adversely affect its results of operations. Furthermore, the Company may not be successful in attracting, assimilating and retaining new personnel to grow its business profitably. The inability to attract and retain key personnel could have an adverse effect on the Company's business.

***If the Company does not successfully manage its inventory levels, the Company's results of operations will be adversely affected.***

The Company must maintain sufficient in-stock inventory levels to operate the business successfully while minimizing out-of-stock levels. A significant portion of inventory is sourced from vendors requiring advance notice periods in order to supply the quantities that we require. These lead times may adversely impact the Company's ability to respond to changing consumer preferences, resulting in inventory levels that are insufficient to meet demand or in merchandise that may have to be sold at lower prices. Inappropriate inventory levels or a failure to accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory may negatively impact the Company's results of operations.

***If the Company is unable to secure an agreement with a financial institution for the management of the credit and financial services operations under substantially the same terms and conditions as currently in existence, the Company's results of operations may be negatively impacted.***

The credit and financial services operations of the Company are currently managed by JPMorgan Chase. The Company entered into a long-term marketing and servicing alliance with JPMorgan Chase in 2006 with a term of 10 years. The term of this alliance is set to expire in 2015. As the Company is currently in the process of considering available options with respect to the future management of the credit and financial services operations, there is a risk that the Company may not be able to secure substantially the same terms and conditions as it currently has with JPMorgan Chase, which may in turn affect the Company's results of operations and financial condition.

***The Company relies extensively on computer systems to process transactions, summarize results and manage its business. Disruptions in these systems could harm the Company's ability to run its business.***

Given the number of individual transactions that the Company processes each year, it is critical that the Company maintains uninterrupted operation of its computer and communications hardware and software systems. These systems are subject to obsolescence, damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events such as fires, natural disasters and adverse weather occurrences and usage errors by the Company's employees. If the systems are damaged or cease to function properly, the Company may have to make a significant investment to fix or replace them, may suffer interruptions in operations in the interim and the Company's reputation with its customers may be harmed.

The Company's ability to maintain sufficient inventory levels in its stores is critical to the Company's success and largely depends upon the efficient and uninterrupted operation of its computer and communications hardware and software systems. Any material interruption in the Company's computer operations may have a material adverse effect on the Company's

business and results of operations.

***The Company relies on foreign sources for significant amounts of its merchandise, and the Company's business may therefore be negatively affected by the risks associated with international trade.***

The Company is dependent upon a significant amount of products that originate from non-Canadian markets. In particular, the Company sources a significant amount of products from China. The Company is subject to the risks that are associated with the sourcing and delivery of this merchandise, including: potential economic, social, and political instability in jurisdictions where suppliers are located; structural integrity and fire safety of foreign factories; increased shipping costs, potential transportation delays and interruptions; adverse foreign currency fluctuations; changes in international laws, rules and regulations pertaining to the importation of products and quotas; and the imposition and collection of taxes and duties. Any increase in cost to the Company of merchandise purchased from foreign vendors or restriction on the merchandise made available to the Company by such vendors could have an adverse effect on the Company's business and results of operations.

***Damage to the reputations of the brands the Company sells could reduce the Company's revenues and profits and adversely impact the Company's results of operations.***

As a diverse and multi-channel retailer, the Company promotes many brands as part of the Company's normal course of business. These brands include the Sears brand, Sears private label brands for product lines such as Jessica, and non-proprietary brands exclusive to the Company. Damage to the reputation of these brands or the reputation of the suppliers of these brands could negatively impact consumer opinions of the Company or its related products and reduce its revenues and profits and adversely impact its results of operations. In those circumstances, it may be difficult and costly for the Company to regain customer confidence.

***If the Company's relationships with its significant suppliers were to be impaired, it could have a negative impact on the Company's competitive position and adversely impact its results of operations and financial condition.***

Although the Company's business is not substantially dependent on any one supplier, the Company's relationship with certain suppliers is of significance to its merchandising strategy, including attracting customers to its locations, cross-segment sales and image. The loss of a significant supplier relationship could result in lower revenues and decreased customer interest in the Company's stores, which, in turn, would adversely affect the Company's results of operations and financial condition. In addition, the Company may not be able to develop relationships with new suppliers, and products from alternative sources, if any, may be of a lesser quality and more expensive than those the Company currently purchases.

***We rely on third parties to provide us with services in connection with the administration of certain business functions.***

The Company has entered into agreements with third-party service providers (both domestic and international) to provide processing and administration functions over a broad range of areas. These areas include finance and accounting, information technology, payroll and procurement functions. Services provided by third parties as a part of outsourcing initiatives could be interrupted as a result of many factors, such as social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, systems breakdowns or power outages or other significant events outside of the Company's control, contract disputes, or failure by third parties to provide these services on a timely basis within service level expectations and performance standards, which could result in a disruption of the Company's business, and adversely affect the Company's results of operations. In addition, to the extent the Company is unable to maintain its outsourcing arrangements, it could potentially incur substantial costs, including costs associated with hiring new employees, in order to return these services in-house.

***The Company relies on its relationship with a number of licensees to manage and operate the day-to-day operations of certain components of the Company's business.***

The Company has entered into licensing arrangements with various third parties. The financial instability of licensees and their inability to fulfill the terms and obligations under their respective agreements with the Company could potentially have a negative effect on the Company's revenues with respect to these arrangements and could cause the Company to incur substantial costs, including moving the services in-house or finding an alternative third party to perform the services.

***The lack of willingness of the Company's vendors to provide acceptable payment terms could negatively impact the Company's liquidity and/or reduce the availability of products or services that the Company seeks to procure.***

The Company depends on its vendors to provide it with financing for the Company's purchases of inventory and services.

The Company's vendors could seek to limit the availability of vendor credit to the Company or other terms under which they sell to the Company, or both, which could negatively impact the Company's liquidity. In addition, the inability of the Company's vendors to access liquidity, or the insolvency of the Company's vendors, could lead to their failure to deliver inventory or other services to the Company. Certain of the Company's vendors may finance their operations and/or reduce the risk associated with collecting accounts receivable from the Company by selling or "factoring" the receivables or by purchasing credit insurance or other forms of protection from loss associated with the Company's credit risks. The ability of the Company's vendors to do so is subject to the Company's perceived credit quality. The Company's vendors could be limited in their ability to factor receivables or obtain credit protection in the future because of the Company's perceived financial position and credit worthiness, which could reduce the availability of products or services the Company seeks to procure.

***The Company may be subject to product liability claims if people or properties are harmed by the products the Company sells or the services it offers.***

The Company sells products produced by third party manufacturers. Some of these products may expose the Company to product liability claims relating to personal injury, death or property damage caused by such products and may require the Company to take actions, such as product recalls. In addition, the Company also provides various services which could give rise to such claims. Although the Company maintains liability insurance to mitigate these potential claims, the Company cannot be certain that its coverage will be adequate for liabilities actually incurred or that insurance will continue to be available on economically reasonable terms or at all.

Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature, as well as product recalls, could also have a negative impact on customer confidence in the products and services the Company offers and on the Company's reputation, and adversely affect the Company's business and its results of operations.

***If the Company does not maintain the security of its customers, associates or Company information, the Company could damage its reputation, incur substantial additional costs and become subject to litigation.***

Any significant security compromise or breach of customer, associate or Company data, either held or maintained by the Company or its third party providers, could significantly damage the Company's reputation and brands and result in additional costs, lost sales, fines and/or lawsuits. The regulatory environment in Canada related to information security and privacy is very rigorous. There is no guarantee that the procedures that we have implemented to protect against unauthorized access to secured data are adequate to safeguard against all data security breaches. A data security breach could negatively impact the Company's business and its results of operations.

***The performance of the Company's real estate joint arrangements may be affected by events outside of the Company's control.***

The primary objective of the Company's real estate joint arrangements is to maximize the returns on its investments in shopping centre real estate. The Company reviews the performance of these joint arrangements on a regular basis. Shopping centre investments are non-core assets that the Company sells when it believes it is financially advantageous to do so. Similarly, the Company may also develop excess land within these real estate holdings and shopping centre joint arrangements when it is advantageous to do so. The return on such transactions is contingent on the state of the economic environment and other factors. In addition, the credit worthiness and financial stability of tenants and partners could negatively impact the Company's results of operations.

***The Company is subject to a number of long-term real estate leases which could restrict the Company's ability to respond to changes in demographics or the retail environment and adversely impact the Company's results of operations.***

As of February 1, 2014, the Company operated a total of 118 Full-line department stores, 331 specialty stores (including 48 Sears Home stores, 11 Outlet stores, four Appliances and Mattresses stores, 234 Hometown Dealer stores operated under independent local ownership and 34 Corbeil stores), 1,446 catalogue merchandise pick-up locations and 97 Sears Travel offices. Company owned stores consist of 14 Full-line department stores and two Sears Home stores, with the majority of the remainder held under long-term leases. While the Company is able to change its merchandise mix and relocate stores in order to maintain competitiveness, the Company is restricted from vacating a current site without breaching its contractual obligations and incurring lease-related expenses for the remaining portion of the lease-term. The long-term nature of the leases may limit the Company's ability to respond in a timely manner to changes in the demographic or retail environment at any location, which could adversely affect the Company's results of operations. In addition, when leases for the stores in

the Company's ongoing operations expire, the Company may be unable to negotiate renewals, either on commercially acceptable terms, or at all, which could cause us to close stores. Accordingly, the Company is subject to the risks associated with leasing real estate, which could have an adverse effect on the Company's results of operations.

***The Company may be subject to legal proceedings if the Company violates the operating covenants in its real estate leases that could adversely affect the Company's business and results of operations.***

As of February 1, 2014, the Company had operating covenants with landlords for approximately 100 Sears brand corporate stores. An operating covenant generally requires the Company, during normal operating hours, to operate a store continuously as per the identified format in the lease agreement. As of February 1, 2014, the remaining term of the various Sears operating covenants ranged from less than one year to 25 years, with an average remaining term of approximately seven years. Failure to observe operating covenants may result in legal proceedings against the Company and adversely affect the Company's business and results of operations.

***The Company is subject to laws and regulations that impact its business and a failure to comply with such laws and regulations could lead to lawsuits or regulatory actions against the Company that could adversely affect the Company's business and results of operations.***

Laws and regulations are in place to protect the interests and well-being of the Company's customers and communities, business partners, suppliers, employees, shareholders and creditors. Changes to statutes, laws, regulations or regulatory policies, including changes in the interpretation, implementation or enforcement of statutes, laws, regulations and regulatory policies, could adversely affect the Company's business and results of operations. In addition, the Company may incur significant costs in the course of complying with any changes to applicable statutes, laws, regulations and regulatory policies.

The Company's failure to comply with applicable statutes, laws, regulations or regulatory policies could result in a judicial or regulatory judgment or sanctions and financial penalties that could adversely impact the Company's reputation, business and results of operations. Although the Company believes that it has taken reasonable measures designed to ensure compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which it conducts business, there is no assurance that the Company will always be in compliance or deemed to be in compliance.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure, including those related to foreign private issuers and the Sarbanes-Oxley Act of 2002, and related regulations implemented by the United States SEC are creating uncertainty for foreign private issuers, increasing legal and financial compliance costs, and making some activities more time consuming. The Company is currently evaluating and monitoring developments with respect to new and proposed rules, such as the new conflict minerals disclosure requirements, and cannot predict or estimate the amount of additional costs it may incur or the timing of such costs. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. The costs of compliance or our failure to comply with these laws, rules and regulations could adversely affect our reputation, business, results of operations, financial condition and the price of our common shares.

***The Company is required to comply with federal and provincial environmental laws and regulations, the cost of which may adversely affect the Company's results of operations and financial condition.***

The Company is exposed to environmental risk 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 Company is currently remediating various locations across Canada where it has operated auto centres, gas bars and a logistics facility. The extent of the remediation and the costs thereof have not yet been determined. The Company continues to monitor the costs of remediation and appropriately provide for these costs in its reserves. If we commit to renovating a leased or owned building that contains or may contain asbestos, or if asbestos is inadvertently disturbed, we will be legally obligated to comply with asbestos removal standards. The extent of this liability has not yet been determined because the costs to remove asbestos depend upon factors including, among others, the location and extent of any renovations undertaken. Inadvertent disturbance of asbestos cannot be foreseen. The costs incurred by the Company could be significant and may negatively impact the Company's results of operations and financial condition.

***The Company is exposed to a variety of legal proceedings, including class action lawsuits, and tax audits which, if adversely decided, could materially adversely affect the Company.***

The Company is currently involved in various legal proceedings incidental to the normal course of business. Although the Company is of the view that the final disposition of any such litigation is not expected to have a material adverse effect on its liquidity, consolidated financial position or results of operations, the outcome of such litigation cannot be predicted with certainty.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While we believe that the Company's tax filing positions are appropriate and supportable, periodically, certain matters are reviewed and from time to time are challenged by the tax authorities. As the Company routinely evaluates and provides for potentially unfavorable outcomes with respect to any tax audits, it believes that the final disposition of tax audits will not have a material adverse effect on its liquidity, consolidated financial position or results of operations. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and net earnings could be affected positively or negatively in the period in which the tax audits are completed.

***The Company's results of operations may be adversely impacted if insurance coverage is deemed insufficient or if the Company or the insurance industry is affected by unexpected material events.***

The Company maintains directors and officers insurance, liability insurance, business interruption and property insurance and this insurance coverage reflects deductibles, self-insured retentions, limits of liability and similar provisions. Although the Company has taken measures to ensure that it has the appropriate coverage, including maintaining an annual reserve for liability claims, there is no guarantee that the Company's insurance coverage will be sufficient, or that insurance proceeds will be paid to us in a timely manner. In addition, there are types of losses we may incur but against which we cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war and certain natural disasters. If we incur these losses and they are material, our business, operating results and financial condition may be adversely affected. Also, certain material events may result in sizable losses for the insurance industry and materially adversely impact the availability of adequate insurance coverage or result in significant premium increases. Accordingly, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to such market changes.

***Events outside the Company's control such as social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, systems breakdowns or power outages could have a material adverse effect on the Company's business and results of operations.***

The Company's business is sensitive to customers' spending patterns, which may be affected by domestic and international social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, or other significant events outside of the Company's control, any of which could lead to a decrease in spending by consumers. In addition, such events as well as systems breakdowns and power outages could cause store closures, disrupt supply chain or other operations, delay shipments of merchandise to consumers, reduce revenue and result in expenses to repair or replace facilities. Disruptions during a peak season such as the month of December, which may account for up to 40% of a year's earnings, could have a particularly adverse effect on the Company's business and results of operations.

***The Company's business could suffer if it is unsuccessful in making, integrating, and maintaining acquisitions and investments.***

From time to time we pursue strategic acquisitions of, joint arrangements with, or investments in, other companies or businesses, although the Company has no present commitments with respect to any material acquisitions or investments. Any such acquisition, joint arrangement or investment that the Company makes may require the Company to spend its cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce the Company's profitability and harm its business. Acquisitions, joint arrangements and investments also increase the complexity of the Company's business and place strain on its management, personnel, operations, supply chain, financial resources, and internal financial controls and reporting functions. The Company may not be able to manage acquisitions, joint arrangements or investments effectively, which could damage the Company's reputation, limit its growth and adversely affect its business and results of operations.

## Financial Risks

*The Company's business has been and will continue to be affected by Canadian and worldwide economic conditions; a persistence or worsening of current economic conditions could lead to reduced revenues and gross margins, and negatively impact the Company's liquidity.*

The Company plans its operations giving regard to economic and financial variables that are beyond its control. Changes to these variables may adversely impact the Company's performance. Should the current economic conditions persist or worsen, heightened competition, a further decline in consumer confidence, lower disposable income, higher unemployment and personal debt levels may result, which could lead to reduced demand for the Company's products and services. Any of these events could cause the Company to increase inventory markdowns and promotional expenses, thereby reducing the Company's gross margins and results of operations. The Company's results of operations have been negatively impacted as a result of the current economic conditions and it is difficult to accurately assess the potential impact on the Company's business. If the Canadian or global economies continue to worsen, however, the Company could experience a decline in same store sales, erosion of gross profit and profitability.

Increasing fuel and energy costs may have a significant negative impact on the Company's operations. The Company requires significant quantities of fuel for the vehicles used to distribute and deliver inventory and the Company is exposed to the risk associated with variations in the market price for petroleum products. The Company could experience a disruption in energy supplies, including its supply of gasoline, as a result of factors that are beyond the Company's control, which could have an adverse effect on the Company's business. Certain of the Company's vendors also are experiencing increases in the cost of various raw materials, such as cotton, oil-related materials, steel and rubber, which could result in increases in the prices that the Company pays for merchandise, particularly apparel, appliances and tires and adversely affect the Company's results of operations.

## Liquidity Risk

The Company could face liquidity risk due to various factors, including but not limited to, the unpredictability of the current economic climate, failure to secure appropriate funding vehicles and cash flow issues relating to the operation and management of the business. Failure to fulfill financial obligations due and owing from the Company as a result of this liquidity risk could have undesirable consequences on the Company.

*Fluctuations in U.S. and Canadian dollar exchange rates may adversely impact the Company's results of operations.*

The Company's foreign exchange risk is currently limited to currency fluctuations between the Canadian and U.S. dollar. The Company is vulnerable to increases in the value of the U.S. dollar relative to the Canadian dollar because the majority of its revenues are denominated in Canadian dollars and a substantial amount of the merchandise the Company purchases is priced in U.S. dollars. The costs of these goods in Canadian dollars rise when the U.S. dollar increases in value relative to the Canadian dollar and, as a result, the Company may be forced to increase its prices or reduce its gross margins. We may use foreign currency forward and option contracts to hedge the exchange rate risk on a portion of the Company's expected requirement for U.S. dollars. There can be no assurance that the Company's hedging efforts will achieve their intended results or that the Company's estimate of its requirement for U.S. dollars will be accurate, with the result that currency fluctuations may have an adverse impact on the Company's results of operations.

In addition, any significant appreciation of the Canadian dollar relative to the U.S. dollar presents an additional challenge to the Company as its customers are motivated to cross-border shop, which may have an adverse impact on the Company's results of operations.

*The Company is exposed to counterparty credit risk which could adversely affect its results of operations.*

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of counterparties to meet their payment obligations to the Company. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, short-term investments, accounts receivable and investments included in other long-term assets. Cash and cash equivalents, accounts receivable, derivative financial assets, and other long-term assets of \$605.8 million as at February 1, 2014 (February 2, 2013: \$317.7 million) expose the Company to credit risk should the borrower default on maturity of the investment.

Although the Company seeks to manage 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, there can be no

assurance that the Company will be able to successfully manage its credit risk.

The Company invests its surplus cash in investment grade, short-term money market instruments, the return on which depends upon interest rates and the credit worthiness of the issuer. The Company attempts to mitigate credit risk resulting from the possibility that an issuer may default on repayment by requiring that issuers have a minimum credit rating and limiting exposures to individual borrowers.

***Expenses associated with the Company's retirement benefit plans may fluctuate significantly depending on changes in actuarial assumptions, future market performance of plan assets, and other events outside of the Company's control and adversely affect the Company's results of operations.***

The Company currently maintains a defined benefit registered pension plan, 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 associates through a health and welfare trust. The defined benefit plan continues to accrue benefits related to future compensation increases although no further service credit is earned. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for associates who had not achieved the eligibility criteria for these non-pension retirement benefits as at December 31, 2008.

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, 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 materially from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase. See Note 20.4 "Pension assumptions" of the Notes to the Consolidated Financial Statements for more information on the weighted-average actuarial assumptions for the plans.

***The Company is exposed to interest rate risk which could adversely affect its results of operations.***

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. Cash and cash equivalents and borrowings under the Company's \$800.0 million Credit Facility are subject to interest rate risk. The total outstanding balance subject to interest rate risk as at February 1, 2014 was a net asset of \$515.1 million (February 2, 2013: \$239.8 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net earnings of \$0.9 million.

***Certain factors, including changes in market conditions and our credit ratings, may limit our access to capital markets and other financing sources, which could materially increase our borrowing costs.***

In addition to credit terms from vendors, our liquidity needs are funded by our operating cash flows and, to the extent necessary, borrowings under our credit agreements and access to capital markets. The availability of financing depends on numerous factors, including economic and market conditions, our operating performance, our credit ratings, and lenders' assessments of our prospects and the prospects of the retail industry in general. Changes in these factors may affect our cost of financing, liquidity and our ability to access financing sources. Rating agencies revise their ratings for the companies that they follow from time to time and our ratings may be revised or withdrawn in their entirety at any time.

While the Credit Facility currently provides for up to \$800.0 million of lender commitments, availability under the Credit Facility is determined pursuant to a borrowing base formula based on eligible assets consisting of inventory and credit card receivables and may be reduced by reserves, as estimated by the Company, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. If the value of eligible assets are not sufficient to support borrowings

of up to the full amount of the commitments under the facility, the Company will not have full access to the facility, but rather could have access to a lesser amount as determined by the borrowing base and reserve estimates.

The lenders under our Credit Facility may not be able to meet their commitments if they experience shortages of capital and liquidity and there can be no assurance that our ability to otherwise access the credit markets will not be adversely affected by changes in the financial markets and the global economy.

***The Company faces risks associated with impairment of goodwill and other assets.***

The Company's goodwill, intangible assets and long-lived assets, primarily consisting of stores and joint arrangements, are subject to periodic testing for impairment. A significant amount of judgment is involved in the periodic testing. Failure to achieve sufficient levels of cash flow within each of the Company's cash generating units or specific operating units could result in impairment charges for goodwill and intangible assets or fixed asset impairment for long-lived assets, which could have a material adverse effect on the Company's reported results of operations.

**Risks Relating to the Company's Relationship with Sears Holdings**

***The Company may lose rights to some intellectual property if Sears Holdings' equity ownership in the Company falls below specified thresholds.***

The Company relies on its right to use the "Sears" name, including as part of the Company's corporate and commercial name, which the Company considers a significant and valuable aspect of its business. The Company's right to use the "Sears" name and certain other brand names was granted pursuant to a license agreement with Sears Holdings.

The Company's license to use the "Sears" name and certain brand names may be terminated if Sears Holdings' indirect ownership interest in the Company is reduced to less than 25%. In addition, the Company's license to use the "Sears" name may also terminate upon the occurrence of certain bankruptcy events. Losing the Company's right to use these intellectual properties could significantly diminish the Company's competitiveness and could materially harm its business. If the license agreement is terminated, the Company would attempt to renegotiate the license agreement although the terms of any renegotiated license agreement would likely be less favorable to the Company.

***Some of the Company's directors and executive officers may have conflicts of interest because of their ownership of Sears Holdings common stock.***

Some of our directors and executive officers may own Sears Holdings common stock. Ownership of Sears Holdings common stock by our directors and/or officers could create, or appear to create, conflicts of interest with respect to matters involving both the Company and Sears Holdings.

**Risks Relating to Our Common Shares**

***As long as Sears Holdings controls the Company, a shareholder's ability to influence matters requiring shareholder approval will be limited.***

As of the date hereof, Sears Holdings controls approximately 51% of the Company's voting power and ESL controls approximately 28% of the Company's voting power. Pursuant to a filing made with the SEC on December 3, 2013, ESL controls approximately 48% of Sears Holdings. So long as Sears Holdings controls a majority of the Company's outstanding common shares, Sears Holdings will have the ability to control the election of the board of directors and the outcome of certain shareholder votes.

Accordingly, Sears Holdings will continue to have the ability to exercise control over certain actions to be taken or approved by the Company's directors and shareholders, including with respect to certain mergers or business combinations or dispositions of all or substantially all of the Company's assets. Sears Holdings' voting control may discourage transactions involving a change of control of the Company, including transactions in which a shareholder might otherwise receive a premium for his/her shares over the then-current market price. Subject to certain limits, Sears Holdings is also not prohibited from selling a controlling interest in the Company to a third party and may do so without shareholder approval and, subject to applicable laws, without providing for a purchase of a shareholder's common shares.

Sears Holdings' interests may be different than a shareholder's interests and Sears Holdings may have investments in other companies that may compete with the Company, and may have interests from time to time that diverge from the interests of shareholders, particularly with regard to new investment opportunities.

In addition, conflicts of interest may arise between Sears Holdings and the Company, including corporate opportunities, potential acquisitions or transactions, as well as other matters. The Company may be adversely affected by any conflicts of interest between Sears Holdings and the Company.

Furthermore, Sears Holdings does not owe the Company or the Company's shareholders any fiduciary duties under Canadian law.

## 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, who are employees of the Company, 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.



Douglas Campbell  
President and Chief Executive Officer



E.J. Bird  
Chief Financial Officer

Toronto, Ontario  
March 13, 2014

**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* 1992 (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 chief executive officer and chief financial officer, has evaluated the Company's internal control over financial reporting and has concluded that it was effective as at February 1, 2014.

Deloitte LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements for the fiscal year ended February 1, 2014, has issued its opinion on the Company's internal control over financial reporting as stated in their report included herein.



Douglas Campbell  
President and Chief Executive Officer



E.J. Bird  
Chief Financial Officer

Toronto, Ontario  
March 13, 2014

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors 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 February 1, 2014, February 2, 2013 and January 28, 2012, and the consolidated statements of net earnings and comprehensive income, consolidated statements of changes in shareholders' equity, and consolidated statements of cash flows for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013, 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. as at February 1, 2014, February 2, 2013 and January 28, 2012, and their financial performance and their cash flows for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013 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 February 1, 2014, based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

*Deloitte LLP*

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
March 13, 2014  
Toronto, Canada

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of  
Sears Canada Inc.

We have audited the internal control over financial reporting of Sears Canada Inc. and subsidiaries (the "Company") as of February 1, 2014, based on the criteria established in *Internal Control-Integrated Framework (1992)* 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 Annual 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 February 1, 2014, based on the criteria established in *Internal Control - Integrated Framework (1992)* 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 February 1, 2014 of the Company and our report dated March 13, 2014 expressed an unqualified opinion on those financial statements.

*Deloitte LLP*

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
March 13, 2014  
Toronto, Canada

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## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(in CAD millions)</i>	Notes	As at February 1, 2014	As at February 2, 2013 (Note 2.25)	As at January 28, 2012 (Note 2.25)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	5	\$ 513.8	\$ 238.5	\$ 400.2
Accounts receivable, net	6,14,16	83.3	77.7	117.6
Income taxes recoverable	22	0.8	5.5	4.1
Inventories	7	774.6	851.4	823.9
Prepaid expenses	8	23.8	28.6	27.9
Derivative financial assets	14	7.2	—	—
Assets classified as held for sale	29	13.3	—	—
<b>Total current assets</b>		<b>1,416.8</b>	<b>1,201.7</b>	<b>1,373.7</b>
<b>Non-current assets</b>				
Property, plant and equipment	9,19	785.5	1,118.5	1,196.1
Investment property	9	19.3	21.7	21.7
Intangible assets	10,2	28.2	27.2	23.6
Goodwill	10,1	2.6	8.7	8.7
Deferred tax assets	22	88.7	83.8	84.6
Other long-term assets	12,14,16,22	51.2	43.1	59.0
<b>Total assets</b>		<b>\$ 2,392.3</b>	<b>\$ 2,504.7</b>	<b>\$ 2,767.4</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	14,15	\$ 438.7	\$ 483.7	\$ 580.8
Deferred revenue	13	187.7	197.8	208.0
Provisions	16	109.4	66.3	64.8
Income taxes payable	22	52.2	—	1.0
Other taxes payable		53.9	34.0	42.9
Current portion of long-term obligations	14,17,19,25	7.9	9.2	9.2
<b>Total current liabilities</b>		<b>849.8</b>	<b>791.0</b>	<b>906.7</b>
<b>Non-current liabilities</b>				
Long-term obligations	14,17,19,25	28.0	50.2	144.8
Deferred revenue	13	87.3	90.7	89.2
Retirement benefit liability	20,1	286.0	415.7	452.3
Deferred tax liabilities	22	4.2	6.0	5.6
Other long-term liabilities	16,18	63.2	74.7	76.8
<b>Total liabilities</b>		<b>1,318.5</b>	<b>1,428.3</b>	<b>1,675.4</b>
<b>SHAREHOLDERS' EQUITY</b>				
Capital stock	24	14.9	14.9	15.0
Retained earnings	24,25	1,145.3	1,208.2	1,218.5
Accumulated other comprehensive loss		(86.4)	(146.7)	(141.5)
<b>Total shareholders' equity</b>		<b>1,073.8</b>	<b>1,076.4</b>	<b>1,092.0</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 2,392.3</b>	<b>\$ 2,504.7</b>	<b>\$ 2,767.4</b>

The accompanying notes are an integral part of these consolidated financial statements.

On Behalf of the Board of Directors.



W.C. Crowley  
Chairman of the Board



D.E. Rosati  
Director

**CONSOLIDATED STATEMENTS OF NET EARNINGS AND COMPREHENSIVE INCOME**  
**For the 52 and 53-week periods ended February 1, 2014 and February 2, 2013**

<i>(in CAD millions, except per share amounts)</i>	Notes	2013	2012 (Note 2.25)
Revenue	26	\$ 3,991.8	\$ 4,346.5
Cost of goods and services sold	7	2,548.1	2,749.2
Selling, administrative and other expenses	9,10,11,19,20,6,27	1,631.5	1,669.1
<b>Operating loss</b>		<b>(187.8)</b>	<b>(71.8)</b>
Gain on lease terminations and lease amendments	28	577.2	167.1
Gain on sale of interest in joint arrangements	11	66.3	8.6
Gain on settlement and amendment of retirement benefits	20,27	42.5	21.1
Finance costs	17,22	10.8	15.1
Interest income	5	2.6	4.3
<b>Earnings before income taxes</b>		<b>490.0</b>	<b>114.2</b>
Income tax (expense) recovery			
Current	22	(71.6)	(8.2)
Deferred	22	28.1	(4.8)
		<b>(43.5)</b>	<b>(13.0)</b>
<b>Net earnings</b>		<b>\$ 446.5</b>	<b>\$ 101.2</b>
Basic net earnings per share	33	\$ 4.38	\$ 0.99
Diluted net earnings per share	33	\$ 4.38	\$ 0.99
Net earnings		\$ 446.5	\$ 101.2
Other comprehensive income (loss), net of taxes:			
Items that may subsequently be reclassified to net income:			
Gain on foreign exchange derivatives		7.8	—
Reclassification to net earnings of gain on foreign exchange derivatives		(1.8)	(0.2)
Item that will not be subsequently reclassified to net income:			
Remeasurement gain (loss) on net defined retirement benefit liability	20.7	54.3	(5.0)
<b>Total other comprehensive income (loss)</b>		<b>60.3</b>	<b>(5.2)</b>
<b>Total comprehensive income</b>		<b>\$ 506.8</b>	<b>\$ 96.0</b>

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the 52 and 53-week periods ended February 1, 2014 and February 2, 2013**

<i>(in CAD millions)</i>	Notes	Accumulated other comprehensive loss (income)						Shareholders' equity
		Capital stock	Retained earnings	Foreign exchange derivatives designated as cash flow hedges	Remeasurement (loss) gain	Total accumulated other comprehensive (loss) income		
<b>Balance as at February 2, 2013</b>		\$ 14.9	\$ 1,208.2	\$ —	\$ (146.7)	\$ (146.7)	\$ 1,076.4	
Net earnings			446.5	—	—	—	446.5	
<i>Other comprehensive income (loss)</i>								
Gain on foreign exchange derivatives, net of income tax expense of \$2.8				7.8	—	7.8	7.8	
Reclassification of gain on foreign exchange derivatives, net of income tax expense of \$0.6				(1.8)	—	(1.8)	(1.8)	
Remeasurement gain on net defined retirement benefit liability, net of income tax expense of \$19.4	20.7			—	54.3	54.3	54.3	
<i>Total other comprehensive income</i>		—	—	6.0	54.3	60.3	60.3	
<i>Total comprehensive income</i>		—	446.5	6.0	54.3	60.3	506.8	
Dividends declared	24		(509.4)				(509.4)	
<b>Balance as at February 1, 2014</b>		\$ 14.9	\$ 1,145.3	\$ 6.0	\$ (92.4)	\$ (86.4)	\$ 1,073.8	
<b>Balance as at January 28, 2012</b>		\$ 15.0	\$ 1,218.5	\$ 0.2	\$ (141.7)	\$ (141.5)	\$ 1,092.0	
Net earnings			101.2	—	—	—	101.2	
<i>Other comprehensive loss</i>								
Reclassification of gain on foreign exchange derivatives, net of income tax expense of nil				(0.2)	—	(0.2)	(0.2)	
Remeasurement loss on net defined retirement benefit liability, net of income tax recovery of \$3.5	20.7			—	(5.0)	(5.0)	(5.0)	
<i>Total other comprehensive loss</i>		—	—	(0.2)	(5.0)	(5.2)	(5.2)	
<i>Total comprehensive income (loss)</i>		—	101.2	(0.2)	(5.0)	(5.2)	96.0	
Repurchases of common shares	24	(0.1)	(9.6)				(9.7)	
Dividends declared	24		(101.9)				(101.9)	
<b>Balance as at February 2, 2013</b>		\$ 14.9	\$ 1,208.2	\$ —	\$ (146.7)	\$ (146.7)	\$ 1,076.4	

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 52 and 53-week periods ended February 1, 2014 and February 2, 2013

<i>(in CAD millions)</i>	Notes	2013	2012 (Note 2.25)
<b>Cash flow used for operating activities</b>			
Net earnings		\$ 446.5	\$ 101.2
Adjustments for:			
Depreciation and amortization expense	9.10.2	111.4	126.5
Loss on disposal of property, plant and equipment		1.2	1.2
Impairment losses	9.10.29	33.8	2.0
Gain on sale of interest in joint arrangements	11	(66.3)	(8.6)
Gain on lease terminations and lease amendments	28	(577.2)	(167.1)
Finance costs	17	10.8	15.1
Interest income	5	(2.6)	(4.3)
Retirement benefit plans expense	20.6	32.0	31.6
Gain on settlement and amendment of retirement benefits	20	(42.5)	(21.1)
Short-term disability expense		8.0	8.4
Income tax expense	22	43.5	13.0
Interest received	5	2.5	2.3
Interest paid	17	(6.2)	(7.1)
Retirement and other benefit plans contributions	20.6	(53.5)	(63.0)
Income tax (payments) refunds, net	22	(14.0)	9.0
Other income tax deposits	22	(18.9)	(4.1)
Changes in non-cash working capital	34	73.3	(122.9)
Changes in long-term assets and liabilities	35	(7.6)	33.2
		<b>(25.8)</b>	<b>(54.7)</b>
<b>Cash flow generated from investing activities</b>			
Purchases of property, plant and equipment and intangible assets	9.10.2	(70.8)	(101.6)
Proceeds from sale of property, plant and equipment		1.9	2.2
Proceeds from lease terminations	28	590.5	175.0
Proceeds from sale of joint arrangements	11	315.4	38.3
Proceeds from sale of Cantrex operations	30	—	3.5
		<b>837.0</b>	<b>117.4</b>
<b>Cash flow used for financing activities</b>			
Interest paid on finance lease obligations	17.19	(2.5)	(2.4)
Repayment of long-term obligations		(30.1)	(146.3)
Proceeds from long-term obligations		4.5	35.8
Dividend payments	24	(509.4)	(101.9)
Repurchases of common shares	24	—	(9.7)
		<b>(537.5)</b>	<b>(224.5)</b>
Effect of exchange rate on cash and cash equivalents at end of period		1.6	0.1
<b>Increase (decrease) in cash and cash equivalents</b>		<b>275.3</b>	<b>(161.7)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>\$ 238.5</b>	<b>\$ 400.2</b>
<b>Cash and cash equivalents at end of period</b>		<b>\$ 513.8</b>	<b>\$ 238.5</b>

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, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electric Inc. ("Corbeil") stores, and its Direct (catalogue/internet) channel. It also includes service revenue related to product repair and logistics. Commission revenue includes travel, home improvement services, insurance, and performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch) ("JPMorgan Chase") under the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has a multi-year licensing arrangement with TravelBrands Inc. ("TravelBrands") (formerly known as Thomas Cook Canada Inc.), under which TravelBrands manages the day-to-day operations of all Sears Travel offices and provides commissions to the Company. The Company also entered in a multi-year licensing agreement with SHS Services Management Inc. ("SHS"), under which SHS oversaw the day-to-day operations of all Sears Home Installed Products and Services business ("HIPS"). On December 13, 2013, SHS announced it was in receivership, and all offers of services provided by SHS ceased (see Note 14). Licensee fee revenues are comprised of payments received from licensees, including TravelBrands and SHS, that operate within the Company's stores. The Company is a party to a number of real estate joint arrangements which have been classified as joint operations and accounted for by recognizing the Company's share of joint arrangements' assets, liabilities, revenues and expenses for financial reporting purposes.

The indirect parent of the Company is Sears Holdings Corporation ("Sears Holdings"), incorporated in the U.S. in the state of Delaware. The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Florida) through Sears Holdings.

### 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 2012 Annual Consolidated Financial Statements, except as noted below. The Company's significant accounting policies are detailed in Note 2.

The Company adopted the following new standards and amendments which became effective "in" or "for" the fiscal year ended February 1, 2014:

- *IAS 1, Presentation of Financial Statements ("IAS 1")*

The IASB has amended IAS 1 to require additional disclosures for items presented in Other Comprehensive Income ("OCI") on a before-tax basis and requires items to be grouped and presented in OCI based on whether they are potentially reclassifiable to earnings or loss subsequently (i.e. items that may be reclassified and those that will not be reclassified to earnings or loss). These amendments are effective for annual periods beginning on or after July 1, 2012 and require full retrospective application. As a result of the adoption of the IAS 1 amendment, the Company modified its presentation of OCI in the Consolidated Statements of Net Earnings and Comprehensive Income;

- *IAS 28, Investments in Associates and Joint Ventures ("IAS 28")*

IAS 28 (as amended in 2011) supersedes IAS 28 (2003), *Investments in Associates* and outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those policies). Based on the Company's assessment of this amendment, there is no impact on its consolidated financial statements;

- *IFRS 7, Financial Instruments: Disclosures ("IFRS 7")*

The IASB has amended IFRS 7. The amendment establishes disclosure requirements to help users better assess the effect or potential effect of offsetting arrangements on a company's financial position. These amendments are effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. Based on the Company's assessment of this amendment, there is no impact on its consolidated financial statements;

- *IFRS 10, Consolidated Financial Statements (“IFRS 10”)*

IFRS 10 establishes the standards for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. Based on the Company’s assessment of this amendment, there is no impact on its consolidated financial statements;

- *IFRS 11, Joint Arrangements (“IFRS 11”)*

IFRS 11, along with IFRS 12 described below, replaces IAS 31, *Interests in Joint Ventures* (“IAS 31”) and requires that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly. The adoption of this standard has impacted the Company’s Financial Statements as described in Note 2.25;

- *IFRS 12, Disclosure of Involvement with Other Entities (“IFRS 12”)*

IFRS 12, along with IFRS 11 described above, replaces IAS 31. IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of and the risks associated with, the entity’s interests in joint arrangements and the impact of those interests on its financial position, financial performance and cash flows. These amendments are effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. Disclosures required under IFRS 12 for the consolidated financial statements have been included in Note 11; and

- *IFRS 13, Fair Value Measurement (“IFRS 13”)*

IFRS 13 provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a ‘fair value hierarchy’. This standard applies when another IFRS requires or permits fair value measurements or disclosures. Disclosures required under IFRS 13 for the consolidated financial statements have been included in Note 14.5.

### 2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments that are measured at fair value and the retirement benefit asset, which is the net total of plan assets and the present value of the retirement benefit liability. 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. Real estate joint arrangements are accounted for by recognizing the Company’s share of the joint arrangements’ assets, liabilities, revenues and expenses (described further in Note 2.13).

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 2013 and 2012 consolidated financial statements represent the 52-week period ended February 1, 2014 (“Fiscal 2013” or “2013”) and the 53-week period ended February 2, 2013 (“Fiscal 2012” or “2012”), respectively.

The Company’s consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency. The Company is comprised of two reportable segments, Merchandising and Real Estate Joint Arrangements (see Note 23).

### 2.5 Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with maturities of 90 days or less at the date of purchase. Cash and cash equivalents are considered to be restricted when they are subject to contingent rights of a third party customer, vendor, government agency or financial institution.

### 2.6 Short-term investments

Short-term investments include investments with maturities between 91 to 364 days from the date of purchase.

### 2.7 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.

## 2.8 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. The cost of self-constructed assets includes site preparation costs, design and engineering fees, freight (only on initial freight costs incurred between the vendor and the Company), installation expenses and provincial sales tax (Saskatchewan, Manitoba and Prince Edward Island), and is net of any vendor subsidies or reimbursements. An allocation of general and specific incremental interest charges for major construction projects is also included in the cost of related assets. Property, plant and equipment within one of the Company's Regina logistics centres have been classified as held for sale in the Consolidated Statements of Financial Position (see Note 29).

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 Earnings and Comprehensive Income. 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 Earnings and Comprehensive Income.

For a discussion on the impairment of tangible assets, refer to Note 2.11. Property, plant and equipment are reviewed at the end of each reporting period to determine whether there is an indicator of impairment.

## 2.9 Investment property

The Company's investment property consists of vacant land which is not currently used in its operations. Investment property is measured at its deemed cost less accumulated impairment losses.

The fair values of the investment property is estimated using observable data based on the current cost of acquiring comparable properties 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 property.

The gain or loss arising from the disposal or retirement of an item of 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 Earnings and Comprehensive Income.

For a discussion on the impairment of tangible assets, refer to Note 2.11. Investment property is reviewed at the end of each reporting period to determine whether there is any indicator of impairment.

## 2.10 Intangible assets

### 2.10.1 Finite life intangible assets other than goodwill

Finite life intangible assets consist of purchased and internally developed software. 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 all intangible assets other than goodwill are finite. Amortization expense is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. The estimated useful lives and amortization methods for intangible assets other than goodwill 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.

### 2.10.2 Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (“the acquisition date”). Goodwill is measured as the excess of the sum of the consideration transferred, over the net fair value of identifiable assets acquired less liabilities assumed as of the acquisition date.

#### *2.11 Impairment of tangible assets and intangible assets with finite useful lives*

At the end of each reporting period, the Company reviews property, plant and equipment, investment property, intangible assets and goodwill 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, the impairment is first allocated to goodwill before other assets held by the CGU. Where goodwill is not part of a CGU, 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 (not applicable to goodwill), 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 had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately.

#### *2.12 Impairment of goodwill*

Goodwill is not amortized but is reviewed for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Company’s CGUs expected to benefit from the synergies of the combination.

CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to the other assets of the unit on a pro-rata basis, based on the carrying amount of each asset in the unit. Impairment losses for goodwill are not reversed in subsequent periods.

#### *2.13 Joint arrangements*

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is considered to be when all parties to the joint arrangement are required to reach unanimous consent over decisions about relevant business activities pertaining to the contractual arrangement.

The Company has determined that its real estate joint arrangements are joint operations. A joint operation is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party has rights to the assets and liabilities relating to the arrangement. Interests in joint operations are accounted for by recognizing the Corporation’s share of assets, liabilities, revenues, and expenses incurred jointly.

#### *2.14 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.

##### 2.14.1 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 on a straight-line basis over the term of the lease.

##### 2.14.2 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 2.8).

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 Earnings and Comprehensive Income.

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.

### *2.15 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 associates, 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 associates through a health and welfare trust.

#### *2.15.1 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.

#### *2.15.2 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 3 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 statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. The Company performs remeasurements at least annually. Remeasurements recorded in Other comprehensive income are not recycled into profit or loss. However, the entity may transfer those amounts recognized in other comprehensive income within accumulated other comprehensive income ("AOCI"). 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 Earnings and Comprehensive Income.

Remeasurements are recorded in Other comprehensive income.

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.

#### *2.15.3 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.

### *2.16 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.

#### *2.16.1 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 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.

### 2.16.2 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 which is typically one day.

### 2.16.3 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 is received from JPMorgan Chase relating to credit sales. Revenue is based on a percentage of sales charged on the Sears Card or Sears MasterCard and is included in revenue when the sale occurs.

### 2.16.4 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.

### 2.16.5 Customer loyalty program

The Sears Club Points Program (the "Program") allows members to earn points from eligible purchases made on their Sears Card and/or Sears MasterCard. 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 redemption rates are reviewed on a regular basis and are adjusted based upon expected future activity.

### 2.16.6 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 sales 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.

### 2.16.7 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.

### 2.17 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.

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.

Exchange differences arising on retranslation are recognized in the Consolidated Statements of Net Earnings and Comprehensive Income in the period in which they arise, except for exchange differences on certain foreign currency hedging transactions.

### *2.18 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.

### *2.19 Taxation*

Income tax expense represents the sum of current tax expense and deferred tax expense.

#### *2.19.1 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 Earnings and Comprehensive Income, 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.

#### *2.19.2 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 generally recognized for taxable temporary differences. Deferred tax assets are generally 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and investments in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable earnings against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced 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 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.

#### *2.19.3 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 Earnings and Comprehensive Income, 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.

### *2.20 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.

#### 2.20.1 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.

#### 2.20.2 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.

#### 2.20.3 Warranty provisions

An estimate for warranty provisions is made at the time the merchandise is sold based on historical warranty trends. Please also see Note 16.

#### 2.20.4 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.

#### 2.20.5 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.

### 2.21 *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, 'held-to-maturity' investments, '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. Currently the Company does not have any 'held-to-maturity' investments.

#### 2.21.1 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.

#### 2.21.2 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.

### 2.21.3 AFS financial assets

The Company's cash equivalents have been classified as AFS financial assets and are measured at fair value. Gains and losses arising from changes in fair value 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 Earnings and Comprehensive Income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously included in AOCI is reclassified to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

### 2.21.4 Loans and receivables

Cash held by the bank and restricted cash and cash equivalents 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.

### 2.21.5 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 Earnings and Comprehensive Income.

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 Earnings and Comprehensive Income. Changes in the carrying amount of the allowance account are also recognized in "Selling, administrative and other expenses".

### 2.21.6 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.

## 2.22 *Financial liabilities and equity instruments*

### 2.22.1 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.

### 2.22.2 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.

### 2.22.3 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'.

#### 2.22.4 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.

#### 2.22.5 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.

#### 2.22.6 Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

### 2.23 *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 option contracts and interest rate swaps. Further details on derivative financial instruments are disclosed in Note 14.

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" 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.

#### 2.23.1 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 14 sets out details of the fair values of the derivative instruments used for hedging purposes.

#### 2.23.2 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 Earnings and Comprehensive Income. Amounts previously recognized in OCI and accumulated in AOCI 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 Earnings and Comprehensive Income).

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 AOCI 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 Earnings and Comprehensive Income 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.

### 2.24 *Net earnings per share*

Net earnings per share is calculated using the weighted average number of shares outstanding during the reporting period. Diluted net earnings 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.

## 2.25 Changes in Accounting Policy

### IFRS 11, Joint Arrangements

The Company adopted IFRS 11 in the first quarter of 2013. On May 12, 2011 the IASB issued IFRS 11 and required that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly. The Company has real estate joint arrangements related to three shopping centres, for which decisions regarding relevant activities require unanimous consent of the parties sharing control. In the event of a dispute between the parties sharing control of the joint arrangements, settlement occurs through unbiased arbitration, legal action, or a sale of the party's interest in the joint arrangement to the other party. The Company examined the legal structure, contractual arrangements and other relevant facts and circumstances of each joint arrangement, and the Company determined that it had rights to the assets and obligations to the liabilities of each joint arrangement. Therefore, the Company has determined that its real estate joint arrangements are joint operations and have been recognized in accordance with the Company's interest in the assets and liabilities of these arrangements.

IFRS 11 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The amendments are required to be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

As the Company implemented IFRS 11 in the first quarter of 2013, the Company has retrospectively adjusted the assets and liabilities as at February 2, 2013 and January 28, 2012 and income, expenses and cash flow for the 53-week period ended February 2, 2013.

A summary of the impact arising from the application of the change in accounting policy is as follows:

#### Consolidated Statements of Financial Position

<i>(Increase (decrease) in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Cash and cash equivalents	\$ 1.5	\$ 2.8
Accounts receivable, net	1.5	1.4
Prepaid expenses	(1.5)	—
Net change to current assets	1.5	4.2
Property, plant and equipment	278.5	324.1
Investment in joint arrangements	(263.4)	(301.4)
Other long-term assets	9.0	9.8
Net change to total assets	25.6	36.7
Accounts payable and accrued liabilities	1.7	4.0
Deferred revenue	0.3	—
Other taxes payable	0.1	0.1
Current portion of long-term obligations	4.0	4.1
Net change to current liabilities	6.1	8.2
Long-term obligations	19.3	27.2
Deferred tax liabilities	0.2	0.3
Other long-term liabilities	—	1.0
Net change to total liabilities	25.6	36.7

#### Consolidated Statements of Net Earnings

<i>(Increase (decrease) in CAD millions)</i>	53-Week Period Ended February 2, 2013
Revenue	\$ 45.8
Selling, administrative and other expenses	34.7
Finance costs	1.8
Interest income	0.2
Share of income from joint arrangements	(9.5)

*Consolidated Statements of Cash Flows*

<i>(Increase (decrease) in cash flow arising from items noted below in CAD millions)</i>	53-Week Period Ended February 2, 2013
Depreciation and amortization	\$ 13.2
Impairment loss	2.2
Share of income from joint arrangements	9.5
Finance costs	1.8
Interest income	(0.2)
Interest paid	(1.8)
Changes in non-cash working capital	0.7
Changes in long-term assets and liabilities	(1.2)
Additions of property, plant & equipment and intangible assets	(4.1)
Repayment on long-term obligations	(4.0)
Dividends received from joint arrangements	(18.4)

As a result of the adoption of IFRS 11 in the first quarter of 2013, the Company has two reportable segments: Merchandising and Real Estate Joint Arrangement operations. Refer to Note 23 for segmented information disclosure.

### 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. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

On December 16, 2011, the IASB issued amendments to two previously released standards. They are as follows:

#### *IAS 32, Financial Instruments: Presentation ("IAS 32")*

The IASB amended IAS 32 to address inconsistencies in current practice in the application of offsetting criteria. The amendments provide clarification with respect to the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

#### *IFRS 9, Financial Instruments ("IFRS 9")*

This standard will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* in phases. The first phase of IFRS 9 was issued on November 12, 2009 and addresses the classification and measurement of financial assets. The second phase of IFRS 9 was issued on October 28, 2010 incorporating new requirements on accounting for financial liabilities. On December 16, 2011, the IASB amended the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. The amendment also provides relief from the requirement to recast comparative financial statements for the effect of applying IFRS 9. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. On November 19, 2013, the IASB withdrew the mandatory effective date of IFRS 9. The Company will evaluate the overall impact on the Company's consolidated financial statements when the final standard, including all phases, is issued.

On May 20, 2013, the IASB issued the following interpretation:

#### *IFRIC 21, Levies ("IFRIC 21")*

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with *IAS 37, Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. This interpretation is applicable for annual periods on or after January 1, 2014. The Company is currently assessing the impact of these amendments 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 Earnings and Comprehensive Income. For additional information, see Note 16.

##### 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 Earnings and Comprehensive Income. 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. Determining whether the CGU is impaired requires an estimation of the recoverable amount of the CGU, which is the higher of the fair value less costs to sell and its value in use. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating the expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

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 Earnings and Comprehensive Income. For additional information, see Note 9 and Note 10.2.

##### 4.4 Impairment of goodwill

Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the CGU to which the goodwill is allocated. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to “Goodwill” on the Consolidated Statements of Financial Position and a charge to “Selling, administrative and other expenses” in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 10.1.

#### *4.5 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” in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 20.

#### *4.6 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” and/or “Cost of goods and services sold” in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 13.

#### *4.7 Derivative assets and liabilities*

All derivatives are measured at fair value. U.S. dollar option contracts are traded over-the-counter and give holders the right to buy, or sell, a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar option contracts are derived using a Black-Scholes valuation model. The Company is required to estimate various inputs which are used in this model 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 “Other comprehensive income” in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 14.

#### *4.8 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 “Cost of goods and services sold” or “Selling, administrative and other expenses” in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 16.

#### *4.9 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”, “Principal payments on long-term obligations due within one year” 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 Earnings and Comprehensive Income. For additional information, see Note 19.

#### *4.10 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 earnings 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.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax 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 Earnings and Comprehensive Income. For additional information, see Note 22.

#### 4.11 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, and 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" on the Consolidated Statements of Net Earnings and Comprehensive Income.

#### 4.12 Classification of joint arrangements

The Company has classified its 15-20% interest in real estate joint arrangements related to three shopping centres as joint operations. In doing so, the Company determined that the decisions regarding relevant activities require unanimous consent of the parties sharing control. In the event of a dispute between parties sharing control of the joint arrangements, settlement occurs through unbiased arbitration, legal action, or a sale of the party's interest to the other party. The Company examined the legal structure, contractual arrangements and other relevant facts and circumstances for each joint arrangement and determined that it had rights to the assets and obligations to the liabilities of each joint arrangement. Therefore, the Company has determined that its real estate joint arrangements are joint operations and have been recognized in accordance with the Company's interest in the assets and liabilities of these arrangements. For additional information, see Note 11.

## 5. Cash and cash equivalents and interest income

### Cash and cash equivalents

The components of cash and cash equivalents were as follows:

<i>(in CAD millions)</i>	As at February 1, 2014	As at February 2, 2013 (Note 2.25)	As at January 28, 2012 (Note 2.25)
Cash	\$ 192.4	\$ 49.1	\$ 51.8
Cash equivalents			
Government treasury bills	299.9	159.9	199.9
Bank term deposits	—	—	121.0
Investment accounts	10.4	20.5	20.3
Restricted cash and cash equivalents	11.1	9.0	7.2
<b>Total cash and cash equivalents</b>	<b>\$ 513.8</b>	<b>\$ 238.5</b>	<b>\$ 400.2</b>

The components of restricted cash and cash equivalents are further discussed in Note 21.

### Interest income

Interest income related primarily to cash and cash equivalents for the fiscal year ended February 1, 2014 totaled \$2.6 million (2012: \$4.3 million). During Fiscal 2013, the Company received \$2.5 million (2012: \$2.3 million) in cash related to interest income.

## 6. Accounts receivable, net

The components of accounts receivable, net were as follows:

<i>(in CAD millions)</i>	<b>As at February 1, 2014</b>	<b>As at February 2, 2013 (Note 2.25)</b>	<b>As at January 28, 2012 (Note 2.25)</b>
Deferred receivables	\$ 0.5	\$ 0.9	\$ 1.3
Other receivables	82.8	76.8	116.3
<b>Total accounts receivable, net</b>	<b>\$ 83.3</b>	<b>\$ 77.7</b>	<b>\$ 117.6</b>

Other receivables primarily consist of amounts due from customers, amounts due from vendors and amounts due from JPMorgan Chase, as part of the Company's long-term credit card marketing and servicing alliance.

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>	<b>As at February 1, 2014</b>	<b>As at February 2, 2013 (Note 2.25)</b>	<b>As at January 28, 2012 (Note 2.25)</b>
Greater than 30 days	\$ 5.9	\$ 5.5	\$ 3.2
Greater than 60 days	2.5	2.9	3.5
Greater than 90 days	9.6	7.6	7.1
<b>Total</b>	<b>\$ 18.0</b>	<b>\$ 16.0</b>	<b>\$ 13.8</b>

## 7. Inventories

The amount of inventory recognized as an expense during Fiscal 2013 was \$2,344.3 million (2012: \$2,537.5 million), which includes \$78.6 million (2012: \$92.7 million) of inventory write-downs. These expenses are included in "Cost of goods and services sold" in the Consolidated Statements of Net Earnings and Comprehensive Income. Reversals of prior period inventory write-downs for Fiscal 2013 were \$4.9 million (2012: nil).

Inventory is pledged as collateral under the Company's revolving credit facility (see Note 17).

## 8. Prepaid expenses

The components of prepaid expenses were as follows:

<i>(in CAD millions)</i>	<b>As at February 1, 2014</b>	<b>As at February 2, 2013 (Note 2.25)</b>	<b>As at January 28, 2012 (Note 2.25)</b>
Rent	\$ 12.5	\$ 13.1	\$ 14.2
Contracts	7.4	7.9	5.2
Supplies	2.9	3.1	3.6
Insurance	0.6	0.4	0.3
Other	0.4	4.1	4.6
<b>Total prepaid expenses</b>	<b>\$ 23.8</b>	<b>\$ 28.6</b>	<b>\$ 27.9</b>

## 9. Property, plant and equipment and investment property

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 (Note 2.25)
<b>Cost or deemed cost</b>						
Balance at January 28, 2012	\$ 316.3	\$ 1,425.8	\$ 37.5	\$ 3.5	\$ 1,179.4	\$ 2,962.5
Additions	—	33.9	11.7	—	40.8	86.4
Disposals	—	(72.6)	(3.5)	—	(45.3)	(121.4)
Balance at February 2, 2013	\$ 316.3	\$ 1,387.1	\$ 45.7	\$ 3.5	\$ 1,174.9	\$ 2,927.5
Additions	—	26.1	1.4	0.9	33.3	61.7
Disposals	(75.7)	(248.9)	(2.6)	—	(78.3)	(405.5)
Net movement to assets held for sale <sup>2</sup>	(2.9)	(36.6)	—	—	(13.9)	(53.4)
<b>Balance at February 1, 2014</b>	<b>\$ 237.7</b>	<b>\$ 1,127.7</b>	<b>\$ 44.5</b>	<b>\$ 4.4</b>	<b>\$ 1,116.0</b>	<b>\$ 2,530.3</b>
<b>Accumulated depreciation and impairment</b>						
Balance at January 28, 2012	\$ —	\$ 738.7	\$ 12.0	\$ 1.0	\$ 1,014.7	\$ 1,766.4
Depreciation expense <sup>1</sup>	—	62.5	5.3	1.0	47.3	116.1
Disposals	—	(31.4)	(3.5)	—	(40.5)	(75.4)
Impairment losses (reversals) <sup>1</sup>	2.2	0.5	—	—	(0.8)	1.9
Balance at February 2, 2013	\$ 2.2	\$ 770.3	\$ 13.8	\$ 2.0	\$ 1,020.7	\$ 1,809.0
Depreciation expense <sup>1</sup>	—	50.6	5.0	1.2	43.5	100.3
Disposals	—	(79.7)	(2.6)	—	(67.4)	(149.7)
Impairment (reversals) losses <sup>1,2</sup>	(2.2)	26.5	—	—	3.4	27.7
Net movement to assets held for sale <sup>2</sup>	—	(28.6)	—	—	(13.9)	(42.5)
<b>Balance at February 1, 2014</b>	<b>\$ —</b>	<b>\$ 739.1</b>	<b>\$ 16.2</b>	<b>\$ 3.2</b>	<b>\$ 986.3</b>	<b>\$ 1,744.8</b>
<b>Total property, plant and equipment</b>						
<b>Net balance at February 1, 2014</b>	<b>\$ 237.7</b>	<b>\$ 388.6</b>	<b>\$ 28.3</b>	<b>\$ 1.2</b>	<b>\$ 129.7</b>	<b>\$ 785.5</b>
Net balance at February 2, 2013	\$ 314.1	\$ 616.8	\$ 31.9	\$ 1.5	\$ 154.2	\$ 1,118.5
Net balance at January 28, 2012	\$ 316.3	\$ 687.1	\$ 25.5	\$ 2.5	\$ 164.7	\$ 1,196.1

<sup>1</sup> Depreciation expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

<sup>2</sup> Included in the \$27.7 million impairment loss is a loss of \$16.5 million related to a Regina logistics centre. Refer to Note 29 "Assets classified as held for sale" for additional information.

### Impairment loss

The Company conducted appraisals of its land and building properties with the assistance of independent qualified third party appraisers. The valuation methods used to determine fair value include the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

During Fiscal 2013, the Company recognized an impairment loss of \$11.7 million on a number of Sears Home stores (2012: nil). The impairment loss is due to indicators (such as a decrease in revenue or decrease in EBITDA) that the recoverable amount is less than the carrying value. The recoverable amounts of the CGUs tested were based on the present value of the estimated cash flow over the lease term. A pre-tax discount rate of 9% was based on management's best estimate of the CGU's weighted average cost of capital considering the risks facing the CGUs. There is no significant impact from a one percentage point increase or decrease in the applied discount rate. There is no significant impact from a ten percentage point increase or decrease in estimated cash flows. The impairment loss of \$11.7 million is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

The Company recognized an impairment loss of \$1.7 million on the Montreal distribution centre (2012: \$1.9 million). The impairment loss is due to the application of a lower capitalization rate in the valuation model in comparison to the prior year. The impairment loss of \$1.7 million is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

During Fiscal 2013, the Company recorded an impairment loss reversal relating to land of \$2.2 million in "Selling, administrative and other expenses". The impairment loss reversal was a result of the proceeds received from the agreement to sell its 50% joint arrangement interest in the Promenade de Drummondville property. During Fiscal 2012, the Company recorded an impairment loss reversal relating to leasehold improvements (net of accumulated amortization) of \$2.1 million in "Selling, administrative and other expenses". The impairment loss reversal was a result of the proceeds received from the the agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) Full-line store.

#### *Investment property*

Investment property owned by the Company represents vacant land with no operating activity. Investment property within one of the Company's Regina logistics centres ("RLC") have been classified as held for sale in the Consolidated Statements of Financial Position (see Note 29). During Fiscal 2013, there were no investment property additions, disposals or impairment losses. As at February 1, 2014, the carrying value and fair value of investment property were \$21.7 million (including \$2.4 million included in "Assets held for sale") and \$25.8 million, respectively (February 2, 2013: \$21.7 million and \$25.4 million, January 28, 2012: \$21.7 million and \$23.2 million). The fair value of the investment property is classified within Level 3 of the fair value hierarchy (described further in Note 14.5). The Company engaged independent qualified third party appraisers to conduct appraisals and the fair value is determined using direct sales comparisons.

## **10. Goodwill and intangible assets**

### *10.1 Allocation of goodwill to cash generating units*

Goodwill has been allocated for impairment testing purposes to the following CGUs:

- Corbeil
- Home Installed Products and Services business

The following is a continuity of goodwill, as allocated by CGU:

<i>(in CAD millions)</i>		<b>2013</b>		2012
<i>Corbeil</i>				
Balance, beginning of fiscal year	\$	<b>2.6</b>	\$	2.6
Balance, end of fiscal year	\$	<b>2.6</b>	\$	2.6
<i>Home Installed Products and Services business</i>				
Balance, beginning of fiscal year	\$	<b>6.1</b>	\$	6.1
Impairment losses		<b>(6.1)</b>		—
Balance, end of fiscal year	\$	—	\$	6.1
Total goodwill	\$	<b>2.6</b>	\$	8.7

In the assessment of impairment, management used historical data and past experience as the key assumptions in the determination of the recoverable amount. The Company completed a test for goodwill impairment on an annual basis in Fiscal 2013 and Fiscal 2012. The Company has made certain assumptions for the discount and terminal growth rates to reflect variations in expected future cash flows. These assumptions may differ or change quickly depending on economic conditions or other events. Therefore, it is possible that future changes in assumptions, particularly relating to discount rates and growth rates, may negatively impact future valuations of CGU's and goodwill, which would result in further impairment losses.

- Corbeil

The recoverable amount of this CGU is determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated cash flow over a 10 year period and a terminal value equivalent to the present value of 5 times after-tax cash flow representing the value of the business beyond the 10 year cash flow projection. Cost to sell was estimated to be 2% of the fair value, which reflects management's best estimate of the potential costs associated with divesting of the business. A discount rate of 9% was applied to the cash flow projections based on management's best estimate of the CGU's weighted average cost of capital considering the risks facing the CGU. Annual growth rates of 5% for the first 4 years and 2% for the subsequent 6 years were used for Corbeil given the businesses' historical growth experience and anticipated growth. The recoverable amount was determined to be greater than the carrying value including the goodwill allocated to the Corbeil CGU, therefore, no impairment was identified in Fiscal 2013 (2012: Nil).

- Home Installed Products and Services business

The recoverable amount of this CGU is determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated free cash flows over a 10 year period. Cost to sell was estimated to be 2% of the fair value of the business, which reflects management's best estimate of the potential costs associated with divesting of the business. On December 13, 2013, SHS announced it was in receivership and all offers of services provided by SHS ceased resulting in uncertainty of future cash flows. The recoverable amount was determined to be less than the carrying value including the goodwill of \$6.1 million allocated to the HIPS CGU, resulting in a goodwill impairment of \$6.1 million in Fiscal 2013 (2012: Nil). This impairment loss is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income and is attributable to experienced and potential revenue declines in the HIPS business (see Note 14.5).

### 10.2 Intangible assets

The following is a continuity of intangible assets:

<i>(in CAD millions)</i>		Application Software		Information System Software		Total
<b>Cost or deemed cost</b>						
Balance at January 28, 2012	\$	26.8	\$	126.0	\$	152.8
Additions		8.1		5.8		13.9
Disposals		—		(0.4)		(0.4)
Balance at February 2, 2013	\$	34.9	\$	131.4	\$	166.3
Additions		9.7		2.6		12.3
Disposals		(0.4)		—		(0.4)
<b>Balance at February 1, 2014</b>	<b>\$</b>	<b>44.2</b>	<b>\$</b>	<b>134.0</b>	<b>\$</b>	<b>178.2</b>
<b>Accumulated amortization</b>						
Balance at January 28, 2012	\$	13.9	\$	115.3	\$	129.2
Amortization expense <sup>1</sup>		5.1		5.3		10.4
Disposals		—		(0.5)		(0.5)
Balance at February 2, 2013	\$	19.0	\$	120.1	\$	139.1
Amortization expense <sup>1</sup>		6.1		5.0		11.1
Disposals		(0.2)		—		(0.2)
<b>Balance at February 1, 2014</b>	<b>\$</b>	<b>24.9</b>	<b>\$</b>	<b>125.1</b>	<b>\$</b>	<b>150.0</b>
<b>Total intangible assets</b>						
<b>Net balance at February 1, 2014</b>	<b>\$</b>	<b>19.3</b>	<b>\$</b>	<b>8.9</b>	<b>\$</b>	<b>28.2</b>
Net balance at February 2, 2013	\$	15.9	\$	11.3	\$	27.2
Net balance at January 28, 2012	\$	12.9	\$	10.7	\$	23.6

<sup>1</sup> Amortization expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. No impairment losses were recognized on intangible assets for both Fiscal 2013 and Fiscal 2012.

## 11. Joint Arrangements

The Company's real estate joint arrangements includes its share of assets, liabilities, revenues, and expenses from its joint arrangement interests in three shopping centres across Canada, all of which contain a Sears store. Joint arrangement interests range from 15% to 20% and are co-owned with Ivanhoé Cambridge Properties to develop and operate commercial properties (shopping malls). The joint operations, Sears ownership interest in each, and principal place of business as at February 1, 2014 are listed below:

Entity Name	Properties	Joint Arrangement Partner	Ownership Interest	Principal Place of Business
Kildonan Place	Kildonan Place	Ivanhoé Cambridge	20%	Winnipeg, Manitoba
Regionaux (Les Rivières Shopping Centre)	Les Rivières Shopping Centre	Ivanhoé Cambridge	15%	Trois-Rivières, Québec
Regionaux (Les Galeries de Hull)	Les Galeries de Hull	Ivanhoé Cambridge	15%	Gatineau, Québec

During the fourth quarter of 2013, the Company sold its interest in the properties co-owned with the Westcliff Group for total proceeds of \$315.4 million, recognizing a pre-tax gain of \$66.3 million on the sale. In connection with this transaction, the Company determined that because it had surrendered substantially all of its rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the eight properties, immediate gain recognition was appropriate.

During the fourth quarter of 2012, the Company sold its interest in Medicine Hat for net proceeds of \$38.3 million, recognizing a pre-tax gain of \$8.6 million on the sale.

### Impairment loss

The Company engaged independent qualified third-party appraisers to conduct appraisals of its land and building properties. The valuation methods used to determine fair value include the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

During Fiscal 2013, the Company recorded an impairment loss reversal of \$2.2 million on the Promenades de Drummondville property due to the proceeds received from the sale discussed above (2012: \$2.2 million impairment loss on the Promenades de Drummondville property). The fair value of these assets were determined based on an independent, qualified third-party appraisal. The impairment loss reversal of \$2.2 million (2012: \$2.2 million impairment loss) is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

## 12. Other long-term assets

The components of other long-term assets were as follows:

(in CAD millions)	As at February 1, 2014	As at February 2, 2013 (Note 2.25)	As at January 28, 2012 (Note 2.25)
Income taxes recoverable (Note 22)	\$ 32.5	\$ 13.9	\$ 30.3
Prepaid rent	6.1	7.9	9.5
Receivables	5.8	5.2	9.4
Investments	1.5	1.5	1.5
Unamortized debt transaction costs	4.4	6.2	—
Tenant allowance in joint arrangements	0.9	4.2	4.4
Deferred charges	—	4.2	3.9
Other long-term assets	\$ 51.2	\$ 43.1	\$ 59.0

### 13. Deferred revenue

The components of deferred revenue were as follows:

<i>(in CAD millions)</i>	As at February 1, 2014	As at February 2, 2013 (Note 2.25)	As at January 28, 2012 (Note 2.25)
Arising from extended warranty service contracts <sup>(i)</sup>	\$ 148.3	\$ 151.5	\$ 144.6
Arising from unshipped sales <sup>(ii)</sup>	62.8	60.9	65.7
Arising from customer loyalty program <sup>(iii)</sup>	38.2	37.7	41.3
Arising from gift card issuances <sup>(iv)</sup>	20.6	25.5	29.1
Arising from vendor partnership agreements <sup>(v)</sup>	—	6.5	9.7
Other <sup>(vi)</sup>	5.1	6.4	6.8
<b>Total deferred revenue</b>	<b>\$ 275.0</b>	<b>\$ 288.5</b>	<b>\$ 297.2</b>
Current	\$ 187.7	\$ 197.8	\$ 208.0
Non-current	87.3	90.7	89.2
<b>Total deferred revenue</b>	<b>\$ 275.0</b>	<b>\$ 288.5</b>	<b>\$ 297.2</b>

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. At redemption of the gift card, the revenue is recognized.
- (v) Deferred revenue arising from multi-element partnership agreements with vendors. The revenue is recognized in accordance with the terms of the agreements.
- (vi) Other includes deferred revenue for goods that have not yet been fully delivered or services not yet rendered. The revenue is recognized when the goods have been delivered or by reference to the stage of completion of the service.

## 14. 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 and foreign currency. 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 and interest rate risk.

#### 14.1 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 and cash equivalents, accounts receivable and other long-term assets.

Cash and cash equivalents, accounts receivable, derivative instruments and investments included in other long-term assets totaling \$605.8 million as at February 1, 2014 (February 2, 2013: \$317.7 million, January 28, 2012: \$519.3 million) expose the Company to credit risk should the borrower default on maturity of the investment. 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 customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at February 1, 2014, one party represented 11.3% of the Company's accounts receivable (February 2, 2013: no party represented greater than 10.0% of the Company's accounts receivable, January 28, 2012: one party represented 26.5% of the Company's accounts receivable).

#### 14.2 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 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 February 1, 2014:

(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	\$ 438.7	\$ 438.7	\$ 438.7	\$ —	\$ —	\$ —	
Finance lease obligations including payments due within one year <sup>1</sup>	33.0	43.0	7.2	11.3	10.0	14.5	
Real estate joint arrangement obligations including payments due within one year <sup>2</sup>	2.9	3.0	3.0	—	—	—	
Operating lease obligations <sup>3</sup>	n/a	481.7	94.8	151.4	109.9	125.6	
Royalties <sup>3</sup>	n/a	3.5	0.8	1.5	1.2	—	
Purchase agreements <sup>3,5</sup>	n/a	16.9	7.9	9.0	—	—	
Retirement benefit plans obligations <sup>4</sup>	286.0	88.0	2.4	58.7	26.9	—	
	<b>\$ 760.6</b>	<b>\$ 1,074.8</b>	<b>\$ 554.8</b>	<b>\$ 231.9</b>	<b>\$ 148.0</b>	<b>\$ 140.1</b>	

<sup>1</sup> 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 7.5%. The Company had no borrowings on the Credit Facility at February 1, 2014.

<sup>2</sup> Cash flow maturities related to real estate joint arrangement obligations, including payments due within one year, include annual interest on mortgage obligations at a weighted average rate of 2.8%.

<sup>3</sup> Purchase agreements, operating lease obligations, and royalties are not reported in the Consolidated Statements of Financial Position.

<sup>4</sup> Payments beyond 2013 are subject to a funding valuation to be completed as at December 31, 2013. Until then, the Company is obligated to fund in accordance with the most recent valuation completed as at December 31, 2010. The Company prefunded 2014 contributions of \$15 million in December 2013.

<sup>5</sup> Certain vendors require minimum purchase commitment levels over the term of the contract.

Management believes that cash on hand, future cash flow generated from operating activities and availability of current and future funding will be adequate to support these financial liabilities. As of February 1, 2014, the Company does not have any significant capital expenditure commitments.

## 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.

### 14.3 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 February 1, 2014, there were forward contracts outstanding with a notional value of US \$90.0 million (February 2, 2013: nil, January 28, 2012: nil) and a fair value of \$7.2 million, based on current market rates, included in "Derivative financial assets" (February 2, 2013: nil, January 28, 2012: nil) in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to July 2014. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under IAS 39, *Financial Instruments: Recognition and Measurement*. 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 February 1, 2014, 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 Earnings and Comprehensive Income. Amounts previously included in OCI are reclassified to "Cost of goods and services sold" in the same period in which the hedged item impacted Net Earnings.

During Fiscal 2013, the Company recorded a loss of \$7.6 million (2012: loss of \$0.6 million), in "Selling, administrative and other expenses", relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The year end exchange rate was 0.8978 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net earnings of \$0.6 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable at the end of Fiscal 2013.

### 14.4 Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. As at February 1, 2014, the Company had no interest rate swap contracts in place (February 2, 2013: nil, January 28, 2012: nil).

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.

Cash and cash equivalents and borrowings under the secured revolving credit facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at February 1, 2014 was a net asset of \$515.1 million (February 2, 2013: net asset of \$239.8 million, January 28, 2012: net asset of \$300.4 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net earnings of \$0.9 million for net assets subject to interest rate risk included in cash and cash equivalents and other long-term assets at the end of Fiscal 2013.

### 14.5 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 <sup>2</sup>	As at February 1, 2014	As at February 2, 2013 (Note 2.25)	As at January 28, 2012 (Note 2.25)
Available for sale					
Cash equivalents	Cash and cash equivalents <sup>1</sup>	Level 1	310.3	180.4	220.2
Fair value through profit or loss					
Long-term investments	Other long-term assets	Level 1	0.2	0.2	0.2
U.S. \$ derivative contracts	Derivative financial assets	Level 2	7.2	—	—
Long-term investments	Other long-term assets	Level 3	1.3	1.3	1.3

<sup>1</sup> Interest income related to cash and cash equivalents is disclosed in Note 5.

<sup>2</sup> Classification of fair values relates to 2013

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 short-term in nature.

Effective March 3, 2013, the Company finalized an exclusive, multi-year licensing arrangement with SHS, which resulted in SHS overseeing the day-to-day operations of HIPS. The Company provided SHS an interest-bearing loan which allowed SHS to pay the final purchase price of \$5.3 million over 6 years. SHS repaid this loan on September 30, 2013, and shortly afterwards, issued the Company an interest-bearing promissory note for \$2.0 million, secured by certain assets of SHS, repayable by July 16, 2015. The promissory note asset is included in “Other long-term assets” in the Consolidated Statements of Financial Position.

On December 13, 2013, SHS announced that it was in receivership. All offers of services provided by SHS ceased, and the Company is working with the Receiver, PricewaterhouseCoopers Inc., on options for completing pending orders. As a result of the announcement, the Company recorded a warranty provision of \$2.0 million related to potential future claims for work that had been performed by SHS, as well as assuming the warranty obligations with respect to work previously performed by Sears which had been assumed by SHS.

### 15. 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:

<i>(in CAD millions)</i>	As at February 1, 2014	As at February 2, 2013 (Note 2.25)	As at January 28, 2012 (Note 2.25)
Total accounts payable	\$ 270.7	\$ 307.0	\$ 402.5
Payroll and employee benefits	28.6	29.1	28.7
Merchandise accruals	59.9	71.0	45.3
Short-term leasehold inducements	8.9	9.8	8.4
Advertising accruals	13.8	12.4	12.7
Other accrued liabilities	56.8	54.4	83.2
Total accrued liabilities	\$ 168.0	\$ 176.7	\$ 178.3
Total accounts payable and accrued liabilities	\$ 438.7	\$ 483.7	\$ 580.8

## 16. Provisions

The following is a continuity which shows the change in provisions during Fiscal 2013 and Fiscal 2012:

<i>(in CAD millions)</i>	As at February 2, 2013	Additional Provisions	Release of Provisions	Reversed Provisions	As at February 1, 2014
Insurance <sup>(i)</sup>	\$ 18.3	\$ 0.1	\$ —	\$ (1.6)	\$ 16.8
Returns and allowances <sup>(ii)</sup>	13.0	7.8	(9.7)	—	11.1
Warranties <sup>(iii)</sup>	11.0	2.0	(0.2)	(4.1)	8.7
Sales tax <sup>(iv)</sup>	2.4	5.4	(1.0)	(0.6)	6.2
Severance <sup>(v)</sup>	14.7	57.1	(20.0)	(1.3)	50.5
Environmental <sup>(vi)</sup>	4.8	4.7	(2.1)	(0.5)	6.9
Other provisions	2.5	9.3	(2.1)	(0.1)	9.6
<b>Total provisions</b>	<b>\$ 66.7</b>	<b>\$ 86.4</b>	<b>\$ (35.1)</b>	<b>\$ (8.2)</b>	<b>\$ 109.8</b>
Current	\$ 66.3	\$ 86.4	\$ (35.1)	\$ (8.2)	\$ 109.4
Non-current <sup>(iii)</sup>	0.4	—	—	—	0.4
<b>Total provisions</b>	<b>\$ 66.7</b>	<b>\$ 86.4</b>	<b>\$ (35.1)</b>	<b>\$ (8.2)</b>	<b>\$ 109.8</b>

<i>(in CAD millions)</i>	January 28, 2012	As at February 2, 2013	Additional Provisions	Release of Provisions	Reversed Provisions	February 2, 2013	As at February 2, 2013
Insurance <sup>(i)</sup>	\$ 19.4	\$ 18.3	\$ 0.2	\$ —	\$ (1.3)	\$ 18.3	\$ 18.3
Returns and allowances <sup>(ii)</sup>	12.2	13.0	9.8	(9.0)	—	13.0	13.0
Warranties <sup>(iii)</sup>	11.0	11.0	0.3	(0.2)	(0.1)	11.0	11.0
Sales tax <sup>(iv)</sup>	1.6	2.4	2.5	(0.3)	(1.4)	2.4	2.4
Severance <sup>(v)</sup>	13.5	14.7	19.3	(16.0)	(2.1)	14.7	14.7
Environmental <sup>(vi)</sup>	4.6	4.8	2.9	(1.3)	(1.4)	4.8	4.8
Other provisions	3.0	2.5	1.1	(1.2)	(0.4)	2.5	2.5
<b>Total provisions</b>	<b>\$ 65.3</b>	<b>\$ 66.7</b>	<b>\$ 36.1</b>	<b>\$ (28.0)</b>	<b>\$ (6.7)</b>	<b>\$ 66.7</b>	<b>\$ 66.7</b>
Current	\$ 64.8	\$ 66.3	\$ 36.1	\$ (27.9)	\$ (6.7)	\$ 66.3	\$ 66.3
Non-current <sup>(iii)</sup>	0.5	0.4	—	(0.1)	—	0.4	0.4
<b>Total provisions</b>	<b>\$ 65.3</b>	<b>\$ 66.7</b>	<b>\$ 36.1</b>	<b>\$ (28.0)</b>	<b>\$ (6.7)</b>	<b>\$ 66.7</b>	<b>\$ 66.7</b>

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 amount of expected reimbursements from vendors recorded as at February 1, 2014 was \$0.6 million (February 2, 2013: \$2.6 million) and is reflected in "Accounts receivable, net" and "Other long-term assets" in the Consolidated Statements of Financial Position. The provision for warranty claims is expected to be realized within 24 months, with the balance reflected 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 4 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 12 months, this provision is classified as current.
- (vi) The environmental provision 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. Given the timing of payments to remediate is uncertain and that the Company has no unconditional right to defer these payments past at least 12 months, this provision is classified as current.

## 17. Long-term obligations and finance costs

### Long-term obligations

Total outstanding long-term obligations were as follows:

<i>(in CAD millions)</i>	<b>February 1, 2014</b>	<b>As at February 1, 2014</b>	<b>February 2, 2013 (Note 2.25)</b>	<b>As at February 2, 2013 (Note 2.25)</b>	<b>January 28, 2012 (Note 2.25)</b>	<b>As at January 28, 2012 (Note 2.25)</b>
Real estate joint arrangement obligations - Current	\$	2.9	\$	4.0	\$	4.1
Finance lease obligations - Current		5.0		5.2		5.1
Total current portion of long-term obligations	\$	7.9	\$	9.2	\$	9.2
Secured revolving credit facility, net	\$	—	\$	—	\$	93.1
Real estate joint arrangement obligations - Non-current		—		19.3		27.2
Finance lease obligations - Non-current		28.0		30.9		24.5
Total non-current long-term obligations	\$	28.0	\$	50.2	\$	144.8

The Company's debt consists of a secured credit facility and finance lease obligations and the Company's share of its real estate joint arrangement 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. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability under the Credit Facility was \$374.0 million as at February 1, 2014 (February 2, 2013: \$501.5 million, January 28, 2012: \$415.1 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately \$197.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to \$150.0 million. As at February 1, 2014, three properties in Ontario have been registered under the amendment to the Credit Facility agreement. The additional 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 amount, if any, of real estate assets pledged as additional collateral.

The Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at February 1, 2014.

As at February 1, 2014, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of \$4.4 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (February 2, 2013: no borrowings and net of unamortized transaction costs of \$6.2 million included in "Other long-term assets", January 28, 2012: borrowings of \$93.1 million, net of unamortized transaction costs of \$8.0 million, included in "Long-term obligations"). In addition, the Company had \$24.0 million (February 2, 2013: \$19.7 million, January 28, 2012: \$6.3 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments primarily relating to utility commitments and defined benefit plan deficit funding (See Note 20 for additional information on Retirement benefits plans). Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at February 1, 2014, the Company had outstanding merchandise letters of credit of U.S. \$9.0 million (February 2, 2013: U.S. \$7.9 million, January 28, 2012: U.S. \$5.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

The Company has entered into a mortgage on land that it owns in Burnaby, British Columbia. In accordance with the Burnaby development project with Concord, the land has been allocated as security for future borrowings (see Note 36).

#### *Finance costs*

Interest expense on long-term obligations, including the Company's share of interest on long-term obligations of its real estate joint arrangements, finance lease obligations, the current portion of long-term obligations, amortization of transaction costs and commitment fees on the unused portion of the Credit Facility for Fiscal 2013 totaled \$11.0 million (2012: \$11.2 million). Interest expense is included in "Finance costs" in the Consolidated Statements of Net Earnings and Comprehensive Income. Also included in "Finance costs" for Fiscal 2013, was a recovery of \$0.2 million (2012: expense of \$3.9 million) for interest on accruals for uncertain tax positions.

The Company's cash payments for interest on long-term obligations, including the Company's share of interest on long-term obligations of its real estate joint arrangements, finance lease obligations, the current portion of long-term obligations and commitment fees on the unused portion of the Credit Facility for Fiscal 2013 totaled \$8.7 million (2012: \$9.5 million).

### **18. Other long-term liabilities**

The components of other long-term liabilities were as follows:

<i>(in CAD millions)</i>	<b>As at February 1, 2014</b>	<b>As at February 2, 2013 (Note 2.25)</b>	<b>As at January 28, 2012 (Note 2.25)</b>
Leasehold inducements	\$ 57.0	\$ 67.1	\$ 66.8
Straight-line rent liability	3.6	5.0	7.4
Miscellaneous	2.6	2.6	2.6
<b>Total other long-term liabilities</b>	<b>\$ 63.2</b>	<b>\$ 74.7</b>	<b>\$ 76.8</b>

The non-current portion of the warranties provision (see Note 16) is reflected in the miscellaneous component of "Other long-term liabilities" in the Consolidated Statements of Financial Position.

### **19. Leasing arrangements**

#### *19.1 Finance lease arrangements – Company as lessee*

As at February 1, 2014, 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 February 1, 2014 was \$29.5 million (February 2, 2013: \$33.4 million, January 28, 2012: \$28.0 million).

As at February 1, 2014, the corresponding finance lease obligations, current and non-current, were \$5.0 million (February 2, 2013: \$5.2 million, January 28, 2012: \$5.1 million) and \$28.0 million (February 2, 2013: \$30.9 million, January 28, 2012: \$24.5 million), included in the Consolidated Statements of Financial Position under "Current portion of long-term obligations" and "Long-term obligations," respectively (see Note 17).

The table below presents the future minimum lease payments of the Company's finance lease obligations:

<i>(in CAD millions)</i>	As at February 1, 2014			As at February 2, 2013		
	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	\$ 7.2	\$ 2.2	\$ 5.0	\$ 7.6	\$ 2.4	\$ 5.2
2 years	5.8	1.9	3.9	6.5	2.1	4.4
3 years	5.5	1.7	3.8	5.1	1.9	3.2
4 years	5.0	1.4	3.6	4.8	1.6	3.2
5 years	5.0	1.1	3.9	4.9	1.4	3.5
Thereafter	14.5	1.8	12.7	19.5	2.9	16.6
<b>Total minimum payments</b>	<b>\$ 43.0</b>	<b>\$ 10.1</b>	<b>\$ 32.9</b>	<b>\$ 48.4</b>	<b>\$ 12.3</b>	<b>\$ 36.1</b>

Interest on finance lease obligations is recognized immediately in "Finance costs" in the Consolidated Statements of Net Earnings and Comprehensive Income (see Note 17). Included in total "Finance costs" in Fiscal 2013, was \$2.5 million (2012: \$2.4 million) of interest related to finance lease obligations.

#### 19.2 Operating lease arrangements – Company as lessor

The Company has a number of agreements to sub-lease premises to third parties, which are all classified as operating leases. During Fiscal 2013, total sub-lease income from leased premises was \$3.0 million (2012: \$3.0 million).

As at February 1, 2014, total future minimum lease payments receivable from third party tenants were \$10.0 million (2012: \$10.3 million).

#### 19.3 Operating lease arrangements – Company as lessee

As at February 1, 2014, the Company had operating lease arrangements related to leased 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 2013, contingent rent recognized as an expense in respect of operating leases totaled \$1.1 million (2012: \$0.9 million). Rental expense for all operating leases totaled \$115.6 million in Fiscal 2013 (2012: \$113.7 million). These expenses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

The table below presents the contractual maturities of future minimum lease payments for the Company's operating leases:

<i>(in CAD millions)</i>	As at February 1, 2014	As at February 2, 2013
Within 1 year	\$ 94.8	\$ 98.8
2 years	82.5	86.8
3 years	68.9	71.6
4 years	61.1	54.1
5 years	48.8	46.7
Thereafter	125.6	146.8
<b>Total operating lease obligations<sup>1</sup></b>	<b>\$ 481.7</b>	<b>\$ 504.8</b>

<sup>1</sup> Operating lease obligations are not reported in the Consolidated Statements of Financial Position

## 20. Retirement benefit plans

The Company currently maintains a defined benefit registered pension plan and a defined contribution registered pension plan which covers eligible, regular full-time associates as well as some of its part-time associates. The defined benefit plan 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 plan. The non-registered portion of the plan is maintained to enable certain associates 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 associates 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 associates. The Company's accounting policies related to retirement benefit plans are described in Note 2.15.

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. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for associates 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 associates are paid on a pay-as-you-go basis from the health and welfare trust and are no longer funded by the Company.

In December 2013, the Company amended the early retirement provision of its pension plan to eliminate a benefit for associates who voluntarily resign prior to age of retirement, with effect January 1, 2015. In addition, the Company amended its pension plan for improvements that increase portability of associates' benefit, with effect March 1, 2014, and implemented fixed indexing at 0.5% per annum for eligible retirees, with effect January 1, 2014.

In the first quarter of 2014, the Company will offer lump sum settlements to those terminated associates who previously elected to defer the payment of the defined benefit pension until retirement. The Company expects to settle accepted offers through the third quarter of 2014.

In December 2013, the Company froze the benefits offered under the non-pension retirement plan to benefits levels as at January 1, 2015.

In the fourth quarter of 2013, the Company recorded a pre-tax gain on amendments to retirement benefits of \$42.5 million (\$42.8 million net of \$0.3 million of expenses) as shown on the Consolidated Statements of Net Earnings and Comprehensive Income.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension retirement plan. Based on the accepted offers, the Company paid \$18.1 million and recorded a pre-tax settlement gain of \$21.1 million (\$21.9 million net of \$0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings and Comprehensive Income. In the first quarter of 2014, the Company will make another voluntary offer to eligible members covered under the non-pension retirement plan. The Company expects to settle any acceptances from the offer in the second quarter of 2014.

### *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.

### *Asset-liability matching strategies*

Beginning in Fiscal 2011, the Company adopted an asset-liability matching strategy in the Other Benefits Plan wherein assets are invested in accordance with a short-term fixed income mandate. The current portfolio is primarily bonds with maturities not exceeding two years. This investment strategy is aligned with the expected use of the assets, which is to fund the Company's retiree health benefits and short-term disability payments within the next two years.

*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. At February 1, 2014 a letter of credit with a notional value of \$4.2 million was on deposit with the Trustee for the non-registered portion of the defined benefit plan.

In January 2013, the Company announced the termination of 700 associates. This event did not require the recording of a curtailment as its impact on the pension plan was not significant.

During Fiscal 2013, the Company announced a series of restructurings that resulted in the termination of approximately 1,600 associates who were members of the defined benefit plan. This resulted in a curtailment charge of \$4.8 million to the pension plan, which is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

*Maturity profile of retirement benefit plan obligations*

The weighted average durations of the Registered Retirement Plans, Non-registered Pension Plan and Other Benefit Plan are all approximately 10.6 years.

The Company's contractual cash flow maturity relating to retirement benefit plan obligation payments is included under "Liquidity Risk" in Note 14.

### 20.1 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, 2010. The next actuarial valuation assessment is required as of December 31, 2013 and will be completed by September 30, 2014. An actuarial valuation of the health and welfare trust is performed at least every 3 years, with the last valuation completed as of September 1, 2011.

	2013				2012			
<i>(in CAD millions)</i>	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
<b>Defined benefit plan assets</b>								
Fair value, beginning balance	\$ 1,219.1	\$ 49.5	\$ 44.5	\$1,313.1	\$ 1,178.9	\$ 49.3	\$ 68.7	\$1,296.9
Interest income	49.9	2.0	1.4	53.3	54.0	2.3	2.6	58.9
Remeasurement gain (loss) on return on plan assets	115.9	1.0	(0.7)	116.2	73.7	0.1	(1.9)	71.9
Employer contributions	42.8	1.4	0.6	44.8	32.7	1.5	18.8	53.0
Administrative expenses	(0.7)	(0.1)	—	(0.8)	(0.4)	—	—	(0.4)
Benefits paid <sup>1</sup>	(114.0)	(3.6)	(23.8)	(141.4)	(119.8)	(3.7)	(43.7)	(167.2)
<b>Fair value of plan assets, ending balance</b>	<b>\$ 1,313.0</b>	<b>\$ 50.2</b>	<b>\$ 22.0</b>	<b>\$1,385.2</b>	<b>\$ 1,219.1</b>	<b>\$ 49.5</b>	<b>\$ 44.5</b>	<b>\$1,313.1</b>
<b>Defined benefit plan obligations</b>								
Accrued obligations, beginning balance	\$ 1,384.1	\$ 50.4	\$ 294.3	\$1,728.8	\$ 1,377.7	\$ 50.1	\$ 321.4	\$1,749.2
Total current service cost	0.9	—	—	0.9	0.9	—	—	0.9
Interest cost	56.2	2.0	12.0	70.2	62.6	2.3	14.4	79.3
Benefits paid	(114.0)	(3.6)	(15.6)	(133.2)	(119.8)	(3.7)	(35.6)	(159.1)
Settlement gain	—	—	—	—	—	—	(21.9)	(21.9)
Curtailement loss	4.2	—	—	4.2	—	—	—	—
Plan amendment loss (gain)	1.0	—	(43.8)	(42.8)	—	—	—	—
Special termination benefits loss	0.6	—	—	0.6	—	—	—	—
Actuarial losses	47.2	1.5	(6.2)	42.5	62.7	1.7	16.0	80.4
<b>Accrued plan obligations, ending balance</b>	<b>\$ 1,380.2</b>	<b>\$ 50.3</b>	<b>\$ 240.7</b>	<b>\$1,671.2</b>	<b>\$ 1,384.1</b>	<b>\$ 50.4</b>	<b>\$ 294.3</b>	<b>\$1,728.8</b>
<b>Funded status of plan – (deficit)</b>	<b>(67.2)</b>	<b>(0.1)</b>	<b>(218.7)</b>	<b>(286.0)</b>	<b>(165.0)</b>	<b>(0.9)</b>	<b>(249.8)</b>	<b>(415.7)</b>
<b>Retirement benefit liability at end of fiscal year, net</b>	<b>\$ (67.2)</b>	<b>\$ (0.1)</b>	<b>\$ (218.7)</b>	<b>\$ (286.0)</b>	<b>\$ (165.0)</b>	<b>\$ (0.9)</b>	<b>\$ (249.8)</b>	<b>\$ (415.7)</b>
The retirement benefit liability is included in the Company's Consolidated Statements of Financial Position as follows:								
<b>Retirement benefit liability</b>	<b>\$ (67.2)</b>	<b>\$ (0.1)</b>	<b>\$ (218.7)</b>	<b>\$ (286.0)</b>	<b>\$ (165.0)</b>	<b>\$ (0.9)</b>	<b>\$ (249.8)</b>	<b>\$ (415.7)</b>

<sup>1</sup> 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.

## 20.2 Fair value of plan assets

The fair value of plan assets disaggregated by asset class and fair value hierarchy level as at February 1, 2014 and February 2, 2013 was as follows:

	As at February 1, 2014				As at February 2, 2013			
	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 1	\$ 34.6	\$ 24.3	\$ —	\$ 58.9	\$ 41.2	\$ 25.2	\$ 0.1	\$ 66.5
Subtotal	34.6	24.3	—	58.9	41.2	25.2	0.1	66.5
<i>Corporate bonds and notes</i>								
Level 2	619.3	—	4.7	624.0	604.7	—	12.3	617.0
Level 3	122.2	—	1.0	123.2	59.7	—	0.9	60.6
Subtotal	741.5	—	5.7	747.2	664.4	—	13.2	677.6
<i>U.S. Government bonds and securities</i>								
Level 2	—	—	—	—	0.9	—	—	0.9
Subtotal	—	—	—	—	0.9	—	—	0.9
<i>Common stock, preferred stock and REITS</i>								
Level 1	172.0	—	—	172.0	181.7	—	—	181.7
Subtotal	172.0	—	—	172.0	181.7	—	—	181.7
<i>Common or collective trusts</i>								
Level 2	268.2	25.4	—	293.6	251.8	24.3	—	276.1
Subtotal	268.2	25.4	—	293.6	251.8	24.3	—	276.1
<i>Short-term collective investment funds</i>								
Level 2	117.6	0.4	1.1	119.1	66.0	—	0.8	66.8
Subtotal	117.6	0.4	1.1	119.1	66.0	—	0.8	66.8
<i>Hedge funds, options and futures</i>								
Level 3	2.7	—	—	2.7	3.0	—	—	3.0
Subtotal	2.7	—	—	2.7	3.0	—	—	3.0
<i>Receivables (liabilities)</i>								
Level 1	(1.8)	—	0.1	(1.7)	6.8	—	0.5	7.3
Level 2	—	—	—	—	(0.8)	—	—	(0.8)
Subtotal	(1.8)	—	0.1	(1.7)	6.0	—	0.5	6.5
<i>Miscellaneous other liabilities</i>								
Level 1	(22.5)	—	—	(22.5)	—	—	—	—
Level 2	0.7	0.1	15.1	15.9	4.1	—	29.9	34.0
Subtotal	(21.8)	0.1	15.1	(6.6)	4.1	—	29.9	34.0
Total fair value of plan assets	\$ 1,313.0	\$ 50.2	\$ 22.0	\$ 1,385.2	\$ 1,219.1	\$ 49.5	\$ 44.5	\$ 1,313.1

The three levels of the fair value hierarchy referenced above are discussed in Note 14.5.

## 20.3 Plan assets investment allocation

During Fiscal 2011, the Company changed the target asset allocation to 55-75% fixed income and 25-45% equity for the registered and non-registered pension plans. For the assets in the health and welfare trust, included in Other Benefit Plans, the Company changed the asset allocation to 100% fixed income. As at the end of Fiscal 2013 and 2012, the assets were in line with the target allocation range, with the transitioning of assets from hedge funds, options and futures essentially complete. 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.

At as the end of the current and prior fiscal years, plan assets were invested in the following classes of securities:

	As at February 1, 2014			As at February 2, 2013		
	Registered Retirement Plans	Non- Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non- Registered Pension Plan	Other Benefits Plan
Fixed income securities	73.3%	62.9%	100.0%	72.3%	66.5%	100.0%
Alternative investments	0.2%	—%	—%	0.2%	—%	—%
Equity securities	26.5%	37.1%	—%	27.5%	33.5%	—%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

#### 20.4 Pension assumptions

The significant actuarial assumptions were as follows (weighted average assumptions) as at February 1, 2014 and February 2, 2013:

	As at February 1, 2014			As at February 2, 2013		
	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	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%
Benefit plans expense	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%
Rate of compensation increase used in calculation of Accrued benefit plan obligations	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Benefit plans expense	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Expected long-term rate of return on plan assets used in calculation of benefit plans expense	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%
Health care cost trend rates						
Used in calculation of accrued benefit plan obligations			4.92%			6.14%
Used in calculation of benefit plans expense			6.14%			6.23%
Cost trend rate declines to			2.45%			3.82%
Year that the rate reaches assumed constant			2030			2030

20.5 Sensitivity of significant actuarial assumptions

The following table summarizes the sensitivity of significant actuarial assumptions on the Company's defined benefit obligation:

	2013			2012		
<i>(in CAD millions)</i>	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
<b>Discount rate sensitivity</b>						
Accrued benefit plan obligations						
100 basis point increase in discount rate	\$ (144.8)	\$ (4.8)	\$ (22.2)	\$ (153.4)	\$ (4.8)	\$ (29.6)
100 basis point decrease in discount rate	177.1	5.8	26.4	190.5	5.7	35.5
Benefit plans expense						
100 basis point increase in discount rate	(6.5)	(0.2)	(1.1)	(6.7)	(0.3)	0.8
100 basis point decrease in discount rate	4.6	0.2	1.3	5.1	0.2	(1.2)
<b>Rate of compensation increase sensitivity</b>						
Accrued benefit plan obligations						
50 basis point increase in rate of compensation increase	8.8	0.4	n/a	18.5	0.5	n/a
50 basis point decrease in rate of compensation increase	(9.7)	(0.4)	n/a	(16.4)	(0.3)	n/a
Benefit plans expense						
50 basis point increase in rate of compensation increase	0.4	—	n/a	1.0	—	n/a
50 basis point decrease in rate of compensation increase	(0.4)	—	n/a	(0.9)	—	n/a
<b>Health care cost trend rate sensitivity</b>						
Accrued benefit plan obligations						
100 basis point increase in health care trend rate	n/a	n/a	18.9	n/a	n/a	30.7
100 basis point decrease in health care trend rate	n/a	n/a	(16.3)	n/a	n/a	(26.1)
Benefit plans expense						
100 basis point increase in health care trend rate	n/a	n/a	1.3	n/a	n/a	1.3
100 basis point decrease in health care trend rate	n/a	n/a	(1.1)	n/a	n/a	(1.2)

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 2012.

### 20.6 Retirement benefit plans expense and contributions

The expense for the defined benefit, defined contribution and other benefit plans for Fiscal 2013 and Fiscal 2012, was as follows:

(in CAD millions)	2013				2012			
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Current service cost, net of employee contributions	\$ 0.9	\$ —	\$ —	\$ 0.9	\$ 0.9	\$ —	\$ —	\$ 0.9
Net interest	6.3	—	10.6	16.9	8.7	(0.1)	11.8	20.4
Curtailment loss	4.2	—	—	4.2	—	—	—	—
Plan amendment loss (gain)	1.0	—	(43.8)	(42.8)	—	—	—	—
Settlement gain	—	—	—	—	—	—	(21.9)	(21.9)
Special termination benefits loss	0.6	—	—	0.6	—	—	—	—
Administrative expenses	0.7	0.1	—	0.8	0.4	—	—	0.4
Net defined benefit plans expense (income)	\$ 13.7	\$ 0.1	\$ (33.2)	\$ (19.4)	\$ 10.0	\$ (0.1)	\$ (10.1)	\$ (0.2)
Net defined contribution plan expense	8.4	—	0.2	8.6	9.7	—	0.2	9.9
Total retirement benefit plans expense (income) <sup>1</sup>	\$ 22.1	\$ 0.1	\$ (33.0)	\$ (10.8)	\$ 19.7	\$ (0.1)	\$ (9.9)	\$ 9.7

<sup>1</sup> Not included in total expense recognized are short-term disability payments of \$8.2 million (2012: \$8.1 million) that were paid from the health and welfare trust. Both short-term disability and the retirement benefit plans expense (income) are included in "Selling, administrative and other expenses", unless disclosed elsewhere, in the Company's Consolidated Statements of Net Earnings and Comprehensive Income.

Total cash contributions made by the Company to its defined benefit, defined contribution and other benefit plans, including payments to settle health and dental benefits of eligible members covered under the non-pension retirement plan, for the fiscal year ended February 1, 2014 were \$53.5 million (2012: \$63.0 million). For Fiscal 2014, it is estimated that the Company will make contributions of approximately \$12.0 million to its defined benefit, defined contribution and other benefit plans, which include funding obligations as described in Note 14.2.

### 20.7 Remeasurements of the net defined retirement benefit liability

(in CAD millions)	2013				2012			
	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	\$ 115.9	\$ 1.0	\$ (0.7)	\$ 116.2	\$ 73.7	\$ 0.1	\$ (1.9)	\$ 71.9
Actuarial (loss) gain due to change in demographic	(35.3)	(1.3)	6.2	(30.4)	—	—	—	—
Actuarial loss due to change in financial assumptions	—	—	—	—	(80.9)	(2.5)	(16.0)	(99.4)
Actuarial (loss) gain due to all other experiences	(11.9)	(0.2)	—	(12.1)	18.2	0.8	—	19.0
Total pre-tax remeasurement gains (losses)	\$ 68.7	\$ (0.5)	\$ 5.5	\$ 73.7	\$ 11.0	\$ (1.6)	\$ (17.9)	\$ (8.5)
Income tax (expense) recovery on remeasurement gains (losses)	—	—	—	(19.4)	—	—	—	3.5
Total remeasurement gains (losses), net of income taxes <sup>1</sup>	—	—	—	\$ 54.3	—	—	—	\$ (5.0)

<sup>1</sup> Total remeasurement gains (losses), net of income taxes, are included in "Other comprehensive (income) loss" in the Company's Consolidated Statements of Net Earnings and Comprehensive Income.

The actuarial losses associated with changes in financial assumptions are due to changes in the discount rate. There are no changes to the discount rate as at February 1, 2014 for the Registered Retirement Plans, Non-registered Pension Plan (2012: a decrease of 0.5%), and Other Benefits Plan (2012: a decrease of 0.4%). The actuarial loss associated with changes in demographic are largely related to the change in the mortality table. The mortality table was updated in 2013 to reflect that members of the above Plans are living longer.

## 21. Contingent liabilities

### 21.1 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 Earnings and Comprehensive Income, and Consolidated Statements of Cash Flows.

### 21.2 Commitments and guarantees

#### Commitments

As at February 1, 2014, cash and cash equivalents that are restricted represent cash and investments pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program of \$11.1 million (February 2, 2013: \$9.0 million, January 28, 2012: \$7.2 million), which is the Canadian equivalent of U.S. \$10.0 million (February 2, 2013: U.S. \$9.0 million, January 28, 2012: U.S. \$7.2 million).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 14.2 "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 \$3.5 million as at February 1, 2014 (February 2, 2013: \$2.3 million, January 28, 2012: \$3.1 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 Company has also provided certain indemnification agreements in connection with the sale of the credit and financial services operations in November 2005. 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.

## 22. Income taxes

The average combined federal and provincial statutory income tax rate applied to the Company was 26.5% for Fiscal 2013 (2012: 25.5%) due to higher legislated statutory tax rates in the current year. A reconciliation of income taxes at the average statutory tax to actual income tax expense for Fiscal 2013 and Fiscal 2012 is as follows:

<i>(in CAD millions)</i>	2013		2012	
Earnings before income taxes	\$	490.0	\$	114.2
Income taxes at the average statutory tax rate	\$	129.6	\$	29.1
(Decrease) increase in income taxes resulting from				
Non-taxable portion of capital gain		(77.0)		(16.4)
Non-deductible items		0.4		1.7
Prior year assessments		(0.6)		2.7
Prior year true-up		0.3		—
Others		0.6		—
		<b>53.3</b>		<b>17.1</b>
Effective tax rate before the following adjustments		<b>10.9%</b>		15.0%
Changes in tax rates or imposition of new taxes		<b>(9.8)</b>		(4.1)
Total income tax expense	\$	43.5	\$	13.0
Effective tax rate		<b>8.9%</b>		11.4%

The Company's total net cash refunds or payments of income taxes for the current year was a net payment of \$32.9 million (2012: net refund of \$4.9 million).

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 2013, the Company recorded charges for interest on prior period tax re-assessments and accruals for uncertain tax positions as described in the table below, all included in the Consolidated Statements of Net Earnings and Comprehensive Income as follows:

<i>(in CAD millions)</i>	2013		2012	
Finance costs recovery (increase)	\$	0.2	\$	(3.9)
Income tax recovery (expense):				
Current	\$	0.6	\$	(5.4)
Deferred	\$	(0.2)	\$	2.2
Total benefits (charges) on uncertain tax positions	\$	0.6	\$	(7.1)

As the Company routinely evaluates and provides for potentially unfavourable outcomes, with respect to any tax audits, the Company believes that, other than as noted above, the final disposition of tax audits will not have a material adverse effect on liquidity.

In Fiscal 2013, the Company received federal and consequential provincial re-assessments to previous tax filings which the Company is disputing. For these disputed amounts, the Company placed a deposit of \$28.0 million in Fiscal 2013, of which \$20.2 million has been included in "Other long-term assets" and \$7.8 million has been included in "Income taxes payable" in the Consolidated Statements of Financial Position as at February 1, 2014.

Included in "Other long-term assets" in the Consolidated Statements of Financial Position, as at February 1, 2014, were receivables of \$32.5 million (February 2, 2013: \$13.9 million) related to payments made by the Company for disputed tax assessments.

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 February 2, 2013 (Note 2.25)	Recognized in earnings	Recognized in equity	As at February 1, 2014
Deferred revenue	\$ 1.0	\$ (0.2)	\$ —	\$ 0.8
Other long term liabilities	26.9	(2.3)	—	24.6
Derivative financial assets	—	—	(2.2)	(2.2)
Property, plant and equipment	(74.6)	30.7	—	(43.9)
Investment property	(37.3)	8.6	—	(28.7)
Goodwill and intangible assets	0.5	0.9	—	1.4
Retirement benefit obligations	109.9	(14.7)	(19.2)	76.0
Provisions	53.0	3.5	—	56.5
Other	(1.6)	1.6	—	—
<b>Total deferred tax assets, net</b>	<b>\$ 77.8</b>	<b>\$ 28.1</b>	<b>\$ (21.4)</b>	<b>\$ 84.5</b>

<i>(in CAD millions)</i>	As at January 28, 2012 (Note 2.25)	Recognized in earnings	Recognized in equity	As at February 2, 2013 (Note 2.25)
Deferred revenue	\$ 1.2	\$ (0.2)	\$ —	\$ 1.0
Other long term liabilities	24.3	2.6	—	26.9
Derivative financial assets	0.1	(0.1)	—	—
Property, plant and equipment	(93.4)	18.8	—	(74.6)
Investment property	(37.1)	(0.2)	—	(37.3)
Goodwill and intangible assets	0.8	(0.3)	—	0.5
Retirement benefit obligations	118.0	(11.6)	3.5	109.9
Provisions	54.4	(1.4)	—	53.0
Tax credit carry forwards	12.9	(12.9)	—	—
Other	(2.2)	0.6	—	(1.6)
<b>Total deferred tax assets, net</b>	<b>\$ 79.0</b>	<b>\$ (4.7)</b>	<b>\$ 3.5</b>	<b>\$ 77.8</b>

<i>(in CAD millions)</i>	As at February 1, 2014	As at February 2, 2013 (Note 2.25)	As at January 28, 2012 (Note 2.25)
Deferred tax assets	\$ 88.7	\$ 83.8	\$ 84.6
Deferred tax liabilities	(4.2)	(6.0)	(5.6)
<b>Total deferred tax assets, net</b>	<b>\$ 84.5</b>	<b>\$ 77.8</b>	<b>\$ 79.0</b>

## 23. Segmented information

In order to identify the Company's reportable segments, the Company uses the process outlined in IFRS 8, *Operating Segments* which includes the identification of the Chief Operating Decision Maker, the identification of operating segments, which has been done based on Company formats, and the aggregation of operating segments. The Company has aggregated its operating segments into two reportable segments: Merchandising and Real Estate Joint Arrangement operations. The Merchandising segment includes revenues from the sale of merchandise and related services to customers. The Real Estate Joint Arrangement segment includes income from the Company's joint arrangement interests in shopping centres across Canada, all of which contain a Sears store.

### 23.1 Segmented statements of earnings

<i>(in CAD millions)</i>	2013	2012 (Note 2.25)
Total revenue		
Merchandising	\$ 3,945.8	\$ 4,300.7
Real Estate Joint Arrangements	46.0	45.8
Total revenues	\$ 3,991.8	\$ 4,346.5
Segmented operating (loss) income		
Merchandising	\$ (205.1)	\$ (81.5)
Real Estate Joint Arrangements	17.3	9.7
Total segmented operating loss	\$ (187.8)	\$ (71.8)
Finance costs		
Merchandising	\$ 9.3	\$ 13.3
Real Estate Joint Arrangements	1.5	1.8
Total finance costs	\$ 10.8	\$ 15.1
Interest income		
Merchandising	\$ 2.5	\$ 4.1
Real Estate Joint Arrangements	0.1	0.2
Total interest income	\$ 2.6	\$ 4.3
Gain on lease terminations and lease amendments		
Merchandising	\$ 577.2	\$ 167.1
Real Estate Joint Arrangements	—	—
Total gain on lease terminations and lease amendments	\$ 577.2	\$ 167.1
Gain on sale of interest in real estate joint arrangements		
Merchandising	\$ —	\$ —
Real Estate Joint Arrangements	66.3	8.6
Total gain on sale of interest in real estate joint arrangements	\$ 66.3	\$ 8.6
Gain on settlement and amendment of retirement benefits		
Merchandising	\$ 42.5	\$ 21.1
Real Estate Joint Arrangements	—	—
Total gain on settlement and amendment of retirement benefits	\$ 42.5	\$ 21.1
Income tax (expense) recovery		
Merchandising	\$ (40.1)	\$ (12.1)
Real Estate Joint Arrangements	(3.4)	(0.9)
Total income tax expense	\$ (43.5)	\$ (13.0)
Net earnings	\$ 446.5	\$ 101.2

## 23.2 Segmented statements of total assets

<i>(in CAD millions)</i>	As at February 1, 2014	As at February 2, 2013 (Note 2.25)	As at January 28, 2012 (Note 2.25)
Merchandising	\$ 2,354.2	\$ 2,210.8	\$ 2,425.6
Real Estate Joint Arrangements	38.1	293.9	341.8
<b>Total assets</b>	<b>\$ 2,392.3</b>	<b>\$ 2,504.7</b>	<b>\$ 2,767.4</b>

## 23.3 Segmented statements of total liabilities

<i>(in CAD millions)</i>	As at February 1, 2014	As at February 2, 2013 (Note 2.25)	As at January 28, 2012 (Note 2.25)
Merchandising	\$ 1,314.4	\$ 1,402.3	\$ 1,638.7
Real Estate Joint Arrangements	4.1	26.0	36.7
<b>Total liabilities</b>	<b>\$ 1,318.5</b>	<b>\$ 1,428.3</b>	<b>\$ 1,675.4</b>

## 24. Capital stock

On May 22, 2013, the Toronto Stock Exchange ("TSX") accepted the Company's Notice of Intention to make a Normal Course Issuer Bid ("2013 NCIB"). The 2013 NCIB permits the Company to purchase for cancellation up to 5% of its issued and outstanding common shares, representing 5,093,883 of the issued and outstanding common shares as at May 10, 2013. Under the 2013 NCIB, purchases were allowed to commence on May 24, 2013 and must terminate by May 23, 2014 or on such earlier date as the Company may complete its purchases pursuant to the 2013 NCIB. The total purchase of common shares by the Company pursuant to the 2013 NCIB will not exceed, in the aggregate, 5% of all outstanding common shares, and is subject to the limits under the TSX rules, including a daily limit of 25% of the average daily trading volume (which, cannot exceed 19,689 common shares a day), and a limit of one block purchase per week.

There were no share purchases during Fiscal 2013 (2012: 870,633 shares were purchased for \$9.7 million as part of a normal course issuer bid in place for the period of May 25, 2011 to May 24, 2012). The impact of the share repurchases in Fiscal 2012 was a decrease to "Capital stock" and "Retained earnings" in the Consolidated Statements of Financial Position of \$0.1 million and \$9.6 million, respectively.

During Fiscal 2013, the Company distributed \$509.4 million to holders of common shares as an extraordinary cash dividend (2012: \$101.9 million). Payment in the amount of \$5.00 per common share was made on December 6, 2013.

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 (the "Class 1 Preferred Shares").

As at the end of February 1, 2014, the only shares outstanding were common shares of the Company. The following table presents a continuity of capital stock for the fiscal years ended February 1, 2014 and February 2, 2013:

<i>(in CAD millions, except number of shares)</i>	2013		2012	
	Number of Common Shares	Stated Value	Number of Common Shares	Stated Value
Balance, beginning of fiscal year	101,877,662	\$ 14.9	102,748,295	\$ 15.0
Repurchases of common shares	—	—	(870,633)	(0.1)
<b>Balance, end of fiscal year</b>	<b>101,877,662</b>	<b>\$ 14.9</b>	<b>101,877,662</b>	<b>\$ 14.9</b>

ESL Investments, Inc., and investment affiliates including Edward S. Lampert, collectively "ESL", together form the ultimate controlling party of the Company. ESL is the beneficial holder of 28,158,368 or 27.6%, of the common shares of the Company as at February 1, 2014 (February 2, 2013: 28,158,368 or 27.6%, January 28, 2012: nil), Sears Holdings, the controlling shareholder of the Company, is the beneficial holder of 51,962,391 or 51.0%, of the common shares of the Company as at February 1, 2014 (February 2, 2013: 51,962,391 or 51%, January 28, 2012: 97,341,670 or 94.7%). The issued and outstanding shares are fully paid and have no par value.

## 25. 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 February 1, 2014	As at February 2, 2013 (Note 2.25)	As at January 28, 2012 (Note 2.25)
Total long-term obligations	\$ 35.9	\$ 59.4	\$ 154.0
Shareholders' equity	1,073.8	1,076.4	1,092.0
<b>Total</b>	<b>\$ 1,109.7</b>	<b>\$ 1,135.8</b>	<b>\$ 1,246.0</b>

## 26. Revenue

The components of the Company's revenue were as follows:

<i>(in CAD millions)</i>	2013	2012 (Note 2.25)
Apparel and Accessories	\$ 1,462.8	\$ 1,474.2
Home and Hardlines	998.4	1,125.4
Major Appliances	823.3	876.3
Other merchandise revenue	227.7	362.5
Services and other	342.6	367.7
Commission and licensee revenue	137.0	140.4
<b>Total revenue</b>	<b>\$ 3,991.8</b>	<b>\$ 4,346.5</b>

## 27. Employee benefits expense

The components of the Company's employee benefits expense for the current and prior fiscal year were as follows:

<i>(in CAD millions)</i>	<b>2013</b>		2012	
Wages and salaries	\$	<b>585.2</b>	\$	657.9
Paid absences <sup>1</sup>		<b>55.6</b>		62.1
Benefits				
Provincial healthcare costs		<b>13.6</b>		15.5
Flex benefits		<b>15.0</b>		16.6
Retirement benefit plans expense <sup>2</sup>		<b>(10.8)</b>		9.7
Statutory deductions <sup>3</sup>		<b>40.5</b>		45.7
Severance		<b>60.5</b>		17.1
Other employer paid benefits		<b>3.2</b>		(1.2)
Total benefits expense	\$	<b>762.8</b>	\$	823.4

<sup>1</sup> Paid absences are expenses related to vacation, statutory holidays and sick days.

<sup>2</sup> Included in Retirement benefit plans expense for Fiscal 2013 was a \$12.8 million gain related to the amendments to the defined benefit registered retirement plan and non-pension retirement benefit plan (2012: \$21.9 million gain related to settlement of a voluntary buyout of non-pension retirement benefits).

<sup>3</sup> 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 and amendment of retirement benefits" in the Consolidated Statements of Net Earnings and Comprehensive Income.

## 28. Gain on lease terminations and lease amendments

On June 14, 2013, the Company announced its intention to enter into a series of transactions related to its leases on two properties: Yorkdale Shopping Centre (Toronto) and Square One Shopping Centre (Mississauga). The landlords approached the Company with a proposal to enter into a series of lease amendments for a total consideration of \$191.0 million, being the amount the landlords were willing to pay for the right to require the Company to vacate the two locations.

On June 24, 2013, the Company received proceeds of \$191.0 million upon closing of the transaction which gave the landlords the right to require the Company to vacate the two locations by March 31, 2014. The landlords exercised such right on July 25, 2013. The transaction resulted in a pre-tax gain of \$185.7 million, net of legal costs and the de-recognition of leasehold improvements of \$5.3 million.

The Company also granted the owners of the Scarborough Town Centre (Toronto) property an option to enter into certain lease amendments in exchange for \$1.0 million, which was paid on June 24, 2013. The option may be exercised at any time up to and including June 20, 2018, and would require the Company to complete certain lease amendments in exchange for \$53.0 million. Such lease amendments would allow the owners to require the Company to close its store. As of February 1, 2014, the option had not been exercised and was included in "Accounts payable and accrued liabilities" in the Consolidated Statements of Financial Position.

On October 29, 2013, the Company announced that it would terminate its leases in respect of four stores and partially terminate its lease in a fifth location, for a total consideration of \$400.0 million. Four of the five stores are owned by The Cadillac Fairview Corporation Limited (Cadillac Fairview) and are located in Ontario: Toronto Eaton Centre, Sherway Gardens, Markville Shopping Centre and London-Masonville Place. The fifth store is located at Richmond Shopping Centre in British Columbia and is co-owned by Ivanhoé Cambridge II Inc. and Cadillac Fairview. The transaction requires Sears to vacate Sherway Gardens, London-Masonville Place and the retail floors of the Toronto Eaton Centre ("TEC"), by February 28, 2014, and Markville and Richmond Shopping Centres by February 28, 2015. On November 12, 2013, the Company received proceeds of \$400.0 million for these transactions, resulting in a pre-tax gain of \$391.5 million, net of legal costs and the de-recognition of leasehold improvements and furniture and fixtures of \$9.5 million.

As part of this transaction, the Company vacated the retail floors of the TEC. The Company will continue to use the office floors of the TEC as its headquarters under terms consistent with the existing lease. In accordance with IAS 17, Leases, the lease on the office floors of the TEC was assessed as a finance lease. The Company has transferred all risks and rewards associated with the vacated retail floors, has no significant continuing involvement related to these floors, and all costs associated with vacating the retail floors have been measured reliably.

In accordance with IAS 18, Revenue, the Company has recognized the entire gain of \$391.5 million in Fiscal 2013 in the Consolidated Statements of Net Earnings and Comprehensive Income.

On March 2, 2012, the Company entered into an agreement to surrender and terminate early the operating leases on three properties: Vancouver Pacific Centre, Chinook Centre (Calgary) and Rideau Centre (Ottawa). The Company was a long-term and important anchor tenant in the three properties, and the landlord approached the Company with a proposal to terminate early the three leases and vacate the premises in exchange for \$170.0 million. The payment represented the amount the landlord was willing to pay for the right to redevelop the property based upon their analysis of the potential returns from redevelopment.

On the closing date, April 20, 2012, the Company received cash proceeds of \$170.0 million for the surrender of the three leases, resulting in a pre-tax gain of \$164.3 million, net of legal costs and the de-recognition of leasehold improvements of \$5.7 million. The Company exited all three properties on October 31, 2012 and has no further financial obligation related to the transaction.

On June 20, 2012, the Company entered an agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) property. The landlord approached the Company with a proposal to terminate early the lease in exchange for cash proceeds of \$5.0 million, subject to certain closing conditions, on the closing date of October 26, 2012. In Fiscal 2010, the Company incurred an impairment loss of \$2.9 million relating to the property, plant and equipment at its Deerfoot property. As a result of the agreement and expected proceeds, the Company recorded an impairment loss reversal (net of accumulated amortization) of \$2.1 million in "Selling, administrative and other expenses". On the closing date of October 26, 2012, the Company vacated the property and received cash proceeds of \$5.0 million, resulting in a pre-tax gain of \$2.8 million, net of legal costs and the de-recognition of leasehold improvements and furniture and fixtures of \$2.2 million. The Company has no further financial obligation related to the transaction.

### 29. Assets classified as held for sale

On October 29, 2013, the Company announced the future closure of one of its RLC. The RLC including the adjacent vacant property, which are owned by the Company, is being marketed for sale and if a buyer is identified that will purchase the RLC at a price acceptable to the Company, then the RLC will be sold. This process has been approved by senior management of the Company, and based on these factors, the Company has concluded that the sale is highly probable.

<i>(in CAD millions)</i>		<b>As at February 1, 2014</b>
Property, plant and equipment	\$	<b>10.9</b>
Investment property		<b>2.4</b>
Assets classified as held for sale	\$	<b>13.3</b>

The carrying value of property, plant and equipment and investment property of the RLC held for sale was higher than the estimated fair value less costs to sell and, as a result, the Company recognized an impairment loss of \$16.5 million. This amount is included in the \$27.7 million of impairment (reversals) losses in the property, plant and equipment continuity in Note 9. The Company determined fair value by engaging an independent qualified third party appraiser to conduct an appraisal of its RLC land and building properties. The valuation method used to determine fair value was the direct sales comparison approach. Impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

The operations of the RLC is not presented as discontinued operations on the Consolidated Statement of Net Earnings and Comprehensive Income as they do not represent a separate geographical area of operations or a separate major line of business.

### 30. Sale of Cantrex Group Inc. ("Cantrex")

On April 24, 2012, the Company entered an agreement to sell the operations of its subsidiary, Cantrex, to Nationwide Marketing Group, LLC for \$3.5 million, equal to the net carrying amount of specified Cantrex assets and liabilities. On April 29, 2012, the Company received the proceeds on the sale, de-recognized the assets and liabilities sold and recorded a gain on sale of nil.

### 31. Related party transactions

The immediate parent of the Company is Sears Holdings. The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Florida) through Sears Holdings. The Company also has interests in joint arrangements, as described in Note 11.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

#### 31.1 Trading transactions

During the current and prior fiscal year, the Company entered into the following trading transactions with related parties:

<i>(in CAD millions)</i>	2013				2012			
	Purchase of goods	Services received	Other	Total	Purchase of goods	Services received	Other	Total
Sears Holdings Corporation	\$ —	\$ 4.5	\$ 0.4	\$ 4.9	\$ —	\$ 5.0	\$ 0.2	\$ 5.2
Real estate joint arrangements	—	3.9	—	3.9	—	4.5	—	4.5
Total related party transactions	\$ —	\$ 8.4	\$ 0.4	\$ 8.8	\$ —	\$ 9.5	\$ 0.2	\$ 9.7

The following balances were outstanding as at the end of the fiscal year:

<i>(in CAD millions)</i>	Amounts receivable from related parties			
	As at February 1, 2014	As at February 2, 2013	As at January 28, 2012	
Sears Holdings Corporation	\$ —	\$ 0.3	\$ 0.1	

<i>(in CAD millions)</i>	Amounts payable to related parties			
	As at February 1, 2014	As at February 2, 2013	As at January 28, 2012	
Sears Holdings Corporation	\$ 0.4	\$ 0.7	\$ 0.6	

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 related party transactions with the various real estate joint arrangements represent lease payments for the lease of the Company's stores. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties.

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 related parties.

The Company's Audit Committee is responsible for pre-approving all related party transactions that have a value greater than \$1.0 million.

### 32. 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 Company considers the Board of Directors and the following former and current members of senior management to be key management personnel:

Former President and Chief Executive Officer;  
 President and Chief Executive Officer;  
 Executive Vice-President and Chief Financial Officer;  
 Former Executive Vice-President, Financial Services;  
 Former Senior Vice-President & Chief Information Officer;  
 Former Senior Vice President, General Merchandise Manager, Accessories Merchandising;  
 Former Senior Vice President, General Merchandise Manager, Apparel Merchandising;  
 Former Senior Vice-President, Home & Hardlines;  
 Former Senior Vice-President, Marketing;  
 Former Senior Vice-President, Human Resources;  
 Executive Vice-President, Chief Operating Officer and General Counsel;  
 Former Senior Vice-President, Retail Stores;  
 Senior Vice President, Home & Hardlines and Strategic Initiatives  
 Senior Vice President, Human Resources;  
 Senior Vice President, Apparel and Accessories;  
 Former Senior Vice President, Logistics and Supply Chain;  
 Interim Senior Vice President, Retail Stores; and  
 Interim Senior Vice President, Direct.

Key management personnel compensation was as follows:

<i>(in CAD millions)</i>	2013	2012
Salaries and perquisites	\$ 8.1	\$ 7.4
Annual incentive plans and other bonuses	1.2	0.9
Pensions	0.1	0.1
Termination benefits	1.3	0.9
Total key management personnel compensation	\$ 10.7	\$ 9.3

### 33. Net earnings per share

A reconciliation of the number of shares used in the net earnings per share calculation is as follows:

<i>(Number of shares)</i>	2013	2012
Weighted average number of shares per basic net earnings per share calculation	101,877,662	102,078,477
Effect of dilutive instruments outstanding	—	—
Weighted average number of shares per diluted net earnings per share calculation	101,877,662	102,078,477

“Net earnings” as disclosed in the Consolidated Statements of Net Earnings and Comprehensive Income was used as the numerator in calculating the basic and diluted net earnings per share. For the fiscal year ended February 1, 2014, there were no outstanding options to exclude from the calculation of diluted net earnings per share. For the fiscal year ended February 2, 2013, 5,440 outstanding options were excluded from the calculation of diluted net earnings per share as they were anti-dilutive.

### 34. Changes in non-cash working capital balances

Cash generated from (used for) non-cash working capital balances were comprised of the following:

<i>(in CAD millions)</i>	2013	2012 (Note 2.25)
Accounts receivable, net	\$ (6.6)	\$ 36.4
Inventories	76.8	(27.5)
Prepaid expenses	4.8	(0.7)
Accounts payable and accrued liabilities	(52.6)	(86.9)
Deferred revenue	(10.1)	(10.2)
Provisions	43.1	1.5
Income and other taxes payable and recoverable	19.5	(35.5)
Effect of foreign exchange rates	(1.6)	—
Cash generated from (used for) non-cash working capital balances	\$ 73.3	\$ (122.9)

### 35. Changes in long-term assets and liabilities

Cash (used for) generated from long-term assets and liabilities were comprised of the following:

<i>(in CAD millions)</i>	2013	2012 (Note 2.25)
Other long-term assets	\$ 7.0	\$ 23.1
Other long-term liabilities	(14.9)	(1.0)
Other	0.3	11.1
Cash (used for) generated from long-term assets and liabilities	\$ (7.6)	\$ 33.2

### 36. Burnaby arrangement

On October 11, 2013, the Company announced that it entered into a binding agreement with Concord Pacific Group of Companies ("Concord") to pursue the development of nine acres of the Company's property on and adjacent to the Company's store located at the Metropolis at Metrotown in Burnaby, British Columbia (the "Project"). Closing under the agreement is contingent upon obtaining the approval from the City of Burnaby for the Project, which is expected to occur over an extended period of time.

This agreement contemplates the sale of a 50% interest in the site for a value of approximately \$140.0 million subject to adjustments, and the retention of Concord on customary terms to manage the development. \$15.0 million of the purchase price is to be paid in cash on closing, with the balance represented by an interest-free long term note secured by Concord's 50% interest in the property, the principal of which is expected to be repaid out of cash flow generated from the Project over time. It is contemplated that this note will be subordinated to other debt financing expected to be raised and used to develop the Project. The note will be guaranteed by a Concord affiliate. Following the sale of the 50% interest, it is contemplated that the parties will enter into a co-ownership arrangement. If third party debt financing cannot be obtained, Concord will be responsible for providing debt financing to develop the Project (which would, with certain exceptions, be subordinated to the long-term note held by the Company). The estimated cost to fully develop and build out the Project as contemplated is currently in excess of \$1.0 billion. Completion of the Project as contemplated is subject to strategic considerations, including, but not limited to, potential shifts in the Canadian economy and the condition of the real estate market now and in the future.

In January 2014, in conjunction with Concord obtaining financing to develop the Project, Sears entered into a demand mortgage for \$25.0 million, secured by the Project property. Interest on drawings under the mortgage is determined based on the prime rate plus a spread, and is due monthly. As at February 1, 2014, the Company had no borrowings on the mortgage. In January 2014, Concord entered into a demand loan agreement for \$20.0 million. The loan is guaranteed by Concord's parent company, One West Holdings Ltd., and the Company's undrawn \$25.0 million mortgage has been pledged as collateral. As at February 1, 2014, Concord had borrowed \$12.6 million against the available demand loan.

### 37. Approval of consolidated financial statements

The consolidated financial statements were approved by Board of Directors and authorized for issue on March 13, 2014.

**DIRECTORS AND OFFICERS****Board of Directors****Douglas Campbell**

President and Chief Executive Officer of the Corporation

**William C. Crowley**<sup>2,3</sup>

Chief Executive Officer  
Ashe Capital Management, LLC

**William R. Harker**<sup>2,3</sup>

President  
Ashe Capital Management, LLC

**R. Raja Khanna**<sup>1,4</sup>

Chief Executive Officer  
Blue Ant Media Inc.

**James McBurney**<sup>1,4</sup>

Corporate Director

**Deborah E. Rosati**<sup>1,2,4</sup>

Corporate Director and Advisor

**Donald C. Ross**<sup>1,2,4</sup>

Senior of Counsel  
Covington & Burling LLP

**H Ronald Weissman**<sup>1</sup>

Corporate Director

**Officers****Douglas Campbell**

President and Chief Executive Officer

**E.J. Bird**

Executive Vice-President and Chief Financial Officer

**Klaudio Leshnjani**

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****Head Office**

Sears Canada Inc.  
290 Yonge Street  
Suite 700  
Toronto, Ontario  
M5B 2C3

Website: [www.sears.ca](http://www.sears.ca)  
E-mail: [home@sears.ca](mailto:home@sears.ca)

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 416-941-4428.

The Company's regulatory filings can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the U.S. Securities Exchange Commission (SEC) website at [www.sec.gov](http://www.sec.gov).

**Stock Exchange Listing**

Toronto Stock Exchange  
Trading symbol: SCC

**Transfer Agent and Registrar**

CST Trust Company  
P.O. Box 700, Station B  
Montreal, Québec  
H3B 3K3

Answerline: 416-682-3860  
1-800-387-0825  
Fax: 1-888-249-6189  
Website: [www.canstockta.com](http://www.canstockta.com)  
E-Mail: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)

**Annual and Special Meeting**

The Annual and Special Meeting of the Shareholders of Sears Canada Inc. will be held on Thursday, April 24, 2014 at 8:00 a.m. in Room 5B1, Fifth 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  
Suite 700  
Toronto, Ontario  
M5B 2C3

Pour obtenir de plus amples renseignements au sujet de la Société ou pour obtenir des exemplaires supplémentaires du rapport annuel, veuillez écrire au service national des Communications au siège social de Sears Canada Inc., ou composez le 416-941-4428.

Les dépôts réglementaires de la Société se trouvent sur le site Web de SEDAR à l'adresse [www.sedar.com](http://www.sedar.com) et sur le site Web de la Securities Exchange Commission (« SEC ») des États-Unis à l'adresse [www.sec.gov](http://www.sec.gov).

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**Sears**  
MAKE EVERY  
DAY a  
GREAT DAY.

**Sears**  
MAKE EVERY  
DAY A  
GREAT DAY.



The Securities and Exchange Commission has not necessarily reviewed the information in this filing and has not determined if it is accurate and complete.  
The reader should not assume that the information is accurate and complete.

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 13F**

**FORM 13F COVER PAGE**

**OMB APPROVAL**

OMB Number:	3235-0006
Expires:	Oct 31, 2018
Estimated average burden hours per response:	23.8

Report for the Calendar Year or Quarter Ended: 12-31-2014

Check here if Amendment

Amendment Number:

This Amendment (Check only one.):

is a restatement.

adds new holdings entries.

**Institutional Investment Manager Filing this Report:**

Name: RBS Partners, L.P.

Address: 1170 Kane Concourse

Suite 200

Bay Harbor Islands, FL 33154

Form 13F File Number: 028-02610

**The institutional investment manager filing this report and the person by whom it is signed hereby represent that the person signing the report is authorized to submit it, that all information contained herein is true, correct and complete, and that it is understood that all required items, statements, schedules, lists, and tables, are considered integral parts of this form.**

Person Signing this Report on Behalf of Reporting Manager:

Name: Edward S. Lampert

Title: Chief Executive Officer of the General Partner

Phone: (305) 702-2100

**Signature, Place, and Date of Signing:**

s. Edward S. Lampert Bay Harbor, FL 02-17-2015

[Signature]

[City, State]

[Date]

**Report Type (Check only one.):**

13F HOLDINGS REPORT. (Check here if all holdings of this reporting manager are reported in this report.)

13F NOTICE. (Check here if no holdings reported are in this report, and all holdings are reported by other reporting manager(s).)

13F COMBINATION REPORT. (Check here if a portion of the holdings for this reporting manager are reported in this report and a portion are reported by other reporting manager(s).)

### Form 13F Summary Page

#### Report Summary:

Number of Other Included Managers:	1
Form 13F Information Table Entry Total:	12
Form 13F Information Table Value Total:	2,211,277
	(thousands)

#### List of Other Included Managers:

Provide a numbered list of the name(s) and Form 13F file number(s) of all institutional investment managers with respect to which this report is filed, other than the manager filing this report.

[If there are no entries in this list, state "NONE" and omit the column headings and list entries.]

No.	Form 13F File Number	Name
1	028-11470	ESL Investments, Inc.

The Securities and Exchange Commission has not necessarily reviewed the information in this filing and has not determined if it is accurate and complete.  
The reader should not assume that the information is accurate and complete.

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 13F**

**FORM 13F INFORMATION TABLE**

**OMB APPROVAL**

OMB Number: 3235-0006  
Expires: Oct 31, 2018  
Estimated average burden  
hours per response: 23.8

COLUMN 1 NAME OF ISSUER	COLUMN 2 TITLE OF CLASS	COLUMN 3 CUSIP	COLUMN 4 VALUE (x\$1000)	COLUMN 5			COLUMN 6 INVESTMENT DISCRETION	COLUMN 7 OTHER MANAGER	COLUMN 8 VOTING AUTHORITY		
				SHRS OR PRN	SH/ AMT	PUT/ CALL			SOLE	SHARED	NONE
AUTONATION INC	COM	05329W102	527.413	8.730	562 SH		SOLE	0	8.730	562	0 0
AUTONATION INC	COM	05329W102	275	4.554	SH		DFND	1	4.554		0 0
GAP INC DEL	COM	364760108	12.539	297.779	SH		SOLE	0	297.779		0 0
INTERNATIONAL BUSINESS MACHS	COM	459200101	34.752	216.605	SH		SOLE	0	216.605		0 0
LANDS END INC NEW	COM	51509F105	428.939	7.949	202 SH		SOLE	0	7.949	202	0 0
LANDS END INC NEW	COM	51509F105	178	3.301	SH		DFND	1	3.301		0 0
SEARS CDA INC	COM	81234D109	270.008	28.096	581 SH		SOLE	0	28.096	581	0 0
SEARS CDA INC	COM	81234D109	85	8.822	SH		DFND	1	8.822		0 0
SEARS HLDGS CORP	COM	812350106	871.572	26.427	295 SH		SOLE	0	26.427	295	0 0
SEARS HLDGS CORP	COM	812350106	362	10.977	SH		DFND	1	10.977		0 0
SEARS HOMETOWN & OUTLET STOR	COM	812362101	65.121	4.952	151 SH		SOLE	0	4.952	151	0 0
SEARS HOMETOWN & OUTLET STOR	COM	812362101	33	2.506	SH		DFND	1	2.506		0 0

MAKE

EVERY

Day a

GREAT

Day.

.....  
2012 ANNUAL REPORT  
SEARS CANADA INC.  
.....

A little over a year ago, we set our company upon a different course. We are now emboldened by a great and simple purpose: to make every day a great day for our customers. The more we matter to those who matter most to our business, the more valuable our business will be.

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*Certain information in the accompanying "Letter to Our Shareholders" is forward-looking and is subject to important risks and uncertainties, which are described in the "Cautionary statement regarding forward-looking information" on page 13 of this Annual Report.*

## Financial Highlights

Unless otherwise noted, 2012 results reflect a 53-week period while 2011 results reflect a 52-week period.

<i>(in CAD millions, except per share amounts)</i>		Fiscal 2012		Fiscal 2011
Total revenue	\$	4,300.7	\$	4,619.3
Same store sales (%)*		(5.6)%		(7.5)%
Adjusted EBITDA*		47.0		124.0
Net earnings (loss)		101.2		(50.3)

		As at February 2, 2013		As at January 28, 2012
Cash and cash equivalents	\$	237.0	\$	397.4
Working capital		415.3		471.0
Inventories		851.4		823.9
Total assets		2,479.1		2,730.7
Total long-term obligations, including principal payments on long-term obligations due within one year		36.1		122.7
Shareholders' equity		1,076.4		1,092.0

		As at February 2, 2013		As at January 28, 2012
Per share of capital stock				
Basic net earnings (loss)	\$	0.99	\$	(0.48)
Diluted net earnings (loss)	\$	0.99	\$	(0.48)
Shareholders' equity	\$	10.57	\$	10.63

\* Same store sales and Adjusted EBITDA are operating performance and non-International Financial Reporting Standards ("IFRS") measures, respectively. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance, and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA".

- Revenue was \$4,300.7 million for the 53-week period ended February 2, 2013 ("Fiscal 2012") compared to \$4,619.3 million for the 52-week period ended January 28, 2012 ("Fiscal 2011"), a decrease of 6.9%. The decrease is primarily attributable to sales declines in Craftsman<sup>®</sup>, electronics, bedroom and bath, women's apparel, and menswear categories, partially offset by higher revenue from major appliances. In addition, the decrease in revenues is partially attributable to the closure of 4 Full-Line stores during Fiscal 2012 and the sale of Cantrex Group Inc. ("Cantrex") during the second quarter of 2012.
- Revenue was approximately \$25.5 million lower as a result of the closure of 4 Full-Line stores during Fiscal 2012. Revenue was also positively impacted by approximately \$38.3 million due to the 53rd week in Fiscal 2012.
- Same store sales decreased 5.6% compared to Fiscal 2011. Same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA."

- Gross margin rate was 36.1% for Fiscal 2012 compared to 36.5% in Fiscal 2011. In Fiscal 2011 there was a one-time inventory charge, relating to planned disposition of excess inventory. The Fiscal 2011 gross margin rate excluding the one-time inventory charge was 37.4%. The decrease in the gross margin rate in Fiscal 2012 compared to Fiscal 2011 was due primarily to reduced margin in fitness and recreation, Corbeil Electique Inc. ("Corbeil"), children's wear, jewelery, accessories and luggage and footwear categories.
- Fiscal 2012 Adjusted EBITDA was \$47.0 million compared to \$124.0 million for Fiscal 2011. Adjusted EBITDA is a non-IFRS measure. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA" regarding the use of non-IFRS measures and an explanation of components of Adjusted EBITDA for respective periods.
- Basic net earnings per common share was \$0.99 in Fiscal 2012 compared to a basic net loss per common share of \$0.48 for Fiscal 2011.
- Total cash and cash equivalents was \$237.0 million as at February 2, 2013 compared to \$397.4 million as at January 28, 2012. The decrease of \$160.4 million was primarily due to repayment of long-term obligations of \$142.3 million, \$101.9 million in dividend payments during the latter part of Fiscal 2012, and the purchase of \$97.5 million in property, plant and equipment and intangible assets, partially offset by \$175.0 million in proceeds from lease terminations received during Fiscal 2012, and the net proceeds received of \$38.3 million from the sale of the Company's interest in Medicine Hat Mall at the end of Fiscal 2012.

## **Letter to Our Shareholders**

### **A message from Calvin McDonald, President and Chief Executive Officer**

Sears Canada is concluding the first full year of our Transformation plan. The three-year plan is centered on re-establishing the business and carrying out strategies designed to trade ourselves out of what we traded ourselves into over a period of several years. Our focus in 2012 was to get the basics, executing on fundamentals and reconnecting with customers in a significant way.

In delivering against our Vision of creating lifelong relationships built on trust and our Mission centered on working for Canadian families, we established several initiatives during the year. These were positioned to get at basics and build our foundation for the future.

Since we launched the Transformation, we have consistently used the Formula for Growth, expressed as five components, as our foundation for improvement:

1. Build the Core
2. Be Customer Driven and Marketing Led
3. Get Value Right
4. Operate the Best Formats
5. Organize the Right Talent and Create a Winning Attitude

The unique initiatives we introduced this year are spread across these five strategic pillars and linked by two common themes: improve our product and change our behaviour.

With this framework in mind, here are some of the accomplishments we saw in 2012 as we moved forward to strengthen Sears relationship with Canadian consumers.

### **Build the Core**

This pillar of the Formula for Growth is our focus on core competencies. We must protect and build market share in the categories where we can win by promoting our unrivaled blend of authoritative assortment, unique services and exclusive brands. Our goal is to deliver consistently across these categories and be Canadians' retailer of choice for their needs...head to toe, wall to wall, for self, family and home.

#### **Some of the accomplishments within Build the Core were:**

- The establishment of our Hero shops: We cannot be all things to all customers, so we identified categories where Canadians will give us strong consideration because of our established position in the marketplace such as Major Appliances, Mattresses, Kids, Women's Dresses, Men's Dresswear, and Kitchen. We need to support these categories and present them to Canadians effectively. A big piece of the work that lies ahead of us is to turn dollar share into share of mind; this way, customers can be advocates for Sears in these important categories. An increase in same store sales for our apparel business in the fourth quarter of 2012 for the first time in eight quarters was a positive result of the work we have been doing on building the core;

- The full execution of our aggressive “attack plan” for both major appliances and mattresses: This included uplifted advertising, associate training, innovative financing programs and 'after-sale' service enhancements. Sears considers itself a leader in these categories and is determined to maintain its market leading position;
- The launch of “The Baby's Room” in June, a full-service headquarters for baby products and nursery equipment: We introduced new products, new brands, updated signing and a reflow of the floor plan. Young families are a key target market, and our aim is to attract new parents to Sears and convert them to loyal shoppers for life. We have achieved monthly double-digit sales increases on average since we launched, a strong signal that we're resonating with customers in a meaningful way; and
- Establishing strategic alliances: In January 2013 we joined with Buffalo International Inc. to design and build Sears private brand of denim based apparel, Nevada. The Aldo Group will be working with us in a similar fashion for men's and women's private brand Attitude and Nevada footwear, as well as the Jessica brand for women. We also teamed up with SHS Services Management Inc. to manage and operate our installed home services business. These are organizations that have the capacity and desire to work with Sears, and who can execute better on the sourcing end using our expertise and capability on the distribution and brand reputation end. Our approach is to align with companies that can provide immediate credibility and continuity to our brands and services.

We will continue to assess our strengths and core competencies and evolve the business model as appropriate to strengthen Sears position in the marketplace.

### **Be Customer Driven and Marketing Led**

We need to be focused on our customers who come from all walks of life and demographic profiles. Taking into account the breadth of product in our Hero shops and our market share, it follows that we already attract a broad range of Canadian consumers, and many of them have a Sears Financial Credit Card. Our opportunity is to utilize this information to be more targeted in our marketing, convert in-store traffic into transactions and change the perception of our brand. This pillar is about using the information customers share with us to make their shopping experience with Sears more effective and more likely to result in lifelong relationships.

#### **Some of the accomplishments within Be Customer Driven and Marketing Led were:**

- The relaunch of the Sears brand under the statement “Make Every Day a Great Day”: Over half a million views of our Holiday-timed video-commercial was an early and encouraging sign that Canadians are responding positively to the changes we are making and the Company we are trying to become. Every day being a great day is what we want our customers to experience as a result of using our products and services;

- The seasonal publication of the LOOK! *report*: Four editions were distributed in 2012 - Spring, Summer, Fall and Holiday - highlighting the season's fashion trends with handy tips from our trend directors aimed at establishing Sears as a trusted resource to customers looking for style and product tips along with great fashion. Our Buyers vie to get their items selected for the LOOK! *report* and the friendly competition has resulted in a high quality publication featuring the best of the season. The LOOK! *report* has produced check out rates of advertised merchandise at three times the average of other promotional vehicles;
- The creation of meaningful events that fulfill the occasion-based needs of our customers: The Great Canadian Coat Sale in the fall, the Little Black Dress Event for Holiday, the Shape Your Shape Event in January for fitness - these are important time frames for our customers and Sears responded with meaningful assortments and in-store presence to demonstrate leadership in product and marketing. These events increased customer consideration of Sears for key lines like apparel and helped us acquire new customers; and
- The delivery of our 60<sup>th</sup> Wish Book: Since 1953 Canadian households have marked the coming of the Christmas Season with the arrival of the Wish Book and this year's version did not disappoint, garnering orders from some 600,000 unique households. During 2013, we will celebrate our 60<sup>th</sup> anniversary and invite customers to join in the celebration on various occasions.

### **Get Value Right**

We believe Value is more than price. It is a blend of price, quality and the service that customers experience when they shop at Sears, and our value proposition holds a unique place within the Canadian marketplace. Throughout the year, we introduced initiatives that helped to strengthen all three components of our value equation.

#### **Some of the accomplishments within Get Value Right were:**

- The “Over 5,000 new lower prices” initiative was a campaign to effectively convey our approach to pricing: Sears is a promotional business, and we will continue to have sale prices that Canadians desire. We focused on striking a balance among three principles: being competitive at all times on highly identifiable and often-purchased items, building line structures that provide a good-better-best range of product, and having realistic regular prices that customers can believe;
- The introduction of Sears “Canada's Best” seal of approval: An item reflecting the highest standards of quality, style and innovation, at surprising prices. The items are labelled with special product tags and supported by informative marketing so that customers know they are buying the very best available when they buy a product identified as “Canada's Best” and still getting the value they expect from Sears;
- The expansion of our Price Protection guarantee for big-ticket items: We want to ensure that customers can shop us with confidence for larger purchases, so we extended our 60-day Price Protection Plus guarantee on major appliances to match any competitor 90 days after a Sears purchase and we also introduced an industry leading 365-day sleep guarantee for mattresses so customers feel comfortable with this long-term investment;

- The re-affirmation, in May, of the Company's commitment to customer service with a renewed customer promise: The Company invested in over 100,000 hours of hands-on training nationwide touching every store associate on expectations. Unfriendly policies were replaced with practices that customers would expect from Sears including an updated returns policy that allows 90 days for a return to be made on most products using a Sears credit card; and
- The introduction of the Gold Badge program, which recognizes individual store customer service excellence: Each store is rated based on feedback from customers who have specifically shopped in that store. Stores must achieve a rating of 9 or 10 on all questions by at least 73% of customers who filled out a survey. If they achieve this, every associate gets to wear a gold-coloured badge for the ensuing year as a visible sign of their accomplishment. Fifteen stores achieved this highly coveted symbol of recognition in 2012.

### **Operate the Best Formats**

A competitive advantage for Sears is our ability to trade through multiple formats operating in many different sizes of communities. Operating the best formats is focused on aligning our category strengths with the market and creating more value from our trading strategies with retail concepts that align to customer needs.

#### **Some of the accomplishments within Operate the Best Formats were:**

- The complete refresh of eight full-line stores in 2012: Our goal was to create a stage for product which we accomplished by focusing on four components: showcasing our hero categories, conducting a substantial merchandise re-mix, creating centres of interest where we could promote events with authority, and paying special attention to the basics business so customers can count on Sears every time they visit to be in stock of the most wanted items. The stores are performing well above comparable stores in both sales and gross profit and Apparel is outperforming our other businesses reinforcing our decision to make significant enhancements to the visual presentation in that area;
- The unveiling of a brand new relocated 78,000 square foot state-of-the-art Sears Home store at Ottawa's Pinecrest shopping centre: The store has significantly improved its sales and features 54 mattress sets, our largest, and 475 major appliances, compared to 300 in an average store. Associates are equipped with tablets so they can find additional product information for customers and verify any competing offers in the marketplace;
- The establishment of Sears wholly-owned subsidiary Corbeil Appliances in the Greater Toronto area: This successful, Quebec-based chain, previously unknown in this area, brought a mid-to-high level of appliances to Vaughan, Richmond Hill, Mississauga and Burlington and introduced southern Ontario to an appliance specialist with kitchen renovation capability;
- The investment in our website, Sears.ca: We made the site easier to navigate, increased the functionality, improved searching capability and redesigned the home page. We made Direct our Toy headquarters this year by reallocating the Toy department space in retail to The Baby's Room, and directing Toy customers with effective in-store presentations to sears.ca where the Direct channel enjoyed a significant increase in business as a result; and

- Identifying opportunities for non-strategic businesses and assets: During 2012, the Company vacated four full-line stores, surrendering early its leases on two stores in Calgary and one each in Vancouver and Ottawa. This was an opportunity for Sears that was based on leaving locations that did not trade to our strengths as a retailer, and that also provided financial consideration that would have taken a substantially long time to generate had we kept operating them as we were.

We constantly review our businesses and assets and will continue to act on those that are no longer strategic for Sears and where we can help Sears to be more profitable in the long term. We need to be operating in formats and locations where we can trade most effectively.

### **Organize the Right Talent and Create a Winning Attitude**

Organizing talent compels us to address structure, breaking down silos, fixing bad processes, and putting in place efficient models designed to increase productivity. Creating a winning attitude speaks to culture...changing our behaviour, thinking differently, and putting in place plans and initiatives that let the organization believe in success, exude confidence and adopt the retail swagger prevalent in winning organizations.

#### **Some of the accomplishments within Organize the Right Talent and Create a Winning Attitude were:**

- The open communication channels that have been established between the retail support centre and individual associates: An online idea sharing forum, a regular blog from me, a recognition program called WOW that allows for accolades of exceptional actions to be called out, and a cross-functional Associate Advisory Council have all been avenues through which associates can provide input into how improvements can be made enterprise-wide for optimal results;
- The first graduating “class” of the Sears Future Leaders program: This concentrated development program selects 24 candidates each term from within Sears and externally who want to establish a career in retailing blending hands-on experience with a formal sharing of knowledge and skills of the retail industry;
- The strengthening of the Executive Leadership Team: In addition to some changes within our merchandising, marketing and operational leaders with a focus on action and results, of particular note is the appointment of Doug Campbell to Executive Vice-President and Chief Operating Officer overseeing various operational functions and efficiency improvements across the organization; and
- Right-sizing the organization: As we continue to make improvements in efficiencies, we must maintain an organizational structure that reflects best of breed without compromising customer service. At the end of fiscal 2012, we reduced our staff count by 700 associates, mostly from logistics and non customer-facing store roles. The organization needs to remain competitive within an industry that is increasing its pace and responsiveness capacity.

We will continue to review our business as processes are improved and ensure we have an allocation of resources that properly supports the organization as it evolves.

In 2012, our job was to get the basics...reestablish the fundamentals needed to operate a successful retail business. We rebalanced prices, we brought in sound customer service policies, we identified our "core" Hero categories and put resources behind them, we restructured buying and store operations teams, we defined what a Sears department store and Sears Home store should look like, we began to change behaviour, and we started to install a high-performing management team that can lead an organization of 29,000 through a transformation of significant proportion.

These were fundamental accomplishments, and we needed to do this to establish our retail rhythm. In 2013, we will focus on maintaining that retail rhythm, living it, and gaining momentum. While there are some external factors that can impact our business, there is much within our control that we can do to improve our performance. "Control the Controllables" is an internal theme that we are spreading across the enterprise. In tough times, great retailers find a way. Sears needs to act differently and start to achieve different results.

Sears Canada celebrates its 60<sup>th</sup> anniversary in 2013. We issued our inaugural catalogue in early 1953: the Spring and Summer catalogue of that year. A few months later, on September 17, we opened our first store in Stratford, Ontario. Since then, the Company has become one of Canada's major retailers with operations coast to coast, boasting a powerful brand and coveted reputation.

But it's a different landscape in 2013 than it was six decades ago. Sears cannot rely on its accomplishments of the past to be successful. Today, our customers have a lot of choice, some of it close by and reachable from their homes and some of it across the world and reachable by a click of their keyboard. We need to respond and, as a merchant, this is centered around changing our product and changing our behaviour.

Our aim is to have the products and services customers receive from Sears help make every day a great day for them. That is relevance. And that is how much a part of their lives we need to be. The foundation built over 60 years can help us, but it can't sustain us. We need to be top of mind in the minds of Canadians for the lines of products in which we trade, and the Transformation we have begun is the route that can help us get there successfully.

I wish to acknowledge associates, past and present, who, over six decades, have provided Sears with a level of dedication and commitment that is needed to form and operate a Company of our significance, and I look forward to working with the team in place today to take us to the next level and journey through the Transformation of Sears Canada.

Sincerely,

A handwritten signature in black ink, reading "Calvin McDonald". The signature is written in a cursive, flowing style.

Calvin McDonald,  
President and Chief Executive Officer

## Five Year Summary

	IFRS Fiscal 2012 <sup>A</sup>	IFRS Fiscal 2011 <sup>A</sup>	IFRS Fiscal 2010 <sup>A</sup>	CGAAP Fiscal 2010 <sup>B</sup>	CGAAP Fiscal 2009 <sup>C</sup>	CGAAP Fiscal 2008 <sup>D</sup>
<i>Results for the year (in CAD millions)</i>						
Total revenue	\$ 4,300.7	\$ 4,619.3	\$ 4,938.5	\$ 4,957.8	\$ 5,200.6	\$ 5,733.2
Depreciation and amortization	113.3	114.9	123.6	104.6	117.4	126.9
Earnings (Loss) before income taxes	114.2	(56.9)	187.1	219.8	347.6	422.0
Income tax (expense) recovery	(13.0)	6.6	(62.1)	(70.0)	(112.9)	(131.3)
Net earnings (loss)	101.2	(50.3)	125.0	149.8	234.7	290.7
Dividends declared	101.9	—	753.4	753.4	—	—
Capital expenditures <sup>E</sup>	97.5	84.3	60.0	62.4	65.7	97.1
<i>Year end position (in CAD millions)</i>						
Accounts receivable, net	\$ 76.2	\$ 116.2	\$ 144.0	\$ 143.2	\$ 131.1	\$ 138.7
Inventories <sup>F</sup>	851.4	823.9	953.2	953.2	852.3	968.3
Property, plant and equipment	840.0	872.0	900.7	577.4	620.2	696.0
Total assets	2,479.1	2,730.7	2,907.5	2,509.8	3,404.8	3,237.3
Working capital	415.3	471.0	536.9	610.6	1,114.7	1,148.8
Total long-term obligations, including principal payments on long-term obligations due within one year	36.1	122.7	129.1	136.1	350.7	364.6
Shareholders' equity	1,076.4	1,092.0	1,260.4	1,000.5	1,657.5	1,483.2
<i>Per share of capital stock</i>						
Basic net earnings (loss)	\$ 0.99	\$ (0.48)	\$ 1.16	\$ 1.40	\$ 2.18	\$ 2.70
Dividends declared	1.00	—	7.00	7.00	—	—
Shareholders' equity	10.57	10.63	11.96	9.32	15.40	13.78
<i>Financial ratios</i>						
Return on average shareholders equity (%) <sup>G</sup>	9.3	(4.3)	7.7	11.3	14.9	22.6
Current ratio	1.5	1.5	1.5	1.6	1.8	2.0
Return on total revenues (%)	2.4	(1.1)	2.5	3.0	4.5	5.1
Debt/equity ratio	3/97	10/90	9/91	12/88	17/83	20/80
Pre-tax margin (%)	2.7	(1.2)	3.8	4.4	6.7	7.4
<i>Number of Selling Units</i>						
Full-line Department stores	118	122	122	122	122	122
Sears Home stores	48	48	48	48	48	48
Outlet stores	11	11	11	11	12	11
Specialty type: Appliances and Mattresses	4	4	4	4	4	6
Hometown Dealer stores	261	285	268	268	186	171
Sears Floor Covering Centres	—	17	20	20	22	30
Sears Home Services Showrooms	9	13	13	13	13	13
Cantrex	—	799	768	768	793	824
Corbeil	33	30	30	30	30	30
Travel offices	101	108	108	108	108	106
Catalogue merchandise pick-up locations	1,512	1,734	1,822	1,822	1,853	1,858

<sup>A</sup> The 2012 fiscal year ("Fiscal 2012"), 2011 fiscal year ("Fiscal 2011") and 2010 fiscal year ("Fiscal 2010") refers to the 53-week period ended February 2, 2013, and the 52-week period ended January 28, 2012, and January 29, 2011 respectively, reported under International Financial Reporting Standards ("IFRS").

<sup>B</sup> The 2010 fiscal year ("Fiscal 2010") represents the 52-week period ended January 29, 2011, reported under Canadian Generally Accepted Accounting Principles ("CGAAP").

<sup>C</sup> The 2009 fiscal year ("Fiscal 2009") represents the 52-week period ended January 30, 2010, reported under CGAAP.

<sup>D</sup> The 2008 fiscal year ("Fiscal 2008") represents the 52-week period ended January 31, 2009, reported under CGAAP.

<sup>E</sup> Capital expenditures have not been reduced by cash payments outstanding at year end resulting from normal trade terms.

<sup>F</sup> As a result of the Company's change in accounting policy for inventories in Fiscal 2008, the inventory balances included in this table are not comparable. See Note 2 "Significant accounting policies" of the Notes to the Consolidated Financial Statements.

<sup>G</sup> The return on average shareholders' equity (%) for IFRS Fiscal 2010 was calculated taking net earnings for Fiscal 2010, divided by the average of shareholders' equity for the period ended January 29, 2011 (\$1,260.4 million) and the opening Consolidated Statement of Financial Position as at January 31, 2010 (\$2,004.4 million) reported under IFRS.

### Quarterly Performance

The Company's operations are seasonal in nature. Accordingly, merchandise and service revenue, as well as performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch), referred to as commission revenue, will vary by quarter based upon consumer spending behaviour. Historically, the Company's revenue and earnings are higher in the fourth quarter than in any of the other three quarters due to the holiday season. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a disproportionate level of earnings in the fourth quarter. Other factors that affect the Company's sales and financial performance include actions by its competitors, timing of its promotional events, and changes in population and other demographics. Accordingly, the Company's results for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, or the full year, and comparable store sales for any particular period may increase or decrease.

The table below outlines select financial data for the eight most recently completed quarters. The quarterly results are unaudited and have been prepared under IFRS.

<i>(in CAD millions, except per share amounts)</i>	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	2012	2011	2012	2011	2012	2011	2012	2011
Total revenue	\$ <b>1,298.0</b>	\$ 1,365.9	\$ 1,037.5	\$ 1,113.2	\$ 1,050.1	\$ 1,147.7	\$ 915.1	\$ 992.5
Net earnings (loss)	\$ <b>39.9</b>	\$ 41.0	\$ (21.9)	\$ (44.1)	\$ (9.8)	\$ (0.2)	\$ 93.1	\$ (47.0)
Basic net earnings (loss) per share	\$ <b>0.39</b>	\$ 0.39	\$ (0.22)	\$ (0.42)	\$ (0.10)	\$ 0.00	\$ 0.91	\$ (0.45)
Diluted net earnings (loss) per share	\$ <b>0.39</b>	\$ 0.39	\$ (0.22)	\$ (0.42)	\$ (0.10)	\$ 0.00	\$ 0.91	\$ (0.45)

### Common Share Market Information

The table below provides prices for the Company's common shares traded on the Toronto Stock Exchange (symbol: SCC).

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	2012	2011	2012	2011	2012	2011	2012	2011
High	\$ <b>12.98</b>	\$ 15.33	\$ 11.79	\$ 15.51	\$ 13.73	\$ 19.78	\$ 14.24	\$ 20.35
Low	\$ <b>9.50</b>	\$ 10.12	\$ 10.10	\$ 12.51	\$ 9.76	\$ 15.27	\$ 11.60	\$ 19.11
Close	\$ <b>9.50</b>	\$ 11.63	\$ 10.69	\$ 15.10	\$ 10.16	\$ 15.27	\$ 13.50	\$ 19.88
Average daily trading volume	<b>122,655</b>	27,473	23,487	11,609	16,694	45,750	7,784	17,473

**Management's Discussion and Analysis****Table of Contents**

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## Management's Discussion and Analysis

"Sears", "Sears Canada" or "the Company" refers to Sears Canada Inc. and its subsidiaries, together with its investment in joint venture interests.

Management's Discussion and Analysis ("MD&A") contains commentary from the Company's management regarding strategy, operating results and financial position. Management is responsible for its accuracy, integrity and objectivity, and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

This MD&A should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements for the 53-week period ended February 2, 2013 ("Fiscal 2012" or "2012"). The 2011 fiscal year refers to the 52-week period ended January 28, 2012 ("Fiscal 2011" or "2011"). The fourth quarter unaudited results for Fiscal 2012 and Fiscal 2011 reflect the 14-week period ended February 2, 2013 ("Q4 2012") and the 13-week period ended January 28, 2012 ("Q4 2011"), respectively.

This MD&A is current as of March 14, 2013 unless otherwise stated.

Additional information relating to the Company, including the Company's Annual Information Form ("AIF") dated March 14, 2013 and the Management Proxy Circular dated March 14, 2013, can be obtained by contacting the Company at 416-941-4428. The 2012 Annual Report, together with the AIF and Management Proxy Circular, have been filed electronically with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the U.S. Securities Exchange Commission ("SEC") website at [www.sec.gov](http://www.sec.gov).

Unless otherwise indicated, all amounts are expressed in Canadian dollars.

## Cautionary Statement Regarding Forward-Looking Information

Certain information in the Annual Report and in this MD&A is forward-looking and is subject to important risks and uncertainties. Forward-looking information concerns, among other things, the Company's future financial performance, business strategy, plans, expectations, goals and objectives, and includes statements concerning possible or assumed future results set out under Section 1 "Company Performance", Section 2 "Consolidated Financial Position, Liquidity and Capital Resources", Section 3 "Financial Instruments", Section 6 "Shareholders' Equity", Section 9 "Accounting Policies and Estimates" and Section 11 "Risks and Uncertainties". Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although the Company believes that the estimates reflected in such forward-looking information are reasonable, such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information and undue reliance should not be placed on such information.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the ability of the Company to successfully implement its strategic initiatives; productivity improvement and cost reduction initiatives and whether such initiatives will yield the expected benefits; the results achieved pursuant to the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase Bank, N.A. (Toronto Branch), or JPMorgan Chase; general economic conditions; competitive conditions in the businesses in which the Company participates; changes in consumer spending; seasonal weather patterns; weaker business performance in the fourth quarter; customer preference toward product offerings; ability to retain senior management and key personnel; ability of the Company to successfully manage its inventory levels; disruptions to the Company's computer systems; economic, social, and political instability in jurisdictions where suppliers are located; increased shipping costs, potential transportation delays and interruptions;

damage to the reputations of the brands the Company sells; changes in the Company's relationship with its suppliers; the outcome of product liability claims; any significant security compromise or breach of the Company's customer, associate or Company information; the credit worthiness and financial stability of tenants, partners and co-venturers, with respect to the Company's real estate joint venture interests; possible changes in the Company's ownership by Sears Holdings Corporation ("Sears Holdings") and other significant shareholders following the spin-off of a minority interest in Sears Canada by Sears Holdings; interest rate fluctuations and other changes in funding costs and investment income; fluctuations in foreign currency exchange rates; the possibility of negative investment returns in the Company's pension plan or an unexpected increase to the defined benefit obligation; the impairment of goodwill and other assets; new accounting pronouncements, or changes to existing pronouncements, that impact the methods we use to report our financial condition and results from operations; uncertainties associated with critical accounting assumptions and estimates; the outcome of pending legal proceedings; compliance costs associated with environmental laws and regulations; the possible future termination of certain intellectual property rights associated with the "Sears" name and brand names if Sears Holdings reduces its interest in the Company to less than 25%; and changes in laws, rules and regulations applicable to the Company. Information about these factors, other material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in preparing forward-looking information, may be found in this MD&A and in the Company's 2011 recast Annual Report under Section 12 "Risks and Uncertainties" and elsewhere in the Company's filings with securities regulators. The forward-looking information in the Annual Report and in this MD&A are, unless otherwise indicated, stated as of the date hereof and are presented for the purpose of assisting investors and others in understanding our financial position and results of operations as well as our objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

## 1. Company Performance

### a. Operations

The Company's operations are focused on merchandising and include the sale of goods and services through the Company's Retail channels, which includes its Full-Line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electrique Inc. ("Corbeil") stores, and its Direct (catalogue/internet) channel. It also includes service revenue related to product repair and home improvement. Commission revenues include travel, insurance, and performance payments which are primarily received from the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has also partnered with Thomas Cook Canada Inc. ("Thomas Cook") in a multi-year licensing arrangement, under which Thomas Cook manages the day-to-day operations of all Sears Travel offices and provides commissions and licensing fees to the Company. Licensing fee revenues are comprised of payments received from licensees that operate within the Company's stores. The Company is a party to a number of joint ventures which have been classified as jointly controlled entities for financial reporting purposes. These joint ventures are jointly controlled by the joint venture partners who are entitled to a share of the respective joint ventures' income or loss.

#### *Retail Channel*

**Full-Line Department stores** – Sears Full-Line Department stores are located primarily in suburban enclosed shopping centres. 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, electronics and leisure, and seasonal products.

Major Appliances - refrigeration, laundry, ranges, floorcare and sewing.

Although merchandise varies by store, the merchandise sales mix between the three major categories are approximately 55% Apparel and Accessories, 25% Home and Hardlines and 20% Major Appliances.

Full-Line Department stores also offer Sears Home Services and include a Sears catalogue merchandise pick-up location. Sears Travel offices and licensed businesses, such as optical centres and portrait studios, are also located in most of the Company's Full-Line Department stores.

**Sears Home stores** – Sears Home stores are typically located in power centres and present an extensive selection of furniture, mattresses and box-springs, major appliances and electronics. The majority of these stores range in size from 35,000 to 60,000 square feet. Home Improvement Products and Services operations are located within 8 of 9 Sears Home stores. The showrooms provide a range of products and services sold under the Sears Home Services banner that are complementary to home furnishings and major appliances.

**Hometown Dealer stores** – Sears Hometown Dealer locations are independently operated and offer major appliances, furniture, home electronics, outdoor power equipment as well as a catalogue merchandise pick-up location. Most Hometown Dealer stores are located in markets that had previously been served by a catalogue agent and continue to lack the population to support a Full-Line Department store.

**Outlet stores** – Sears Outlet stores offer clearance merchandise, particularly from the Company's Direct channel, as well as surplus big-ticket items from all channels.

**Appliances and Mattresses stores** – The Sears Appliances and Mattresses stores are part of the Company's strategy to bring its product categories to a growing number of customers who shop in conveniently located power centres. These stores are smaller in size (approximately 10,000 to 15,000 square feet) and feature a wide selection of major appliances, mattresses and box-springs, and include Sears private labels and a variety of national brands.

**Corbeil** – Corbeil is a chain of major appliance specialty stores located throughout Québec, Greater Toronto Area and Eastern Ontario. There are 33 stores in the chain, 17 of which are franchised. The chain also includes one liquidation centre and one distribution centre in Montreal. Stores average approximately 6,500 square feet in size.

**Sears Travel** – Sears Travel service operates within 101 Sears locations across Canada, an online travel service at [www.searstravel.ca](http://www.searstravel.ca) and 1-866-FLY-SEARS, which connects customers to the nearest geographical branch. As of January 30, 2011, Thomas Cook manages the day-to-day operations of all Sears Travel offices and the Sears Travel website.

### *Sears Home Services*

Sears Home Services was formed as a result of combining Home Improvement Products and Services and Product Repair Services. Sears Home Services is marketed through 82 Full-line department stores, 21 Parts and Services stores and 8 of 9 Sears Home Services Showrooms located within Sears Home and Outlet stores, by telephone at 1-800-4-MY-HOME (English) or 1-800-LE-FOYER (French) and online at [Sears.ca](http://Sears.ca). Sears Home Services provides a broad range of home services, including the sale, installation, maintenance and repair of heating and cooling equipment, roofing, doors and windows, flooring, window coverings, energy audits, kitchen and bathroom renovations, carpet and upholstery cleaning and duct cleaning. Sears Home Services also offers the largest and most comprehensive parts and service network in Canada, with over 1 million parts available and a network of more than 2,000 technicians and contractors.

### *Direct Channel*

The Company's Direct channel is comprised of its catalogue business, which is Canada's largest general merchandise catalogue business, and [Sears.ca](http://Sears.ca), one of Canada's leading online shopping destinations with over 91 million visits in Fiscal 2012. With two distribution centres exclusively dedicated to servicing the Direct channel and 1,512 catalogue merchandise pick-up locations nationwide, Sears can deliver orders in most areas of the country. Orders can be placed by telephone at 1-800-26-SEARS, by mail, fax, online at [Sears.ca](http://Sears.ca) or in person through Sears stores and catalogue agents. At the end of Fiscal 2012, over 1,300 of the total 1,512 catalogue merchandise pick-up locations were independently operated under independent local ownership, with the remaining 168 units located within Sears corporate stores.

**Catalogue** – In Fiscal 2012, over 15 different catalogues were distributed throughout Canada reaching up to approximately 2.9 million households. In addition, during Fiscal 2012, Sears distributed 7 Specialogues designed to offer more seasonally relevant merchandise to specific customers.

**Sears.ca** – The Company's website, [Sears.ca](http://Sears.ca), enables the Company to provide new and exciting merchandise offers directly to web customers and highlights the Company's extensive general merchandise selection. In Fiscal 2012, the Company continued to invest in its online capabilities to improve the user experience, and engage new customers and demographics. Sears is committed to maintaining its reputation as a trusted Canadian retailer by focusing on customer privacy, security, and satisfaction when shopping on [Sears.ca](http://Sears.ca).

### *Logistics*

**National Logistics Centres**– Sears operates 6 logistics centres strategically located across the country. The total floor area of these logistics centres was 6.5 million square feet at the end of Fiscal 2012, of which 5.6 million square feet is devoted to warehouse and logistics operations. The remainder of the space is utilized for other Sears operations, including call centre services.

**S.L.H. Transport Inc. ("SLH")**– The Company's wholly-owned subsidiary, SLH, transports merchandise to stores, catalogue merchandise pick-up locations and directly to customers. SLH is responsible for providing logistics services for the Company's merchandising operations by operating a fleet of tractors and trailers to provide carrier services for Sears and contract carrier services to commercial customers who are unrelated to Sears. The arrangements with third parties increase SLH's fleet utilization and improve the efficiency of its operations. SLH continues to grow and has developed a nationwide distribution network to provide better and more consistent service to its customers.

As at the end of Fiscal 2012, Fiscal 2011, and the 52-week period ended January 29, 2011 ("Fiscal 2010"), the Company's locations were distributed across the country as follows:

	Atlantic	Québec	Ontario	Prairies	Pacific	As at February 2, 2013 Total	As at January 28, 2012 Total	As at January 29, 2011 Total
Full-Line Department stores	12	27	45	20	14	118	122	122
Sears Home stores	2	12	19	10	5	48	48	48
Outlet stores	1	1	6	1	2	11	11	11
Specialty type: Appliances and Mattresses stores			3	1	—	4	4	4
<b>Corporate stores</b>	15	40	73	32	21	181	185	185
<b>Hometown Dealer stores</b>	52	30	62	70	47	261	285	268
<b>Sears Home Services Showrooms</b>	1	3	2	1	2	9	13	13
Corbeil Franchise stores	—	15	2	—	—	17	19	19
Corbeil Corporate stores	—	12	4	—	—	16	11	11
<b>Corbeil</b>	—	27	6	—	—	33	30	30
<b>Sears Floor Covering Centres</b>	—	—	—	—	—	—	17	20
<b>Cantrex</b>	—	—	—	—	—	—	799	768
<b>Travel offices</b>	7	21	42	17	14	101	108	108
<b>Catalogue merchandise pick-up locations</b>	219	345	427	375	146	1,512	1,734	1,822

In Fiscal 2012, the Company closed 4 Full-Line stores as a result of the lease terminations that occurred during the year. The Company also closed 222 Catalogue merchandise pick-up locations, 24 Hometown Dealer stores and 17 Floor Covering Centres. During the second quarter of 2012, Cantrex was sold. Refer to Note 29 "Sale of Cantrex Group Inc." in the Notes to the Consolidated Financial Statements for a description of the transaction.

In Fiscal 2011, the Company opened 20 Hometown Dealer stores and 3 Catalogue merchandise pick-up locations. The Company also closed 3 Hometown Dealer stores, 3 Floor Covering Centres and 91 Catalogue merchandise pick-up locations.

In Fiscal 2010, the Company opened 83 new Hometown Dealer stores and 4 Floor Covering Centres. The Company also closed 1 Hometown Dealer store, 1 Outlet store and 5 Floor Covering Centres. The increase in Cantrex members over the year was due to the new Alliance program, which offered members access to certain retail services including customer financial solutions, protection plans (extended warranties) and web solutions.

As at the end of Fiscal 2012, Fiscal 2011, and Fiscal 2010, the gross square footage for corporate store locations was as follows:

(square feet, millions)	As at February 2, 2013	As at January 28, 2012	As at January 29, 2011
Full-Line Department stores	15.2	16.5	16.5
Sears Home stores	2.1	2.1	2.1
Outlet stores	0.8	0.8	0.8
Appliances and Mattresses stores	0.1	0.1	0.1
Corbeil	0.1	0.1	0.1
<b>Total</b>	<b>18.3</b>	<b>19.6</b>	<b>19.6</b>

Gross square footage for corporate store locations as at February 2, 2013 decreased compared to January 28, 2012 due to 4 Full-Line store closures as a result of lease terminations during Fiscal 2012.

Gross square footage for corporate store locations as at January 28, 2012 remained the same as compared to January 29, 2011.

**Investment in Joint Ventures** – The Company's investment in joint ventures includes its share of income or losses from its joint venture interests in 11 shopping centres across Canada, most of which contain a Sears store. Joint venture investments range from 15% to 50% and are co-owned with major shopping centre owners.

The Company's joint ventures are in partnership with Westcliff Group and Ivanhoe Cambridge Properties. The jointly controlled entities and the Company's ownership interest in each as at February 2, 2013 are listed below:

Entity Name	Properties	Joint Venture Partner	Ownership Interest
Carrefour Richelieu Realities (St-Jérôme)	Carrefour Richelieu	Westcliff Group	50%
Carrefour Richelieu Realities (St-Jean)	Carrefour du Nord	Westcliff Group	50%
Carrefour Richelieu Realities (Carrefour Angrignon)	Carrefour Angrignon	Westcliff Group	50%
Carrefour Richelieu Realities (Place Angrignon)	Place Angrignon	Westcliff Group	50%
Carrefour Richelieu Realities (Pierre Caisse)	Place Pierre Caisse	Westcliff Group	50%
Carrefour Richelieu Realities (Drummondville)	Promenades de Drummondville	Westcliff Group	50%
Méga-Centre Drummondville	Mega Centre Drummondville	Westcliff Group	50%
Société de Gestion des Neiges Ville- Marie	Various land holdings in Quebec, Canada	Westcliff Group	50%
133562 Canada Inc.	Various land holdings in Quebec, Canada	Westcliff Group	50%
172098 Canada Inc.	Drummondville Stripmall	Westcliff Group	50%
Kildonan Place	Kildonan Place	Ivanhoe Cambridge	20%
Regionaux (Les Rivières Shopping Centre)	Les Rivières Shopping Centre	Ivanhoe Cambridge	15%
Regionaux (Les Galeries de Hull)	Les Galeries de Hull	Ivanhoe Cambridge	15%

During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of \$38.3 million, recognizing a pre-tax gain of \$8.6 million on the sale. During Fiscal 2011, the Company sold its share of assets in Chatham Centre for net proceeds of \$1.6 million, recognizing a gain of \$0.1 million on the sale.

#### **b. Core Capabilities**

The Company's key resources and capabilities include its associates, brand equity, specialized services, national presence and logistics. The Company's ability to raise funds and working capital to support its operations is also a key capability and is discussed further in Section 2 "Consolidated Financial Position, Liquidity and Capital Resources" of this MD&A.

##### *Associates*

- Sears associates are a critical asset to the Company. Sears works to inspire its associates to be committed to building lifelong customer relationships built on trust;

##### *Brand equity*

- The Company works closely with its suppliers in product development, design and quality standards. Many lines of merchandise are manufactured with features exclusive to Sears and are sold under the Company's private label brands, such as Jessica<sup>®</sup>, Nevada<sup>®</sup>, Attitude<sup>®</sup>, Jay Manuel, Whole Home<sup>®</sup>, Kenmore<sup>®</sup>, and Craftsman<sup>®</sup>. The Company believes that its private label and national brands have significant recognition and value with customers;

##### *Specialized services*

- Apart from retail merchandise, the Company also offers a wide range of specialized services to attract a broad customer base. These services include product repair, the sale, installation, maintenance and repair of heating and cooling equipment, roofing, door and window replacement, flooring, window coverings, energy audits, kitchen and bathroom renovations, carpet and upholstery cleaning, and duct cleaning. The Company also offers portrait studio, optical, travel, floral, wireless and long distance, insurance, deferred financing and real estate services;

### *National Presence*

- The Company's expansive physical and online presence puts it in proximity to customers all across Canada. Sears operates 118 Full-Line department stores, 357 specialty stores (including 48 Sears Home stores, 11 Outlet stores, 4 Appliances and Mattresses stores, 261 Hometown Dealer stores operated under independent local ownership and 33 Corbeil stores), 101 Sears Travel offices and over 1,500 merchandise pick-up locations for orders placed through the catalogue or online at [www.sears.ca](http://www.sears.ca); and

### *Logistics*

- The ability to move merchandise efficiently to stores, merchandise pick-up locations or directly to customers is one of the Company's key capabilities. The Company's wholly-owned subsidiary, SLH, is responsible for providing transportation services for the Company's merchandising operations and has arrangements with third parties to increase SLH's fleet utilization and improve its operating effectiveness. The Company conducts operations in six National Logistics Centres located in Vancouver, Calgary, Regina, Vaughan, Belleville and Montreal.

### **c. Strategic Initiatives**

During Fiscal 2012, Sears Canada remained focused on executing its three-year Transformation strategy announced in 2011. This year, the Company implemented a number of significant changes, including the introduction of a new pricing model, the promotion of Sears fashion through the new LOOK! report, the start of the Full-Line and Sears Home store refreshes, the re-launch of the Gold Badge program designed to reward outstanding customer service, and the introduction of the new master brand strategy. Sears will continue with further initiatives to retain its competitive position within the Canadian retail landscape.

The Transformation's Formula for Growth is comprised of five key pillars as follows:

1. **Build the Core:** Implementing fundamental merchandise category plans to ensure that the right products and services are being offered in categories where the Company has a strong competitive position with Canadians, such as major appliances and mattresses;
2. **Be Customer Driven:** More fully and effectively utilizing our customer database to develop our merchandising and marketing strategies;
3. **Get Value Right:** Demonstrating a competitive value equation where our everyday price is more competitive, our promotions are well understood and balanced, our quality is superior and our service is dependable;
4. **Operate Effective Formats:** We are a multi-format retailer, operating in many different markets. We are working to align our category strengths with the market and to create more value from our trading strategies with retail concepts aligned to customer needs, including developing separate tactical approaches for our Full-line Department stores, Sears Home stores, Hometown Dealer stores, and Corbeil stores; and
5. **Organize the Right Talent and Create a Winning Attitude:** Maintaining a strong leadership team supported by loyal and dedicated associates who are committed to the implementation of our Transformation strategy.

The initiatives and corresponding results listed below include both new results seen in the fourth quarter and a recap of results from Fiscal 2012.

#### **Build the core**

- Announced three new alliances with The Aldo Group ("Aldo"), Buffalo International Inc. ("Buffalo") and SHS Services Management Inc. ("SHS"). The Company will continue to deepen relationships with successful organizations which can provide immediate credibility and continuity to our brands and services. Aldo is considered an industry leader in footwear fashion design and manufacturing capability, Buffalo's design and sourcing capability in denim-based apparel will help us attract a new and younger customer, and the combination of Sears brand, reputation and customer service with SHS's expertise, processes and technology is expected to improve the operating efficiency of the Home Services business;

- Implemented a new strategy for toys by moving the focus to online sales, in order to free up floor space previously dedicated to a category that was only a key focus area for three months of the year. The online approach was augmented with an in-store aisle program in the fourth quarter to display 15 of the best toys for the holiday season;
- Introduced “The Baby’s Room,” the new nursery and infant accessories department, part of the Kids Room children’s area. In May 2012 Sears held a vendor tradeshow to ‘baby-train’ store associates from across Canada; on June 1, 2012 a public launch was held in Toronto featuring a seminar by parenting expert Nanny Robina;
- In September, 2012 Sears Canada became the first Canadian retailer to earn the Parent Tested Parent Approved (PTPA) seal of approval from North America’s largest parent tester community; and
- Launched an online points redemption system in Sears Financial for its five million plus card members - one of the first major retail loyalty programs in Canada to do so.

#### **Be customer driven**

- Launched the new Sears brand positioning, “Make every day a great day” at a gathering of more than 1,500 associates and media on November 7, 2012. Sears developed and ran the new Holiday-themed TV commercial called “The Gift” with a background song called “Best Year” commissioned by Sears to represent the new brand. As of the end of January 2013, Sears has had over 5,000 downloads of “Best Year” and over half a million views of “The Gift.” On December 15, 2012 Sears reinforced its dedication to customers and associates through its “Sears National Great Day” event featuring Holiday festivities, giveaways and one-day deals at stores across Canada;
- Published 4 editions of the LOOK! report including the fourth quarter’s November Holiday edition. The LOOK! report features fashion, beauty, and lifestyle trends and highlights the Company’s newest products of the season. The releases were supported with in-store fashion shows, an exclusive evening event for Sears VIP customers, and smaller customer events in stores across the country;
- Launched the 60th edition of the annual Wish Book, the Company’s Christmas catalogue. This year’s edition featured a commemorative cover that included images of every Wish Book published since our very first one 60 years ago in 1953. Over 3 million copies of the special edition Wish Book were distributed across Canada, featuring 736 pages of holiday gift ideas; and
- Waived the 2.5% foreign currency transaction charge on purchases made using Sears Financial™ MasterCard and Sears Financial™ Voyage™ MasterCard to appeal to the 65% of Canadians shopping and travelling abroad.

#### **Get value right**

- Reaffirmed Sears role as a Canadian retailer dedicated to keeping Canadians shopping at home by extending its annual “Black Friday” promotion to run from Thursday, November 22 through Sunday, November 25 (through Monday, November 26 for major appliances, electronics, fitness and snowblowers). Sears brought Black Friday savings to Canadians with hundreds of items at specially marked prices backed by a price match guarantee;
- Introduced the first products that meet Sears “Canada’s Best” seal of approval criteria. The Canada’s Best label will be assigned to an assortment of fashion and home products that meet required standards in quality, style and innovation. Products offered with this label are intended to be desirable and offer customers clear value when compared to competitors’ offerings;
- Introduced a hassle-free return policy that includes a satisfaction guarantee with every purchase: if not completely satisfied, customers can now exchange or return almost all products within 30 days, or 90 days if they use their Sears Financial credit cards; and
- Lowered the price on over 5,000 products including items in every store and in every department and concurrently introduced specially-priced must-have WOW items.

### **Operate effective formats**

- Continued to invest in store refreshes, with refreshes in Grande Prairie and Nanaimo stores underway, building on the new store concept implemented in Fiscal 2012, with the first round of refreshes in Barrie, Belleville, Newmarket and the Lime Ridge Mall in Hamilton stores and the second round of refreshes in Ville d'Anjou, St. Jerome, Oshawa and Sudbury stores. The refreshed store concept features improved presentation, wider aisles, streamlined offerings with new brands and a blend of items priced at both everyday value and at sale prices;
- Unveiled the 78,000 sq. ft. Sears Home store at the Pinecrest Shopping Centre in Ottawa, housing the largest major appliance and mattress shops of any Sears location, an expanded selection of accent furniture, chairs and tables and new brands of furniture;
- Opened 4 Corbeil stores in Sears initial Greater Toronto Area expansion plans for Corbeil. The Corbeil stores are located in Richmond Hill, Mississauga, Vaughan and Burlington;
- Launched an e-commerce transactional shoppable iPad application that features the 60<sup>th</sup> anniversary Wish Book, and due to the positive response from customers, this application will serve as a permanent Sears iPad Catalogue application, which will be updated throughout the year;
- Invested in upgrading Sears.ca, the largest Canadian transactional retail website. Sears Canada revamped its bilingual website to improve functionality, navigation, and overall shopping experience; and
- Sold the Company's 40% ownership of the leasehold interest in Medicine Hat Mall in Alberta to the Company's joint venture partner, Sleeping Bay Building Corp., and received net proceeds of \$38.3 million. Earlier this year, Sears exited and returned leases on 4 properties to the landlords for financial consideration comprising Vancouver's Pacific Centre, Chinook Centre and Deerfoot Mall locations in Calgary, and the Rideau Centre store in Ottawa.

### **Organize the right talent and create a winning attitude**

- Created the Associate Advisory Council consisting of 21 individuals from different business lines and across Canada with the mandate to provide critical insight, perspective and counsel to senior management;
- Unveiled the new team of Store Managers, District Managers and Category Specialists operating under a new structure in store operations and executed a large-scale associate move in the Company's retail support centre, designed to ensure physical organization aligns with work flow; and
- Appointed Douglas C. Campbell Executive Vice-President and Chief Operating Officer of the Company, overseeing retail operations, logistics, replenishment, information technology and international sourcing, and leading the Company's undertaking to improve efficiency across the enterprise. Sears has made changes to its management team designed to lead the organization effectively through the Transformation and help the Company achieve its operational and financial objectives.

### ***“Live Green” Initiatives***

The Company conducts its operations with a commitment to achieving success on economic, social and environmental levels. The Company continues to build upon the following three-point plan on environmental sustainability:

1. Enable customers to “Live Green”, reduce their energy bills and create a healthy home;
2. Reduce the environmental impact of Sears Canada's operations; and
3. Nurture a culture of sustainability among the Company's associates, customers and the communities in which the Company operates.

Sears Canada continued to focus on these three priorities by implementing the following initiatives during Q4 2012:

- Partnered with electric utility companies in Nova Scotia, British Columbia and Saskatchewan to promote major appliances and electronics energy saving products;

- Launched a province-wide fridge and freezer pick-up and recycling program in Ontario; and
- Completed a national re-lamping project which resulted in the replacement of over 625,000 bulbs, and which is expected to provide energy savings of over 13 million kilowatt hours annually.

SLH:

- Installation of wide-base tires and trailer skirts and the reduction of metric tonne miles, resulting in fuel savings of approximately 1.8 million litres;
- Implemented best in class route optimization technology to improve route planning, as well as driver and truck utilization; and
- SLH continued its participation in the Ontario LCV (Long Combination Vehicle) pilot project run by the Ministry of Transportation, which is restricted to a select group of qualified carriers and Ontario Trucking Association members. In 2012, SLH's LCV program generated fuel savings of over 620,000 litres.

#### *Corporate Social Responsibility*

The following is a summary of the results of the Company and its associates' corporate social responsibility efforts during Fiscal 2012:

- Assisted our local store charity partners through the sale of our 60<sup>th</sup> Anniversary charity plush, Cooper<sup>TM/MC</sup> the bear. Sears charity plush has been helping children since 1998, raising over \$1.3 million since 2005. Two dollars from the sale of each bear supported the healthy development of Canadian youth through after-school and children's health initiatives;
- Held our 25th annual Sears Boys & Girls Club of Canada ("BGCC") Golf Tournament near Toronto, in cooperation with our vendors, raising over \$200,000 to support BGCC youth programs, funds which Sears matched;
- Presented our 14th annual Tree of Wishes program in-stores, for which customers and associates donated holiday season gifts valued at over \$230,000 to less fortunate children, with the help of local charities;
- Held the second annual Sears Great Canadian Run (the "Run"), a full day running adventure hosted in two cities: Toronto in September and Ottawa in October. The Runs were held to benefit local pediatric oncology hospitals and organizations in the cities where the Runs took place, such as the Children's Hospital of Eastern Ontario. Support was also extended to Sears National pediatric oncology research initiatives such as The Sears Childhood Cancer Fellowship at the Hospital for Sick Children in Toronto; and
- The Sears Great Canadian Chill took place in four communities between New Year's Day and Family Day: Toronto and Ottawa on New Year's Day, Vancouver on February 18 and London on March 3. This traditional Canadian "polar-bear dip" is held to raise funds for the fight against childhood cancer. Several hundred people braved the cold waters to help support this worthy cause, with funds going to the Sears Canada Charitable Foundation to be distributed to children's hospitals for oncology needs.

#### **d. Outlook**

As Canadians' needs in a shopping experience evolve, Sears Canada is focused on keeping pace with emerging trends and innovative delivery of products and services, and is reinvigorating its business to better serve and grow with its customers. For the upcoming year, Sears will continue to execute on its Transformation. Some of the priorities for the 52-week period ending February 1, 2014 ("Fiscal 2013") include the following:

- Continuing to maximize opportunities in merchandising categories where the Company has already established authority with customers, such as major appliances and mattresses, further developing private brands, and renewing focus on several additional "hero" categories;
- Improving customer service across all shopping formats and more effectively leveraging customer research, insights and loyalty data;

- Enhancing efficiency of marketing programs;
- Refining the approach to pricing and creating a logical blend of everyday value items, weekly specials and compelling sales promotions, providing merchandise with a quality level that customers should expect from Sears, resulting in an improved mix of regular versus promotional and clearance sales; and
- Attracting and retaining top talent in the industry, conducting associate engagement initiatives, and developing a performance-based culture across the Company.

Although management believes that Sears will achieve its long-term goal of sustainable and profitable growth, there can be no assurance that the Company will successfully implement these strategic initiatives or whether such initiatives will yield the expected results. For a discussion of the risks and uncertainties inherent in the Company's business, refer to Section 11 "Risks and Uncertainties".

#### e. Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA

The Company's consolidated financial statements are prepared in accordance with IFRS. Management uses IFRS, non-IFRS and operating performance measures as key performance indicators to better assess the Company's underlying performance and provides this additional information in this MD&A.

Same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. Same store sales represents merchandise sales generated through operations in the Company's Full-line, Sears Home, Hometown Dealer and Corbeil stores that were continuously open during both of the periods being compared. More specifically, the same store sales metric compares the same calendar weeks for each period and represents the 14 and 53-week periods ended February 2, 2013 and the 13 and 52-week periods ended January 28, 2012. The calculation of same store sales is a performance metric and may be impacted by store space expansion and contraction.

A reconciliation of the Company's total revenue to same store sales is outlined in the following table:

<i>(in CAD millions)</i>	Fourth Quarter		Fiscal	
	2012	2011	2012	2011
Total revenue	\$ 1,298.0	\$ 1,365.9	\$ 4,300.7	\$ 4,619.3
Non-comparable store sales	364.5	318.6	1,169.6	1,119.5
Same store sales	933.5	1,047.3	3,131.1	3,499.8
Same store sales percentage change	(3.8)%	(7.4)%	(5.6)%	(7.5)%

Adjusted EBITDA is a non-IFRS measure and excludes finance costs, interest income, share of income or loss from joint ventures, income tax expense or recovery, depreciation and amortization and income or expenses of a non-recurring or one-time nature. Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's operating performance, ability to incur and service debt, and as a valuation metric. The Company uses Adjusted EBITDA to evaluate the operating performance of its business as well as an executive compensation metric. While Adjusted EBITDA is a non-IFRS measure, management believes that it is an important indicator of operating performance because it excludes the effect of financing and investing activities by eliminating the effects of interest and depreciation and removes the impact of certain non-recurring items that are not indicative of our ongoing operating performance. Therefore, management believes Adjusted EBITDA gives investors greater transparency in assessing the Company's results of operations.

These measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Adjusted EBITDA should not be considered in isolation or as an alternative to measures prepared in accordance with IFRS.

A reconciliation of the Company's net earnings (loss) to Adjusted EBITDA is outlined in the following table:

<i>(in CAD millions, except per share amounts)</i>	Fourth Quarter		Fiscal	
	2012	2011	2012	2011
Net earnings (loss)	\$ 39.9	\$ 41.0	\$ 101.2	\$ (50.3)
Transformation expense <sup>1</sup>	12.6	14.4	12.6	60.0
Gain on lease terminations <sup>2</sup>	—	—	(167.1)	—
Accelerated tenant inducement amortization <sup>3</sup>	—	—	(4.0)	—
Lease exit costs <sup>4</sup>	2.0	—	8.0	—
Gain on settlement of post-retirement benefits <sup>5</sup>	(21.1)	—	(21.1)	—
Gain on sale of interest in joint venture <sup>6</sup>	(8.6)	—	(8.6)	—
Depreciation and amortization expense	28.1	28.8	113.3	114.9
Finance costs	2.4	4.0	13.3	16.0
Interest income	(0.8)	(0.4)	(4.1)	(1.7)
Share of income from joint ventures	(0.1)	(1.5)	(9.5)	(8.3)
Income tax expense (recovery)	8.0	15.5	13.0	(6.6)
Adjusted EBITDA <sup>7</sup>	\$ 62.4	\$ 101.8	\$ 47.0	\$ 124.0
Basic net earnings (loss) per share	\$ 0.39	\$ 0.39	\$ 0.99	\$ (0.48)

<sup>1</sup>Transformation expense during 2012 relates to severance costs incurred during the year. Fiscal 2011 transformation expense includes costs related to internal reorganization and the disposition of excess inventory.

<sup>2</sup>Gain on lease terminations represents the pre-tax gain on the early surrender and return of leases on four properties.

<sup>3</sup>Accelerated tenant inducement amortization represents the accelerated amortization of lease inducements relating to four of the properties referred to in footnote 2 above.

<sup>4</sup>Lease exit costs represent costs incurred to exit properties referred to in footnote 2 above.

<sup>5</sup>Gain arising from the settlement of post-retirement benefits of eligible members covered under the non-pension post-retirement plan.

<sup>6</sup>During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of \$38.3 million, recognizing a pre-tax gain of \$8.6 million on the sale.

<sup>7</sup>Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's performance, ability to incur and service debt, and as a valuation metric. Adjusted EBITDA is a non-IFRS measure.

#### f. Consolidated Financial Results

<i>(in CAD millions)</i>	Fiscal		
	2012	% Chg 2012 vs 2011	2011
Revenue	\$ 4,300.7	(6.9)%	\$ 4,619.3
Cost of goods and services sold	2,749.2	(6.2)%	2,932.3
Selling, administrative and other expenses	1,634.4	(6.0)%	1,737.9
<b>Operating (loss) earnings</b>	<b>(82.9)</b>	<b>(62.9)%</b>	<b>(50.9)</b>
Gain on lease terminations	167.1	100.0 %	—
Gain on sale of interest in joint venture	8.6	100.0 %	—
Gain on settlement of post-retirement benefits	21.1	100.0 %	—
Finance costs	13.3	(16.9)%	16.0
Interest income	4.1	141.2 %	1.7
Share of income from joint ventures	9.5	14.5 %	8.3
<b>Earnings (loss) before income taxes</b>	<b>114.2</b>	<b>300.7 %</b>	<b>(56.9)</b>
Income tax (expense) recovery	(13.0)	(297.0)%	6.6
<b>Net earnings (loss)</b>	<b>\$ 101.2</b>	<b>301.2 %</b>	<b>\$ (50.3)</b>

**2012 compared with 2011** – Total revenue in Fiscal 2012 declined 6.9% to \$4,300.7 million compared to \$4,619.3 million during the same period in Fiscal 2011. Same store sales decreased by 5.6% in Fiscal 2012 compared to Fiscal 2011.

The decrease is primarily attributable to sales declines in Craftsman<sup>®</sup>, electronics, bedroom and bath, womens' apparel and menswear categories, partially offset by revenue improvements in major appliances, specifically in the refrigerators, laundry and ranges categories. In addition, \$25.5 million of the decrease in revenues is attributable to the closure of 4 Full-Line stores during Fiscal 2012 and the sale of Cantrex during Q2 2012. Revenue was positively impacted by approximately \$38.3 million due to the additional 53rd week in Fiscal 2012.

Cost of goods and services sold was \$2,749.2 million in Fiscal 2012 compared to \$2,932.3 million in Fiscal 2011, a 6.2% decrease year-over-year. This decrease was primarily attributable to lower sales volumes.

The Company's gross margin rate was 36.1% for Fiscal 2012 compared to 36.5% in Fiscal 2011. In Fiscal 2011 there was a one-time inventory charge, relating to planned disposition of excess inventory. The Fiscal 2011 gross margin rate excluding the one-time inventory charge was 37.4%. The decrease in the gross margin rate in Fiscal 2012 compared to Fiscal 2011 was due primarily to reduced margin in fitness and recreation, Corbeil, children's wear, jewelry, accessories and luggage and footwear categories.

Selling, administrative and other expenses including depreciation and amortization expense was \$1,634.4 million in Fiscal 2012 compared to \$1,737.9 million in Fiscal 2011. The decrease in expense was primarily driven by reduced spending in advertising. Advertising expense decreased primarily due to planned reductions in catalogue pages and circulation, decreases in retail advertising relating to Full-Line, and a reduction in pre-print advertising. Expenses were negatively impacted by Transformation costs of \$12.6 million related primarily to severance associated with approximately 700 associates in the Retail Support Centre, Full-Line stores and logistics areas.

On March 2, 2012, the Company entered into an agreement to surrender and terminate early the operating leases on three properties: Vancouver Pacific Centre, Chinook Centre (Calgary) and Rideau Centre (Ottawa). The Company was a long-term and important anchor tenant in the three properties, and the landlord approached the Company with a proposal to terminate early the three leases and vacate the premises in exchange for \$170.0 million. The payment represents the amount the landlord was willing to pay for the right to redevelop the property based upon its analysis of the potential returns from redevelopment.

On the closing date, April 20, 2012, the Company received cash proceeds of \$170.0 million for the surrender of the three leases, resulting in a pre-tax gain of \$164.3 million for the 13-week period ended April 28, 2012, net of the de-recognition of leasehold improvements of \$5.7 million. The Company exited all three properties on October 31, 2012, and has no further financial obligation related to the transaction. The pre-tax gain is excluded from Adjusted EBITDA. Included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) for the 53-week period ended February 2, 2013 is \$8.0 million of exit costs relating to these three properties, partially offset by \$4.0 million of accelerated amortization of deferred lease inducements.

On June 20, 2012, the Company entered into an agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) property. The landlord approached the Company with a proposal to terminate early the lease in exchange for cash proceeds of \$5.0 million, subject to certain closing conditions, on the closing date of October 26, 2012. In Fiscal 2010, the Company incurred an impairment loss of \$2.9 million relating to the property, plant and equipment at its Deerfoot property. As a result of the agreement and expected proceeds, the Company recorded an impairment loss reversal (net of accumulated amortization) of \$2.1 million in "Selling, administrative and other expenses" in the second quarter of 2012. On the closing date of October 26, 2012, the Company vacated the property and received cash proceeds of \$5.0 million, resulting in a pre-tax gain of \$2.8 million for the 13-week period ended October 27, 2012, net of the de-recognition of leasehold improvements and furniture and fixtures of \$2.2 million. The pre-tax gain is excluded from Adjusted EBITDA. The Company has no further financial obligation related to the transaction.

Finance costs in Fiscal 2012 decreased by 16.9% to \$13.3 million compared to \$16.0 million during Fiscal 2011 due to lower long-term debt levels compared to last year.

Interest income increased by 141.2% to \$4.1 million in Fiscal 2012 compared to \$1.7 million in Fiscal 2011 primarily due to interest income of \$1.6 million earned on deposits made to tax authorities and higher levels of cash and cash equivalents, prior to the dividend payment of \$101.9 million in January 2013.

Share of income from joint ventures in Fiscal 2012 increased by 14.5% to \$9.5 million compared to \$8.3 million for Fiscal 2011. The increase is primarily due to lower expenses incurred by the Westcliff joint venture properties, partially offset by an impairment loss of \$2.2 million on the Promenades de Drummondville property recorded in Q4 2012, and lower income due to the sale of the Chatham joint venture property in the third quarter of 2011.

During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of \$38.3 million, recognizing a pre-tax gain of \$8.6 million on the sale.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid \$18.1 million and recorded a pre-tax settlement gain of \$21.1 million (\$21.9 million net of \$0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The gain has been excluded from Adjusted EBITDA.

Income tax expense was \$13.0 million for Fiscal 2012 compared to an income tax recovery of \$6.6 million in Fiscal 2011. The year-over-year change was primarily attributable to higher taxable earnings as a result of the gain recognized on the termination of the 4 leases during Fiscal 2012.

Adjusted EBITDA for Fiscal 2012 was \$47.0 million compared to \$124.0 million in Fiscal 2011, a decrease of \$77.0 million.

#### g. Fourth Quarter Results

<i>(in CAD millions)</i>	Fourth Quarter		
	2012	% Chg 2012 vs 2011	2011
Revenue	\$ 1,298.0	(5.0)%	\$ 1,365.9
Cost of goods and services sold	848.7	(1.8)%	864.6
Selling, administrative and other expenses	429.6	(3.0)%	442.7
<b>Operating earnings</b>	<b>19.7</b>	<b>(66.4)%</b>	<b>58.6</b>
Gain on sale of interest in joint venture	8.6	100.0 %	—
Gain on settlement of post-retirement benefits	21.1	100.0 %	—
Finance costs	2.4	(40.0)%	4.0
Interest income	0.8	100.0 %	0.4
Share of income from joint ventures	0.1	(93.3)%	1.5
<b>Earnings before income taxes</b>	<b>47.9</b>	<b>(15.2)%</b>	<b>56.5</b>
Income tax expense	(8.0)	(48.4)%	(15.5)
<b>Net earnings</b>	<b>\$ 39.9</b>	<b>(2.7)%</b>	<b>\$ 41.0</b>

**Q4 2012 compared with Q4 2011** – Total revenue in Q4 2012 decreased by 5.0% to \$1,298.0 million compared to \$1,365.9 million in Q4 2011, with same store sales declines of 3.8% in Q4.2012. The revenue decline is mainly attributed to sales declines in electronics, the Craftsman<sup>®</sup>, fitness and recreation, and men's casual wear categories. In addition, \$29.1 million of the decrease in revenues is attributable to the closure of 4 Full-Line stores during Fiscal 2012 and the sale of Cantrex during the second quarter of 2012.

During Q4 2012, the Company has achieved improved results in sales of major appliances, specifically in the refrigerators, laundry and ranges categories. In addition, there were sales increases in apparel and accessories, specifically in children's furniture and children's wear. Revenue in Q4 2012 was also positively impacted by approximately \$38.3 million due to the 53rd week in Fiscal 2012.

Cost of goods and services sold was \$848.7 million in Q4 2012 compared to \$864.6 million in Q4 2011, a 1.8% decrease quarter-over-quarter. This decrease is primarily attributable to lower sales volumes and lower merchandise losses, despite the 53rd week of additional sales volume in Fiscal 2012.

The Company's gross margin rate was 34.6% in Q4 2012 compared to 36.7% in Q4 2011. The decrease in the gross profit rate was due primarily to reduced margins in Corbeil, accessories, women's intimates and footwear categories.

Selling, administrative and other expenses, including depreciation and amortization expense was \$429.6 million in Q4 2012 compared to \$442.7 million in Q4 2011. The decrease in expense was primarily driven by reduced spending in advertising.

Advertising expense decreased primarily due to reductions in catalogue pages and circulation and decreases in retail advertising relating to Full-Line. Expenses were negatively impacted by Transformation costs of \$12.6 million incurred in Q4 2012 related to severance primarily associated with approximately 700 associates in the Retail Support Centre, Full-Line stores and logistics areas.

Depreciation and amortization expense in Q4 2012 was comparable to the depreciation and amortization expense for Q4 2011.

Finance costs in Q4 2012 decreased to \$2.4 million compared to \$4.0 million in Q4 2011 due to lower long-term debt levels compared to last year.

Interest income increased to \$0.8 million in Q4 2012 compared to \$0.4 million in Q4 2011. The increase in the period is due to higher levels of cash and cash equivalents compared to the same time last year.

During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of \$38.3 million, recognizing a pre-tax gain of \$8.6 million on the sale.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid \$18.1 million and recorded a pre-tax settlement gain of \$21.1 million (\$21.9 million net of \$0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

Income tax expense decreased to \$8.0 million in Q4 2012 compared to \$15.5 million in Q4 2011 due to lower taxable earnings.

Adjusted EBITDA for Q4 2012 was \$62.4 million compared to \$101.8 million in Q4 2011, a decrease of \$39.4 million.

## 2. Consolidated Financial Position, Liquidity and Capital Resources

Current assets as at February 2, 2013 were \$169.3 million lower than at January 28, 2012 due primarily to the reduction of \$160.4 million in cash and cash equivalents, a decrease in accounts receivable of \$40.0 million compared to last year, partially offset by a \$27.5 million increase in inventories compared to last year due primarily to the timing of inventory receipts.

Current liabilities as at February 2, 2013 were \$113.6 million lower than January 28, 2012 due primarily to a reduction in accounts payable and accrued liabilities of \$94.8 million, primarily due to the timing of inventory and expense receipts, and vendor payments.

Inventories were \$851.4 million as at February 2, 2013 compared to \$823.9 million at January 28, 2012. The \$27.5 million increase in the inventory balance is primarily due to the timing of inventory receipts, and a reduction in inventory reserve balances due to improved inventory quality.

Total cash and cash equivalents was \$237.0 million as at February 2, 2013 compared to \$397.4 million as at January 28, 2012. The decrease of \$160.4 million was primarily due to repayment of long-term obligations of \$142.3 million, \$101.9 million in dividend payments during Q4 2012, and the purchase of \$97.5 million in property, plant and equipment and intangible assets, partially offset by \$175.0 million in proceeds from lease terminations received during Fiscal 2012, and \$38.3 million received for the sale of the Company's interest in Medicine Hat Mall.

Total assets and liabilities as at the end of Fiscal 2012 and Fiscal 2011 are as follows:

<i>(in CAD millions, at period end)</i>	<b>As at February 2, 2013</b>	<b>As at January 28, 2012</b>
Total assets	\$ 2,479.1	\$ 2,730.7
Total liabilities	\$ 1,402.7	\$ 1,638.7

Total assets as at February 2, 2013 decreased by \$251.6 million to \$2,479.1 million compared to \$2,730.7 million in Fiscal 2011 due primarily to lower cash and cash equivalents, property plant and equipment and investment in joint ventures as a result of the sale of the Company's interest in Medicine Hat Mall which occurred during Q4 2012.

Total liabilities as at February 2, 2013 decreased by \$236.0 million to \$1,402.7 million compared to \$1,638.7 million in Fiscal 2011, due primarily to lower accounts payable and accrued liabilities, long-term obligations and retirement benefit liability.

**Cash flow generated from (used for) operating activities** - Cash flow from operating activities decreased by \$164.9 million for the period ended February 2, 2013 to cash flow used for operating activities of \$79.9 million compared to cash flow generated from operating activities of \$85.0 million during the period ended January 28, 2012. The Company's primary source of operating cash flow is the sale of goods and services to customers, while the primary use of cash in operating activities is the purchase of merchandise inventories. The decrease in cash from operating activities is attributable to unfavourable changes in accounts payable and accrued liabilities, retirement benefit contributions, inventories and deferred revenue, partially offset by favourable changes in accounts receivable.

Accounts payable and accrued liabilities decreased \$94.8 million from January 28, 2012 to \$482.0 million as at February 2, 2013 primarily due to timing of payments to vendors and inventory receipts.

Retirement benefit liability decreased by \$36.6 million due primarily to a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid \$18.1 million and recorded a pre-tax settlement gain of \$21.1 million (\$21.9 million net of \$0.8 million of expenses).

Inventories increased by \$27.5 million from January 28, 2012 to \$851.4 million as at February 2, 2013 due to the timing of inventory receipts in addition to a reduction in inventory reserves during the year due to improvements in inventory quality.

Accounts receivable decreased by \$40.0 million from January 28, 2012 to \$76.2 million as at February 2, 2013 primarily due to the sale of the Cantrex operations at the beginning of the second quarter of 2012.

**Cash flow (used for) generated from investing activities** - Cash flow generated from investing activities increased by \$203.4 million for the period ended February 2, 2013 to \$139.9 million compared to cash flow used for investing activities of \$63.5 million for the period ended January 28, 2012 primarily due to proceeds received from lease terminations of \$175.0 million and proceeds received from the sale of the Company's interest in Medicine Hat Mall of \$38.3 million. Cash flow generated from these transactions was partially offset by \$97.5 million of capital expenditures incurred during the year.

**Cash flow used for financing activities** - Cash flow used for financing activities increased by \$164.2 million to \$220.5 million for the period ended February 2, 2013 compared to \$56.3 million for the period ended January 28, 2012. The increase in cash flow used is primarily due to an extraordinary dividend payment of \$101.9 million which occurred during Q4 2012, and additional repayments made on the credit facility during Fiscal 2012.

## Contractual Obligations

Contractual obligations, including payments due over the next five fiscal years and thereafter, are shown in the following table:

(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	\$ 482.0	\$ 482.0	\$ 482.0	\$ —	\$ —	\$ —
Long-term obligations including payments due within one year <sup>1</sup>	36.1	48.4	7.6	11.6	9.7	19.5
Operating lease obligations <sup>2</sup>	n/a	496.7	96.7	155.2	98.9	145.9
Minimum purchase commitments <sup>2,4</sup>	n/a	17.5	5.0	12.5	—	—
Royalties <sup>2</sup>	n/a	2.3	1.8	0.5	—	—
Retirement benefit plans obligations <sup>2,3</sup>	415.7	114.9	29.3	58.7	26.9	—
	<b>\$ 933.8</b>	<b>\$ 1,161.8</b>	<b>\$ 622.4</b>	<b>\$ 238.5</b>	<b>\$ 135.5</b>	<b>\$ 165.4</b>

<sup>1</sup> Cash flow maturities related to long-term obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%. The Company had no borrowings on the Credit Facility at February 2, 2013.

<sup>2</sup> Minimum purchase commitments, operating lease obligations, retirement benefit plans funding obligations and royalties are not reported in the Consolidated Statements of Financial Position.

<sup>3</sup> Payments beyond 2013 are subject to a funding valuation to be completed as at December 31, 2013. Until then, the Company is obligated to fund in accordance with the most recent valuation completed as at December 31, 2010.

<sup>4</sup> Certain vendors require minimum purchase commitment levels over the term of the contract.

## Retirement Benefit Plans

In Fiscal 2012, the Company's retirement benefit plan obligations decreased by \$36.6 million to \$415.7 million compared to Fiscal 2011 due to increases in the amortization of actuarial losses partially offset by lower interest expense, and the buyout described below.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid \$18.1 million and recorded a pre-tax settlement gain of \$21.1 million (\$21.9 million net of \$0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

See Note 2, "Significant accounting policies", Note 4 "Critical accounting judgments and key sources of estimation uncertainty" and Note 20 "Retirement benefit plans" in the Notes to the Consolidated Financial Statements for a description of the Company's benefit plans. Also see Section 9c for a description of the Company's early adoption of IAS 19 (Revised) – Employee Benefits.

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, 2010. The next actuarial valuation assessment is required as of December 31, 2013. An actuarial valuation of the health and welfare trust is performed at least every 3 years, with the last valuation completed as of September 1, 2011.

During Fiscal 2011, the Company changed the target asset allocation to 55-75% fixed income and 25-45% equity for the registered and non-registered pension plans. For the assets in the health and welfare trust, included in Other Benefit Plans, the Company changed the asset allocation to 100% fixed income. As at the end of Fiscal 2012 and 2011, the assets were in line with the target allocation range, with the transitioning of assets from alternative investments near completion. 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.

The Company early adopted the amendments to IAS 19 beginning January 29, 2012, with retrospective application to prior reporting periods. A description of the nature of the change in accounting policy and a summary of its impact to the Company's consolidated financial statements are included in Note 2 "Significant Accounting Policies" of the Notes to the Consolidated Financial Statements.

### **Capital Resources**

The Company's capital expenditures, working capital needs, debt repayment and other financing needs are funded primarily through cash generated from operations. In selecting appropriate funding choices, the Company's objective is to manage its capital structure in such a way as to diversify its funding sources, while minimizing its funding costs and risks. Sears expects to be able to satisfy all of its financing requirements through cash on hand, cash generated by operations and available credit facilities. The Company's cost of funding is affected by a variety of general economic conditions, including the overall interest rate environment, as well as the Company's financial performance, credit ratings and fluctuations of its credit spread over applicable reference rates.

The Company's debt consists of a secured credit facility and 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. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability under the Credit Facility was \$501.5 million as at February 2, 2013 (January 28, 2012: \$415.1 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately \$300.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders, with respect to the Company's unfunded pension liability by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to \$150.0 million. The potential additional reserve amount may increase or decrease in the future based on estimated net pension liabilities.

The Company regularly monitors its sources and uses of cash and its level of cash on hand, and considers the most effective use of cash on hand including, repayment of obligations, potential acquisitions, stock purchases and dividends.

As at February 2, 2013, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of \$6.2 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (January 28, 2012: borrowings of \$93.1 million, net of unamortized transaction costs of \$8.0 million, included in "Long-term obligations"). In addition, the Company had \$19.7 million (January 28, 2012: \$6.3 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments including third party payments, utility commitments and defined benefit plan deficit funding (See Note 20 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for additional information on retirement benefits plans). Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at February 2, 2013, the Company had outstanding merchandise letters of credit of U.S. \$7.9 million (January 28, 2012: U.S. \$5.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

### **3. Financial Instruments**

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange and interest rate risk. See Note 14 "Financial instruments" of the Notes to the Consolidated Financial Statements for additional information.

#### **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 and cash equivalents, short-term investments, accounts receivable and other long-term assets.

Cash and cash equivalents, short-term investments, accounts receivable and other long-term assets of \$314.5 million as at February 2, 2013 (January 28, 2012: \$514.9 million) expose the Company to credit risk should the borrower default on maturity of the investment. 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 customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at February 2, 2013, no customers represented greater than 10.0% of the Company's accounts receivable (January 28, 2012 : one customer represented 26.5% of the Company's accounts receivable).

#### **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 ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

#### **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.

From time to time, the Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and for purchases of goods or services. As at February 2, 2013 and January 28, 2012, there were no contracts outstanding and therefore no derivative financial assets or liabilities were recognized in the Consolidated Statements of Financial Position.

During Fiscal 2012, the Company recorded a loss of \$0.6 million (2011: gain of \$0.9 million), relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The period end exchange rate was 1.0027 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net earnings (loss) of \$4.3 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable.

#### **Interest rate risk**

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. 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. As at February 2, 2013 and January 28, 2012, there were no contracts outstanding and therefore no derivative financial assets or financial liabilities were recognized in the Consolidated Statements of Financial Position.

#### 4. Funding Costs

The funding costs for the Company in Fiscal 2012 and Fiscal 2011 are outlined in the table below:

<i>(in CAD millions)</i>	Fourth Quarter		Fiscal	
	2012	2011	2012	2011
<b>Interest costs</b>				
Total long-term obligations at end of period <sup>1</sup>	\$ 36.1	\$ 122.7	\$ 36.1	\$ 122.7
Average long-term obligations for period	36.7	76.9	50.2	69.7
Long-term funding costs <sup>2</sup>	0.6	0.7	2.9	3.3
Average rate of long-term funding	6.1%	3.7%	5.7%	4.7%

<sup>1</sup>Includes principal payments due within one year.

<sup>2</sup>Excludes standby fee on the unused portion of the Credit Facility, amortization of debt issuance costs, interest accrued related to uncertain tax positions and sales tax assessments, and finance costs relating to finance lease obligations.

See Section 2 “Consolidated Financial Position, Liquidity and Capital Resources” of this MD&A for a description of the Company’s funding sources.

#### 5. Related Party Transactions

On May 17, 2012 the Company announced Sears Holdings' plan to pursue a distribution, on a pro rata basis, to its shareholders, of a portion of its holdings in the Company such that, immediately following the distribution, Sears Holdings would retain approximately 51% of the issued and outstanding shares of Sears Canada. The distribution was made on November 13, 2012 to Sears Holdings' stockholders of record as of the close of business on November 1, 2012, the record date for the distribution. Every share of Sears Holdings common stock held as of the close of the business on the record date entitled the holder to a distribution of 0.4283 Sears Canada common shares. In connection with the announced distribution, the Company has filed documents with the SEC.

As at March 14, 2013, Sears Holdings and its affiliates are the beneficial holders of 51,962,391 common shares, representing approximately 51 % of the Company's total outstanding common shares.

In the ordinary course of business, the Company and Sears Holdings periodically share selected services, associates, and tangible and intangible assets. Transactions between the Company and Sears Holdings are recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. See Note 30 “Related party transactions” of the Notes to the Consolidated Financial Statements for a detailed description of these related party transactions.

#### Intangible Properties

The Company has a license from Sears Roebuck to use the name “Sears” as part of its corporate name. The Company also has licenses from Sears Roebuck to use other brand names, including Kenmore<sup>®</sup>, Craftsman<sup>®</sup>, and DieHard<sup>®</sup>. The Company has established procedures to register and otherwise vigorously protect its intellectual property, including the protection of the Sears Roebuck trademark used by the Company in Canada.

#### Cross Border Vendor Agreement

The Company is party to a cross border vendor agreement with Sears Roebuck establishing a collaboration and allowing the Company and Sears Roebuck to use each other's websites to sell merchandise in the United States and Canada. Merchandise sold pursuant to the agreement will obligate the Company or Sears Roebuck, as applicable, to pay fees to the other party equal to (i) for some transactions, a percentage of merchandise selling prices, and (ii) for other transactions, a percentage of the revenue booked by the applicable seller. This agreement can be terminated by either party on 60 days' written notice and will also terminate upon a transaction that results in the Company no longer being an affiliate of Sears Holdings.

### Software Agreement

The Company and Sears Roebuck are party to an information technology agreement for the sharing of information technology and software development, ownership and costs, which agreement (i) either party may terminate on 90 days' written notice, or (ii) will automatically terminate if Sears Holdings ceases to control 50% of the voting power of Sears Canada.

### Import Services

Pursuant to an agreement between Sears Roebuck 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 stipulated percentage of the value of the imported merchandise. In Fiscal 2012, Sears Canada paid \$5.1 million to Sears Holdings in connection with this agreement compared to \$4.7 million in Fiscal 2011.

### Review and Approval

Material related party transactions are currently reviewed by the Audit Committee of the Company's Board of Directors (the "Audit Committee"). The Audit Committee is responsible for pre-approving all related party transactions that have a value greater than \$1.0 million.

## 6. Shareholders' Equity

The only outstanding shares of the Company are common shares. The number of outstanding common shares at the end of Fiscal 2012 and Fiscal 2011 Consolidated Statement of Financial Position are as follows:

	As at February 2, 2013	As at January 28, 2012
Outstanding common shares	101,877,662	102,748,295

In Fiscal 2012, no common shares were issued (2011: no common shares were issued) with respect to the exercise of options pursuant to the Employees Stock Plan.

On May 24, 2011, the Company filed a Normal Course Issuer Bid with the Toronto Stock Exchange ("TSX") for the period of May 25, 2011 to May 24, 2012 ("2011 NCIB"). Pursuant to the 2011 NCIB, the Company was permitted to purchase for cancellation up to 5% of its issued and outstanding common shares, equivalent to 5,268,599 common shares based on the common shares issued and outstanding as at May 9, 2011. The Company did not purchase common shares under the 2011 NCIB if such shares could not be purchased at prices that the Company considered attractive. Decisions regarding the timing of purchases were based on market conditions and other factors. The Company did not renew its 2011 NCIB subsequent to May 24, 2012.

From time to time, when the Company did not possess material undisclosed information about itself or its securities, it entered into a pre-defined plan with a designated broker to allow for the repurchase of common shares at times when the Company ordinarily would not have been active in the market due to its own internal trading blackout periods, insider trading rules, or otherwise. Any such plans entered into with the Company's designated broker were adopted in accordance with the requirements of applicable Canadian securities laws.

During Fiscal 2012, 870,633 shares were purchased for \$9.7 million (2011: 2,668,800 shares were purchased for \$42.0 million) and cancelled. As at March 14, 2013, there were 101,877,662 common shares and 5,080 tandem award options outstanding under the Employees Stock Plan.

Shareholders may obtain, without charge, a copy of the Notice of 2011 NCIB that the Company filed with the TSX by contacting the Company at 416-941-4428 or [home@sears.ca](mailto:home@sears.ca).

## 7. Profit Sharing and Stock-Based Compensation

### *a. Employee Profit Sharing Plan*

The Sears Plan for Sharing Profits with Employees ("Employee Profit Sharing Plan"), established in 1976, was discontinued on January 1, 2005. Upon the announcement of the discontinuance of the plan, members had the option to retain or sell their common shares of the Company held in the plan. During Fiscal 2012, the Company wound up the Employee Profit Sharing Plan and distributed the remaining assets to its eligible members.

### *b. Stock Option and Share Purchase Plans for Employees and Directors*

The Company has three stock-based compensation plans: the Employees Stock Plan, the Stock Option Plan for Directors and the Directors' Share Purchase Plan.

The Employees Stock Plan, which expired on April 19, 2008, provided for the granting of options and Special Incentive Shares and Options, which vested over three years and expired ten years from the grant date. The Employee Stock Plan permitted the issuance of tandem awards. Following the last grant in 2004, the Company discontinued the granting of options and Special Incentive Shares and Options under the Employees Stock Plan. Notwithstanding the expiry of the Employees Stock Plan, all outstanding stock options may be exercised or allowed to expire in accordance with the terms of their grants. For the fiscal year ended February 2, 2013 there were 5,440 options outstanding under the Employees Stock Plan.

The Stock Option Plan for Directors provides for the granting of stock options to Directors who are not employees of the Company or Sears Holdings. Options granted under the Stock Option Plan for Directors generally vest over three years and are exercisable within ten years from the grant date. No stock options have been granted under the Stock Option Plan for Directors since the last grant in 2003.

The Directors' Share Purchase Plan provides for the granting of common shares to Directors, to be purchased by the Company on the TSX, as part of their annual remuneration for services rendered on the Board. Following the last grant in 2005, the Company has discontinued the granting of shares under the Directors' Share Purchase Plan.

## 8. Event After the Reporting Period

Subsequent to year end, the Company finalized an exclusive, multi-year licensing arrangement with SHS Services Management Inc. ("SHS Services"), which will result in SHS Services overseeing the day-to-day operations of all Sears installed home improvements business. The licensing agreement, effective March 3, 2013, is expected to result in a reduction to revenues and expenses; however, the impact to net earnings is not expected to be significant.

## 9. Accounting Policies and Estimates

### *a. Critical Accounting Estimates*

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions with regard 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 within the next fiscal year.

#### *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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16 “Provisions” in the Notes to the Consolidated Financial Statements.

#### *Inventory*

##### *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.

##### *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.

##### *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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 7 “Inventories” in the Notes to the Consolidated Financial Statements.

#### *Impairment of Property, Plant and Equipment and Intangible Assets*

The Company’s property, plant and equipment and intangible assets have been allocated to Cash Generating Units (“CGU”). Determining whether the CGU is impaired requires an estimation of the recoverable amount of the CGU, which is the higher of the fair value less costs to sell and its value in use. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating the expected future cash flows using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 9 “Property, plant and equipment and investment property”, and Note 10.2 “Intangible assets” respectively, in the Notes to the Consolidated Financial Statements.

#### *Impairment of Goodwill*

Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the CGU to which the goodwill is allocated. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating expected future cash flows using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in reduction to “Goodwill” on the Consolidated Statements of Financial Position and a charge to “Selling, administrative and other expenses” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 10 “Goodwill and intangible assets” in the Notes to the Consolidated Financial Statements.

#### *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" in the Consolidated Statements of Net Earnings (Loss) and Other Comprehensive Income (Loss). For additional information, see Note 20 "Retirement benefit plans" in the Notes to the Consolidated Financial Statements.

#### *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 based on historical behaviour and trends in redemption rates and redemption values.

Changes in estimates may result in changes to "Deferred revenue" (current and non-current) in the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" and/or "Cost of goods and services sold" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 13 "Deferred revenue" in the Notes to the Consolidated Financial Statements.

#### *Derivative Assets and Liabilities*

All derivatives are measured at fair value. U.S. dollar option contracts are traded over-the-counter and give holders the right to buy, or sell, a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar option contracts are derived using a Black-Scholes valuation model. The Company is required to estimate various inputs which are used in this model 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 "Other comprehensive income (loss)" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 14 "Financial instruments" in the Notes to the Consolidated Financial Statements.

#### *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 "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16 "Provisions" in the Notes to the Consolidated Financial Statements.

#### *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 a building, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Principal payments on long-term obligations due within one year" 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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 19 "Leasing arrangements" in the Notes to the Consolidated Financial Statements.

## 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 earnings (loss) will be affected positively or negatively.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax 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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 22 "Income taxes" in the Notes to the Consolidated Financial Statements.

### *b. 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. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

On December 16, 2011, the IASB issued amendments to three previously released standards. They are as follows:

#### *IAS 32, Financial Instruments: Presentation ("IAS 32")*

The IASB amended IAS 32 to address inconsistencies in current practice in the application of offsetting criteria. The amendments provide clarification with respect to the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

#### *IFRS 7, Financial Instruments: Disclosures ("IFRS 7")*

The IASB first amended IFRS 7 on October 7, 2010, to require additional disclosures regarding transfers of financial assets. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company applied these amendments beginning the first quarter of its Fiscal 2012 year.

On December 16, 2011, the IASB approved amendments to IFRS 7, which establishes disclosure requirements to help users better assess the effect or potential effect of offsetting arrangements on a company's financial position. These amendments are effective for annual periods beginning on or after January 1, 2013. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact on the Company's disclosures.

#### *IFRS 9, Financial Instruments ("IFRS 9")*

The IASB issued IFRS 9 on November 12, 2009, which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments.

The first phase of the project provides guidance on the classification and measurement of financial assets. IFRS 9 was subsequently reissued on October 28, 2010, incorporating new requirements on accounting for financial liabilities. On December 16, 2011, the IASB amended the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. The amendment also provides relief from the requirement to recast comparative financial statements for the effect of applying IFRS 9. The Company is monitoring the impact of amendments to this standard and is currently assessing the impact on the Company's disclosures.

On June 16, 2011, the IASB issued amendments to the following standard:

*IAS 1, Presentation of Financial Statements ("IAS 1")*

The IASB has amended IAS 1 to require additional disclosures for items presented in OCI on a before-tax basis and requires items to be grouped and presented in OCI based on whether they are potentially reclassifiable to earnings or loss subsequently (i.e. items that may be reclassified and those that will not be reclassified to earnings or loss). These amendments are effective for annual periods beginning on or after July 1, 2012 and require full retrospective application. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact to its consolidated financial statements.

On May 12, 2011, the IASB issued four new standards, all of which are applicable to Annual Reporting periods beginning on or after January 1, 2013. The Company is currently assessing the impact of these standards on its consolidated financial statements and related note disclosures. The following is a list and description of these standards:

*IAS 28, Investments in Associates and Joint Ventures ("IAS 28")*

IAS 28 (as amended in 2011) supersedes IAS 28 (2003), *Investments in Associates* and outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those policies);

*IFRS 10, Consolidated Financial Statements ("IFRS 10")*

IFRS 10 establishes the standards for the presentation and preparation of consolidated financial statements when an entity controls one or more entities;

*IFRS 11, Joint Arrangements ("IFRS 11")*

IFRS 11 replaces IAS 31, *Interests in Joint Ventures* ("IAS 31") and requires that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly;

*IFRS 12, Disclosure of Involvement with Other Entities ("IFRS 12")*

IFRS 12, along with IFRS 11 described above, replaces IAS 31. IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of and the risks associated with, the entity's interests in joint ventures and the impact of those interests on its financial position, financial performance and cash flows; and

*IFRS 13, Fair Value Measurement ("IFRS 13")*

IFRS 13 provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. This standard applies when another IFRS requires or permits fair value measurements or disclosures. IFRS 13 does not apply for share-based payment transactions, leasing transactions and measurements that are similar to, but are not fair value.

**c. Early adoption of IAS 19 (Revised) – Employee Benefits ("IAS 19")**

The Company has elected to early adopt IAS 19 (Revised) in the first quarter of 2012. On June 16, 2011, the IASB issued amendments to IAS 19 which included the elimination of the "corridor approach," which is the option to defer and amortize the recognition of actuarial gains and losses. The significant amendments to IAS 19 are as follows:

- The "corridor approach" is to be replaced with full and immediate recognition of actuarial gain and loss remeasurements in "Other comprehensive (loss) income" ("OCI");
- Retirement benefit costs are to consist of service costs, net interest and remeasurements, with remeasurements being recorded in OCI;
- Past service costs are to be recognized immediately in the Consolidated Statements of Net Earnings (Loss);

- Expected returns on plan assets will no longer be recognized in profit or loss. Instead, interest income on plan assets, calculated using the discount rate used to measure the pension obligation, will be recognized in the Consolidated Statements of Net Earnings (Loss),
- Plan administration costs are to be expensed as incurred; and
- Disclosures relating to retirement benefit plans will be enhanced and will include discussions on risk associated with each plan, an explanation of items recognized in the consolidated financial statements and descriptions of the amount, timing and uncertainty on the Company's future cash flows.

The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The amendments are required to be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. As discussed above, the Company has elected to early adopt the amendments to IAS 19, and as such, the Company has retrospectively adjusted the assets and liabilities for the 52-week periods ending January 28, 2012, January 29, 2011 and January 31, 2010 and income and expenses and cash flows for the 52-week periods ended January 28, 2012 and January 29, 2011.

*Impact on financial statement captions*

A summary of the impact arising from the application of the change in accounting policy is as follows:

*Consolidated Statements of Financial Position*

<i>(Increase (decrease) in CAD millions)</i>	As at January 28, 2012
Retirement benefit asset	\$ (187.7)
Retirement benefit liability	308.2
Net change to retirement benefit asset and liability	(495.9)
Deferred tax assets	84.0
Deferred tax liabilities	(43.6)
Net change to deferred tax assets and liabilities	127.6
Accumulated other comprehensive loss	(141.7)
Retained earnings	(226.6)

*Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss)*

<i>(Increase (decrease) in CAD millions, except per share amounts)</i>	53-Week Period Ended February 2, 2013
Selling, administrative and other expenses	\$ (24.4)
Earnings before income taxes	24.4
Deferred income tax expense	6.4
Net earnings	18.0
Basic net earnings per share	0.17
Diluted net earnings per share	0.17
Other comprehensive income	1.3
Total comprehensive income	19.3

*Consolidated Statements of Cash Flows*

<i>(Increase (decrease) in CAD millions)</i>	53-Week Period Ended February 2, 2013
Net earnings	\$ 18.0
Retirement benefit plans expense	(24.4)
Income tax expense	6.4

Please refer to Note 20 "Retirement benefit plans" in the Notes to the Consolidated Financial Statements for the prior year comparative figures.

## 10. Disclosure Controls and Procedures

### *Disclosure Controls and Procedures*

Management of the Company is responsible for establishing and maintaining a system of disclosure controls and procedures ("DC&P") that are designed to provide reasonable assurance that information required to be disclosed by the Company in its public disclosure documents, including its Annual and Interim MD&A, Annual and Interim Financial Statements, and Annual Information Form is recorded, processed, summarized and reported within required time periods and includes controls and procedures designed to ensure that the information required to be disclosed by the Company in its public disclosure documents is accumulated and communicated to the Company's management, including the Chief Executive Officer ("CEO") and Interim Chief Financial Officer ("Interim CFO"), to allow timely decisions regarding required DC&P.

Management of the Company, including the CEO and Interim CFO, has caused to be evaluated under their supervision, the Company's DC&P, and has concluded that the Company's DC&P was effective for the year ended February 2, 2013.

### *Internal Control over Financial Reporting*

Management of the Company is also 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 IFRS.

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 has evaluated whether there were changes in the internal control over financial reporting during Fiscal 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting and has determined that no material changes occurred during this period.

## 11. Risks and Uncertainties

### **Risks Relating to Our Business**

*If the Company is unable to compete effectively in the highly competitive retail industry, the Company's business and results of operations could be materially adversely affected.*

The Canadian retail market remains highly competitive as key players and new entrants compete for market share. International retailers continue to expand into Canada while existing competitors enhance their product offerings and become direct competitors. The Company's competitors include traditional full-line department stores, discount department stores, wholesale clubs, "big-box" retailers, internet retailers and specialty stores offering alternative retail formats. Failure to develop and implement appropriate competitive strategies and the performance of Sears competitors could have a material adverse effect on the Company's business, results of operations and financial condition.

To stay competitive and relevant to Sears customers, significant initiatives in support of the Company's strategic plan are underway for Fiscal 2012. These initiatives include improvements in business processes, advancements in information technology and other organizational changes. The achievement of strategic goals may be adversely affected by a wide range of factors, many of which are beyond the Company's control. The inability to execute and integrate strategic plans could have a negative impact on the Company's current operations, market reputation, customer satisfaction and financial position. The Company's potential to implement and achieve Sears long-term strategic objectives is dependent on the achievement of these strategic plans and initiatives. There can be no assurance that such plans and initiatives will yield the expected results, either of which could cause the Company to fall short in achieving financial objectives and long-range goals.

Additional risk may arise when foreign retailers carrying on business in Canada in competition with Sears engage in marketing activities which are not in full compliance with Canadian legal requirements regarding advertising and labeling rules and product quality standards. Such retailers may gain an unfair advantage and their activities may negatively affect the Company's business and results of operations.

The majority of the performance payments earned pursuant to the credit card marketing and servicing alliance with JPMorgan Chase are related to customers' purchases using the Sears Card and Sears MasterCard. The credit card industry is highly competitive as credit card issuers continue to expand their product offerings to distinguish their cards. As competition increases, there is a risk that a reduction in the percentage of purchases charged to the Sears Card and Sears MasterCard may negatively impact the Company's results of operations and financial condition.

***Due to the seasonality of the Company's business, the Company's results of operations would be adversely affected if Sears business performed poorly in the fourth quarter or as a result of unseasonable weather patterns.***

The Company's operations are seasonal in nature with respect to results of operations and in products and services offered. Merchandise and service revenues, as well as performance payments received from JPMorgan Chase, vary by quarter based upon consumer spending behavior. Historically, the Company's revenues and earnings have been higher in the fourth quarter due to the holiday season and we have reported a disproportionate level of earnings in that quarter. As a result, the fourth quarter results of operations significantly impacts the Company's annual results of operations. The Company's fourth quarter results of operations may fluctuate significantly, based on many factors, including holiday spending patterns and weather conditions. In addition, the Company offers many seasonal goods and services. The Company establishes budgeted inventory levels and promotional activity in accordance with its strategic initiatives and expected consumer demand. Businesses that generate revenue from the sale of seasonal merchandise and services are subject to the risk of changes in consumer spending behavior as a result of unseasonable weather patterns.

***If the Company fails to offer merchandise and services that Sears customers want, Sears sales may be limited, which would reduce the Company's revenues and profits and adversely impact Sears results of operations.***

To be successful, the Company must identify, obtain supplies and offer to customers attractive, relevant and high-quality merchandise and services on a continuous basis. Customers' preferences may change over time. If we misjudge either the demand for products and services Sears sells or the Company's customers' purchasing habits and tastes, the Company may be faced with excess inventories of some products and missed opportunities for products and services Sears chose not to offer. This could have a negative effect on the Company's revenues and profits and adversely impact Sears results of operations.

***The Company's failure to retain Sears senior management team and to continue to attract qualified new personnel could adversely affect the Company's business and results of operations.***

The Company's success is dependent on its ability to attract, motivate and retain senior leaders and other key personnel. The loss of one or more of the members of the Company's senior management may disrupt Sears business and adversely affect Sears results of operations. Furthermore, the Company may not be successful in attracting, assimilating and retaining new personnel to grow Sears business profitably. The inability to attract and retain key personnel could have an adverse effect on the Company's business.

***If the Company does not successfully manage its inventory levels, the Company's results of operations will be adversely affected.***

The Company must maintain sufficient in-stock inventory levels to operate the business successfully while minimizing out-of-stock levels. A significant portion of inventory is sourced from vendors requiring advance notice periods in order to supply the quantities that we require. These lead times may adversely impact the Company's ability to respond to changing consumer preferences, resulting in inventory levels that are insufficient to meet demand or in merchandise that may have to be sold at lower prices. Inappropriate inventory levels or a failure to accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory may negatively impact the Company's results of operations.

***The Company relies extensively on computer systems to process transactions, summarize results and manage its business. Disruptions in these systems could harm the Company's ability to run its business.***

Given the number of individual transactions that the Company processes each year, it is critical that the Company maintain uninterrupted operation of its computer and communications hardware and software systems. These systems are subject to obsolescence, damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events such as fires, natural disasters and adverse weather occurrences and usage errors by the Company's employees. If the systems are damaged or cease to function properly, the Company may have to make a significant investment to fix or replace them, may suffer interruptions in operations in the interim and the Company's reputation with its customers may be harmed.

The Company's ability to maintain sufficient inventory levels in its stores is critical to the Company's success and largely depends upon the efficient and uninterrupted operation of its computer and communications hardware and software systems. Any material interruption in the Company's computer operations may have a material adverse effect on the Company's business and results of operations.

*The Company relies on foreign sources for significant amounts of its merchandise, and the Company's business may therefore be negatively affected by the risks associated with international trade.*

The Company is dependent upon a significant amount of products that originate from non-Canadian markets. In particular, the Company sources a significant amount of products from China. The Company is subject to the risks that are associated with the sourcing and delivery of this merchandise, including: potential economic, social and political instability in jurisdictions where suppliers are located; increased shipping costs, potential transportation delays and interruptions; adverse foreign currency fluctuations, changes in international laws, rules and regulations pertaining to the importation of products and quotas; and the imposition and collection of taxes and duties. Any increase in cost to the Company of merchandise purchased from foreign vendors or restriction on the merchandise made available to the Company by such vendors could have an adverse effect on the Company's business and results of operations.

*Damage to the reputations of the brands the Company sells could reduce the Company's revenues and profits and adversely impact the Company's results of operations.*

As a diverse and multi-channel retailer, the Company promotes many brands as part of the Company's normal course of business. These brands include the Sears brand, Sears private label brands for product lines such as Jessica, and non-proprietary brands exclusive to Sears. Damage to the reputation of these brands or the reputation of the suppliers of these brands could negatively impact consumer opinions of the Company or its related products and reduce its revenues and profits and adversely impact its results of operations. In those circumstances, it may be difficult and costly for Sears to regain customer confidence.

*If the Company's relationships with its significant suppliers were to be impaired, it could have a negative impact on the Company's competitive position and its results of operations and financial condition.*

Although the Company's business is not substantially dependent on any one supplier, the Company's relationship with certain suppliers is of significance to its merchandising strategy, including attracting customers to its locations, cross-segment sales and image. The loss of a significant supplier relationship could result in lower revenues and decreased customer interest in Sears stores, which, in turn, would adversely affect Sears results of operations and financial condition. In addition, Sears may not be able to develop relationships with new suppliers, and products from alternative sources, if any, may be of a lesser quality and more expensive than those Sears currently purchases.

*The lack of willingness of the Company's vendors to provide acceptable payment terms could negatively impact Sears liquidity and/or reduce the availability of products or services that Sears seeks to procure.*

The Company depends on its vendors to provide it with financing for the Company's purchases of inventory and services. Sears vendors could seek to limit the availability of vendor credit to Sears or other terms under which they sell to Sears, or both, which could negatively impact the Company's liquidity. In addition, the inability of the Company's vendors to access liquidity, or the insolvency of the Company's vendors, could lead to their failure to deliver inventory or other services to Sears. Certain of the Company's vendors may finance their operations and/or reduce the risk associated with collecting accounts receivable from Sears by selling or "factoring" the receivables or by purchasing credit insurance or other forms of protection from loss associated with Sears credit risks. The ability of Sears vendors to do so is subject to the Company's perceived credit quality. The Company's vendors could be limited in their ability to factor receivables or obtain credit protection in the future because of Sears perceived financial position and credit worthiness, which could reduce the availability of products or services the Company seeks to procure.

*The Company may be subject to product liability claims if people or properties are harmed by the products the Company sells or the services it offers.*

The Company sells products produced by third party manufacturers. Some of these products may expose the Company to product liability claims relating to personal injury, death or property damage caused by such products and may require the Company to take actions, such as product recalls. In addition, the Company also provides various services which could give rise to such claims. Although Sears maintains liability insurance to mitigate these potential claims, Sears cannot be certain that its coverage will be adequate for liabilities actually incurred or that insurance will continue to be available on economically reasonable terms or at all.

Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature, as well as product recalls, could also have a negative impact on customer confidence in the products and services Sears offers and on the Company's reputation, and adversely affect the Company's business and its results of operations.

***If the Company does not maintain the security of its customers, associates or Company information, the Company could damage its reputation, incur substantial additional costs and become subject to litigation.***

Any significant security compromise or breach of customer, associate or Company data, either held or maintained by the Company or its third party providers, could significantly damage the Company's reputation and brands and result in additional costs, lost sales, fines and/or lawsuits. The regulatory environment in Canada related to information security and privacy is very rigorous. There is no guarantee that the procedures that we have implemented to protect against unauthorized access to secured data are adequate to safeguard against all data security breaches. A data security breach could negatively impact the Company's business and its results of operations.

***The performance of the Company's real estate joint ventures may be affected by events outside of the Company's control.*** The primary objective of the Company's real estate joint venture operations is to maximize the returns on its investments in shopping center real estate. Sears reviews the performance of these joint ventures on a regular basis. Shopping center investments are non-core assets that Sears sells when Sears believes it is financially advantageous to do so. Similarly, the Company may also develop excess land within these real estate holdings and shopping center joint venture investments when it is advantageous to do so. The return on such transactions is contingent on the state of the economic environment and other factors. In addition, the credit worthiness and financial stability of tenants and partners could negatively impact the Company's results of operations.

***The Company is subject to a number of long-term real estate leases which could restrict the Company's ability to respond to changes in demographics or the retail environment and adversely affect the Company's results of operations.***

As of February 2, 2013, the Company operated a total of 118 Full-line Department stores, 357 specialty stores (including 48 Sears Home stores, 11 Outlet stores, four Appliances and Mattresses stores, 261 Hometown Dealer stores operated under independent local ownership and 33 Corbeil stores), 1,512 catalogue merchandise pick-up locations and 101 Sears Travel offices. Company owned stores consist of 14 Full-line Department stores and two Sears Home stores, with the majority of the remainder held under long-term leases. While the Company is able to change its merchandise mix and relocate stores in order to maintain competitiveness, the Company is restricted from vacating a current site without breaching its contractual obligations and incurring lease-related expenses for the remaining portion of the lease-term. The long-term nature of the leases may limit the Company's ability to respond in a timely manner to changes in the demographic or retail environment at any location, which could adversely affect the Company's results of operations. In addition, when leases for the stores in the Company's ongoing operations expire, the Company may be unable to negotiate renewals, either on commercially acceptable terms, or at all, which could cause us to close stores. Accordingly, the Company is subject to the risks associated with leasing real estate, which could have an adverse effect on the Company's results of operations.

***The Company may be subject to legal proceedings if the Company violates the operating covenants in its real estate leases that could adversely affect the Company's business and results of operations.***

As of February 2, 2013, the Company had operating covenants with landlords for approximately 100 Sears brand corporate stores. An operating covenant generally requires the Company, during normal operating hours, to operate a store continuously as per the identified format in the lease agreement. As of February 2, 2013, the remaining term of the various Sears operating covenants ranged from less than one year to 25 years, with an average remaining term of approximately seven years. Failure to observe operating covenants may result in legal proceedings against the Company and adversely affect the Company's business and results of operations.

***The Company is subject to laws and regulations that impact its business and a failure to comply with such laws and regulations could lead to lawsuits or regulatory actions against the Company that could adversely affect the Company's business and results of operations.***

Laws and regulations are in place to protect the interests and well-being of the Company's customers and communities, business partners, suppliers, employees, shareholders and creditors. Changes to statutes, laws, regulations or regulatory policies, including changes in the interpretation, implementation or enforcement of statutes, laws, regulations and regulatory policies, could adversely affect the Company's business and results of operations. In addition, Sears may incur significant costs in the course of complying with any changes to applicable statutes, laws, regulations and regulatory policies.

The Company's failure to comply with applicable statutes, laws, regulations or regulatory policies could result in a judicial or regulatory judgment or sanctions and financial penalties that could adversely impact the Company's reputation, business and results of operations. Although the Company believes that it has taken reasonable measures designed to ensure compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which it conducts business, there is no assurance that the Company will always be in compliance or deemed to be in compliance.

*The Company is required to comply with federal and provincial environmental laws and regulations, the cost of which may adversely affect the Company's results of operations and financial condition.*

The Company is exposed to environmental risk 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 Company is currently remediating various locations across Canada where it operated auto centers, gas bars and a logistics facility. The extent of the remediation and the costs thereof have not yet been determined. Sears continues to monitor the costs of remediation and appropriately provide for these costs in its reserves. If we commit to renovating a leased or owned building that contains or may contain asbestos, or if asbestos is inadvertently disturbed, we will be legally obligated to comply with asbestos removal standards. The extent of this liability has not yet been determined because the costs to remove asbestos depend upon factors including, among others, the location and extent of any renovations undertaken. Inadvertent disturbance of asbestos cannot be foreseen. The costs incurred by Sears could be significant and may negatively impact the Company's results of operations and financial condition.

*The Company is exposed to a variety of legal proceedings, including class action lawsuits, and tax audits which, if adversely decided, could materially adversely affect the Company.*

The Company is currently involved in various legal proceedings incidental to the normal course of business. Although the Company is of the view that the final disposition of any such litigation is not expected to have a material adverse effect on its liquidity, consolidated financial position or results of operations, the outcome of such litigation cannot be predicted with certainty.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While we believe that the Company's tax filing positions are appropriate and supportable, periodically, certain matters are reviewed and from time to time and challenged by the tax authorities. As the Company routinely evaluates and provides for potentially unfavorable outcomes with respect to any tax audits, it believes that the final disposition of tax audits will not have a material adverse effect on its liquidity, consolidated financial position or results of operations. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and net earnings could be affected positively or negatively in the period in which the tax audits are completed.

*Events outside the Company's control such as social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, systems breakdowns or power outages could have a material adverse effect on the Company's business and results of operations.*

The Company's business is sensitive to customers' spending patterns, which may be affected by domestic and international social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, or other significant events outside of the Company's control, any of which could lead to a decrease in spending by consumers. In addition, such events as well as systems breakdowns and power outages could cause store closures, disrupt supply chain or other operations, delay shipments of merchandise to consumers, reduce revenue and result in expenses to repair or replace facilities. Disruptions during a peak season such as the month of December, which may account for up to 40% of a year's earnings, could have a particularly adverse effect on the Company's business and results of operations.

*The Company's business could suffer if it is unsuccessful in making, integrating, and maintaining acquisitions and investments.*

From time to time we pursue strategic acquisitions of, joint ventures with, or investments in, other companies or businesses, although the Company has no present commitments with respect to any material acquisitions or investments. Any such acquisition, joint venture or investment that the Company makes may require Sears to spend its cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce the Company's profitability and harm its business.

Acquisitions, joint ventures and investments also increase the complexity of the Company's business and place strain on its management, personnel, operations, supply chain, financial resources, and internal financial controls and reporting functions. The Company may not be able to manage acquisitions, joint ventures or investments effectively, which could damage the Company's reputation, limit its growth and adversely affect its business and results of operations.

### **Financial Risks**

*The Company's business has been and will continue to be affected by Canadian and worldwide economic conditions; a persistence or worsening of current economic conditions could lead to reduced revenues and gross margins, and negatively impact the Company's liquidity.*

The Company plans its operations giving regard to economic and financial variables that are beyond its control. Changes to these variables may adversely impact the Company's performance. Should the current economic conditions persist or worsen, heightened competition, a further decline in consumer confidence, lower disposable income, higher unemployment and personal debt levels may result, which could lead to reduced demand for the Company's products and services. Any of these events could cause the Company to increase inventory markdowns and promotional expenses, thereby reducing the Company's gross margins and results of operations. The Company's results of operations have been negatively impacted as a result of the current economic conditions and the volatility in the Canadian and global economies and it is difficult to accurately assess the potential impact on the Company's business. If the Canadian or global economies continue to worsen, however, the Company could experience a decline in same store sales, erosion of gross profit and profitability.

Increasing fuel and energy costs may have a significant negative impact on the Company's operations. The Company requires significant quantities of fuel for the vehicles used to distribute and deliver inventory and the Company is exposed to the risk associated with variations in the market price for petroleum products. The Company could experience a disruption in energy supplies, including its supply of gasoline, as a result of factors that are beyond the Company's control, which could have an adverse effect on the Company's business. Certain of the Company's vendors also are experiencing increases in the cost of various raw materials, such as cotton, oil-related materials, steel and rubber, which could result in increases in the prices that the Company pays for merchandise, particularly apparel, appliances and tires and adversely affect the Company's results of operations.

### **Liquidity Risk**

The Company could face liquidity risk due to various factors, including but not limited to, the unpredictability of the current economic climate, failure to secure appropriate funding vehicles and cash flow issues relating to the operation and management of the business. Failure to fulfill financial obligations due and owing from the Company as a result of this liquidity risk could have undesirable consequences on Sears.

*Fluctuations in U.S. and Canadian dollar exchange rates may affect the Company's results of operations.*

The Company's foreign exchange risk is currently limited to currency fluctuations between the Canadian and U.S. dollar. The Company is vulnerable to increases in the value of the U.S. dollar relative to the Canadian dollar because the majority of its revenues are denominated in Canadian dollars and a substantial amount of the merchandise the Company purchases is priced in U.S. dollars. The costs of these goods in Canadian dollars rise when the U.S. dollar increases in value relative to the Canadian dollar and, as a result, the Company may be forced to increase its prices or reduce its gross margins. We may use foreign currency forward and option contracts to hedge the exchange rate risk on a portion of the Company's expected requirement for U.S. dollars. There can be no assurance that the Company's hedging efforts will achieve their intended results or that the Company's estimate of its requirement for U.S. dollars will be accurate, with the result that currency fluctuations may have an adverse impact on the Company's results of operations.

In addition, the appreciation of the Canadian dollar over the past few years relative to the U.S. dollar presents an additional challenge to the Company as its customers are motivated to cross-border shop, which may have an adverse impact on the Company's results of operations.

*The Company is exposed to counterparty credit risk which could adversely affect its results of operations.*

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of counterparties to meet their payment obligations to the Company. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, short-term investments, accounts receivable and investments included in other long-term assets. Cash and cash equivalents, accounts receivable, derivative financial assets, and other long-term assets of \$314.5 million as at February 2, 2013 (January 28, 2012: \$514.9 million) expose the Company to credit risk should the borrower default on maturity of the investment.

Although the Company seeks to manage 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, there can be no assurance that the Company will be able to successfully manage its credit risk.

The Company invests its surplus cash in investment grade, short-term money market instruments, the return on which depends upon interest rates and the credit worthiness of the issuer. The Company attempts to mitigate credit risk resulting from the possibility that an issuer may default on repayment by requiring that issuers have a minimum credit rating and limiting exposures to individual borrowers.

***The Company is exposed to interest rate risk which could adversely affect its results of operations.***

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. Cash and cash equivalents and borrowings under the Company's \$800.0 million senior secured revolving credit facility, or the Credit Facility, are subject to interest rate risk. The total outstanding balance subject to interest rate risk as at February 2, 2013 was a net asset of \$238.3 million (January 28, 2012: \$297.7 million). An increase or decrease in interest rate of 0.25% would cause an immaterial after-tax impact on net earnings (loss).

***Expenses associated with the Company's retirement benefit plans may fluctuate significantly depending on changes in actuarial assumptions, future market performance of plan assets, and other events outside of the Company's control and adversely affect the Company's results of operations.***

The Company currently maintains a defined benefit registered pension plan, a non-registered supplemental savings arrangement and a defined benefit non-pension post-retirement plan, which provides life insurance, medical and dental benefits to eligible retired associates through a health and welfare trust. The defined benefit plan continues to accrue benefits related to future compensation increases although no further service credit is earned. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for associates who had not achieved the eligibility criteria for these non-pension post-retirement benefits as at December 31, 2008.

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, 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 materially from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase. See Note 20.4 "Pension assumptions" of the Notes to the 2012 Annual Consolidated Financial Statements for more information on the weighted-average actuarial assumptions for the plans.

***The Company faces risks associated with impairment of goodwill and other assets.***

The Company's goodwill, intangible assets and long-lived assets, primarily consisting of stores and joint ventures, are subject to periodic testing for impairment. A significant amount of judgment is involved in the periodic testing. Failure to achieve sufficient levels of cash flow within each of the Company's cash generating units or specific operating units could result in impairment charges for goodwill and intangible assets or fixed asset impairment for long-lived assets, which could have a material adverse effect on the Company's reported results of operations.

### **Risks Relating to the Company's Relationship with Sears Holdings**

*The Company may lose rights to some intellectual property if Sears Holdings' equity ownership in the Company falls below specified thresholds.*

The Company relies on its right to use the "Sears" name, including as part of the Company's corporate and commercial name, which the Company considers a significant and valuable aspect of its business. The Company's right to use the "Sears" name and certain other brand names was granted pursuant to a license agreement with Sears Holdings.

The Company's license to use the "Sears" name and certain brand names may be terminated if Sears Holdings' indirect ownership interest in the Company is reduced to less than 25%. In addition, the Company's license to use the "Sears" name may also terminate upon the occurrence of certain bankruptcy events. Losing the Company's right to use these intellectual properties could significantly diminish the Company's competitiveness and could materially harm its business. If the license agreement is terminated, the Company would attempt to renegotiate the license agreement although the terms of any renegotiated license agreement would likely be less favorable to the Company.

*Some of the Company's directors and executive officers may have conflicts of interest because of their ownership of Sears Holdings common stock and positions with Sears Holdings.*

Some of our directors and executive officers own Sears Holdings common stock. In addition, one of our directors, William R. Harker, is a consultant to Sears Holdings. Ownership of Sears Holdings common stock by our directors and officers and the presence of persons associated with Sears Holdings on the Company's board of directors could create, or appear to create, conflicts of interest with respect to matters involving both the Company and Sears Holdings.

### **Risks Relating to Our Common Shares**

*As long as Sears Holdings or ESL Investments, Inc. ("ESL") controls the Company, a shareholder's ability to influence matters requiring shareholder approval will be limited.*

Sears Holdings controls approximately 51% of the Company's voting power and ESL directly controls approximately 28% of the Company's voting power. As of the date of this MD&A, ESL controlled Sears Holdings and, therefore, ESL directly or indirectly controls approximately 79% of the Company's voting power. So long as ESL directly or indirectly controls a majority of the Company's outstanding common shares, ESL will have the ability to control the election of the board of directors and the outcome of certain shareholder votes.

Accordingly, Sears Holdings and ESL will continue to have the ability to exercise control over certain actions to be taken or approved by the Company's directors and shareholders, including with respect to certain mergers or business combinations or dispositions of all or substantially all of the Company's assets. Sears Holdings and ESL's voting control may discourage transactions involving a change of control of the Company, including transactions in which a shareholder might otherwise receive a premium for his/her shares over the then-current market price. Subject to certain limits, Sears Holdings is also not prohibited from selling a controlling interest in the Company to a third party and may do so without shareholder approval and, subject to applicable laws, without providing for a purchase of a shareholder's common shares.

Sears Holdings and ESL's interests may be different than a shareholder's interests and Sears Holdings and ESL may have investments in other companies that may compete with the Company, and may have interests from time to time that diverge from the interests of shareholders, particularly with regard to new investment opportunities.

In addition, conflicts of interest may arise between Sears Holdings and/or ESL and the Company, including corporate opportunities, potential acquisitions or transactions, as well as other matters. The Company may be adversely affected by any conflicts of interest between Sears Holdings and/or ESL and the Company.

Furthermore, neither Sears Holdings nor ESL owes the Company or the Company's shareholders any fiduciary duties under Canadian law.

## 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, who are employees of the Company, 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.



Calvin McDonald  
President and Chief Executive Officer



E.J. Bird  
Interim Chief Financial Officer

Toronto, Ontario  
March 14, 2013

### **Report of Independent Registered Chartered Accountants**

To the Shareholders and Board of Directors of  
Sears Canada Inc.

We have audited the accompanying consolidated financial statements of Sears Canada Inc. and subsidiaries, which comprise the consolidated statements of financial position as at February 2, 2013 and January 28, 2012 and the consolidated statements of net earnings (loss) and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the 53 and 52-week periods ended February 2, 2013 and January 28, 2012, 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 February 2, 2013 and January 28, 2012 and their financial performance and cash flows for the 53 and 52-week periods ended February 2, 2013 and January 28, 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*Deloitte LLP*

Independent Registered Chartered Accountants  
Licensed Public Accountants  
March 14, 2013  
Toronto, Canada

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## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(in CAD millions)</i>	Notes	As at February 2, 2013	As at January 28, 2012
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	\$ 237.0	\$ 397.4
Accounts receivable, net	6,14	76.2	116.2
Income taxes recoverable	22	5.5	4.1
Inventories	7	851.4	823.9
Prepaid expenses	8	30.1	27.9
<b>Total current assets</b>		<b>1,200.2</b>	<b>1,369.5</b>
<b>Non-current assets</b>			
Property, plant and equipment	9,19	840.0	872.0
Investment property	9	21.7	21.7
Intangible assets	10,2	27.2	23.6
Goodwill	10,1	8.7	8.7
Investment in joint ventures	11	263.4	301.4
Deferred tax assets	22	83.8	84.6
Other long-term assets	12,14,16,22	34.1	49.2
<b>Total assets</b>		<b>\$ 2,479.1</b>	<b>\$ 2,730.7</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	14,15	\$ 482.0	\$ 576.8
Deferred revenue	13	197.5	208.0
Provisions	16	66.3	64.8
Income taxes payable	22	—	1.0
Other taxes payable		33.9	42.8
Current portion of long-term obligations	14,17,19,25	5.2	5.1
<b>Total current liabilities</b>		<b>784.9</b>	<b>898.5</b>
<b>Non-current liabilities</b>			
Long-term obligations	14,17,19,25	30.9	117.6
Deferred revenue	13	90.7	89.2
Retirement benefit liability	20,1	415.7	452.3
Deferred tax liabilities	22	5.8	5.3
Other long-term liabilities	16,18	74.7	75.8
<b>Total liabilities</b>		<b>1,402.7</b>	<b>1,638.7</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	24	14.9	15.0
Retained earnings	24,25	1,208.2	1,218.5
Accumulated other comprehensive loss		(146.7)	(141.5)
<b>Total shareholders' equity</b>		<b>1,076.4</b>	<b>1,092.0</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 2,479.1</b>	<b>\$ 2,730.7</b>

The accompanying notes are an integral part of these consolidated financial statements.

On Behalf of the Board of Directors,



W.C. Crowley  
Chairman of the Board



E.J. Bird  
Director

**CONSOLIDATED STATEMENTS OF NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)**  
**For the 53 and 52-week periods ended February 2, 2013 and January 28, 2012**

<i>(in CAD millions, except per share amounts)</i>	Notes	2012	2011
Revenue	26	\$ 4,300.7	\$ 4,619.3
Cost of goods and services sold	7	2,749.2	2,932.3
Selling, administrative and other expenses	9,10,20,4,27	1,634.4	1,737.9
<b>Operating loss</b>		<b>(82.9)</b>	<b>(50.9)</b>
Gain on lease terminations	28	167.1	—
Gain on sale of interest in joint venture	11	8.6	—
Gain on settlement of post-retirement benefits	20	21.1	—
Finance costs	17,22	13.3	16.0
Interest income	5	4.1	1.7
Share of income from joint ventures	11	9.5	8.3
<b>Earnings (loss) before income taxes</b>		<b>114.2</b>	<b>(56.9)</b>
Income tax (expense) recovery			
Current	22	(8.2)	(18.7)
Deferred	22	(4.8)	25.3
		<b>(13.0)</b>	<b>6.6</b>
<b>Net earnings (loss)</b>		<b>\$ 101.2</b>	<b>\$ (50.3)</b>
Basic net earnings (loss) per share	32	\$ 0.99	\$ (0.48)
Diluted net earnings (loss) per share	32	\$ 0.99	\$ (0.48)
Net earnings (loss)		\$ 101.2	\$ (50.3)
Other comprehensive loss, net of taxes:			
Loss on foreign exchange derivatives, net of income tax recovery of nil (2011: recovery of \$1.7)		—	(4.1)
Reclassification to net earnings (loss) of (gain) loss on foreign exchange derivatives, net of income tax recovery of nil (2011: recovery of \$2.8)		(0.2)	7.1
Remeasurement loss on net defined retirement benefit liability, net of income tax recovery of \$3.5 (2011: recovery of \$27.4)	20.7	(5.0)	(79.1)
<b>Total other comprehensive loss</b>		<b>(5.2)</b>	<b>(76.1)</b>
<b>Comprehensive income (loss)</b>		<b>\$ 96.0</b>	<b>\$ (126.4)</b>

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the 53 and 52-week periods ended February 2, 2013 and January 28, 2012**

<i>(in CAD millions)</i>	Notes	Accumulated other comprehensive loss (income)						Shareholders' equity
		Capital stock	Retained earnings	Foreign exchange derivatives designated as cash flow hedges	Remeasurement loss	Total Accumulated other comprehensive loss (income)		
<b>Balance as at January 28, 2012</b>		\$ 15.0	\$1,218.5	\$ 0.2	\$ (141.7)	\$ (141.5)	\$ 1,092.0	
Net earnings			101.2	—	—	—	101.2	
<i>Other comprehensive loss</i>								
Reclassification of gain on foreign exchange derivatives				(0.2)	—	(0.2)	(0.2)	
Remeasurement loss on net defined retirement benefit liability				—	(5.0)	(5.0)	(5.0)	
<i>Total other comprehensive loss</i>		—	—	(0.2)	(5.0)	(5.2)	(5.2)	
<i>Total comprehensive income (loss)</i>		—	101.2	(0.2)	(5.0)	(5.2)	96.0	
Repurchases of common shares	24	(0.1)	(9.6)				(9.7)	
Dividends declared			(101.9)				(101.9)	
<b>Balance as at February 2, 2013</b>		\$ 14.9	\$1,208.2	\$ —	\$ (146.7)	\$ (146.7)	\$ 1,076.4	
<b>Balance as at January 29, 2011</b>		\$ 15.4	\$1,310.4	\$ (2.8)	\$ (62.6)	\$ (65.4)	\$ 1,260.4	
Net loss			(50.3)	—	—	—	(50.3)	
<i>Other comprehensive (loss) income</i>								
Loss on foreign exchange derivatives				(4.1)	—	(4.1)	(4.1)	
Reclassification of loss on foreign exchange derivatives				7.1	—	7.1	7.1	
Remeasurement loss on net defined retirement benefit liability				—	(79.1)	(79.1)	(79.1)	
<i>Total other comprehensive (loss) income</i>		—	—	3.0	(79.1)	(76.1)	(76.1)	
<i>Total comprehensive (loss) income</i>		—	(50.3)	3.0	(79.1)	(76.1)	(126.4)	
Repurchases of common shares	24	(0.4)	(41.6)				(42.0)	
<b>Balance as at January 28, 2012</b>		\$ 15.0	\$1,218.5	\$ 0.2	\$ (141.7)	\$ (141.5)	\$ 1,092.0	

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 53 and 52-week periods ended February 2, 2013 and January 28, 2012

<i>(in CAD millions)</i>	Notes	2012	2011
<b>Cash flow (used for) generated from operating activities</b>			
Net earnings (loss)		\$ 101.2	\$ (50.3)
Adjustments for:			
Depreciation and amortization expense	9,10.2	113.3	114.9
Impairment (reversal) losses	9	(0.2)	2.5
Loss on disposal of property, plant and equipment		1.2	1.1
Gain on sale of interest in joint venture	11	(8.6)	—
Gain on lease terminations	28	(167.1)	—
Finance costs	17	13.3	16.0
Interest income	5	(4.1)	(1.7)
Share of income from joint ventures	11	(9.5)	(8.3)
Retirement benefit plans expense	20.4	31.6	30.2
Gain on settlement of post-retirement benefits	20	(21.1)	—
Short-term disability expense	20.4	8.4	8.4
Income tax expense (recovery)	22	13.0	(6.6)
Interest received	5	2.3	1.6
Interest paid	17	(5.3)	(4.6)
Retirement benefit plans contributions	20.4	(63.0)	(17.9)
Income tax refunds (payments), net	22	9.0	(21.6)
Other income tax (deposits) receipts, net	22	(4.1)	—
Changes in non-cash working capital	33	(122.2)	29.6
Changes in long-term assets and liabilities		32.0	(8.3)
		(79.9)	85.0
<b>Cash flow generated from (used for) investing activities</b>			
Purchases of property, plant and equipment and intangible assets	9,10.2	(97.5)	(84.3)
Proceeds from sale of property, plant and equipment		2.2	0.7
Proceeds from lease terminations	28	175.0	—
Proceeds from sale of Cantrex operations	29	3.5	—
Proceeds from sale of joint venture	11	38.3	—
Dividends received from joint ventures		18.4	20.1
		139.9	(63.5)
<b>Cash flow used for financing activities</b>			
Interest paid on finance lease obligations	17,19	(2.4)	(2.2)
Repayment of long-term obligations		(142.3)	(117.1)
Proceeds from long-term obligations		35.8	105.0
Dividend payments	24	(101.9)	—
Repurchases of common shares	24	(9.7)	(42.0)
		(220.5)	(56.3)
Effect of exchange rate on cash and cash equivalents at end of period		0.1	(0.1)
<b>Decrease in cash and cash equivalents</b>		<b>(160.4)</b>	<b>(34.9)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>\$ 397.4</b>	<b>\$ 432.3</b>
<b>Cash and cash equivalents at end of period</b>		<b>\$ 237.0</b>	<b>\$ 397.4</b>

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 channel, which includes its Full-line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electric Inc. (“Corbeil”) stores, and its Direct (catalogue/ internet) channel. It also includes service revenue related to product repair, home improvement, and logistics. Commission revenue includes travel, insurance, and performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch) (“JPMorgan Chase”) under the Company’s long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has partnered with Thomas Cook Canada Inc. (“Thomas Cook”) in a multi-year licensing arrangement, under which Thomas Cook manages the day-to-day operations of all Sears Travel offices. Licensee fee revenues are comprised of payments received from licensees, including Thomas Cook, that operate within the Company’s stores. The Company is a party to a number of joint ventures which have been classified as jointly controlled entities for financial reporting purposes. These joint ventures are jointly controlled by the venturers who are entitled to a share of the joint ventures’ income or loss.

The indirect parent of the Company is Sears Holdings Corporation (“Sears Holdings”), incorporated in the U.S. in the state of Delaware. The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Florida) through Sears Holdings.

### 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 as issued by the International Accounting Standards Board (“IFRS”), which are effective and applicable to the Company as at the end of its current fiscal year.

#### 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 recast 2011 Annual Consolidated Financial Statements. The Company’s significant accounting policies are detailed in Note 2.

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 2012 and 2011 consolidated financial statements represent the 53-week period ended February 2, 2013 (“Fiscal 2012” or “2012”) and the 52-week period ended January 28, 2012 (“Fiscal 2011” or “2011”), respectively.

The Company’s consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency. The Company reports as a single business segment but operates several operating segments, with operations focused on the merchandising of products and services (see Note 23).

#### 2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments that are measured at fair value and the retirement benefit asset, which is the net total of plan assets and the present value of the retirement benefit liability. On transition to IFRS, the Company elected to measure certain of its property, plant and equipment at fair value. The fair value was set as the deemed cost, in accordance with IFRS 1, as at that date, and represents the historical cost basis measurement. 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. Real estate joint venture investments are accounted for using the equity method of accounting (described further in Note 2.13).

Subsidiaries include all entities where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

All intercompany balances and transactions, income and expenses arising from intercompany transactions are eliminated in the preparation of the consolidated financial statements.

### *2.5 Cash and cash equivalents*

Cash and cash equivalents include highly liquid investments with maturities of 90 days or less at the date of purchase. Cash and cash equivalents are considered to be restricted when they are subject to contingent rights of a third party customer, vendor, government agency or financial institution.

### *2.6 Short-term investments*

Short-term investments include investments with maturities between 91 to 364 days from the date of purchase.

### *2.7 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.

### *2.8 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. The cost of self-constructed assets includes site preparation costs, design and engineering fees, freight (only on initial freight costs incurred between the vendor and the Company), installation expenses and provincial sales tax (Saskatchewan, Manitoba and Prince Edward Island), and is net of any vendor subsidies or reimbursements. An allocation of general and specific incremental interest charges for major construction projects is also included in the cost of related assets.

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 Earnings (Loss) and Comprehensive Income (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 Earnings (Loss) and Comprehensive Income (Loss).

For a discussion on the impairment of tangible assets refer to Note 2.11. Property, plant and equipment are reviewed at the end of each reporting period to determine whether there is an indicator of impairment.

### *2.9 Investment property*

The Company's investment property consists of vacant land which is not currently used in its operations. Investment property is measured at its deemed cost less accumulated impairment losses.

The fair values of the investment property is estimated using observable data based on the current cost of acquiring comparable properties 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 property.

The gain or loss arising on the disposal or retirement of an item of 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 Earnings (Loss) and Comprehensive Income (Loss).

Investment property is reviewed at the end of each reporting period to determine whether there is any indicator of impairment.

## *2.10 Intangible assets*

### *2.10.1 Finite life intangible assets other than goodwill*

Finite life intangible assets consist of purchased and internally developed software. 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 all intangible assets other than goodwill are finite. Amortization expense is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The estimated useful lives and amortization methods for intangible assets other than goodwill 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.

### *2.10.2 Goodwill*

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired ("the acquisition date"). Goodwill is measured as the excess of the sum of the consideration transferred, over the net fair value of identifiable assets acquired less liabilities assumed as of the acquisition date.

## *2.11 Impairment of tangible assets and intangible assets with finite useful lives*

At the end of each reporting period, the Company reviews property, plant and equipment, investment property, intangible assets and goodwill 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.

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, the impairment is first allocated to goodwill before other assets held by the CGU. Where goodwill is not part of a CGU, 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 (not applicable to goodwill), 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 had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately.

## *2.12 Impairment of goodwill*

Goodwill is not amortized but is reviewed for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Company's CGUs expected to benefit from the synergies of the combination.

CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to the other assets of the unit on a

pro-rata basis, based on the carrying amount of each asset in the unit. Impairment losses for goodwill are not reversed in subsequent periods.

### *2.13 Investment in joint ventures*

Joint ventures are those entities over which the Company has joint control, established by contractual agreement. The Company is a party to a number of joint ventures which have been classified as jointly controlled entities for financial reporting purposes. These joint ventures are jointly controlled by the venturers who are entitled to a share of the joint ventures' income or loss.

Investments in joint ventures are accounted for using the equity method as follows:

- From the date that joint control commences, until the date that it ceases, the Company's share of post-acquisition income or losses from joint ventures is recognized in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), with a corresponding increase or decrease to the carrying amount of the investments.
- The joint venture reporting periods used in the application of the equity method differ from the Company's reporting period end by 1 to 2 months.
- The accounting policies of the joint ventures are aligned with those of the Company for the purposes of applying the equity method.
- Gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint ventures, and losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

The Company presents its joint venture investments in "Investment in joint ventures" on the Consolidated Statements of Financial Position. The Company presents its share of income or losses from joint ventures in "Share of income from joint ventures" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

### *2.14 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.

#### *2.14.1 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 on a straight-line basis over the term of the lease.

#### *2.14.2 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 "Principal payments on long-term obligations due within one year" and "Long-term obligations," respectively. The assets are depreciated using the same accounting policy as applicable to property, plant and equipment (see Note 2.8).

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 Earnings (Loss) and Comprehensive Income (Loss).

In the event that lease incentives are received to enter into leases, 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.

### *2.15 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 associates, a non-registered supplemental savings arrangement and a defined benefit non-pension post retirement plan, which provides life insurance, medical and dental benefits to eligible retired associates through a health and welfare trust.

### 2.15.1 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.

### 2.15.2 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 3 years. Remeasurements comprising 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 statement of financial position with a charge or credit to other comprehensive income (loss) in the period in which they occur. Remeasurements recorded in Other comprehensive income (loss) are not recycled into profit or loss. However, the entity may transfer those amounts recognized in other comprehensive income (loss) within Accumulated other comprehensive income (loss). 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 Earnings (Loss) and Comprehensive Income (Loss).

Remeasurements are recorded in Other comprehensive income (loss).

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.

### 2.15.3 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.

## 2.16 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.

### 2.16.1 Sale of goods

Revenue from the sale of goods is recognized upon delivery to the customer. Revenue relating to goods sold subject to installation, such as home improvement products, is recognized when the goods have been delivered and the installation is complete.

### 2.16.2 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 which is typically one day.

### 2.16.3 Commission and licensee fee revenue

#### *Commission 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.

#### *Licensee fee revenue*

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.

#### *Credit card revenue*

Revenue is received from JPMorgan Chase relating to credit sales. Revenue is based on a percentage of sales charged on the Sears Card or Sears MasterCard and is included in revenue when the sale occurs.

### 2.16.4 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.

### 2.16.5 Customer loyalty program

The Sears Club Points Program (the "Program") allows members to earn points from eligible purchases made on their Sears Card and/or Sears MasterCard. 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 redemption rates are reviewed on an ongoing basis and are adjusted based upon expected future activity.

### 2.16.6 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.

### 2.17 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.

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.

Exchange differences arising on retranslation are recognized in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) in the period in which they arise, except for exchange differences on certain foreign currency hedging transactions.

### 2.18 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.

### 2.19 Taxation

Income tax expense represents the sum of current tax expense and deferred tax expense.

### 2.19.1 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 Earnings (Loss) and Comprehensive Income (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.

### 2.19.2 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 generally recognized for taxable temporary differences. Deferred tax assets are generally 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and investments in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable earnings against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced 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 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.

### 2.19.3 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 Earnings (Loss) and Comprehensive Income (Loss), except when they relate to items that are recognized outside of earnings or loss (whether in Other comprehensive income (loss), "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.

### 2.20 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.

#### 2.20.1 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.

#### 2.20.2 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.

#### 2.20.3 Warranty provisions

An estimate for warranty provisions is made at the time the merchandise is sold based on historical warranty trends. Please also see Note 16.

#### 2.20.4 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.

#### 2.20.5 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.

### 2.21 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, 'held-to-maturity' investments, '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. Currently the Company does not have any 'held-to-maturity' investments.

#### 2.21.1 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.

#### 2.21.2 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.

### 2.21.3 AFS financial assets

The Company's cash equivalents have been classified as AFS financial assets and are measured at fair value. Gains and losses arising from changes in fair value 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 Earnings (Loss) and Comprehensive Income (Loss). Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously included in accumulated other comprehensive income (loss) ("AOCI") is reclassified to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

### 2.21.4 Loans and receivables

Cash held by the bank and restricted cash and cash equivalents 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.

### 2.21.5 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 Earnings (Loss) and Comprehensive Income (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 Earnings (Loss) and Comprehensive Income (Loss). Changes in the carrying amount of the allowance account are also recognized in "Selling, administrative and other expenses".

### 2.21.6 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.

## 2.22 *Financial liabilities and equity instruments*

### 2.22.1 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.

### 2.22.2 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.

### 2.22.3 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'.

### 2.22.4 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.

### 2.22.5 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.

### 2.22.6 Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

### 2.23 Net earnings (loss) per share

Net earnings (loss) per share is calculated using the weighted average number of shares outstanding during the reporting period. Diluted net earnings (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.

### 2.24 Changes in Accounting Policy

#### *IAS 19 (Revised), Employee Benefits ("IAS 19")*

The Company elected to early adopt IAS 19 (Revised) in the first quarter of 2012. On June 16, 2011, the IASB issued amendments to IAS 19 which included the elimination of the "corridor approach," which is the option to defer and amortize the recognition of actuarial gains and losses. The significant amendments to IAS 19 are as follows:

- The "corridor approach" is to be replaced with full and immediate recognition of actuarial gain and loss remeasurements in "Other comprehensive income (loss)" ("OCI");
- Retirement benefit costs are to consist of service costs, net interest and remeasurements, with remeasurements being recorded in OCI;
- Past service costs are to be recognized immediately in the Consolidated Statements of Net Earnings (Loss);
- Expected returns on plan assets will no longer be recognized in profit or loss. Instead, interest income on plan assets, calculated using the discount rate used to measure the pension obligation, will be recognized in the Consolidated Statements of Net Earnings (Loss);
- Plan administration costs are to be expensed as incurred; and
- Disclosures relating to retirement benefit plans will be enhanced and will include discussions on risk associated with each plan, an explanation of items recognized in the consolidated financial statements and descriptions of the amount, timing and uncertainty on the Company's future cash flows.

The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The amendments are required to be applied retrospectively in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

As the Company adopted the amendments to IAS 19 in the first quarter of 2012, the Company has retrospectively adjusted the assets and liabilities as at January 28, 2012, January 29, 2011 and January 31, 2010 and income, expenses and cash flow for the 52-week periods ended January 28, 2012 and January 29, 2011.

*Impact on financial statement captions*

A summary of the impact arising from the application of the change in accounting policy is as follows:

*Consolidated Statements of Financial Position*

<i>(Increase (decrease) in CAD millions)</i>	As at January 28, 2012
Retirement benefit asset	\$ (187.7)
Retirement benefit liability	308.2
Net change to retirement benefit asset and liability	(495.9)
Deferred tax assets	84.0
Deferred tax liabilities	(43.6)
Net change to deferred tax assets and liabilities	127.6
Accumulated other comprehensive loss	(141.7)
Retained earnings	(226.6)

*Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss)*

<i>(Increase (decrease) in CAD millions, except per share amounts)</i>	53-Week Period Ended February 2, 2013
Selling, administrative and other expenses	\$ (24.4)
Earnings before income taxes	24.4
Deferred income tax expense	6.4
Net earnings	18.0
Basic net earnings per share	0.17
Diluted net earnings per share	0.17
Other comprehensive income	1.3
Total comprehensive income	19.3

*Consolidated Statements of Cash Flows*

<i>(Increase (decrease) in CAD millions)</i>	53-Week Period Ended February 2, 2013
Net earnings	\$ 18.0
Retirement benefit plans expense	(24.4)
Income tax expense	6.4

Please refer to Note 20 for the prior year comparative figures.

**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. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

On December 16, 2011, the IASB issued amendments to three previously released standards. They are as follows:

*IAS 32, Financial Instruments: Presentation ("IAS 32")*

The IASB amended IAS 32 to address inconsistencies in current practice in the application of offsetting criteria. The amendments provide clarification with respect to the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

*IFRS 7, Financial Instruments: Disclosures ("IFRS 7")*

The IASB first amended IFRS 7 on October 7, 2010, to require additional disclosures regarding transfers of financial assets. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company applied these amendments beginning the first quarter of its Fiscal 2012 year.

On December 16, 2011, the IASB approved amendments to IFRS 7, which establishes disclosure requirements to help users better assess the effect or potential effect of offsetting arrangements on a company's financial position. These amendments are effective for annual periods beginning on or after January 1, 2013. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact on the Company's disclosures.

*IFRS 9, Financial Instruments ("IFRS 9")*

The IASB issued IFRS 9 on November 12, 2009, which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments.

The first phase of the project provides guidance on the classification and measurement of financial assets. IFRS 9 was subsequently reissued on October 28, 2010, incorporating new requirements on accounting for financial liabilities. On December 16, 2011, the IASB amended the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. The amendment also provides relief from the requirement to recast comparative financial statements for the effect of applying IFRS 9. The Company is monitoring the impact of amendments to this standard and is currently assessing the impact on the Company's disclosures.

On June 16, 2011, the IASB issued amendments to the following standard:

*IAS 1, Presentation of Financial Statements ("IAS 1")*

The IASB has amended IAS 1 to require additional disclosures for items presented in OCI on a before-tax basis and requires items to be grouped and presented in OCI based on whether they are potentially reclassifiable to earnings or loss subsequently (i.e. items that may be reclassified and those that will not be reclassified to earnings or loss). These amendments are effective for annual periods beginning on or after July 1, 2012 and require full retrospective application. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact to its consolidated financial statements.

On May 12, 2011, the IASB issued four new standards, all of which are applicable to Annual Reporting periods beginning on or after January 1, 2013. The Company is currently assessing the impact of these standards on its consolidated financial statements and related note disclosures. The following is a list and description of these standards:

*IAS 28, Investments in Associates and Joint Ventures ("IAS 28")*

IAS 28 (as amended in 2011) supersedes IAS 28 (2003), *Investments in Associates* and outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those policies);

*IFRS 10, Consolidated Financial Statements ("IFRS 10")*

IFRS 10 establishes the standards for the presentation and preparation of consolidated financial statements when an entity controls one or more entities;

*IFRS 11, Joint Arrangements ("IFRS 11")*

IFRS 11 replaces IAS 31, *Interests in Joint Ventures* ("IAS 31") and requires that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly;

*IFRS 12, Disclosure of Involvement with Other Entities ("IFRS 12")*

IFRS 12, along with IFRS 11 described above, replaces IAS 31. IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of and the risks associated with, the entity's interests in joint ventures and the impact of those interests on its financial position, financial performance and cash flows; and

#### *IFRS 13. Fair Value Measurement ("IFRS 13")*

IFRS 13 provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. This standard applies when another IFRS requires or permits fair value measurements or disclosures. IFRS 13 does not apply for share-based payment transactions, leasing transactions and measurements that are similar to, but are not fair value.

#### **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 within the next fiscal year.

##### *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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16.

##### *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 Earnings (Loss) and Comprehensive Income (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. Determining whether the CGU is impaired requires an estimation of the recoverable amount of the CGU, which is the higher of the fair value less costs to sell and its value in use. To determine the recoverable amount of the CGU, management is required to estimate its fair value by

evaluating the expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 9 and Note 10.2.

#### *4.4 Impairment of goodwill*

Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the CGU to which the goodwill is allocated. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to “Goodwill” on the Consolidated Statements of Financial Position and a charge to “Selling, administrative and other expenses” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 10.1.

#### *4.5 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” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 20.

#### *4.6 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 based on historical behaviour and trends in redemption rates and redemption values.

Changes in estimates may result in changes to “Deferred revenue” (current and non-current) on the Consolidated Statements of Financial Position and an increase or decrease to “Revenue” and/or “Cost of goods and services sold” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 13.

#### *4.7 Derivative assets and liabilities*

All derivatives are measured at fair value. U.S. dollar option contracts are traded over-the-counter and give holders the right to buy, or sell, a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar option contracts are derived using a Black-Scholes valuation model. The Company is required to estimate various inputs which are used in this model 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 “Other comprehensive income (loss)” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 14.

#### *4.8 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 “Cost of goods and services sold” or “Selling, administrative and other expenses” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16.

#### *4.9 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 a building, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to “Property, plant and equipment”, “Principal payments on long-term obligations due within one year” 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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 19.

#### 4.10 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 earnings (loss) will be affected positively or negatively.

Changes in estimates or assumptions could cause changes to “Income taxes recoverable”, “Deferred tax 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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 22.

### 5. Cash and cash equivalents and interest income

#### Cash and cash equivalents

The components of cash and cash equivalents were as follows:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Cash	\$ 47.6	\$ 49.0
Cash equivalents		
Government treasury bills	159.9	199.9
Bank term deposits	—	121.0
Investment accounts	20.5	20.3
Restricted cash and cash equivalents	9.0	7.2
<b>Total cash and cash equivalents</b>	<b>\$ 237.0</b>	<b>\$ 397.4</b>

The components of restricted cash and cash equivalents are further discussed in Note 21.

#### Interest income

Interest income related primarily to cash and cash equivalents for the fiscal year ended February 2, 2013 totaled \$4.1 million (2011: \$1.7 million ). During Fiscal 2012, the Company received \$2.3 million (2011: \$1.6 million ) in cash related to interest income.

### 6. Accounts receivable, net

The components of accounts receivable, net were as follows:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Deferred receivables	\$ 0.9	\$ 1.3
Other receivables	75.3	114.9
<b>Total accounts receivable, net</b>	<b>\$ 76.2</b>	<b>\$ 116.2</b>

Other receivables primarily consist of amounts due from customers, amounts due from vendors and amounts due from JPMorgan Chase, as part of the Company's long-term credit card marketing and servicing alliance.

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 February 2, 2013		As at January 28, 2012
Greater than 30 days	\$	5.5	\$	3.2
Greater than 60 days		2.9		3.5
Greater than 90 days		6.8		6.4
Total	\$	15.2	\$	13.1

### 7. Inventories

The amount of inventory recognized as an expense during Fiscal 2012 was \$2,537.5 million (2011: \$2,703.5 million), which includes \$92.7 million (2011: \$115.4 million) of inventory write-downs. These expenses are included in "Cost of goods and services sold" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

Inventory is pledged as collateral under the Company's revolving credit facility.

### 8. Prepaid expenses

The components of prepaid expenses were as follows:

<i>(in CAD millions)</i>		As at February 2, 2013		As at January 28, 2012
Rent	\$	13.1	\$	14.2
Contracts		7.9		5.2
Advertising raw materials		1.7		1.5
Supplies		3.1		3.6
Insurance		0.4		0.3
Miscellaneous		3.9		3.1
Total prepaid expenses	\$	30.1	\$	27.9

## 9. Property, plant and equipment and investment property

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
<b>Cost or deemed cost</b>						
Balance at January 29, 2011	\$ 231.0	\$ 1,125.8	\$ 37.5	\$ —	\$ 1,151.5	\$ 2,545.8
Additions	—	31.1	—	3.5	45.1	79.7
Disposals	—	(4.8)	—	—	(17.8)	(22.6)
Balance at January 28, 2012	\$ 231.0	\$ 1,152.1	\$ 37.5	\$ 3.5	\$ 1,178.8	\$ 2,602.9
Additions	—	29.8	11.7	—	40.6	82.1
Disposals	—	(32.2)	(3.5)	—	(45.0)	(80.7)
<b>Balance at February 2, 2013</b>	<b>\$ 231.0</b>	<b>\$ 1,149.7</b>	<b>\$ 45.7</b>	<b>\$ 3.5</b>	<b>\$ 1,174.4</b>	<b>\$ 2,604.3</b>
<b>Accumulated depreciation and impairment</b>						
Balance at January 29, 2011	\$ —	\$ 656.4	\$ 6.5	\$ —	\$ 982.2	\$ 1,645.1
Depreciation expense <sup>1</sup>	—	51.0	5.5	1.0	49.3	106.8
Disposals	—	(3.8)	—	—	(17.2)	(21.0)
Balance at January 28, 2012	\$ —	\$ 703.6	\$ 12.0	\$ 1.0	\$ 1,014.3	\$ 1,730.9
Depreciation expense <sup>1</sup>	—	49.2	5.3	1.0	47.4	102.9
Disposals	—	(25.7)	(3.5)	—	(40.1)	(69.3)
Impairment losses (reversals) <sup>1</sup>	\$ —	\$ 0.5	\$ —	\$ —	\$ (0.7)	\$ (0.2)
<b>Balance at February 2, 2013</b>	<b>\$ —</b>	<b>\$ 727.6</b>	<b>\$ 13.8</b>	<b>\$ 2.0</b>	<b>\$ 1,020.9</b>	<b>\$ 1,764.3</b>
<b>Total property, plant and equipment</b>						
<b>Net Balance at February 2, 2013</b>	<b>\$ 231.0</b>	<b>\$ 422.1</b>	<b>\$ 31.9</b>	<b>\$ 1.5</b>	<b>\$ 153.5</b>	<b>\$ 840.0</b>
Net Balance at January 28, 2012	\$ 231.0	\$ 448.5	\$ 25.5	\$ 2.5	\$ 164.5	\$ 872.0

<sup>1</sup> Depreciation expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

### Impairment loss

The Company engaged independent qualified third party appraisers to conduct appraisals of its land and building properties. The valuation methods used to determine fair value include the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

During Fiscal 2012, the Company recognized an impairment loss of \$1.9M on the Montreal distribution centre (2011: Nil). The impairment loss is due to the application of a lower market rent rate in the valuation model in comparison to the prior year. The impairment loss of \$1.9M is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

During Fiscal 2012, the Company recorded an impairment loss reversal relating to leasehold improvements (net of accumulated amortization) of \$2.1 million in "Selling, administrative and other expenses". The impairment loss reversal was a result of the proceeds received from the agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) Full-line store. The Company did not record any reversals of previously recorded impairment losses during Fiscal 2011.

### Investment property

Investment property owned by the Company represents vacant land with no operating activity. During Fiscal 2012, there were no investment property additions, disposals or impairment losses. As at February 2, 2013, the carrying value and fair value of investment property were \$21.7 million and \$25.4 million, respectively (January 28, 2012: \$21.7 million and \$23.2 million).

## 10. Goodwill and intangible assets

### 10.1 Allocation of goodwill to cash generating units

Goodwill has been allocated for impairment testing purposes to the following CGUs:

- Corbeil
- Home Improvement Product Services

The following is a continuity of goodwill, as allocated by CGU:

<i>(in CAD millions)</i>	2012		2011	
<i>Corbeil</i>				
Balance, beginning of fiscal year	\$	2.6	\$	2.6
Balance, end of fiscal year	\$	2.6	\$	2.6
<i>Home Improvement Product Services</i>				
Balance, beginning of fiscal year	\$	6.1	\$	8.6
Impairment losses		—		(2.5)
Balance, end of fiscal year	\$	6.1	\$	6.1
<b>Total goodwill</b>	<b>\$</b>	<b>8.7</b>	<b>\$</b>	<b>8.7</b>

In the assessment of impairment, management used historical data and past experience as the key assumptions in the determination of the recoverable amount. The Company completed a test for goodwill impairment on an annual basis in Fiscal 2012 and Fiscal 2011.

The Company has made certain assumptions for the discount and terminal growth rates to reflect variations in expected future cash flows. These assumptions may differ or change quickly depending on economic conditions or other events. Therefore, it is possible that future changes in assumptions may negatively impact future valuations of CGU's and goodwill, which would result in further impairment losses.

- Corbeil

The recoverable amount of this CGU is determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated cash flow over a 10 year period and a terminal value equivalent to the present value of 5 times after-tax cash flow representing the value of the business beyond the 10 year cash flow projection. Cost to sell was estimated to be 2% of the fair value, which reflects management's best estimate of the potential costs associated with divesting of the businesses considered. A discount rate of 10.2% was applied to the cash flow projections based on management's best estimate of the CGU's weighted average cost of capital considering the risks facing the CGU. Annual growth rates of 5% for the first 5 years and 2% for the subsequent 5 years were used for Corbeil given the businesses' historical growth experience and anticipated growth. The recoverable amount was determined to be greater than the carrying value including the goodwill allocated to the Corbeil CGU, therefore, no impairment was identified in Fiscal 2012 (2011: Nil).

- Home Improvement Product Services

The recoverable amount of this CGU is determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated cash flow over a 10 year period. Cost to sell was estimated to be 2% of the fair value of the business. This reflects management's best estimate of the potential costs associated with divesting of the business. A discount rate of 12% per annum was used, based on management's best estimate of the CGU's weighted average cost of capital considering the risks facing the CGU. The cash flow projection is based on management's best estimate given the new strategic relationship with SHS Services Management Inc. to commence in Fiscal 2013. For additional information, please see Note 34. The recoverable amount was determined to be greater than the carrying value including the goodwill allocated to the Home Improvement Product Services CGU, therefore, no impairment was identified in Fiscal 2012 (2011: \$2.5 million).

## 10.2 Intangible assets

The following is a continuity of intangible assets:

<i>(in CAD millions)</i>		Application Software		Information System Software		Total
<b>Cost or deemed cost</b>						
Balance at January 29, 2011	\$	20.0	\$	124.6	\$	144.6
Additions		6.8		1.5		8.3
Disposals		—		(0.1)		(0.1)
<b>Balance at January 28, 2012</b>	<b>\$</b>	<b>26.8</b>	<b>\$</b>	<b>126.0</b>	<b>\$</b>	<b>152.8</b>
Additions		8.1		5.8		13.9
Disposals		—		(0.4)		(0.4)
<b>Balance at February 2, 2013</b>	<b>\$</b>	<b>34.9</b>	<b>\$</b>	<b>131.4</b>	<b>\$</b>	<b>166.3</b>
<b>Accumulated amortization</b>						
Balance at January 29, 2011	\$	10.2	\$	110.9	\$	121.1
Amortization expense <sup>1</sup>		3.7		4.4		8.1
<b>Balance at January 28, 2012</b>	<b>\$</b>	<b>13.9</b>	<b>\$</b>	<b>115.3</b>	<b>\$</b>	<b>129.2</b>
Amortization expense <sup>1</sup>		5.1		5.3		10.4
Disposals		—		(0.5)		(0.5)
<b>Balance at February 2, 2013</b>	<b>\$</b>	<b>19.0</b>	<b>\$</b>	<b>120.1</b>	<b>\$</b>	<b>139.1</b>
<b>Total intangible assets</b>						
<b>Net Balance at February 2, 2013</b>	<b>\$</b>	<b>15.9</b>	<b>\$</b>	<b>11.3</b>	<b>\$</b>	<b>27.2</b>
Net Balance at January 28, 2012	\$	12.9	\$	10.7	\$	23.6

<sup>1</sup> Amortization expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). No impairment losses were recognized on intangible assets for both Fiscal 2012 and Fiscal 2011.

## 11. Investment in joint ventures

The Company's investment in joint ventures includes its share of income or losses from its joint venture interests in 11 shopping centres across Canada, most of which contain a Sears store. Joint venture investments range from 15% to 50% and are co-owned with Westcliff Group and Ivanhoe Cambridge Properties. The jointly controlled entities and Sears ownership interest in each as at February 2, 2013 are listed below:

Entity Name	Properties	Joint Venture Partner	Ownership Interest
Carrefour Richelieu Realities (St-Jérôme)	Carrefour Richelieu	Westcliff Group	50%
Carrefour Richelieu Realities (St-Jean)	Carrefour du Nord	Westcliff Group	50%
Carrefour Richelieu Realities (Carrefour Angrignon)	Carrefour Angrignon	Westcliff Group	50%
Carrefour Richelieu Realities (Place Angrignon)	Place Angrignon	Westcliff Group	50%
Carrefour Richelieu Realities (Pierre Caisse)	Place Pierre Caisse	Westcliff Group	50%
Carrefour Richelieu Realities (Drummondville)	Promenades de Drummondville	Westcliff Group	50%
Méga-Centre Drummondville	Mega Centre Drummondville	Westcliff Group	50%
Société de Gestion des Neiges Ville- Marie	Various land holdings in Quebec, Canada	Westcliff Group	50%
133562 Canada Inc.	Various land holdings in Quebec, Canada	Westcliff Group	50%
172098 Canada Inc.	Drummondville Stripmall	Westcliff Group	50%
Kildonan Place	Kildonan Place	Ivanhoe Cambridge	20%
Regionaux (Les Rivières Shopping Centre)	Les Rivières Shopping Centre	Ivanhoe Cambridge	15%
Regionaux (Les Galeries de Hull)	Les Galeries de Hull	Ivanhoe Cambridge	15%

During the fourth quarter of 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of \$38.3 million, recognizing a pre-tax gain of \$8.6 million on the sale. During the third quarter of 2011, the Company sold its share of assets in Chatham Centre for net proceeds of \$1.6 million, recognizing a pre-tax gain of \$0.1 million on the sale.

The following represents the Company's share of investments in the assets and liabilities, revenues and expenses of the joint ventures:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Current assets	\$ 3.0	\$ 6.4
Non-current assets	287.9	333.5
Total assets	\$ 290.9	\$ 339.9
Current liabilities	\$ 5.8	\$ 7.9
Non-current liabilities	21.7	30.6
Total liabilities	\$ 27.5	\$ 38.5
Investment in joint ventures	\$ 263.4	\$ 301.4

<i>(in CAD millions)</i>	2012	2011
Revenues	\$ 46.2	\$ 48.0
Expenses		
Administrative and other expenses	19.8	23.3
Impairment loss	2.2	—
Finance costs	1.5	2.0
Tax expense	—	0.1
Depreciation expense	13.2	14.3
Share of income from joint ventures	\$ 9.5	\$ 8.3

#### *Impairment loss*

The Company engaged independent qualified third-party appraisers to conduct appraisals of its land and building properties. The valuation methods used to determine fair value include the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

During Fiscal 2012, the Company recognized an impairment loss of \$2.2 million on the Promenades de Drummondville property (2011: Nil). The fair value of these assets were determined based on an independent, qualified third-party appraisal. The impairment loss of \$2.2 million is included in "Share of income from joint ventures" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

#### **12. Other long-term assets**

The components of other long-term assets were as follows:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Income taxes recoverable	\$ 13.9	\$ 30.3
Prepaid rent	9.4	11.0
Receivables	3.3	6.6
Investments	1.3	1.3
Unamortized debt transaction costs	6.2	—
Other long-term assets	\$ 34.1	\$ 49.2

### 13. Deferred revenue

The components of deferred revenue were as follows:

<i>(in CAD millions)</i>		As at February 2, 2013		As at January 28, 2012
Arising from extended warranty service contracts <sup>(i)</sup>	\$	151.5	\$	144.6
Arising from unshipped sales <sup>(ii)</sup>		60.9		65.7
Arising from customer loyalty program <sup>(iii)</sup>		37.7		41.3
Arising from gift card issuances <sup>(iv)</sup>		25.5		29.1
Arising from vendor partnership agreements <sup>(v)</sup>		6.5		9.7
Other <sup>(vi)</sup>		6.1		6.8
<b>Total deferred revenue</b>	<b>\$</b>	<b>288.2</b>	<b>\$</b>	<b>297.2</b>
Current	\$	197.5	\$	208.0
Non-current		90.7		89.2
<b>Total deferred revenue</b>	<b>\$</b>	<b>288.2</b>	<b>\$</b>	<b>297.2</b>

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 Company's Sears Club loyalty program.
- (iv) Deferred revenue arising from the purchase of gift cards by customers that have not yet been redeemed for merchandise. At redemption of the gift card, the revenue is recognized.
- (v) Deferred revenue arising from multi-element partnership agreements with vendors. The revenue is recognized in accordance with the terms of the agreements.
- (vi) Other includes deferred revenue for goods that have not yet been fully delivered or services not yet rendered. The revenue is recognized when the goods have been delivered or by reference to the stage of completion of the service.

### 14. 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 and foreign currency. 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 and interest rate risk.

##### 14.1 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 and cash equivalents, accounts receivable and other long-term assets.

Cash and cash equivalents, accounts receivable and investments included in other long-term assets of \$314.5 million as at February 2, 2013 (January 28, 2012: \$514.9 million) expose the Company to credit risk should the borrower default on maturity of the investment. 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 customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at February 2, 2013, no customers represented greater than 10.0% of the Company's accounts receivable (January 28, 2012 : one customer represented 26.5% of the Company's accounts receivable).

#### 14.2 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 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 February 2, 2013:

<i>(in CAD millions)</i>	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	\$ 482.0	\$ 482.0	\$ 482.0	\$ —	\$ —	\$ —
Long-term obligations including payments due within one year <sup>1</sup>	36.1	48.4	7.6	11.6	9.7	19.5
Operating lease obligations <sup>2</sup>	n/a	496.7	96.7	155.2	98.9	145.9
Minimum purchase commitments <sup>2,4</sup>	n/a	17.5	5.0	12.5	—	—
Royalties <sup>2</sup>	n/a	2.3	1.8	0.5	—	—
Retirement benefit plans obligations <sup>2,3</sup>	415.7	114.9	29.3	58.7	26.9	—
	<b>\$ 933.8</b>	<b>\$ 1,161.8</b>	<b>\$ 622.4</b>	<b>\$ 238.5</b>	<b>\$ 135.5</b>	<b>\$ 165.4</b>

<sup>1</sup> Cash flow maturities related to long-term obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%. The Company had no borrowings on the Credit Facility at February 2, 2013.

<sup>2</sup> Minimum purchase commitments, operating lease obligations, retirement benefit plans funding obligations and royalties are not reported in the Consolidated Statements of Financial Position.

<sup>3</sup> Payments beyond 2013 are subject to a funding valuation to be completed as at December 31, 2013. Until then, the Company is obligated to fund in accordance with the most recent valuation completed as at December 31, 2010.

<sup>4</sup> Certain vendors require minimum purchase commitment levels over the term of the contract.

Management believes that cash on hand, future cash flow generated from operations and availability of current and future funding will be adequate to support these financial liabilities.

#### 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.

#### 14.3 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 February 2, 2013 and January 28, 2012, there were no contracts outstanding and therefore no derivative financial assets nor derivative financial liabilities were recognized in the Consolidated Statements of Financial Position.

During Fiscal 2012, the Company recorded a loss of \$0.6 million (2011: gain of \$0.9 million), relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The period end exchange rate was 1.0027 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net earnings (loss) of \$4.3 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable.

#### 14.4 Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. As at February 2, 2013, the Company had no interest rate swap contracts in place (January 28, 2012: nil).

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.

Cash and cash equivalents and borrowings under the secured revolving credit facility are subject to interest rate risk. The total subject to interest rate risk as at February 2, 2013 was a net asset of \$238.3 million (January 28, 2012: net asset of \$297.7 million). An increase or decrease in interest rates of 0.25% would cause an immaterial after-tax impact on net (loss) earnings.

#### 14.5 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 <sup>1</sup>	As at February 2, 2013	As at January 28, 2012
Available for sale				
Cash equivalents	Cash and cash equivalents <sup>1</sup>	Level 1	159.9	199.9
Cash equivalents	Cash and cash equivalents <sup>1</sup>	Level 2	20.5	20.3
Fair value through profit or loss				
Long-term investments	Other long-term assets	Level 3	1.3	1.3

<sup>1</sup> Interest income related to cash and cash equivalents is disclosed in Note 5.

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 short-term in nature.

### 15. 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:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Total accounts payable	\$ 305.7	\$ 401.9
Payroll and employee benefits	29.1	28.7
Merchandise accruals	71.0	45.3
Short-term leasehold inducements	9.8	8.4
Advertising accruals	12.4	12.7
Other accrued liabilities	54.0	79.8
Total accrued liabilities	\$ 176.3	\$ 174.9
Total accounts payable and accrued liabilities	\$ 482.0	\$ 576.8

### 16. Provisions

The following is a continuity which shows the change in provisions during Fiscal 2012 and Fiscal 2011:

<i>(in CAD millions)</i>	As at January 28, 2012	Additional Provisions	Release of Provisions	Reversed Provisions	As at February 2, 2013
Insurance <sup>(i)</sup>	\$ 19.4	\$ 0.2	\$ (1.3)	\$ —	\$ 18.3
Returns and allowances <sup>(ii)</sup>	12.2	9.8	(9.0)	—	13.0
Warranties <sup>(iii)</sup>	11.0	0.3	(0.2)	(0.1)	11.0
Sales tax <sup>(iv)</sup>	1.6	2.5	(0.3)	(1.4)	2.4
Severance <sup>(v)</sup>	13.5	19.3	(16.0)	(2.1)	14.7
Environmental <sup>(vi)</sup>	4.6	2.9	(1.3)	(1.4)	4.8
Other provisions <sup>(vii)</sup>	3.0	1.1	(1.2)	(0.4)	2.5
Total provisions	\$ 65.3	\$ 36.1	\$ (29.3)	\$ (5.4)	\$ 66.7
Current	\$ 64.8	\$ 36.1	\$ (29.2)	\$ (5.4)	\$ 66.3
Non-current <sup>(iii)</sup>	0.5	—	(0.1)	—	0.4
Total provisions	\$ 65.3	\$ 36.1	\$ (29.3)	\$ (5.4)	\$ 66.7

<i>(in CAD millions)</i>	As at January 29, 2011	Additional Provisions	Release of Provisions	Reversed Provisions	As at January 28, 2012
Insurance <sup>(i)</sup>	\$ 23.8	\$ 1.4	\$ (5.8)	\$ —	\$ 19.4
Returns and allowances <sup>(ii)</sup>	14.3	12.2	(14.3)	—	12.2
Warranties <sup>(iii)</sup>	13.1	—	(2.1)	—	11.0
Sales tax <sup>(iv)</sup>	5.4	—	(3.8)	—	1.6
Severance <sup>(v)</sup>	2.7	12.9	(2.1)	—	13.5
Environmental <sup>(vi)</sup>	5.0	2.9	(2.0)	(1.3)	4.6
Other provisions <sup>(vii)</sup>	1.6	2.7	(1.3)	—	3.0
Total provisions	\$ 65.9	\$ 32.1	\$ (31.4)	\$ (1.3)	\$ 65.3
Current	\$ 65.3	\$ 32.1	\$ (31.3)	\$ (1.3)	\$ 64.8
Non-current <sup>(iii)</sup>	0.6	—	(0.1)	—	0.5
Total provisions	\$ 65.9	\$ 32.1	\$ (31.4)	\$ (1.3)	\$ 65.3

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. Costs incurred to service warranty claims relating to this provision are expected to be paid out over the next 2 years. 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 amount of expected reimbursements recorded as at February 2, 2013 was \$2.6 million (January 28, 2012: \$2.3 million) and is reflected in "Accounts receivable, net" and "Other long-term assets" in the Consolidated Statements of Financial Position. The provision for warranty claims is comprised of both a current (claims realized within 12 months) and non-current component (claims realized between 13 and 24 months), with the balances respectively reflected in "Provisions" and "Other long-term liabilities" (see Note 18) 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 4 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 who have made claims. Uncertainty exists 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 12 months, this provision is classified as current.
- (vi) The environmental provision represents the costs to remediate environmental contamination associated with decommissioning auto centres as well as the cost to remove asbestos to meet regulatory requirements. The provision is based on assessments conducted by third parties as well as historical data. Given the timing of payments to remediate is uncertain and that the Company has no unconditional right to defer these payments past at least 12 months, this provision is classified as current.
- (vii) The provisions for other represent the Company's best estimate of various reserves relating to the future outflow of economic resources due to obligations for miscellaneous claims. The estimates for these provisions have been made on the basis of information currently available to determine the obligations. These provisions are classified as current.

## 17. Long-term obligations and finance costs

### *Long-term obligations*

Total outstanding long-term obligations were as follows:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Finance lease obligations - Current	5.2	5.1
Total principal payments on long-term obligations due within one year	\$ 5.2	\$ 5.1
Secured revolving credit facility, net	\$ —	\$ 93.1
Finance lease obligations - Non-current	30.9	24.5
Total long-term obligations	\$ 30.9	\$ 117.6

The Company's debt consists of a secured credit facility and 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. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability under the Credit Facility was \$501.5 million as at February 2, 2013 (January 28, 2012: \$415.1 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately \$300.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders, with respect to the Company's unfunded pension liability by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to \$150.0 million. The potential additional reserve amount may increase or decrease in the future based on estimated net pension liabilities.

The Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at February 2, 2013.

As at February 2, 2013, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of \$6.2 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (January 28, 2012: borrowings of \$93.1 million, net of unamortized transaction costs of \$8.0 million, included in "Long-term obligations"). In addition, the Company had \$19.7 million (January 28, 2012: \$6.3 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments including third party payments, utility commitments and defined benefit plan deficit funding (See Note 20 for additional information on Retirement benefits plans). Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at February 2, 2013, the Company had outstanding merchandise letters of credit of U.S. \$7.9 million (January 28, 2012: U.S. \$5.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

#### *Finance costs*

Interest expense on long-term obligations, including finance lease obligations, the current portion of long-term obligations, amortization of transaction costs and commitment fees on the unused portion of the Credit Facility for Fiscal 2012 totaled \$9.4 million (2011: \$9.3 million). Interest expense is included in "Finance costs" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). Also included in "Finance costs" for Fiscal 2012, were \$3.9 million (2011: \$5.2 million) of interest on accruals for uncertain tax positions and nil (2011: \$1.5 million) related to interest on a sales tax assessment.

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 2012 totaled \$7.7 million (2011: \$6.8 million).

### **18. Other long-term liabilities**

The components of other long-term liabilities were as follows:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Leasehold inducements	\$ 67.1	\$ 66.8
Straight-line rent liability	5.0	6.4
Miscellaneous	2.6	2.6
<b>Total other long-term liabilities</b>	<b>\$ 74.7</b>	<b>\$ 75.8</b>

The non-current portion of the warranties provision (see Note 16) is reflected in the miscellaneous component of "Other long-term liabilities" in the Consolidated Statements of Financial Position.

## 19. Leasing arrangements

### 19.1 Finance lease arrangements – Company as lessee

As at February 2, 2013, 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 an option 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 February 2, 2013 was \$33.4 million (January 28, 2012: \$28.0 million).

As at February 2, 2013, the corresponding finance lease obligations, current and non-current, were \$5.2 million (January 28, 2012: \$5.1 million) and \$30.9 million (January 28, 2012: \$24.5 million), included in the Consolidated Statements of Financial Position under “Principal payments on long-term obligations due within one year” and “Long-term obligations,” respectively (see Note 17).

The table below presents the future minimum lease payments of the Company’s finance lease obligations:

<i>(in CAD millions)</i>	As at February 2, 2013			As at January 28, 2012		
	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	\$ 7.6	\$ 2.4	\$ 5.2	\$ 7.0	\$ 1.9	\$ 5.1
2 years	6.5	2.1	4.4	6.0	1.5	4.5
3 years	5.1	1.9	3.2	4.8	1.2	3.6
4 years	4.8	1.6	3.2	3.3	1.1	2.2
5 years	4.9	1.4	3.5	3.1	0.9	2.2
Thereafter	19.5	2.9	16.6	14.2	2.2	12.0
Total minimum payments	\$ 48.4	\$ 12.3	\$ 36.1	\$ 38.4	\$ 8.8	\$ 29.6

Interest on finance lease obligations is recognized immediately in “Finance costs” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) (see Note 17). Included in total “Finance costs” in Fiscal 2012, was \$2.4 million (2011: \$2.2 million) of interest related to finance lease obligations.

### 19.2 Operating lease arrangements – Company as lessor

The Company has a number of agreements to sub-lease premises to third parties, which are all classified as operating leases. During Fiscal 2012, total sub-lease income from leased premises was \$3.0 million (2011: \$2.8 million).

As at February 2, 2013, total future minimum lease payments receivable from third party tenants were \$10.3 million (2011: \$9.7 million).

### 19.3 Operating lease arrangements – Company as lessee

As at February 2, 2013, the Company had operating lease arrangements related to leased 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 2012, contingent rent recognized as an expense in respect of operating leases totaled \$0.9 million (2011: \$0.9 million). Rental expense for all operating leases totaled \$105.6 million in Fiscal 2012 (2011: \$103.4 million). These expenses are included in “Selling, administrative and other expenses” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

The table below presents the contractual maturities of future minimum lease payments for the Company's operating leases:

<i>(in CAD millions)</i>		As at February 2, 2013		As at January 28, 2012
Within 1 year	\$	96.7	\$	102.7
2 years		85.1		86.2
3 years		70.1		66.8
4 years		52.9		55.9
5 years		46.0		42.1
Thereafter		145.9		156.4
<b>Total operating lease obligations <sup>1</sup></b>	<b>\$</b>	<b>496.7</b>	<b>\$</b>	<b>510.1</b>

<sup>1</sup> Operating lease obligations are not reported in the Consolidated Statements of Financial Position

## 20. Retirement benefit plans

The Company currently maintains a defined benefit registered pension plan and a defined contribution registered pension plan which covers eligible, regular full-time associates as well as some of its part-time associates. The defined benefit plan 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 plan. The non-registered portion of the plan is maintained to enable certain associates 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 post retirement plan which provides life insurance, medical and dental benefits to eligible retired associates 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 associates. The Company's accounting policies related to retirement benefit plans are described in Note 2.15.

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. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for associates who had not achieved the eligibility criteria for these non-pension post retirement benefits as at December 31, 2008. Effective December 2009, the Company made the decision to change funding for non pension post 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 associates are paid on a pay-as-you-go basis from the health and welfare trust and are no longer funded by the Company.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid \$18.1 million and recorded a pre-tax settlement gain of \$21.1 million (\$21.9 million net of \$0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

The Company early adopted the amendments to IAS 19 beginning January 29, 2012, with retrospective application to prior reporting periods. A description of the nature of the change in accounting policy and a summary of its impact to the Company's consolidated financial statements are included in Note 2.

### *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.

*Asset-liability matching strategies*

Beginning in Fiscal 2011, the Company adopted an asset-liability matching strategy in the Other Benefits Plan wherein assets are invested in accordance with a short-term fixed income mandate. The current portfolio is primarily bonds with maturities not exceeding two years. This investment strategy is aligned with the expected use of the assets, which is to fund the Company's retiree health benefits and short-term disability payments within the next two years.

*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. At February 2, 2013 a letter of credit with a notional value of \$4.6 million was on deposit with the Trustee for the non-registered portion of the defined benefit plan.

In January 2013, the Company announced the termination of 700 associates. This event did not require the recording of a curtailment as its impact on the pension plan was not significant.

*Maturity profile of retirement benefit plan obligations*

The weighted average durations of the Registered Retirement Plans, Non-registered Pension Plan and Other Benefit Plan are all approximately 11 years.

The Company's contractual cash flow maturity relating to retirement benefit plan obligation payments is included under "Liquidity Risk" in Note 14.

### 20.1 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, 2010. The next actuarial valuation assessment is required as of December 31, 2013. An actuarial valuation of the health and welfare trust is performed at least every 3 years, with the last valuation completed as of September 1, 2011.

(in CAD millions)	2012				2011			
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
<b>Defined benefit plan assets</b>								
Fair value, beginning balance	\$ 1,178.9	\$ 49.3	\$ 68.7	\$1,296.9	\$ 1,241.7	\$ 47.4	\$ 89.9	\$1,379.0
Interest income	54.0	2.3	2.6	58.9	64.8	2.6	4.1	71.5
Remeasurement gain (loss) on return on plan assets	73.7	0.1	(1.9)	71.9	(14.8)	(1.6)	(1.0)	(17.4)
Employer contributions	32.7	1.5	18.8	53.0	0.9	6.4	0.7	8.0
Administrative expenses	(0.4)	—	—	(0.4)	(0.5)	—	(0.1)	(0.6)
Benefits paid <sup>1</sup>	(119.8)	(3.7)	(43.7)	(167.2)	(113.2)	(5.5)	(24.9)	(143.6)
Fair value of plan assets, ending balance	\$ 1,219.1	\$ 49.5	\$ 44.5	\$1,313.1	\$ 1,178.9	\$ 49.3	\$ 68.7	\$1,296.9
<b>Defined benefit plan obligations</b>								
Accrued obligations, beginning balance	\$ 1,377.7	\$ 50.1	\$ 321.4	\$1,749.2	\$ 1,354.7	\$ 47.8	\$ 302.7	\$1,705.2
Total current service cost	0.9	—	—	0.9	0.9	—	—	0.9
Interest cost	62.6	2.3	14.4	79.3	70.9	2.5	15.8	89.2
Benefits paid	(119.8)	(3.7)	(35.6)	(159.1)	(113.2)	(5.5)	(16.4)	(135.1)
Settlement gain	—	—	(21.9)	(21.9)	—	—	—	—
Actuarial losses	62.7	1.7	16.0	80.4	64.4	5.3	19.3	89.0
Accrued plan obligations, ending balance	\$ 1,384.1	\$ 50.4	\$ 294.3	\$1,728.8	\$ 1,377.7	\$ 50.1	\$ 321.4	\$1,749.2
Funded status of plan – (deficit)	(165.0)	(0.9)	(249.8)	(415.7)	(198.8)	(0.8)	(252.7)	(452.3)
Retirement benefit liability at end of fiscal year, net	\$ (165.0)	\$ (0.9)	\$ (249.8)	\$ (415.7)	\$ (198.8)	\$ (0.8)	\$ (252.7)	\$ (452.3)
The retirement benefit liability is included in the Company's Consolidated Statements of Financial Position as follows:								
Retirement benefit liability	\$ (165.0)	\$ (0.9)	\$ (249.8)	\$ (415.7)	\$ (198.8)	\$ (0.8)	\$ (252.7)	\$ (452.3)
Retirement benefit liability at end of fiscal year, net	\$ (165.0)	\$ (0.9)	\$ (249.8)	\$ (415.7)	\$ (198.8)	\$ (0.8)	\$ (252.7)	\$ (452.3)

<sup>1</sup> 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.

## 20.2 Fair value of plan assets

The fair value of plan assets disaggregated by asset class and fair value hierarchy level as at February 2, 2013 and January 28, 2012 was as follows:

	As at February 2, 2013				As at January 28, 2012			
	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 1	\$ 41.2	\$ 25.2	\$ 0.1	\$ 66.5	\$ 25.5	\$ 26.3	\$ —	\$ 51.8
Subtotal	41.2	25.2	0.1	66.5	25.5	26.3	—	51.8
<i>Corporate bonds and notes</i>								
Level 1	—	—	—	—	—	—	—	—
Level 2	604.7	—	12.3	617.0	550.8	—	18.6	569.4
Level 3	59.7	—	0.9	60.6	63.1	—	0.9	64.0
Subtotal	664.4	—	13.2	677.6	613.9	—	19.5	633.4
<i>U.S. Government bonds and securities</i>								
Level 1	—	—	—	—	0.1	—	—	0.1
Level 2	0.9	—	—	0.9	1.8	—	—	1.8
Subtotal	0.9	—	—	0.9	1.9	—	—	1.9
<i>Common stock, preferred stock and REITS</i>								
Level 1	181.7	—	—	181.7	219.6	—	—	219.6
Level 2	—	—	—	—	0.9	—	—	0.9
Subtotal	181.7	—	—	181.7	220.5	—	—	220.5
<i>Common or collective trusts</i>								
Level 1	—	—	—	—	—	—	—	—
Level 2	251.8	24.3	—	276.1	282.9	23.0	—	305.9
Level 3	—	—	—	—	—	—	—	—
Subtotal	251.8	24.3	—	276.1	282.9	23.0	—	305.9
<i>Short-term collective investment funds</i>								
Level 1	—	—	—	—	—	—	—	—
Level 2	66.0	—	0.8	66.8	6.4	—	0.9	7.3
Subtotal	66.0	—	0.8	66.8	6.4	—	0.9	7.3
<i>Hedge funds, options and futures</i>								
Level 2	—	—	—	—	—	—	—	—
Level 3	3.0	—	—	3.0	15.4	—	0.2	15.6
Subtotal	3.0	—	—	3.0	15.4	—	0.2	15.6
<i>Receivables</i>								
Level 1	6.8	—	0.5	7.3	9.7	—	0.7	10.4
Level 2	(0.8)	—	—	(0.8)	(7.1)	—	—	(7.1)
Subtotal	6.0	—	0.5	6.5	2.6	—	0.7	3.3
<i>Miscellaneous other assets</i>								
Level 1	—	—	—	—	—	—	—	—
Level 2	4.1	—	29.9	34.0	9.8	—	47.4	57.2
Level 3	—	—	—	—	—	—	—	—
Subtotal	4.1	—	29.9	34.0	9.8	—	47.4	57.2
Total fair value of plan assets	\$ 1,219.1	\$ 49.5	\$ 44.5	\$ 1,313.1	\$ 1,178.9	\$ 49.3	\$ 68.7	\$ 1,296.9

The three levels of the fair value hierarchy referenced above are discussed in Note 14.5.

### 20.3 Plan assets investment allocation

During Fiscal 2011, the Company changed the target asset allocation to 55-75% fixed income and 25-45% equity for the registered and non-registered pension plans. For the assets in the health and welfare trust, included in Other Benefit Plans, the Company changed the asset allocation to 100% fixed income. As at the end of Fiscal 2012 and 2011, the assets were in line with the target allocation range, with the transitioning of assets from alternative investments near completion. 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.

At as the end of the current and prior fiscal years, plan assets were invested in the following classes of securities:

	As at February 2, 2013			As at January 28, 2012		
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Fixed income securities	72.3%	66.5%	100.0%	69.8%	69.5%	99.7%
Alternative investments	0.2%	—%	—%	1.3%	0.4%	0.3%
Equity securities	27.5%	33.5%	—%	28.9%	30.1%	—%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

### 20.4 Pension assumptions

The significant actuarial assumptions were as follows (weighted average assumptions) as at February 2, 2013 and January 28, 2012 :

	As at February 2, 2013			As at January 28, 2012		
	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	4.20%	4.20%	4.20%	4.70%	4.70%	4.60%
Benefit plans expense	4.20%	4.20%	4.20%	4.70%	4.70%	4.60%
Rate of compensation increase used in calculation of						
Accrued benefit plan obligations	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Benefit plans expense	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Expected long-term rate of return on plan assets used in calculation of benefit plans expense	4.20%	4.20%	4.20%	4.70%	4.70%	4.60%
Health care cost trend rates						
Used in calculation of accrued benefit plan obligations			6.14%			6.23%
Used in calculation of benefit plans expense			6.23%			6.78%
Cost trend rate declines to			3.82%			3.82%
Year that the rate reaches assumed constant			2030			2030

### 20.5 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>	2012			2011		
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
<b>Discount rate sensitivity</b>						
Accrued benefit plan obligations						
1% increase in discount rate	\$ (153.4)	\$ (4.8)	\$ (29.6)	\$ (150.2)	\$ (5.0)	\$ (31.0)
1% decrease in discount rate	190.5	5.7	35.5	187.7	6.0	37.0
Benefit plans expense						
1% increase in discount rate	(6.7)	(0.3)	0.8	(8.1)	(0.1)	0.2
1% decrease in discount rate	5.1	0.2	(1.2)	6.1	—	(0.5)
<b>Rate of compensation increase sensitivity</b>						
Accrued benefit plan obligations						
0.5% increase in rate of compensation increase	18.5	0.5	n/a	21.9	1.0	n/a
0.5% decrease in rate of compensation increase	(16.4)	(0.3)	n/a	(19.4)	(0.6)	n/a
Benefit plans expense						
0.5% increase in rate of compensation increase	1.0	—	n/a	1.1	—	n/a
0.5% decrease in rate of compensation increase	(0.9)	—	n/a	(1.0)	—	n/a
<b>Health care cost trend rate sensitivity</b>						
Accrued benefit plan obligations						
1% increase in health care trend rate	n/a	n/a	30.7	n/a	n/a	29.2
1% decrease in health care trend rate	n/a	n/a	(26.1)	n/a	n/a	(25.0)
Benefit plans expense						
1% increase in health care trend rate	n/a	n/a	1.3	n/a	n/a	1.8
1% decrease in health care trend rate	n/a	n/a	(1.2)	n/a	n/a	(1.8)

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 2011.

### 20.6 Retirement benefit plans expense and contributions

The expense for the defined benefit, defined contribution and other benefit plans for Fiscal 2012 and Fiscal 2011, was as follows:

(in CAD millions)	2012				2011			
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Current service cost, net of employee contributions	\$ 0.9	\$ —	\$ —	\$ 0.9	\$ 0.9	\$ —	\$ —	\$ 0.9
Net interest	8.7	(0.1)	11.8	20.4	6.1	(0.1)	11.7	17.7
Settlement gain	—	—	(21.9)	(21.9)	—	—	—	—
Administrative expenses	0.4	—	—	0.4	0.5	—	0.1	0.6
Net defined benefit plans expense (income)	\$ 10.0	\$ (0.1)	\$ (10.1)	\$ (0.2)	\$ 7.5	\$ (0.1)	\$ 11.8	\$ 19.2
Net defined contribution plan expense	9.7	—	0.2	9.9	10.7	—	0.3	11.0
Total retirement benefit plans expense (income) <sup>1</sup>	\$ 19.7	\$ (0.1)	\$ (9.9)	\$ 9.7	\$ 18.2	\$ (0.1)	\$ 12.1	\$ 30.2

<sup>1</sup> Not included in total expense recognized are short-term disability payments of \$8.1 million (2011: \$8.4 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 Earnings (Loss) and Comprehensive Income (Loss).

Total cash contributions made by the Company to its defined benefit, defined contribution and other benefit plans, including payments to settle health and dental benefits of eligible members covered under the non-pension post retirement plan, for the fiscal year ended February 2, 2013 were \$63.0 million (2011: \$17.9 million). For Fiscal 2013, it is estimated that the Company will make contributions of approximately \$44.5 million to its defined benefit, defined contribution and other benefit plans, which include funding obligations as described in Note 14.2.

### 20.7 Remeasurements of the net defined retirement benefit liability

(in CAD millions)	2012				2011			
	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	\$ 73.7	\$ 0.1	\$ (1.9)	\$ 71.9	\$ (14.8)	\$ (1.6)	\$ (1.0)	\$ (17.4)
Actuarial gain (loss) due to change in demographic	—	—	—	—	19.0	0.3	(0.6)	18.7
Actuarial loss due to change in financial assumptions	(80.9)	(2.5)	(16.0)	(99.4)	(108.6)	(3.6)	(27.0)	(139.2)
Actuarial gain (loss) due to all other experiences	18.2	0.8	—	19.0	25.2	(2.0)	8.2	31.4
Total pre-tax remeasurement losses	\$ 11.0	\$ (1.6)	\$ (17.9)	\$ (8.5)	\$ (79.2)	\$ (6.9)	\$ (20.4)	\$ (106.5)
Income tax recovery on remeasurement losses				3.5				27.4
Total remeasurement losses, net of income taxes				\$ (5.0)				\$ (79.1)

<sup>1</sup> Total remeasurement losses, net of income taxes, are included in "Other comprehensive loss" in the Company's Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

The actuarial losses associated with changes in financial assumptions are due to changes in the discount rate. The discount rate as at February 2, 2013 decreased 0.5% for the Registered Retirement Plans and the Non-registered Pension Plan (2011: a decrease of 0.7%), and 0.4% for the Other Benefits Plan (2011: a decrease of 0.8%).

## 21. Contingent liabilities

### 21.1 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 Company's Consolidated Financial Statements, including its Consolidated Statements of Financial Position, Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), and Consolidated Statements of Cash Flows.

### 21.2 Commitments and guarantees

#### Commitments

As at February 2, 2013, cash and cash equivalents that are restricted represent cash and investments pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program of \$9.0 million (January 28, 2012: \$7.2 million), which is the Canadian equivalent of U.S. \$9.0 million (January 28, 2012: U.S. \$7.2 million).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 14.2 "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 \$2.3 million as at February 2, 2013 (January 28, 2012: \$3.1 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 Company has also provided certain indemnification agreements in connection with the sale of the credit and financial services operations in November 2005. 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.

## 22. Income taxes

The average combined federal and provincial statutory income tax rate applied to the Company was 25.5% for Fiscal 2012 (2011: 28.5%) due to lower legislated statutory tax rates in the current year. A reconciliation of income taxes at the average statutory tax to actual income tax expense for Fiscal 2012 and Fiscal 2011 is as follows:

<i>(in CAD millions)</i>	2012		2011	
Earnings (loss) before income taxes	\$	114.2	\$	(56.9)
Income taxes at the average statutory tax rate	\$	29.1	\$	(16.2)
Increase (decrease) in income taxes resulting from				
Non-taxable portion of capital gain		(19.7)		—
Non-deductible items		1.7		2.1
Prior year assessments		2.7		5.1
Prior year true-up		—		(0.1)
		<b>13.8</b>		<b>(9.1)</b>
Effective tax rate before the following adjustments		<b>12.1%</b>		16.0%
Changes in tax rates or imposition of new taxes		<b>(0.8)</b>		2.5
Total income tax expense (recovery)	\$	13.0	\$	(6.6)
Effective tax rate		<b>11.4%</b>		11.6%

The Company's total net cash refunds or payments of income taxes for the current year was a net refund of \$4.9 million (2011: net payment of \$21.6 million).

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 2012, the Company recorded charges for interest on prior period tax re-assessments and accruals for uncertain tax positions as described in the table below, all included in the Consolidated Statement of Net Earnings (Loss) and Comprehensive Income (Loss) as follows:

<i>(in CAD millions)</i>	2012		2011	
Finance costs	\$	(3.9)	\$	(5.2)
Income tax recovery (expense):				
Current	\$	(5.4)	\$	(17.9)
Deferred	\$	2.2	\$	12.8
Total charges on uncertain tax positions	\$	(7.1)	\$	(10.3)

As the Company routinely evaluates and provides for potentially unfavourable outcomes, with respect to any tax audits, the Company believes that, other than as noted above, the final disposition of tax audits will not have a material adverse effect on liquidity.

During Fiscal 2012, the tax authorities settled a disputed tax assessment with the Company and refunded the associated deposit. As a result, the Company reclassified \$28.2 million from "Other long-term assets" to "Income taxes recoverable" in the Consolidated Statement of Financial Position. The Company received \$29.4 million in net refunds of tax and interest in respect of this issue and recognized \$1.9 million net interest income relating to this settlement in "Interest income" in the Consolidated Statement of Net Earnings (Loss) and Comprehensive Income (Loss).

In Fiscal 2012, the Company received re-assessments to previous tax filings which the Company is disputing. The Company expects to place \$54.9 million on deposit with the tax authorities relating to these disputed tax matters while the issues are being resolved. During Fiscal 2012, the Company paid \$33.5 million of the anticipated deposit of which \$11.1 million has been included in "Other long-term assets" and \$22.4 million has been included in "Income taxes recoverable" in the Consolidated Statement of Financial Position as at February 2, 2013.

Included in "Other long-term assets" in the Consolidated Statements of Financial Position, as at February 2, 2013, were receivables of \$13.9 million (January 28, 2012: \$30.3 million) related to payments made by the Company for disputed tax assessments. Of the \$33.5 million paid by the Company in deposits during the year for tax disputes, \$11.1 million in related payments was recorded in Long Term Recoverable.

The tax effects of the significant components of temporary timing differences giving rise to the Company's net deferred tax assets and liabilities were as follows:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Prepaid expenses	\$ —	\$ (0.4)
Accrued liabilities and other long-term liabilities	57.1	57.2
Deferred retirement benefit plans	43.8	51.4
Other post-retirement benefits	66.0	65.0
Amounts related to tax losses carried forward	0.1	0.2
Non-depreciable property, plant and equipment	(37.3)	(36.6)
Depreciable property, plant and equipment	(49.5)	(56.6)
Deferred charges	(1.5)	(0.3)
Other	(0.7)	(0.7)
Subtotal	\$ 78.0	\$ 79.2
Amounts related to other comprehensive income (loss)	—	0.1
Total deferred tax assets (liabilities), net	\$ 78.0	\$ 79.3
Deferred tax assets	\$ 83.8	\$ 84.6
Deferred tax liabilities	(5.8)	(5.3)
Total deferred tax assets (liabilities), net	\$ 78.0	\$ 79.3

### 23. Operating segments

In order to identify the Company's reportable segments, the Company uses the process outlined in IFRS 8, which includes the identification of the Chief Operating Decision Maker, the identification of operating segments, which has been done based on Company formats, and the aggregation of operating segments. The Company has aggregated its operating segments into one reportable segment, which derives its revenue from the sale of merchandise and related services to customers.

### 24. Capital stock

On May 24, 2011, the Company renewed the Normal Course Issuer Bid with the Toronto Stock Exchange ("TSX") for the period of May 25, 2011 to May 24, 2012 ("2011 NCIB"). Pursuant to the 2011 NCIB, the Company was permitted to purchase for cancellation up to 5% of its issued and outstanding common shares, equivalent to 5,268,599 common shares based on the common shares issued and outstanding as at May 9, 2011. The Company did not renew its 2011 NCIB subsequent to May 24, 2012.

During Fiscal 2012, 870,633 shares were purchased for \$9.7 million (2011: 2,668,800 shares were purchased for \$42.0 million) and cancelled. The impact of the share repurchases was a decrease to "Capital stock" and "Retained earnings" in the Consolidated Statements of Financial Position of \$0.1 million and \$9.6 million (2011: \$0.4 million and \$41.6 million), respectively.

On May 17, 2012 the Company announced Sears Holdings' plan to pursue a distribution, on a pro rata basis, to its shareholders, of a portion of its holdings in the Company such that, immediately following the distribution, Sears Holdings would retain approximately 51% of the issued and outstanding shares of Sears Canada. The distribution was made on November 13, 2012 to Sears Holdings' shareholders of record as of the close of business on November 1, 2012, the record date for the distribution. Every share of Sears Holdings common stock held as of the close of business on the record date entitled the holder to a distribution of 0.4283 Sears Canada common shares. In connection with the announced distribution, the Company has filed documents with the United States Securities and Exchange Commission (SEC).

During Fiscal 2012, the Company distributed \$101.9 million to holders of common shares as an extraordinary cash dividend. Payment in the amount of \$1.00 per common share was made on December 31, 2012 to shareholders of record as at the close of business on December 24, 2012.

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 (the "Class 1 Preferred Shares"). As at the end of February 2, 2013, the only shares outstanding were common shares of the Company. The following table presents a continuity of capital stock for the fiscal years ended February 2, 2013 and January 28, 2012:

<i>(in CAD millions, except number of shares)</i>	2012		2011	
	Number of Common Shares	Stated Value	Number of Common Shares	Stated Value
Balance, beginning of fiscal year	102,748,295	\$ 15.0	105,417,095	\$ 15.4
Repurchases of common shares	(870,633)	(0.1)	(2,668,800)	(0.4)
Balance, end of fiscal year	101,877,662	\$ 14.9	102,748,295	\$ 15.0

ESL Investments, Inc., and investment affiliates including Edward S. Lampert, together form the ultimate controlling party of the Company, and is the beneficial holder of 28,158,368 or 27.6%, of the common shares of the Company as at February 2, 2013 (January 28, 2012: nil). Sears Holdings, the controlling shareholder of the Company, is the beneficial holder of 51,962,391 or 51.0%, of the common shares of the Company as at February 2, 2013 (January 28, 2012: 97,341,670.0 or 94.7%). The issued and outstanding shares are fully paid and have no par value.

## 25. 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 February 2, 2013	As at January 28, 2012
Total long-term obligations	\$ 36.1	\$ 122.7
Shareholders' equity	1,076.4	1,092.0
Total	\$ 1,112.5	\$ 1,214.7

## 26. Revenue

The components of the Company's revenue were as follows:

<i>(in CAD millions)</i>	2012	2011
Apparel and Accessories	\$ 1,474.2	\$ 1,607.9
Home and Hardlines	1,125.4	1,293.6
Major Appliances	876.3	864.0
Other merchandise revenue	362.5	360.2
Services and other	321.9	347.4
Commission revenue	113.7	116.7
Licensee revenue	26.7	29.5
Total revenue	\$ 4,300.7	\$ 4,619.3

## 27. Employee benefits expense

The components of the Company's employee benefits expense for the current and prior fiscal year were as follows:

<i>(in CAD millions)</i>	2012	2011 (Recast - Note 2)
Wages and salaries	\$ 657.9	\$ 685.0
Paid absences <sup>1</sup>	62.1	67.1
Benefits		
Provincial healthcare costs	15.5	15.4
Flex benefits	16.6	16.2
Retirement benefit plans expense	9.7	30.2
Statutory deductions <sup>2</sup>	45.7	46.0
Severance <sup>3</sup>	17.1	25.3
Other employer paid benefits	(1.2)	2.1
<b>Total benefits expense</b>	<b>\$ 823.4</b>	<b>\$ 887.3</b>

<sup>1</sup> Paid absences are expenses related to vacation, statutory holidays and sick days.

<sup>2</sup> Statutory deductions consist of the employer portion of payment for the Canada Pension Plan and Employment Insurance.

<sup>3</sup> Included in Severance for Fiscal 2012 were \$12.6 million (2011: \$19.3 million) of costs related to transformation.

These expenses are included in "Cost of goods and services sold" and "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

## 28. Gain on lease terminations

On March 2, 2012, the Company entered into an agreement to surrender and terminate early the operating leases on three properties: Vancouver Pacific Centre, Chinook Centre (Calgary) and Rideau Centre (Ottawa). The Company was a long-term and important anchor tenant in the three properties, and the landlord approached the Company with a proposal to terminate early the three leases and vacate the premises in exchange for \$170.0 million. The payment represents the amount the landlord was willing to pay for the right to redevelop the property based upon their analysis of the potential returns from redevelopment.

On the closing date, April 20, 2012, the Company received cash proceeds of \$170.0 million for the surrender of the three leases, resulting in a pre-tax gain of \$164.3 million, net of the de-recognition of leasehold improvements of \$5.7 million. The Company exited all three properties on October 31, 2012, and has no further financial obligation related to the transaction.

On June 20, 2012, the Company entered an agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) property. The landlord approached the Company with a proposal to terminate early the lease in exchange for cash proceeds of \$5.0 million, subject to certain closing conditions, on the closing date of October 26, 2012. In Fiscal 2010, the Company incurred an impairment loss of \$2.9 million relating to the property, plant and equipment at its Deerfoot property. As a result of the agreement and expected proceeds, the Company recorded an impairment loss reversal (net of accumulated amortization) of \$2.1 million in "Selling, administrative and other expenses". On the closing date of October 26, 2012, the Company vacated the property and received cash proceeds of \$5.0 million, resulting in a pre-tax gain of \$2.8 million, net of the de-recognition of leasehold improvements and furniture and fixtures of \$2.2 million. The Company has no further financial obligation related to the transaction.

## 29. Sale of Cantrex Group Inc. ("Cantrex")

On April 24, 2012, the Company entered an agreement to sell the operations of its subsidiary, Cantrex, to Nationwide Marketing Group, LLC for \$3.5 million, equal to the net carrying amount of specified Cantrex assets and liabilities. On April 29, 2012, the Company received the proceeds on the sale, de-recognized the assets and liabilities sold and recorded a gain on sale of nil.

## 30. Related party transactions

The immediate parent of the Company is Sears Holdings. The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Florida) through Sears Holdings. The Company also has investments in joint ventures, as described in Note 11.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

### 30.1 Trading transactions

During the current and prior fiscal year, the Company entered into the following trading transactions with related parties:

<i>(in CAD millions)</i>	2012				2011			
	Purchase of goods	Services received	Other	Total	Purchase of goods	Services received	Other	Total
Sears Holdings Corporation	\$ —	\$ 5.0	\$ 0.2	\$ 5.2	\$ 0.3	\$ 4.8	\$ 0.5	\$ 5.6
Real estate joint ventures	—	4.5	—	4.5	—	4.4	—	4.4
Total related party transactions	\$ —	\$ 9.5	\$ 0.2	\$ 9.7	\$ 0.3	\$ 9.2	\$ 0.5	\$ 10.0

The following balances were outstanding as at the end of the fiscal year:

<i>(in CAD millions)</i>	Amounts receivable from related parties	
	As at February 2, 2013	As at January 28, 2012
Sears Holdings Corporation	\$ 0.3	\$ 0.1
Total	\$ 0.3	\$ 0.1

<i>(in CAD millions)</i>	Amounts payable to related parties	
	As at February 2, 2013	As at January 28, 2012
Sears Holdings Corporation	\$ 0.7	\$ 0.6
Total	\$ 0.7	\$ 0.6

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 related party transactions with the various real estate joint ventures represent lease payments for the lease of the Company's stores. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties.

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 related parties.

The Company's Audit Committee is responsible for pre-approving all related party transactions that have a value greater than \$1.0 million.

### 31. 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 Company considers the Board of Directors and the following former and current members of senior management to be key management personnel:

- Chief Executive Officer;
- Former Senior Vice-President and Chief Financial Officer;
- Executive Vice-President and Chief Operating Officer;
- Former Executive Vice-President and Chief Administrative Officer;
- Former Executive Vice-President, Merchandising, Apparel and Accessories;
- Former Senior Vice-President, Merchandising, Home and Hardlines;

Executive Vice-President, Financial Services;  
 Senior Vice-President and Chief Information Officer, Information Technology and Business Process Improvement;  
 Senior Vice-President, General Merchandise Manager, Accessories Merchandising;  
 Senior Vice-President, General Merchandise Manager, Apparel Merchandising;  
 Senior Vice-President, Home and Hardlines, Major Appliances;  
 Senior Vice-President, Customer Experience, Shared Services and Merchant Marketing;  
 Senior Vice-President, Human Resources;  
 Former Senior Vice-President, Business Capability and Human Resources  
 Current and former Senior Vice-President, Marketing;  
 Senior Vice-President and General Counsel; and  
 Senior Vice-President, Retail Stores.

Key management personnel compensation was as follows:

<i>(in CAD millions)</i>		2012		2011
Salaries and perquisites	\$	6.5	\$	5.2
Annual incentive plans		0.9		2.2
Pensions		0.1		—
Termination benefits		0.5		1.2
Total key management personnel compensation	\$	8.0	\$	8.6

### 32. Net earnings (loss) per share

A reconciliation of the number of shares used in the net earnings (loss) per share calculation is as follows:

<i>(Number of shares)</i>		2012		2011
Weighted average number of shares per basic net earnings (loss) per share calculation		102,078,477		104,275,192
Effect of dilutive instruments outstanding		—		—
Weighted average number of shares per diluted net earnings (loss) per share calculation		102,078,477		104,275,192

“Net earnings (loss)” as disclosed in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) was used as the numerator in calculating the basic and diluted net earnings (loss) per share. For the fiscal year ended February 2, 2013, 5,440 outstanding options were excluded from the calculation of diluted net earnings per share as they were anti-dilutive. For the fiscal year ended January 28, 2012, the Company incurred a net loss and therefore all potential common shares were anti-dilutive.

### 33. Changes in non-cash working capital balances

Cash generated from (used for) non-cash working capital balances were comprised of the following:

<i>(in CAD millions)</i>		2012		2011
Accounts receivable, net	\$	36.5	\$	27.8
Inventories		(27.5)		129.3
Prepaid expenses		(2.2)		3.9
Accounts payable and accrued liabilities		(84.5)		(95.8)
Deferred revenue		(10.6)		(16.0)
Provisions		1.6		(0.5)
Income and other taxes payable and recoverable		(35.5)		(19.2)
Effect of foreign exchange rates		—		0.1
Cash generated from (used for) non-cash working capital balances	\$	(122.2)	\$	29.6

**34. Event after the reporting period**

Subsequent to year end, the Company finalized an exclusive, multi-year licensing arrangement with SHS Services Management Inc. ("SHS Services"), which will result in SHS Services overseeing the day-to-day operations of all Sears Home Improvements Product Services business. The licensing agreement, effective March 3, 2013, is expected to result in a reduction to revenues and expenses, however, the impact to net earnings is not expected to be significant.

**35. Approval of consolidated financial statements**

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 14, 2013.

**DIRECTORS AND OFFICERS****Board of Directors****E. J. Bird**<sup>3</sup>

Interim Chief Financial Officer of the Corporation

**William C. Crowley**<sup>2,3</sup>

Managing Member

CRK Capital Partners, LLC

**William R. Harker**<sup>2,3</sup>

Principal

The Harker Group LLC

**R. Raja Khanna**<sup>1,4</sup>

Chief Executive Officer

Blue Ant Media Inc.

**James McBurney**<sup>1,4</sup>

Chief Executive Officer

White Tiger Gold Ltd.

**Calvin McDonald**

President and Chief Executive Officer of the Corporation

**Deborah E. Rosati**<sup>1,2,4</sup>

Corporate Director and Advisor

**Donald C. Ross**<sup>2,4</sup>

Partner

Osler, Hoskin &amp; Harcourt LLP

**Officers****Calvin McDonald**

President and Chief Executive Officer

**E. J. Bird**

Interim Chief Financial Officer

**Doug Campbell**

Executive Vice-President and Chief Operating Officer

**Peter Kalen**

Executive Vice-President, Financial Services

**Klaudio Leshnjani**

Senior Vice-President and General Counsel

**Committees**

- 1 Audit Committee
- 2 Human Resources and Compensation Committee
- 3 Investment Committee
- 4 Nominating and Corporate Governance Committee

**CORPORATE INFORMATION****Head Office**

Sears Canada Inc.  
290 Yonge Street  
Suite 700  
Toronto, Ontario  
M5B 2C3

Website: [www.sears.ca](http://www.sears.ca)  
E-mail: [home@sears.ca](mailto:home@sears.ca)

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 416-941-4428.

The Company's regulatory filings can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

**Stock Exchange Listing**

Toronto Stock Exchange  
Trading symbol: SCC

**Transfer Agent and Registrar**

CIBC Mellon Trust Company<sup>1</sup>  
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H3B 3K3

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Website: [www.canstockta.com](http://www.canstockta.com)

E-Mail: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)

**Annual Meeting**

The Annual Meeting of Shareholders of Sears Canada Inc. will be held on Thursday, April 25, 2013 at 8:00 a.m. in Room 5B1, Fifth 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 de Communications de l'entreprise  
Sears Canada Inc.  
290 Yonge Street  
Suite 700  
Toronto, Ontario  
M5B 2C3

Pour de plus amples renseignements au sujet de la Société, veuillez écrire au service national de communication, ou composer le 416-941-4428.

Les dépôts réglementaires de la Société figurent sur le site Web de SEDAR à l'adresse [www.sedar.com](http://www.sedar.com).

<sup>1</sup>Canadian Stock Transfer Company Inc. acts as the Administrative Agent for CIBC Mellon Trust Company.

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*Sears* 



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**TAB D**

This is Exhibit "D" referred to in the  
Affidavit of

**JONATHAN WYPYCH**

Sworn before me,  
this 1<sup>ST</sup> day of March, 2018



---

A Commissioner for taking Affidavits

Shannon Beverley Ste. Marie, a Commissioner, etc.,  
Province of Ontario, while a Student-at-Law.  
Expires March 23, 2019.

MAKE  
EVERY  
DAY a  
GREAT  
DAY.

.....  
2012 ANNUAL REPORT  
SEARS CANADA INC.  
.....

A little over a year ago, we set our company upon a different course. We are now emboldened by a great and simple purpose: to make every day a great day for our customers. The more we matter to those who matter most to our business, the more valuable our business will be.

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*Certain information in the accompanying "Letter to Our Shareholders" is forward-looking and is subject to important risks and uncertainties, which are described in the "Cautionary statement regarding forward-looking information" on page 13 of this Annual Report.*

## Financial Highlights

Unless otherwise noted, 2012 results reflect a 53-week period while 2011 results reflect a 52-week period.

<i>(in CAD millions, except per share amounts)</i>		Fiscal 2012		Fiscal 2011
Total revenue	\$	4,300.7	\$	4,619.3
Same store sales (%)*		(5.6)%		(7.5)%
Adjusted EBITDA*		47.0		124.0
Net earnings (loss)		101.2		(50.3)

		As at February 2, 2013		As at January 28, 2012
Cash and cash equivalents	\$	237.0	\$	397.4
Working capital		415.3		471.0
Inventories		851.4		823.9
Total assets		2,479.1		2,730.7
Total long-term obligations, including principal payments on long-term obligations due within one year		36.1		122.7
Shareholders' equity		1,076.4		1,092.0

		As at February 2, 2013		As at January 28, 2012
Per share of capital stock				
Basic net earnings (loss)	\$	0.99	\$	(0.48)
Diluted net earnings (loss)	\$	0.99	\$	(0.48)
Shareholders' equity	\$	10.57	\$	10.63

\* Same store sales and Adjusted EBITDA are operating performance and non-International Financial Reporting Standards ("IFRS") measures, respectively. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance, and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA".

- Revenue was \$4,300.7 million for the 53-week period ended February 2, 2013 ("Fiscal 2012") compared to \$4,619.3 million for the 52-week period ended January 28, 2012 ("Fiscal 2011"), a decrease of 6.9%. The decrease is primarily attributable to sales declines in Craftsman<sup>®</sup>, electronics, bedroom and bath, women's apparel, and menswear categories, partially offset by higher revenue from major appliances. In addition, the decrease in revenues is partially attributable to the closure of 4 Full-Line stores during Fiscal 2012 and the sale of Cantrex Group Inc. ("Cantrex") during the second quarter of 2012.
- Revenue was approximately \$25.5 million lower as a result of the closure of 4 Full-Line stores during Fiscal 2012. Revenue was also positively impacted by approximately \$38.3 million due to the 53rd week in Fiscal 2012.
- Same store sales decreased 5.6% compared to Fiscal 2011. Same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA."

- Gross margin rate was 36.1% for Fiscal 2012 compared to 36.5% in Fiscal 2011. In Fiscal 2011 there was a one-time inventory charge, relating to planned disposition of excess inventory. The Fiscal 2011 gross margin rate excluding the one-time inventory charge was 37.4%. The decrease in the gross margin rate in Fiscal 2012 compared to Fiscal 2011 was due primarily to reduced margin in fitness and recreation, Corbeil Electique Inc. ("Corbeil"), children's wear, jewelry, accessories and luggage and footwear categories.
- Fiscal 2012 Adjusted EBITDA was \$47.0 million compared to \$124.0 million for Fiscal 2011. Adjusted EBITDA is a non-IFRS measure. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA" regarding the use of non-IFRS measures and an explanation of components of Adjusted EBITDA for respective periods.
- Basic net earnings per common share was \$0.99 in Fiscal 2012 compared to a basic net loss per common share of \$0.48 for Fiscal 2011.
- Total cash and cash equivalents was \$237.0 million as at February 2, 2013 compared to \$397.4 million as at January 28, 2012. The decrease of \$160.4 million was primarily due to repayment of long-term obligations of \$142.3 million, \$101.9 million in dividend payments during the latter part of Fiscal 2012, and the purchase of \$97.5 million in property, plant and equipment and intangible assets, partially offset by \$175.0 million in proceeds from lease terminations received during Fiscal 2012, and the net proceeds received of \$38.3 million from the sale of the Company's interest in Medicine Hat Mall at the end of Fiscal 2012.

## **Letter to Our Shareholders**

### **A message from Calvin McDonald, President and Chief Executive Officer**

Sears Canada is concluding the first full year of our Transformation plan. The three-year plan is centered on re-establishing the business and carrying out strategies designed to trade ourselves out of what we traded ourselves into over a period of several years. Our focus in 2012 was to get the basics, executing on fundamentals and reconnecting with customers in a significant way.

In delivering against our Vision of creating lifelong relationships built on trust and our Mission centered on working for Canadian families, we established several initiatives during the year. These were positioned to get at basics and build our foundation for the future.

Since we launched the Transformation, we have consistently used the Formula for Growth, expressed as five components, as our foundation for improvement:

1. Build the Core
2. Be Customer Driven and Marketing Led
3. Get Value Right
4. Operate the Best Formats
5. Organize the Right Talent and Create a Winning Attitude

The unique initiatives we introduced this year are spread across these five strategic pillars and linked by two common themes: improve our product and change our behaviour.

With this framework in mind, here are some of the accomplishments we saw in 2012 as we moved forward to strengthen Sears relationship with Canadian consumers.

### **Build the Core**

This pillar of the Formula for Growth is our focus on core competencies. We must protect and build market share in the categories where we can win by promoting our unrivaled blend of authoritative assortment, unique services and exclusive brands. Our goal is to deliver consistently across these categories and be Canadians' retailer of choice for their needs...head to toe, wall to wall, for self, family and home.

#### **Some of the accomplishments within Build the Core were:**

- The establishment of our Hero shops: We cannot be all things to all customers, so we identified categories where Canadians will give us strong consideration because of our established position in the marketplace such as Major Appliances, Mattresses, Kids, Women's Dresses, Men's Dresswear, and Kitchen. We need to support these categories and present them to Canadians effectively. A big piece of the work that lies ahead of us is to turn dollar share into share of mind; this way, customers can be advocates for Sears in these important categories. An increase in same store sales for our apparel business in the fourth quarter of 2012 for the first time in eight quarters was a positive result of the work we have been doing on building the core;

- The full execution of our aggressive “attack plan” for both major appliances and mattresses: This included uplifted advertising, associate training, innovative financing programs and 'after-sale' service enhancements. Sears considers itself a leader in these categories and is determined to maintain its market leading position;
- The launch of “The Baby's Room” in June, a full-service headquarters for baby products and nursery equipment: We introduced new products, new brands, updated signing and a reflow of the floor plan. Young families are a key target market, and our aim is to attract new parents to Sears and convert them to loyal shoppers for life. We have achieved monthly double-digit sales increases on average since we launched, a strong signal that we're resonating with customers in a meaningful way; and
- Establishing strategic alliances: In January 2013 we joined with Buffalo International Inc. to design and build Sears private brand of denim based apparel, Nevada. The Aldo Group will be working with us in a similar fashion for men's and women's private brand Attitude and Nevada footwear, as well as the Jessica brand for women. We also teamed up with SHS Services Management Inc. to manage and operate our installed home services business. These are organizations that have the capacity and desire to work with Sears, and who can execute better on the sourcing end using our expertise and capability on the distribution and brand reputation end. Our approach is to align with companies that can provide immediate credibility and continuity to our brands and services.

We will continue to assess our strengths and core competencies and evolve the business model as appropriate to strengthen Sears position in the marketplace.

### **Be Customer Driven and Marketing Led**

We need to be focused on our customers who come from all walks of life and demographic profiles. Taking into account the breadth of product in our Hero shops and our market share, it follows that we already attract a broad range of Canadian consumers, and many of them have a Sears Financial Credit Card. Our opportunity is to utilize this information to be more targeted in our marketing, convert in-store traffic into transactions and change the perception of our brand. This pillar is about using the information customers share with us to make their shopping experience with Sears more effective and more likely to result in lifelong relationships.

### **Some of the accomplishments within Be Customer Driven and Marketing Led were:**

- The relaunch of the Sears brand under the statement “Make Every Day a Great Day”: Over half a million views of our Holiday-timed video-commercial was an early and encouraging sign that Canadians are responding positively to the changes we are making and the Company we are trying to become. Every day being a great day is what we want our customers to experience as a result of using our products and services;

- The seasonal publication of the LOOK! *report*: Four editions were distributed in 2012 - Spring, Summer, Fall and Holiday - highlighting the season's fashion trends with handy tips from our trend directors aimed at establishing Sears as a trusted resource to customers looking for style and product tips along with great fashion. Our Buyers vie to get their items selected for the LOOK! *report* and the friendly competition has resulted in a high quality publication featuring the best of the season. The LOOK! *report* has produced check out rates of advertised merchandise at three times the average of other promotional vehicles;
- The creation of meaningful events that fulfill the occasion-based needs of our customers: The Great Canadian Coat Sale in the fall, the Little Black Dress Event for Holiday, the Shape Your Shape Event in January for fitness - these are important time frames for our customers and Sears responded with meaningful assortments and in-store presence to demonstrate leadership in product and marketing. These events increased customer consideration of Sears for key lines like apparel and helped us acquire new customers; and
- The delivery of our 60<sup>th</sup> Wish Book: Since 1953 Canadian households have marked the coming of the Christmas Season with the arrival of the Wish Book and this year's version did not disappoint, garnering orders from some 600,000 unique households. During 2013, we will celebrate our 60<sup>th</sup> anniversary and invite customers to join in the celebration on various occasions.

### **Get Value Right**

We believe Value is more than price. It is a blend of price, quality and the service that customers experience when they shop at Sears, and our value proposition holds a unique place within the Canadian marketplace. Throughout the year, we introduced initiatives that helped to strengthen all three components of our value equation.

#### **Some of the accomplishments within Get Value Right were:**

- The “Over 5,000 new lower prices” initiative was a campaign to effectively convey our approach to pricing: Sears is a promotional business, and we will continue to have sale prices that Canadians desire. We focused on striking a balance among three principles: being competitive at all times on highly identifiable and often-purchased items, building line structures that provide a good-better-best range of product, and having realistic regular prices that customers can believe;
- The introduction of Sears “Canada's Best” seal of approval: An item reflecting the highest standards of quality, style and innovation, at surprising prices. The items are labelled with special product tags and supported by informative marketing so that customers know they are buying the very best available when they buy a product identified as “Canada's Best” and still getting the value they expect from Sears;
- The expansion of our Price Protection guarantee for big-ticket items: We want to ensure that customers can shop us with confidence for larger purchases, so we extended our 60-day Price Protection Plus guarantee on major appliances to match any competitor 90 days after a Sears purchase and we also introduced an industry leading 365-day sleep guarantee for mattresses so customers feel comfortable with this long-term investment;

- The re-affirmation, in May, of the Company's commitment to customer service with a renewed customer promise: The Company invested in over 100,000 hours of hands-on training nationwide touching every store associate on expectations. Unfriendly policies were replaced with practices that customers would expect from Sears including an updated returns policy that allows 90 days for a return to be made on most products using a Sears credit card; and
- The introduction of the Gold Badge program, which recognizes individual store customer service excellence: Each store is rated based on feedback from customers who have specifically shopped in that store. Stores must achieve a rating of 9 or 10 on all questions by at least 73% of customers who filled out a survey. If they achieve this, every associate gets to wear a gold-coloured badge for the ensuing year as a visible sign of their accomplishment. Fifteen stores achieved this highly coveted symbol of recognition in 2012.

### **Operate the Best Formats**

A competitive advantage for Sears is our ability to trade through multiple formats operating in many different sizes of communities. Operating the best formats is focused on aligning our category strengths with the market and creating more value from our trading strategies with retail concepts that align to customer needs.

#### **Some of the accomplishments within Operate the Best Formats were:**

- The complete refresh of eight full-line stores in 2012: Our goal was to create a stage for product which we accomplished by focusing on four components: showcasing our hero categories, conducting a substantial merchandise re-mix, creating centres of interest where we could promote events with authority, and paying special attention to the basics business so customers can count on Sears every time they visit to be in stock of the most wanted items. The stores are performing well above comparable stores in both sales and gross profit and Apparel is outperforming our other businesses reinforcing our decision to make significant enhancements to the visual presentation in that area;
- The unveiling of a brand new relocated 78,000 square foot state-of-the-art Sears Home store at Ottawa's Pinecrest shopping centre: The store has significantly improved its sales and features 54 mattress sets, our largest, and 475 major appliances, compared to 300 in an average store. Associates are equipped with tablets so they can find additional product information for customers and verify any competing offers in the marketplace;
- The establishment of Sears wholly-owned subsidiary Corbeil Appliances in the Greater Toronto area: This successful, Quebec-based chain, previously unknown in this area, brought a mid-to-high level of appliances to Vaughan, Richmond Hill, Mississauga and Burlington and introduced southern Ontario to an appliance specialist with kitchen renovation capability;
- The investment in our website, Sears.ca: We made the site easier to navigate, increased the functionality, improved searching capability and redesigned the home page. We made Direct our Toy headquarters this year by reallocating the Toy department space in retail to The Baby's Room, and directing Toy customers with effective in-store presentations to sears.ca where the Direct channel enjoyed a significant increase in business as a result; and

- Identifying opportunities for non-strategic businesses and assets: During 2012, the Company vacated four full-line stores, surrendering early its leases on two stores in Calgary and one each in Vancouver and Ottawa. This was an opportunity for Sears that was based on leaving locations that did not trade to our strengths as a retailer, and that also provided financial consideration that would have taken a substantially long time to generate had we kept operating them as we were.

We constantly review our businesses and assets and will continue to act on those that are no longer strategic for Sears and where we can help Sears to be more profitable in the long term. We need to be operating in formats and locations where we can trade most effectively.

### **Organize the Right Talent and Create a Winning Attitude**

Organizing talent compels us to address structure, breaking down silos, fixing bad processes, and putting in place efficient models designed to increase productivity. Creating a winning attitude speaks to culture...changing our behaviour, thinking differently, and putting in place plans and initiatives that let the organization believe in success, exude confidence and adopt the retail swagger prevalent in winning organizations.

#### **Some of the accomplishments within Organize the Right Talent and Create a Winning Attitude were:**

- The open communication channels that have been established between the retail support centre and individual associates: An online idea sharing forum, a regular blog from me, a recognition program called WOW that allows for accolades of exceptional actions to be called out, and a cross-functional Associate Advisory Council have all been avenues through which associates can provide input into how improvements can be made enterprise-wide for optimal results;
- The first graduating “class” of the Sears Future Leaders program: This concentrated development program selects 24 candidates each term from within Sears and externally who want to establish a career in retailing blending hands-on experience with a formal sharing of knowledge and skills of the retail industry;
- The strengthening of the Executive Leadership Team: In addition to some changes within our merchandising, marketing and operational leaders with a focus on action and results, of particular note is the appointment of Doug Campbell to Executive Vice-President and Chief Operating Officer overseeing various operational functions and efficiency improvements across the organization; and
- Right-sizing the organization: As we continue to make improvements in efficiencies, we must maintain an organizational structure that reflects best of breed without compromising customer service. At the end of fiscal 2012, we reduced our staff count by 700 associates, mostly from logistics and non customer-facing store roles. The organization needs to remain competitive within an industry that is increasing its pace and responsiveness capacity.

We will continue to review our business as processes are improved and ensure we have an allocation of resources that properly supports the organization as it evolves.

In 2012, our job was to get the basics...reestablish the fundamentals needed to operate a successful retail business. We rebalanced prices, we brought in sound customer service policies, we identified our "core" Hero categories and put resources behind them, we restructured buying and store operations teams, we defined what a Sears department store and Sears Home store should look like, we began to change behaviour, and we started to install a high-performing management team that can lead an organization of 29,000 through a transformation of significant proportion.

These were fundamental accomplishments, and we needed to do this to establish our retail rhythm. In 2013, we will focus on maintaining that retail rhythm, living it, and gaining momentum. While there are some external factors that can impact our business, there is much within our control that we can do to improve our performance. "Control the Controllables" is an internal theme that we are spreading across the enterprise. In tough times, great retailers find a way. Sears needs to act differently and start to achieve different results.

Sears Canada celebrates its 60<sup>th</sup> anniversary in 2013. We issued our inaugural catalogue in early 1953: the Spring and Summer catalogue of that year. A few months later, on September 17, we opened our first store in Stratford, Ontario. Since then, the Company has become one of Canada's major retailers with operations coast to coast, boasting a powerful brand and coveted reputation.

But it's a different landscape in 2013 than it was six decades ago. Sears cannot rely on its accomplishments of the past to be successful. Today, our customers have a lot of choice, some of it close by and reachable from their homes and some of it across the world and reachable by a click of their keyboard. We need to respond and, as a merchant, this is centered around changing our product and changing our behaviour.

Our aim is to have the products and services customers receive from Sears help make every day a great day for them. That is relevance. And that is how much a part of their lives we need to be. The foundation built over 60 years can help us, but it can't sustain us. We need to be top of mind in the minds of Canadians for the lines of products in which we trade, and the Transformation we have begun is the route that can help us get there successfully.

I wish to acknowledge associates, past and present, who, over six decades, have provided Sears with a level of dedication and commitment that is needed to form and operate a Company of our significance, and I look forward to working with the team in place today to take us to the next level and journey through the Transformation of Sears Canada.

Sincerely,

A handwritten signature in black ink that reads "Calvin McDonald". The signature is written in a cursive, flowing style.

Calvin McDonald,  
President and Chief Executive Officer

## Five Year Summary

	IFRS Fiscal 2012 <sup>A</sup>	IFRS Fiscal 2011 <sup>A</sup>	IFRS Fiscal 2010 <sup>A</sup>	CGAAP Fiscal 2010 <sup>B</sup>	CGAAP Fiscal 2009 <sup>C</sup>	CGAAP Fiscal 2008 <sup>D</sup>
<i>Results for the year (in CAD millions)</i>						
Total revenue	\$ 4,300.7	\$ 4,619.3	\$ 4,938.5	\$ 4,957.8	\$ 5,200.6	\$ 5,733.2
Depreciation and amortization	113.3	114.9	123.6	104.6	117.4	126.9
Earnings (Loss) before income taxes	114.2	(56.9)	187.1	219.8	347.6	422.0
Income tax (expense) recovery	(13.0)	6.6	(62.1)	(70.0)	(112.9)	(131.3)
Net earnings (loss)	101.2	(50.3)	125.0	149.8	234.7	290.7
Dividends declared	101.9	—	753.4	753.4	—	—
Capital expenditures <sup>E</sup>	97.5	84.3	60.0	62.4	65.7	97.1
<i>Year end position (in CAD millions)</i>						
Accounts receivable, net	\$ 76.2	\$ 116.2	\$ 144.0	\$ 143.2	\$ 131.1	\$ 138.7
Inventories <sup>F</sup>	851.4	823.9	953.2	953.2	852.3	968.3
Property, plant and equipment	840.0	872.0	900.7	577.4	620.2	696.0
Total assets	2,479.1	2,730.7	2,907.5	2,509.8	3,404.8	3,237.3
Working capital	415.3	471.0	536.9	610.6	1,114.7	1,148.8
Total long-term obligations, including principal payments on long-term obligations due within one year	36.1	122.7	129.1	136.1	350.7	364.6
Shareholders' equity	1,076.4	1,092.0	1,260.4	1,000.5	1,657.5	1,483.2
<i>Per share of capital stock</i>						
Basic net earnings (loss)	\$ 0.99	\$ (0.48)	\$ 1.16	\$ 1.40	\$ 2.18	\$ 2.70
Dividends declared	1.00	—	7.00	7.00	—	—
Shareholders' equity	10.57	10.63	11.96	9.32	15.40	13.78
<i>Financial ratios</i>						
Return on average shareholders equity (%) <sup>G</sup>	9.3	(4.3)	7.7	11.3	14.9	22.6
Current ratio	1.5	1.5	1.5	1.6	1.8	2.0
Return on total revenues (%)	2.4	(1.1)	2.5	3.0	4.5	5.1
Debt/equity ratio	3/97	10/90	9/91	12/88	17/83	20/80
Pre-tax margin (%)	2.7	(1.2)	3.8	4.4	6.7	7.4
<i>Number of Selling Units</i>						
Full-line Department stores	118	122	122	122	122	122
Sears Home stores	48	48	48	48	48	48
Outlet stores	11	11	11	11	12	11
Specialty type: Appliances and Mattresses	4	4	4	4	4	6
Hometown Dealer stores	261	285	268	268	186	171
Sears Floor Covering Centres	—	17	20	20	22	30
Sears Home Services Showrooms	9	13	13	13	13	13
Cantrex	—	799	768	768	793	824
Corbeil	33	30	30	30	30	30
Travel offices	101	108	108	108	108	106
Catalogue merchandise pick-up locations	1,512	1,734	1,822	1,822	1,853	1,858

<sup>A</sup> The 2012 fiscal year ("Fiscal 2012"), 2011 fiscal year ("Fiscal 2011") and 2010 fiscal year ("Fiscal 2010") refers to the 53-week period ended February 2, 2013, and the 52-week period ended January 28, 2012, and January 29, 2011 respectively, reported under International Financial Reporting Standards ("IFRS").

<sup>B</sup> The 2010 fiscal year ("Fiscal 2010") represents the 52-week period ended January 29, 2011, reported under Canadian Generally Accepted Accounting Principles ("CGAAP").

<sup>C</sup> The 2009 fiscal year ("Fiscal 2009") represents the 52-week period ended January 30, 2010, reported under CGAAP.

<sup>D</sup> The 2008 fiscal year ("Fiscal 2008") represents the 52-week period ended January 31, 2009, reported under CGAAP.

<sup>E</sup> Capital expenditures have not been reduced by cash payments outstanding at year end resulting from normal trade terms.

<sup>F</sup> As a result of the Company's change in accounting policy for inventories in Fiscal 2008, the inventory balances included in this table are not comparable. See Note 2 "Significant accounting policies" of the Notes to the Consolidated Financial Statements.

<sup>G</sup> The return on average shareholders' equity (%) for IFRS Fiscal 2010 was calculated taking net earnings for Fiscal 2010, divided by the average of shareholders' equity for the period ended January 29, 2011 (\$1,260.4 million) and the opening Consolidated Statement of Financial Position as at January 31, 2010 (\$2,004.4 million) reported under IFRS.

## Quarterly Performance

The Company's operations are seasonal in nature. Accordingly, merchandise and service revenue, as well as performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch), referred to as commission revenue, will vary by quarter based upon consumer spending behaviour. Historically, the Company's revenue and earnings are higher in the fourth quarter than in any of the other three quarters due to the holiday season. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a disproportionate level of earnings in the fourth quarter. Other factors that affect the Company's sales and financial performance include actions by its competitors, timing of its promotional events, and changes in population and other demographics. Accordingly, the Company's results for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, or the full year, and comparable store sales for any particular period may increase or decrease.

The table below outlines select financial data for the eight most recently completed quarters. The quarterly results are unaudited and have been prepared under IFRS.

<i>(in CAD millions, except per share amounts)</i>	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	2012	2011	2012	2011	2012	2011	2012	2011
Total revenue	\$ 1,298.0	\$ 1,365.9	\$ 1,037.5	\$ 1,113.2	\$ 1,050.1	\$ 1,147.7	\$ 915.1	\$ 992.5
Net earnings (loss)	\$ 39.9	\$ 41.0	\$ (21.9)	\$ (44.1)	\$ (9.8)	\$ (0.2)	\$ 93.1	\$ (47.0)
Basic net earnings (loss) per share	\$ 0.39	\$ 0.39	\$ (0.22)	\$ (0.42)	\$ (0.10)	\$ 0.00	\$ 0.91	\$ (0.45)
Diluted net earnings (loss) per share	\$ 0.39	\$ 0.39	\$ (0.22)	\$ (0.42)	\$ (0.10)	\$ 0.00	\$ 0.91	\$ (0.45)

## Common Share Market Information

The table below provides prices for the Company's common shares traded on the Toronto Stock Exchange (symbol: SCC).

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	2012	2011	2012	2011	2012	2011	2012	2011
High	\$ 12.98	\$ 15.33	\$ 11.79	\$ 15.51	\$ 13.73	\$ 19.78	\$ 14.24	\$ 20.35
Low	\$ 9.50	\$ 10.12	\$ 10.10	\$ 12.51	\$ 9.76	\$ 15.27	\$ 11.60	\$ 19.11
Close	\$ 9.50	\$ 11.63	\$ 10.69	\$ 15.10	\$ 10.16	\$ 15.27	\$ 13.50	\$ 19.88
Average daily trading volume	122,655	27,473	23,487	11,609	16,694	45,750	7,784	17,473

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## Management's Discussion and Analysis

"Sears", "Sears Canada" or "the Company" refers to Sears Canada Inc. and its subsidiaries, together with its investment in joint venture interests.

Management's Discussion and Analysis ("MD&A") contains commentary from the Company's management regarding strategy, operating results and financial position. Management is responsible for its accuracy, integrity and objectivity, and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

This MD&A should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements for the 53-week period ended February 2, 2013 ("Fiscal 2012" or "2012"). The 2011 fiscal year refers to the 52-week period ended January 28, 2012 ("Fiscal 2011" or "2011"). The fourth quarter unaudited results for Fiscal 2012 and Fiscal 2011 reflect the 14-week period ended February 2, 2013 ("Q4 2012") and the 13-week period ended January 28, 2012 ("Q4 2011"), respectively.

This MD&A is current as of March 14, 2013 unless otherwise stated.

Additional information relating to the Company, including the Company's Annual Information Form ("AIF") dated March 14, 2013 and the Management Proxy Circular dated March 14, 2013, can be obtained by contacting the Company at 416-941-4428. The 2012 Annual Report, together with the AIF and Management Proxy Circular, have been filed electronically with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the U.S. Securities Exchange Commission ("SEC") website at [www.sec.gov](http://www.sec.gov).

Unless otherwise indicated, all amounts are expressed in Canadian dollars.

## Cautionary Statement Regarding Forward-Looking Information

Certain information in the Annual Report and in this MD&A is forward-looking and is subject to important risks and uncertainties. Forward-looking information concerns, among other things, the Company's future financial performance, business strategy, plans, expectations, goals and objectives, and includes statements concerning possible or assumed future results set out under Section 1 "Company Performance", Section 2 "Consolidated Financial Position, Liquidity and Capital Resources", Section 3 "Financial Instruments", Section 6 "Shareholders' Equity", Section 9 "Accounting Policies and Estimates" and Section 11 "Risks and Uncertainties". Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although the Company believes that the estimates reflected in such forward-looking information are reasonable, such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information and undue reliance should not be placed on such information.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the ability of the Company to successfully implement its strategic initiatives; productivity improvement and cost reduction initiatives and whether such initiatives will yield the expected benefits; the results achieved pursuant to the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase Bank, N.A. (Toronto Branch), or JPMorgan Chase; general economic conditions; competitive conditions in the businesses in which the Company participates; changes in consumer spending; seasonal weather patterns; weaker business performance in the fourth quarter; customer preference toward product offerings; ability to retain senior management and key personnel; ability of the Company to successfully manage its inventory levels; disruptions to the Company's computer systems; economic, social, and political instability in jurisdictions where suppliers are located; increased shipping costs, potential transportation delays and interruptions;

damage to the reputations of the brands the Company sells; changes in the Company's relationship with its suppliers; the outcome of product liability claims; any significant security compromise or breach of the Company's customer, associate or Company information; the credit worthiness and financial stability of tenants, partners and co-venturers, with respect to the Company's real estate joint venture interests; possible changes in the Company's ownership by Sears Holdings Corporation ("Sears Holdings") and other significant shareholders following the spin-off of a minority interest in Sears Canada by Sears Holdings; interest rate fluctuations and other changes in funding costs and investment income; fluctuations in foreign currency exchange rates; the possibility of negative investment returns in the Company's pension plan or an unexpected increase to the defined benefit obligation; the impairment of goodwill and other assets; new accounting pronouncements, or changes to existing pronouncements, that impact the methods we use to report our financial condition and results from operations; uncertainties associated with critical accounting assumptions and estimates; the outcome of pending legal proceedings; compliance costs associated with environmental laws and regulations; the possible future termination of certain intellectual property rights associated with the "Sears" name and brand names if Sears Holdings reduces its interest in the Company to less than 25%; and changes in laws, rules and regulations applicable to the Company. Information about these factors, other material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in preparing forward-looking information, may be found in this MD&A and in the Company's 2011 recast Annual Report under Section 12 "Risks and Uncertainties" and elsewhere in the Company's filings with securities regulators. The forward-looking information in the Annual Report and in this MD&A are, unless otherwise indicated, stated as of the date hereof and are presented for the purpose of assisting investors and others in understanding our financial position and results of operations as well as our objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

## 1. Company Performance

### a. Operations

The Company's operations are focused on merchandising and include the sale of goods and services through the Company's Retail channels, which includes its Full-Line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electrique Inc. ("Corbeil") stores, and its Direct (catalogue/internet) channel. It also includes service revenue related to product repair and home improvement. Commission revenues include travel, insurance, and performance payments which are primarily received from the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has also partnered with Thomas Cook Canada Inc. ("Thomas Cook") in a multi-year licensing arrangement, under which Thomas Cook manages the day-to-day operations of all Sears Travel offices and provides commissions and licensing fees to the Company. Licensing fee revenues are comprised of payments received from licensees that operate within the Company's stores. The Company is a party to a number of joint ventures which have been classified as jointly controlled entities for financial reporting purposes. These joint ventures are jointly controlled by the joint venture partners who are entitled to a share of the respective joint ventures' income or loss.

#### *Retail Channel*

**Full-Line Department stores** – Sears Full-Line Department stores are located primarily in suburban enclosed shopping centres. 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, electronics and leisure, and seasonal products.

Major Appliances - refrigeration, laundry, ranges, floorcare and sewing.

Although merchandise varies by store, the merchandise sales mix between the three major categories are approximately 55% Apparel and Accessories, 25% Home and Hardlines and 20% Major Appliances.

Full-Line Department stores also offer Sears Home Services and include a Sears catalogue merchandise pick-up location. Sears Travel offices and licensed businesses, such as optical centres and portrait studios, are also located in most of the Company's Full-Line Department stores.

**Sears Home stores** – Sears Home stores are typically located in power centres and present an extensive selection of furniture, mattresses and box-springs, major appliances and electronics. The majority of these stores range in size from 35,000 to 60,000 square feet. Home Improvement Products and Services operations are located within 8 of 9 Sears Home stores. The showrooms provide a range of products and services sold under the Sears Home Services banner that are complementary to home furnishings and major appliances.

**Hometown Dealer stores** – Sears Hometown Dealer locations are independently operated and offer major appliances, furniture, home electronics, outdoor power equipment as well as a catalogue merchandise pick-up location. Most Hometown Dealer stores are located in markets that had previously been served by a catalogue agent and continue to lack the population to support a Full-Line Department store.

**Outlet stores** – Sears Outlet stores offer clearance merchandise, particularly from the Company's Direct channel, as well as surplus big-ticket items from all channels.

**Appliances and Mattresses stores** – The Sears Appliances and Mattresses stores are part of the Company's strategy to bring its product categories to a growing number of customers who shop in conveniently located power centres. These stores are smaller in size (approximately 10,000 to 15,000 square feet) and feature a wide selection of major appliances, mattresses and box-springs, and include Sears private labels and a variety of national brands.

**Corbeil** – Corbeil is a chain of major appliance specialty stores located throughout Québec, Greater Toronto Area and Eastern Ontario. There are 33 stores in the chain, 17 of which are franchised. The chain also includes one liquidation centre and one distribution centre in Montreal. Stores average approximately 6,500 square feet in size.

**Sears Travel** – Sears Travel service operates within 101 Sears locations across Canada, an online travel service at [www.searstravel.ca](http://www.searstravel.ca) and 1-866-FLY-SEARS, which connects customers to the nearest geographical branch. As of January 30, 2011, Thomas Cook manages the day-to-day operations of all Sears Travel offices and the Sears Travel website.

### *Sears Home Services*

Sears Home Services was formed as a result of combining Home Improvement Products and Services and Product Repair Services. Sears Home Services is marketed through 82 Full-line department stores, 21 Parts and Services stores and 8 of 9 Sears Home Services Showrooms located within Sears Home and Outlet stores, by telephone at 1-800-4-MY-HOME (English) or 1-800-LE-FOYER (French) and online at [Sears.ca](http://Sears.ca). Sears Home Services provides a broad range of home services, including the sale, installation, maintenance and repair of heating and cooling equipment, roofing, doors and windows, flooring, window coverings, energy audits, kitchen and bathroom renovations, carpet and upholstery cleaning and duct cleaning. Sears Home Services also offers the largest and most comprehensive parts and service network in Canada, with over 1 million parts available and a network of more than 2,000 technicians and contractors.

### *Direct Channel*

The Company's Direct channel is comprised of its catalogue business, which is Canada's largest general merchandise catalogue business, and [Sears.ca](http://Sears.ca), one of Canada's leading online shopping destinations with over 91 million visits in Fiscal 2012. With two distribution centres exclusively dedicated to servicing the Direct channel and 1,512 catalogue merchandise pick-up locations nationwide, Sears can deliver orders in most areas of the country. Orders can be placed by telephone at 1-800-26-SEARS, by mail, fax, online at [Sears.ca](http://Sears.ca) or in person through Sears stores and catalogue agents. At the end of Fiscal 2012, over 1,300 of the total 1,512 catalogue merchandise pick-up locations were independently operated under independent local ownership, with the remaining 168 units located within Sears corporate stores.

**Catalogue** – In Fiscal 2012, over 15 different catalogues were distributed throughout Canada reaching up to approximately 2.9 million households. In addition, during Fiscal 2012, Sears distributed 7 Specialogues designed to offer more seasonally relevant merchandise to specific customers.

**Sears.ca** – The Company's website, [Sears.ca](http://Sears.ca), enables the Company to provide new and exciting merchandise offers directly to web customers and highlights the Company's extensive general merchandise selection. In Fiscal 2012, the Company continued to invest in its online capabilities to improve the user experience, and engage new customers and demographics. Sears is committed to maintaining its reputation as a trusted Canadian retailer by focusing on customer privacy, security, and satisfaction when shopping on [Sears.ca](http://Sears.ca).

### *Logistics*

**National Logistics Centres**– Sears operates 6 logistics centres strategically located across the country. The total floor area of these logistics centres was 6.5 million square feet at the end of Fiscal 2012, of which 5.6 million square feet is devoted to warehouse and logistics operations. The remainder of the space is utilized for other Sears operations, including call centre services.

**S.L.H. Transport Inc. ("SLH")** – The Company's wholly-owned subsidiary, SLH, transports merchandise to stores, catalogue merchandise pick-up locations and directly to customers. SLH is responsible for providing logistics services for the Company's merchandising operations by operating a fleet of tractors and trailers to provide carrier services for Sears and contract carrier services to commercial customers who are unrelated to Sears. The arrangements with third parties increase SLH's fleet utilization and improve the efficiency of its operations. SLH continues to grow and has developed a nationwide distribution network to provide better and more consistent service to its customers.

As at the end of Fiscal 2012, Fiscal 2011, and the 52-week period ended January 29, 2011 ("Fiscal 2010"), the Company's locations were distributed across the country as follows:

	Atlantic	Québec	Ontario	Prairies	Pacific	As at February 2, 2013 Total	As at January 28, 2012 Total	As at January 29, 2011 Total
Full-Line Department stores	12	27	45	20	14	118	122	122
Sears Home stores	2	12	19	10	5	48	48	48
Outlet stores	1	1	6	1	2	11	11	11
Specialty type: Appliances and Mattresses stores			3	1	—	4	4	4
<b>Corporate stores</b>	15	40	73	32	21	181	185	185
<b>Hometown Dealer stores</b>	52	30	62	70	47	261	285	268
<b>Sears Home Services Showrooms</b>	1	3	2	1	2	9	13	13
Corbeil Franchise stores	—	15	2	—	—	17	19	19
Corbeil Corporate stores	—	12	4	—	—	16	11	11
<b>Corbeil</b>	—	27	6	—	—	33	30	30
<b>Sears Floor Covering Centres</b>	—	—	—	—	—	—	17	20
<b>Cantrex</b>	—	—	—	—	—	—	799	768
<b>Travel offices</b>	7	21	42	17	14	101	108	108
<b>Catalogue merchandise pick-up locations</b>	219	345	427	375	146	1,512	1,734	1,822

In Fiscal 2012, the Company closed 4 Full-Line stores as a result of the lease terminations that occurred during the year. The Company also closed 222 Catalogue merchandise pick-up locations, 24 Hometown Dealer stores and 17 Floor Covering Centres. During the second quarter of 2012, Cantrex was sold. Refer to Note 29 "Sale of Cantrex Group Inc." in the Notes to the Consolidated Financial Statements for a description of the transaction.

In Fiscal 2011, the Company opened 20 Hometown Dealer stores and 3 Catalogue merchandise pick-up locations. The Company also closed 3 Hometown Dealer stores, 3 Floor Covering Centres and 91 Catalogue merchandise pick-up locations.

In Fiscal 2010, the Company opened 83 new Hometown Dealer stores and 4 Floor Covering Centres. The Company also closed 1 Hometown Dealer store, 1 Outlet store and 5 Floor Covering Centres. The increase in Cantrex members over the year was due to the new Alliance program, which offered members access to certain retail services including customer financial solutions; protection plans (extended warranties) and web solutions.

As at the end of Fiscal 2012, Fiscal 2011, and Fiscal 2010, the gross square footage for corporate store locations was as follows:

(square feet, millions)	As at February 2, 2013	As at January 28, 2012	As at January 29, 2011
Full-Line Department stores	15.2	16.5	16.5
Sears Home stores	2.1	2.1	2.1
Outlet stores	0.8	0.8	0.8
Appliances and Mattresses stores	0.1	0.1	0.1
Corbeil	0.1	0.1	0.1
<b>Total</b>	<b>18.3</b>	<b>19.6</b>	<b>19.6</b>

Gross square footage for corporate store locations as at February 2, 2013 decreased compared to January 28, 2012 due to 4 Full-Line store closures as a result of lease terminations during Fiscal 2012.

Gross square footage for corporate store locations as at January 28, 2012 remained the same as compared to January 29, 2011.

**Investment in Joint Ventures** – The Company's investment in joint ventures includes its share of income or losses from its joint venture interests in 11 shopping centres across Canada, most of which contain a Sears store. Joint venture investments range from 15% to 50% and are co-owned with major shopping centre owners.

The Company's joint ventures are in partnership with Westcliff Group and Ivanhoe Cambridge Properties. The jointly controlled entities and the Company's ownership interest in each as at February 2, 2013 are listed below:

Entity Name	Properties	Joint Venture Partner	Ownership Interest
Carrefour Richelieu Realities (St-Jérôme)	Carrefour Richelieu	Westcliff Group	50%
Carrefour Richelieu Realities (St-Jean)	Carrefour du Nord	Westcliff Group	50%
Carrefour Richelieu Realities (Carrefour Angrignon)	Carrefour Angrignon	Westcliff Group	50%
Carrefour Richelieu Realities (Place Angrignon)	Place Angrignon	Westcliff Group	50%
Carrefour Richelieu Realities (Pierre Caisse)	Place Pierre Caisse	Westcliff Group	50%
Carrefour Richelieu Realities (Drummondville)	Promenades de Drummondville	Westcliff Group	50%
Méga-Centre Drummondville	Mega Centre Drummondville	Westcliff Group	50%
Société de Gestion des Neiges Ville- Marie	Various land holdings in Quebec, Canada	Westcliff Group	50%
133562 Canada Inc.	Various land holdings in Quebec, Canada	Westcliff Group	50%
172098 Canada Inc.	Drummondville Stripmall	Westcliff Group	50%
Kildonan Place	Kildonan Place *	Ivanhoe Cambridge	20%
Regionaux (Les Rivières Shopping Centre)	Les Rivières Shopping Centre	Ivanhoe Cambridge	15%
Regionaux (Les Galeries de Hull)	Les Galeries de Hull	Ivanhoe Cambridge	15%

During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of \$38.3 million, recognizing a pre-tax gain of \$8.6 million on the sale. During Fiscal 2011, the Company sold its share of assets in Chatham Centre for net proceeds of \$1.6 million, recognizing a gain of \$0.1 million on the sale.

## b. Core Capabilities

The Company's key resources and capabilities include its associates, brand equity, specialized services, national presence and logistics. The Company's ability to raise funds and working capital to support its operations is also a key capability and is discussed further in Section 2 "Consolidated Financial Position, Liquidity and Capital Resources" of this MD&A.

### *Associates*

- Sears associates are a critical asset to the Company. Sears works to inspire its associates to be committed to building lifelong customer relationships built on trust;

### *Brand equity*

- The Company works closely with its suppliers in product development, design and quality standards. Many lines of merchandise are manufactured with features exclusive to Sears and are sold under the Company's private label brands, such as Jessica<sup>®</sup>, Nevada<sup>®</sup>, Attitude<sup>®</sup> Jay Manuel, Whole Home<sup>®</sup>, Kenmore<sup>®</sup>, and Craftsman<sup>®</sup>. The Company believes that its private label and national brands have significant recognition and value with customers;

### *Specialized services*

- Apart from retail merchandise, the Company also offers a wide range of specialized services to attract a broad customer base. These services include product repair, the sale, installation, maintenance and repair of heating and cooling equipment, roofing, door and window replacement, flooring, window coverings, energy audits, kitchen and bathroom renovations, carpet and upholstery cleaning, and duct cleaning. The Company also offers portrait studio, optical, travel, floral, wireless and long distance, insurance, deferred financing and real estate services;

### *National Presence*

- The Company's expansive physical and online presence puts it in proximity to customers all across Canada. Sears operates 118 Full-Line department stores, 357 specialty stores (including 48 Sears Home stores, 11 Outlet stores, 4 Appliances and Mattresses stores, 261 Hometown Dealer stores operated under independent local ownership and 33 Corbeil stores), 101 Sears Travel offices and over 1,500 merchandise pick-up locations for orders placed through the catalogue or online at [www.sears.ca](http://www.sears.ca); and

### *Logistics*

- The ability to move merchandise efficiently to stores, merchandise pick-up locations or directly to customers is one of the Company's key capabilities. The Company's wholly-owned subsidiary, SLH, is responsible for providing transportation services for the Company's merchandising operations and has arrangements with third parties to increase SLH's fleet utilization and improve its operating effectiveness. The Company conducts operations in six National Logistics Centres located in Vancouver, Calgary, Regina, Vaughan, Belleville and Montreal.

### **c. Strategic Initiatives**

During Fiscal 2012, Sears Canada remained focused on executing its three-year Transformation strategy announced in 2011. This year, the Company implemented a number of significant changes, including the introduction of a new pricing model, the promotion of Sears fashion through the new LOOK! report, the start of the Full-Line and Sears Home store refreshes, the re-launch of the Gold Badge program designed to reward outstanding customer service, and the introduction of the new master brand strategy. Sears will continue with further initiatives to retain its competitive position within the Canadian retail landscape.

The Transformation's Formula for Growth is comprised of five key pillars as follows:

1. **Build the Core:** Implementing fundamental merchandise category plans to ensure that the right products and services are being offered in categories where the Company has a strong competitive position with Canadians, such as major appliances and mattresses;
2. **Be Customer Driven:** More fully and effectively utilizing our customer database to develop our merchandising and marketing strategies;
3. **Get Value Right:** Demonstrating a competitive value equation where our everyday price is more competitive, our promotions are well understood and balanced, our quality is superior and our service is dependable;
4. **Operate Effective Formats:** We are a multi-format retailer, operating in many different markets. We are working to align our category strengths with the market and to create more value from our trading strategies with retail concepts aligned to customer needs, including developing separate tactical approaches for our Full-line Department stores, Sears Home stores, Hometown Dealer stores, and Corbeil stores; and
5. **Organize the Right Talent and Create a Winning Attitude:** Maintaining a strong leadership team supported by loyal and dedicated associates who are committed to the implementation of our Transformation strategy.

The initiatives and corresponding results listed below include both new results seen in the fourth quarter and a recap of results from Fiscal 2012.

#### **Build the core**

- Announced three new alliances with The Aldo Group ("Aldo"), Buffalo International Inc. ("Buffalo") and SHS Services Management Inc. ("SHS"). The Company will continue to deepen relationships with successful organizations which can provide immediate credibility and continuity to our brands and services. Aldo is considered an industry leader in footwear fashion design and manufacturing capability, Buffalo's design and sourcing capability in denim-based apparel will help us attract a new and younger customer, and the combination of Sears brand, reputation and customer service with SHS's expertise, processes and technology is expected to improve the operating efficiency of the Home Services business;

- Implemented a new strategy for toys by moving the focus to online sales, in order to free up floor space previously dedicated to a category that was only a key focus area for three months of the year. The online approach was augmented with an in-store aisle program in the fourth quarter to display 15 of the best toys for the holiday season;
- Introduced “The Baby's Room,” the new nursery and infant accessories department, part of the Kids Room children's area. In May 2012 Sears held a vendor tradeshow to 'baby-train' store associates from across Canada; on June 1, 2012 a public launch was held in Toronto featuring a seminar by parenting expert Nanny Robina;
- In September, 2012 Sears Canada became the first Canadian retailer to earn the Parent Tested Parent Approved (PTPA) seal of approval from North America's largest parent tester community; and
- Launched an online points redemption system in Sears Financial for its five million plus card members - one of the first major retail loyalty programs in Canada to do so.

#### **Be customer driven**

- Launched the new Sears brand positioning, “Make every day a great day” at a gathering of more than 1,500 associates and media on November 7, 2012. Sears developed and ran the new Holiday-themed TV commercial called “The Gift” with a background song called “Best Year” commissioned by Sears to represent the new brand. As of the end of January 2013, Sears has had over 5,000 downloads of “Best Year” and over half a million views of “The Gift.” On December 15, 2012 Sears reinforced its dedication to customers and associates through its "Sears National Great Day" event featuring Holiday festivities, giveaways and one-day deals at stores across Canada;
- Published 4 editions of the LOOK! report including the fourth quarter's November Holiday edition. The LOOK! report features fashion, beauty, and lifestyle trends and highlights the Company's newest products of the season. The releases were supported with in-store fashion shows, an exclusive evening event for Sears VIP customers, and smaller customer events in stores across the country;
- Launched the 60th edition of the annual Wish Book, the Company's Christmas catalogue. This year's edition featured a commemorative cover that included images of every Wish Book published since our very first one 60 years ago in 1953. Over 3 million copies of the special edition Wish Book were distributed across Canada, featuring 736 pages of holiday gift ideas; and
- Waived the 2.5% foreign currency transaction charge on purchases made using Sears Financial™ MasterCard and Sears Financial™ Voyage™ MasterCard to appeal to the 65% of Canadians shopping and travelling abroad.

#### **Get value right**

- Reaffirmed Sears role as a Canadian retailer dedicated to keeping Canadians shopping at home by extending its annual “Black Friday” promotion to run from Thursday, November 22 through Sunday, November 25 (through Monday, November 26 for major appliances, electronics, fitness and snowblowers). Sears brought Black Friday savings to Canadians with hundreds of items at specially marked prices backed by a price match guarantee;
- Introduced the first products that meet Sears “Canada's Best” seal of approval criteria. The Canada's Best label will be assigned to an assortment of fashion and home products that meet required standards in quality, style and innovation. Products offered with this label are intended to be desirable and offer customers clear value when compared to competitors' offerings;
- Introduced a hassle-free return policy that includes a satisfaction guarantee with every purchase: if not completely satisfied, customers can now exchange or return almost all products within 30 days, or 90 days if they use their Sears Financial credit cards; and
- Lowered the price on over 5,000 products including items in every store and in every department and concurrently introduced specially-priced must-have WOW items.

### **Operate effective formats**

- Continued to invest in store refreshes, with refreshes in Grande Prairie and Nanaimo stores underway, building on the new store concept implemented in Fiscal 2012, with the first round of refreshes in Barrie, Belleville, Newmarket and the Lime Ridge Mall in Hamilton stores and the second round of refreshes in Ville d'Anjou, St. Jerome, Oshawa and Sudbury stores. The refreshed store concept features improved presentation, wider aisles, streamlined offerings with new brands and a blend of items priced at both everyday value and at sale prices;
- Unveiled the 78,000 sq. ft. Sears Home store at the Pinecrest Shopping Centre in Ottawa, housing the largest major appliance and mattress shops of any Sears location, an expanded selection of accent furniture, chairs and tables and new brands of furniture;
- Opened 4 Corbeil stores in Sears initial Greater Toronto Area expansion plans for Corbeil. The Corbeil stores are located in Richmond Hill, Mississauga, Vaughan and Burlington;
- Launched an e-commerce transactional shoppable iPad application that features the 60<sup>th</sup> anniversary Wish Book, and due to the positive response from customers, this application will serve as a permanent Sears iPad Catalogue application, which will be updated throughout the year;
- Invested in upgrading Sears.ca, the largest Canadian transactional retail website. Sears Canada revamped its bilingual website to improve functionality, navigation, and overall shopping experience; and
- Sold the Company's 40% ownership of the leasehold interest in Medicine Hat Mall in Alberta to the Company's joint venture partner, Sleeping Bay Building Corp., and received net proceeds of \$38.3 million. Earlier this year, Sears exited and returned leases on 4 properties to the landlords for financial consideration comprising Vancouver's Pacific Centre, Chinook Centre and Deerfoot Mall locations in Calgary, and the Rideau Centre store in Ottawa.

### **Organize the right talent and create a winning attitude**

- Created the Associate Advisory Council consisting of 21 individuals from different business lines and across Canada with the mandate to provide critical insight, perspective and counsel to senior management;
- Unveiled the new team of Store Managers, District Managers and Category Specialists operating under a new structure in store operations and executed a large-scale associate move in the Company's retail support centre, designed to ensure physical organization aligns with work flow; and
- Appointed Douglas C. Campbell Executive Vice-President and Chief Operating Officer of the Company, overseeing retail operations, logistics, replenishment, information technology and international sourcing, and leading the Company's undertaking to improve efficiency across the enterprise. Sears has made changes to its management team designed to lead the organization effectively through the Transformation and help the Company achieve its operational and financial objectives.

### ***“Live Green” Initiatives***

The Company conducts its operations with a commitment to achieving success on economic, social and environmental levels. The Company continues to build upon the following three-point plan on environmental sustainability:

1. Enable customers to “Live Green”, reduce their energy bills and create a healthy home;
2. Reduce the environmental impact of Sears Canada's operations; and
3. Nurture a culture of sustainability among the Company's associates, customers and the communities in which the Company operates.

Sears Canada continued to focus on these three priorities by implementing the following initiatives during Q4 2012:

- Partnered with electric utility companies in Nova Scotia, British Columbia and Saskatchewan to promote major appliances and electronics energy saving products;

- Launched a province-wide fridge and freezer pick-up and recycling program in Ontario; and
- Completed a national re-lamping project which resulted in the replacement of over 625,000 bulbs, and which is expected to provide energy savings of over 13 million kilowatt hours annually.

SLH:

- Installation of wide-base tires and trailer skirts and the reduction of metric tonne miles, resulting in fuel savings of approximately 1.8 million litres;
- Implemented best in class route optimization technology to improve route planning, as well as driver and truck utilization; and
- SLH continued its participation in the Ontario LCV (Long Combination Vehicle) pilot project run by the Ministry of Transportation, which is restricted to a select group of qualified carriers and Ontario Trucking Association members. In 2012, SLH's LCV program generated fuel savings of over 620,000 litres.

### *Corporate Social Responsibility*

The following is a summary of the results of the Company and its associates' corporate social responsibility efforts during Fiscal 2012:

- Assisted our local store charity partners through the sale of our 60<sup>th</sup> Anniversary charity plush, Cooper<sup>TM/MC</sup> the bear. Sears charity plush has been helping children since 1998, raising over \$1.3 million since 2005. Two dollars from the sale of each bear supported the healthy development of Canadian youth through after-school and children's health initiatives;
- Held our 25th annual Sears Boys & Girls Club of Canada ("BGCC") Golf Tournament near Toronto, in cooperation with our vendors, raising over \$200,000 to support BGCC youth programs, funds which Sears matched;
- Presented our 14th annual Tree of Wishes program in-stores, for which customers and associates donated holiday season gifts valued at over \$230,000 to less fortunate children, with the help of local charities;
- Held the second annual Sears Great Canadian Run (the "Run"), a full day running adventure hosted in two cities: Toronto in September and Ottawa in October. The Runs were held to benefit local pediatric oncology hospitals and organizations in the cities where the Runs took place, such as the Children's Hospital of Eastern Ontario. Support was also extended to Sears National pediatric oncology research initiatives such as The Sears Childhood Cancer Fellowship at the Hospital for Sick Children in Toronto; and
- The Sears Great Canadian Chill took place in four communities between New Year's Day and Family Day: Toronto and Ottawa on New Year's Day, Vancouver on February 18 and London on March 3. This traditional Canadian "polar-bear dip" is held to raise funds for the fight against childhood cancer. Several hundred people braved the cold waters to help support this worthy cause, with funds going to the Sears Canada Charitable Foundation to be distributed to children's hospitals for oncology needs.

### **d. Outlook**

As Canadians' needs in a shopping experience evolve, Sears Canada is focused on keeping pace with emerging trends and innovative delivery of products and services, and is reinvigorating its business to better serve and grow with its customers. For the upcoming year, Sears will continue to execute on its Transformation. Some of the priorities for the 52-week period ending February 1, 2014 ("Fiscal 2013") include the following:

- Continuing to maximize opportunities in merchandising categories where the Company has already established authority with customers, such as major appliances and mattresses, further developing private brands, and renewing focus on several additional "hero" categories;
- Improving customer service across all shopping formats and more effectively leveraging customer research, insights and loyalty data;

- Enhancing efficiency of marketing programs;
- Refining the approach to pricing and creating a logical blend of everyday value items, weekly specials and compelling sales promotions, providing merchandise with a quality level that customers should expect from Sears, resulting in an improved mix of regular versus promotional and clearance sales; and
- Attracting and retaining top talent in the industry, conducting associate engagement initiatives, and developing a performance-based culture across the Company.

Although management believes that Sears will achieve its long-term goal of sustainable and profitable growth, there can be no assurance that the Company will successfully implement these strategic initiatives or whether such initiatives will yield the expected results. For a discussion of the risks and uncertainties inherent in the Company's business, refer to Section 11 "Risks and Uncertainties".

#### e. Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA

The Company's consolidated financial statements are prepared in accordance with IFRS. Management uses IFRS, non-IFRS and operating performance measures as key performance indicators to better assess the Company's underlying performance and provides this additional information in this MD&A.

Same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. Same store sales represents merchandise sales generated through operations in the Company's Full-line, Sears Home, Hometown Dealer and Corbeil stores that were continuously open during both of the periods being compared. More specifically, the same store sales metric compares the same calendar weeks for each period and represents the 14 and 53-week periods ended February 2, 2013 and the 13 and 52-week periods ended January 28, 2012. The calculation of same store sales is a performance metric and may be impacted by store space expansion and contraction.

A reconciliation of the Company's total revenue to same store sales is outlined in the following table:

<i>(in CAD millions)</i>	Fourth Quarter		Fiscal	
	2012	2011	2012	2011
Total revenue	\$ 1,298.0	\$ 1,365.9	\$ 4,300.7	\$ 4,619.3
Non-comparable store sales	364.5	318.6	1,169.6	1,119.5
Same store sales	933.5	1,047.3	3,131.1	3,499.8
Same store sales percentage change	(3.8)%	(7.4)%	(5.6)%	(7.5)%

Adjusted EBITDA is a non-IFRS measure and excludes finance costs, interest income, share of income or loss from joint ventures, income tax expense or recovery, depreciation and amortization and income or expenses of a non-recurring or one-time nature. Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's operating performance, ability to incur and service debt, and as a valuation metric. The Company uses Adjusted EBITDA to evaluate the operating performance of its business as well as an executive compensation metric. While Adjusted EBITDA is a non-IFRS measure, management believes that it is an important indicator of operating performance because it excludes the effect of financing and investing activities by eliminating the effects of interest and depreciation and removes the impact of certain non-recurring items that are not indicative of our ongoing operating performance. Therefore, management believes Adjusted EBITDA gives investors greater transparency in assessing the Company's results of operations.

These measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Adjusted EBITDA should not be considered in isolation or as an alternative to measures prepared in accordance with IFRS.

A reconciliation of the Company's net earnings (loss) to Adjusted EBITDA is outlined in the following table:

<i>(in CAD millions, except per share amounts)</i>	Fourth Quarter		Fiscal	
	2012	2011	2012	2011
Net earnings (loss)	\$ 39.9	\$ 41.0	\$ 101.2	\$ (50.3)
Transformation expense <sup>1</sup>	12.6	14.4	12.6	60.0
Gain on lease terminations <sup>2</sup>	—	—	(167.1)	—
Accelerated tenant inducement amortization <sup>3</sup>	—	—	(4.0)	—
Lease exit costs <sup>4</sup>	2.0	—	8.0	—
Gain on settlement of post-retirement benefits <sup>5</sup>	(21.1)	—	(21.1)	—
Gain on sale of interest in joint venture <sup>6</sup>	(8.6)	—	(8.6)	—
Depreciation and amortization expense	28.1	28.8	113.3	114.9
Finance costs	2.4	4.0	13.3	16.0
Interest income	(0.8)	(0.4)	(4.1)	(1.7)
Share of income from joint ventures	(0.1)	(1.5)	(9.5)	(8.3)
Income tax expense (recovery)	8.0	15.5	13.0	(6.6)
Adjusted EBITDA <sup>7</sup>	\$ 62.4	\$ 101.8	\$ 47.0	\$ 124.0
Basic net earnings (loss) per share	\$ 0.39	\$ 0.39	\$ 0.99	\$ (0.48)

<sup>1</sup>Transformation expense during 2012 relates to severance costs incurred during the year. Fiscal 2011 transformation expense includes costs related to internal reorganization and the disposition of excess inventory.

<sup>2</sup>Gain on lease terminations represents the pre-tax gain on the early surrender and return of leases on four properties.

<sup>3</sup>Accelerated tenant inducement amortization represents the accelerated amortization of lease inducements relating to four of the properties referred to in footnote 2 above.

<sup>4</sup>Lease exit costs represent costs incurred to exit properties referred to in footnote 2 above.

<sup>5</sup>Gain arising from the settlement of post-retirement benefits of eligible members covered under the non-pension post-retirement plan.

<sup>6</sup>During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of \$38.3 million, recognizing a pre-tax gain of \$8.6 million on the sale.

<sup>7</sup>Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's performance, ability to incur and service debt, and as a valuation metric. Adjusted EBITDA is a non-IFRS measure.

#### f. Consolidated Financial Results

<i>(in CAD millions)</i>	Fiscal		
	2012	% Chg 2012 vs 2011	2011
Revenue	\$ 4,300.7	(6.9)%	\$ 4,619.3
Cost of goods and services sold	2,749.2	(6.2)%	2,932.3
Selling, administrative and other expenses	1,634.4	(6.0)%	1,737.9
<b>Operating (loss) earnings</b>	<b>(82.9)</b>	<b>(62.9)%</b>	<b>(50.9)</b>
Gain on lease terminations	167.1	100.0 %	—
Gain on sale of interest in joint venture	8.6	100.0 %	—
Gain on settlement of post-retirement benefits	21.1	100.0 %	—
Finance costs	13.3	(16.9)%	16.0
Interest income	4.1	141.2 %	1.7
Share of income from joint ventures	9.5	14.5 %	8.3
<b>Earnings (loss) before income taxes</b>	<b>114.2</b>	<b>300.7 %</b>	<b>(56.9)</b>
Income tax (expense) recovery	(13.0)	(297.0)%	6.6
<b>Net earnings (loss)</b>	<b>\$ 101.2</b>	<b>301.2 %</b>	<b>\$ (50.3)</b>

**2012 compared with 2011** – Total revenue in Fiscal 2012 declined 6.9% to \$4,300.7 million compared to \$4,619.3 million during the same period in Fiscal 2011. Same store sales decreased by 5.6% in Fiscal 2012 compared to Fiscal 2011.

The decrease is primarily attributable to sales declines in Craftsman<sup>®</sup>, electronics, bedroom and bath, womens' apparel and menswear categories, partially offset by revenue improvements in major appliances, specifically in the refrigerators, laundry and ranges categories. In addition, \$25.5 million of the decrease in revenues is attributable to the closure of 4 Full-Line stores during Fiscal 2012 and the sale of Cantrex during Q2 2012. Revenue was positively impacted by approximately \$38.3 million due to the additional 53rd week in Fiscal 2012.

Cost of goods and services sold was \$2,749.2 million in Fiscal 2012 compared to \$2,932.3 million in Fiscal 2011, a 6.2% decrease year-over-year. This decrease was primarily attributable to lower sales volumes.

The Company's gross margin rate was 36.1% for Fiscal 2012 compared to 36.5% in Fiscal 2011. In Fiscal 2011 there was a one-time inventory charge, relating to planned disposition of excess inventory. The Fiscal 2011 gross margin rate excluding the one-time inventory charge was 37.4%. The decrease in the gross margin rate in Fiscal 2012 compared to Fiscal 2011 was due primarily to reduced margin in fitness and recreation, Corbeil, children's wear, jewelry, accessories and luggage and footwear categories.

Selling, administrative and other expenses including depreciation and amortization expense was \$1,634.4 million in Fiscal 2012 compared to \$1,737.9 million in Fiscal 2011. The decrease in expense was primarily driven by reduced spending in advertising. Advertising expense decreased primarily due to planned reductions in catalogue pages and circulation, decreases in retail advertising relating to Full-Line, and a reduction in pre-print advertising. Expenses were negatively impacted by Transformation costs of \$12.6 million related primarily to severance associated with approximately 700 associates in the Retail Support Centre, Full-Line stores and logistics areas.

On March 2, 2012, the Company entered into an agreement to surrender and terminate early the operating leases on three properties: Vancouver Pacific Centre, Chinook Centre (Calgary) and Rideau Centre (Ottawa). The Company was a long-term and important anchor tenant in the three properties, and the landlord approached the Company with a proposal to terminate early the three leases and vacate the premises in exchange for \$170.0 million. The payment represents the amount the landlord was willing to pay for the right to redevelop the property based upon its analysis of the potential returns from redevelopment.

On the closing date, April 20, 2012, the Company received cash proceeds of \$170.0 million for the surrender of the three leases, resulting in a pre-tax gain of \$164.3 million for the 13-week period ended April 28, 2012, net of the de-recognition of leasehold improvements of \$5.7 million. The Company exited all three properties on October 31, 2012, and has no further financial obligation related to the transaction. The pre-tax gain is excluded from Adjusted EBITDA. Included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) for the 53-week period ended February 2, 2013 is \$8.0 million of exit costs relating to these three properties, partially offset by \$4.0 million of accelerated amortization of deferred lease inducements.

On June 20, 2012, the Company entered into an agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) property. The landlord approached the Company with a proposal to terminate early the lease in exchange for cash proceeds of \$5.0 million, subject to certain closing conditions, on the closing date of October 26, 2012. In Fiscal 2010, the Company incurred an impairment loss of \$2.9 million relating to the property, plant and equipment at its Deerfoot property. As a result of the agreement and expected proceeds, the Company recorded an impairment loss reversal (net of accumulated amortization) of \$2.1 million in "Selling, administrative and other expenses" in the second quarter of 2012. On the closing date of October 26, 2012, the Company vacated the property and received cash proceeds of \$5.0 million, resulting in a pre-tax gain of \$2.8 million for the 13-week period ended October 27, 2012, net of the de-recognition of leasehold improvements and furniture and fixtures of \$2.2 million. The pre-tax gain is excluded from Adjusted EBITDA. The Company has no further financial obligation related to the transaction.

Finance costs in Fiscal 2012 decreased by 16.9% to \$13.3 million compared to \$16.0 million during Fiscal 2011 due to lower long-term debt levels compared to last year.

Interest income increased by 141.2% to \$4.1 million in Fiscal 2012 compared to \$1.7 million in Fiscal 2011 primarily due to interest income of \$1.6 million earned on deposits made to tax authorities and higher levels of cash and cash equivalents, prior to the dividend payment of \$101.9 million in January 2013.

Share of income from joint ventures in Fiscal 2012 increased by 14.5% to \$9.5 million compared to \$8.3 million for Fiscal 2011. The increase is primarily due to lower expenses incurred by the Westcliff joint venture properties, partially offset by an impairment loss of \$2.2 million on the Promenades de Drummondville property recorded in Q4 2012, and lower income due to the sale of the Chatham joint venture property in the third quarter of 2011.

During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of \$38.3 million, recognizing a pre-tax gain of \$8.6 million on the sale.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid \$18.1 million and recorded a pre-tax settlement gain of \$21.1 million (\$21.9 million net of \$0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The gain has been excluded from Adjusted EBITDA.

Income tax expense was \$13.0 million for Fiscal 2012 compared to an income tax recovery of \$6.6 million in Fiscal 2011. The year-over-year change was primarily attributable to higher taxable earnings as a result of the gain recognized on the termination of the 4 leases during Fiscal 2012.

Adjusted EBITDA for Fiscal 2012 was \$47.0 million compared to \$124.0 million in Fiscal 2011, a decrease of \$77.0 million.

#### g. Fourth Quarter Results

<i>(in CAD millions)</i>	Fourth Quarter		
	2012	% Chg 2012 vs 2011	2011
Revenue	\$ 1,298.0	(5.0)%	\$ 1,365.9
Cost of goods and services sold	848.7	(1.8)%	864.6
Selling, administrative and other expenses	429.6	(3.0)%	442.7
<b>Operating earnings</b>	<b>19.7</b>	<b>(66.4)%</b>	<b>58.6</b>
Gain on sale of interest in joint venture	8.6	100.0 %	—
Gain on settlement of post-retirement benefits	21.1	100.0 %	—
Finance costs	2.4	(40.0)%	4.0
Interest income	0.8	100.0 %	0.4
Share of income from joint ventures	0.1	(93.3)%	1.5
<b>Earnings before income taxes</b>	<b>47.9</b>	<b>(15.2)%</b>	<b>56.5</b>
Income tax expense	(8.0)	(48.4)%	(15.5)
<b>Net earnings</b>	<b>\$ 39.9</b>	<b>(2.7)%</b>	<b>\$ 41.0</b>

**Q4 2012 compared with Q4 2011** – Total revenue in Q4 2012 decreased by 5.0% to \$1,298.0 million compared to \$1,365.9 million in Q4 2011, with same store sales declines of 3.8% in Q4 2012. The revenue decline is mainly attributed to sales declines in electronics, the Craftsman<sup>®</sup>, fitness and recreation, and men's casual wear categories. In addition, \$29.1 million of the decrease in revenues is attributable to the closure of 4 Full-Line stores during Fiscal 2012 and the sale of Cantrex during the second quarter of 2012.

During Q4 2012, the Company has achieved improved results in sales of major appliances, specifically in the refrigerators, laundry and ranges categories. In addition, there were sales increases in apparel and accessories, specifically in children's furniture and children's wear. Revenue in Q4 2012 was also positively impacted by approximately \$38.3 million due to the 53rd week in Fiscal 2012.

Cost of goods and services sold was \$848.7 million in Q4 2012 compared to \$864.6 million in Q4 2011, a 1.8% decrease quarter-over-quarter. This decrease is primarily attributable to lower sales volumes and lower merchandise losses, despite the 53rd week of additional sales volume in Fiscal 2012.

The Company's gross margin rate was 34.6% in Q4 2012 compared to 36.7% in Q4 2011. The decrease in the gross profit rate was due primarily to reduced margins in Corbeil, accessories, women's intimates and footwear categories.

Selling, administrative and other expenses, including depreciation and amortization expense was \$429.6 million in Q4 2012 compared to \$442.7 million in Q4 2011. The decrease in expense was primarily driven by reduced spending in advertising.

Advertising expense decreased primarily due to reductions in catalogue pages and circulation and decreases in retail advertising relating to Full-Line. Expenses were negatively impacted by Transformation costs of \$12.6 million incurred in Q4 2012 related to severance primarily associated with approximately 700 associates in the Retail Support Centre, Full-Line stores and logistics areas.

Depreciation and amortization expense in Q4 2012 was comparable to the depreciation and amortization expense for Q4 2011.

Finance costs in Q4 2012 decreased to \$2.4 million compared to \$4.0 million in Q4 2011 due to lower long-term debt levels compared to last year.

Interest income increased to \$0.8 million in Q4 2012 compared to \$0.4 million in Q4 2011. The increase in the period is due to higher levels of cash and cash equivalents compared to the same time last year.

During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of \$38.3 million, recognizing a pre-tax gain of \$8.6 million on the sale.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid \$18.1 million and recorded a pre-tax settlement gain of \$21.1 million (\$21.9 million net of \$0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

Income tax expense decreased to \$8.0 million in Q4 2012 compared to \$15.5 million in Q4 2011 due to lower taxable earnings.

Adjusted EBITDA for Q4 2012 was \$62.4 million compared to \$101.8 million in Q4 2011, a decrease of \$39.4 million.

## 2. Consolidated Financial Position, Liquidity and Capital Resources

Current assets as at February 2, 2013 were \$169.3 million lower than at January 28, 2012 due primarily to the reduction of \$160.4 million in cash and cash equivalents, a decrease in accounts receivable of \$40.0 million compared to last year, partially offset by a \$27.5 million increase in inventories compared to last year due primarily to the timing of inventory receipts.

Current liabilities as at February 2, 2013 were \$113.6 million lower than January 28, 2012 due primarily to a reduction in accounts payable and accrued liabilities of \$94.8 million, primarily due to the timing of inventory and expense receipts, and vendor payments.

Inventories were \$851.4 million as at February 2, 2013 compared to \$823.9 million at January 28, 2012. The \$27.5 million increase in the inventory balance is primarily due to the timing of inventory receipts, and a reduction in inventory reserve balances due to improved inventory quality.

Total cash and cash equivalents was \$237.0 million as at February 2, 2013 compared to \$397.4 million as at January 28, 2012. The decrease of \$160.4 million was primarily due to repayment of long-term obligations of \$142.3 million, \$101.9 million in dividend payments during Q4 2012, and the purchase of \$97.5 million in property, plant and equipment and intangible assets, partially offset by \$175.0 million in proceeds from lease terminations received during Fiscal 2012, and \$38.3 million received for the sale of the Company's interest in Medicine Hat Mall.

Total assets and liabilities as at the end of Fiscal 2012 and Fiscal 2011 are as follows:

<i>(in CAD millions, at period end)</i>	As at	
	February 2, 2013	January 28, 2012
Total assets	\$ 2,479.1	\$ 2,730.7
Total liabilities	\$ 1,402.7	\$ 1,638.7

Total assets as at February 2, 2013 decreased by \$251.6 million to \$2,479.1 million compared to \$2,730.7 million in Fiscal 2011 due primarily to lower cash and cash equivalents, property plant and equipment and investment in joint ventures as a result of the sale of the Company's interest in Medicine Hat Mall which occurred during Q4 2012.

Total liabilities as at February 2, 2013 decreased by \$236.0 million to \$1,402.7 million compared to \$1,638.7 million in Fiscal 2011, due primarily to lower accounts payable and accrued liabilities, long-term obligations and retirement benefit liability.

**Cash flow generated from (used for) operating activities** - Cash flow from operating activities decreased by \$164.9 million for the period ended February 2, 2013 to cash flow used for operating activities of \$79.9 million compared to cash flow generated from operating activities of \$85.0 million during the period ended January 28, 2012. The Company's primary source of operating cash flow is the sale of goods and services to customers, while the primary use of cash in operating activities is the purchase of merchandise inventories. The decrease in cash from operating activities is attributable to unfavourable changes in accounts payable and accrued liabilities, retirement benefit contributions, inventories and deferred revenue, partially offset by favourable changes in accounts receivable.

Accounts payable and accrued liabilities decreased \$94.8 million from January 28, 2012 to \$482.0 million as at February 2, 2013 primarily due to timing of payments to vendors and inventory receipts.

Retirement benefit liability decreased by \$36.6 million due primarily to a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid \$18.1 million and recorded a pre-tax settlement gain of \$21.1 million (\$21.9 million net of \$0.8 million of expenses).

Inventories increased by \$27.5 million from January 28, 2012 to \$851.4 million as at February 2, 2013 due to the timing of inventory receipts in addition to a reduction in inventory reserves during the year due to improvements in inventory quality.

Accounts receivable decreased by \$40.0 million from January 28, 2012 to \$76.2 million as at February 2, 2013 primarily due to the sale of the Cantrex operations at the beginning of the second quarter of 2012.

**Cash flow (used for) generated from investing activities** - Cash flow generated from investing activities increased by \$203.4 million for the period ended February 2, 2013 to \$139.9 million compared to cash flow used for investing activities of \$63.5 million for the period ended January 28, 2012 primarily due to proceeds received from lease terminations of \$175.0 million and proceeds received from the sale of the Company's interest in Medicine Hat Mall of \$38.3 million. Cash flow generated from these transactions was partially offset by \$97.5 million of capital expenditures incurred during the year.

**Cash flow used for financing activities** - Cash flow used for financing activities increased by \$164.2 million to \$220.5 million for the period ended February 2, 2013 compared to \$56.3 million for the period ended January 28, 2012. The increase in cash flow used is primarily due to an extraordinary dividend payment of \$101.9 million which occurred during Q4 2012, and additional repayments made on the credit facility during Fiscal 2012.

## Contractual Obligations

Contractual obligations, including payments due over the next five fiscal years and thereafter, are shown in the following table:

(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	\$ 482.0	\$ 482.0	\$ 482.0	\$ —	\$ —	\$ —
Long-term obligations including payments due within one year <sup>1</sup>	36.1	48.4	7.6	11.6	9.7	19.5
Operating lease obligations <sup>2</sup>	n/a	496.7	96.7	155.2	98.9	145.9
Minimum purchase commitments <sup>2,4</sup>	n/a	17.5	5.0	12.5	—	—
Royalties <sup>2</sup>	n/a	2.3	1.8	0.5	—	—
Retirement benefit plans obligations <sup>2,3</sup>	415.7	114.9	29.3	58.7	26.9	—
	<b>\$ 933.8</b>	<b>\$ 1,161.8</b>	<b>\$ 622.4</b>	<b>\$ 238.5</b>	<b>\$ 135.5</b>	<b>\$ 165.4</b>

<sup>1</sup> Cash flow maturities related to long-term obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%. The Company had no borrowings on the Credit Facility at February 2, 2013.

<sup>2</sup> Minimum purchase commitments, operating lease obligations, retirement benefit plans funding obligations and royalties are not reported in the Consolidated Statements of Financial Position.

<sup>3</sup> Payments beyond 2013 are subject to a funding valuation to be completed as at December 31, 2013. Until then, the Company is obligated to fund in accordance with the most recent valuation completed as at December 31, 2010.

<sup>4</sup> Certain vendors require minimum purchase commitment levels over the term of the contract.

## Retirement Benefit Plans

In Fiscal 2012, the Company's retirement benefit plan obligations decreased by \$36.6 million to \$415.7 million compared to Fiscal 2011 due to increases in the amortization of actuarial losses partially offset by lower interest expense, and the buyout described below.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid \$18.1 million and recorded a pre-tax settlement gain of \$21.1 million (\$21.9 million net of \$0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

See Note 2, "Significant accounting policies", Note 4 "Critical accounting judgments and key sources of estimation uncertainty" and Note 20 "Retirement benefit plans" in the Notes to the Consolidated Financial Statements for a description of the Company's benefit plans. Also see Section 9c for a description of the Company's early adoption of IAS 19 (Revised) – Employee Benefits.

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, 2010. The next actuarial valuation assessment is required as of December 31, 2013. An actuarial valuation of the health and welfare trust is performed at least every 3 years, with the last valuation completed as of September 1, 2011.

During Fiscal 2011, the Company changed the target asset allocation to 55-75% fixed income and 25-45% equity for the registered and non-registered pension plans. For the assets in the health and welfare trust, included in Other Benefit Plans, the Company changed the asset allocation to 100% fixed income. As at the end of Fiscal 2012 and 2011, the assets were in line with the target allocation range, with the transitioning of assets from alternative investments near completion. 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.

The Company early adopted the amendments to IAS 19 beginning January 29, 2012, with retrospective application to prior reporting periods. A description of the nature of the change in accounting policy and a summary of its impact to the Company's consolidated financial statements are included in Note 2 "Significant Accounting Policies" of the Notes to the Consolidated Financial Statements.

### **Capital Resources**

The Company's capital expenditures, working capital needs, debt repayment and other financing needs are funded primarily through cash generated from operations. In selecting appropriate funding choices, the Company's objective is to manage its capital structure in such a way as to diversify its funding sources, while minimizing its funding costs and risks. Sears expects to be able to satisfy all of its financing requirements through cash on hand, cash generated by operations and available credit facilities. The Company's cost of funding is affected by a variety of general economic conditions, including the overall interest rate environment, as well as the Company's financial performance, credit ratings and fluctuations of its credit spread over applicable reference rates.

The Company's debt consists of a secured credit facility and 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. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability under the Credit Facility was \$501.5 million as at February 2, 2013 (January 28, 2012: \$415.1 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately \$300.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders, with respect to the Company's unfunded pension liability by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to \$150.0 million. The potential additional reserve amount may increase or decrease in the future based on estimated net pension liabilities.

The Company regularly monitors its sources and uses of cash and its level of cash on hand, and considers the most effective use of cash on hand including, repayment of obligations, potential acquisitions, stock purchases and dividends.

As at February 2, 2013, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of \$6.2 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (January 28, 2012: borrowings of \$93.1 million, net of unamortized transaction costs of \$8.0 million, included in "Long-term obligations"). In addition, the Company had \$19.7 million (January 28, 2012: \$6.3 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments including third party payments, utility commitments and defined benefit plan deficit funding (See Note 20 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for additional information on retirement benefits plans). Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at February 2, 2013, the Company had outstanding merchandise letters of credit of U.S. \$7.9 million (January 28, 2012: U.S. \$5.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

### **3. Financial Instruments**

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange and interest rate risk. See Note 14 "Financial instruments" of the Notes to the Consolidated Financial Statements for additional information.

#### **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 and cash equivalents, short-term investments, accounts receivable and other long-term assets.

Cash and cash equivalents, short-term investments, accounts receivable and other long-term assets of \$314.5 million as at February 2, 2013 (January 28, 2012: \$514.9 million) expose the Company to credit risk should the borrower default on maturity of the investment. 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 customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at February 2, 2013, no customers represented greater than 10.0% of the Company's accounts receivable (January 28, 2012 : one customer represented 26.5% of the Company's accounts receivable).

#### **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 ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

#### **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.

From time to time, the Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and for purchases of goods or services. As at February 2, 2013 and January 28, 2012, there were no contracts outstanding and therefore no derivative financial assets or liabilities were recognized in the Consolidated Statements of Financial Position.

During Fiscal 2012, the Company recorded a loss of \$0.6 million (2011 : gain of \$0.9 million), relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The period end exchange rate was 1.0027 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net earnings (loss) of \$4.3 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable.

#### **Interest rate risk**

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. 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. As at February 2, 2013 and January 28, 2012, there were no contracts outstanding and therefore no derivative financial assets or financial liabilities were recognized in the Consolidated Statements of Financial Position.

#### 4. Funding Costs

The funding costs for the Company in Fiscal 2012 and Fiscal 2011 are outlined in the table below:

<i>(in CAD millions)</i>	Fourth Quarter		Fiscal	
	2012	2011	2012	2011
<b>Interest costs</b>				
Total long-term obligations at end of period <sup>1</sup>	\$ 36.1	\$ 122.7	\$ 36.1	\$ 122.7
Average long-term obligations for period	36.7	76.9	50.2	69.7
Long-term funding costs <sup>2</sup>	0.6	0.7	2.9	3.3
Average rate of long-term funding	6.1%	3.7%	5.7%	4.7%

<sup>1</sup>Includes principal payments due within one year.

<sup>2</sup>Excludes standby fee on the unused portion of the Credit Facility, amortization of debt issuance costs, interest accrued related to uncertain tax positions and sales tax assessments, and finance costs relating to finance lease obligations.

See Section 2 “Consolidated Financial Position, Liquidity and Capital Resources” of this MD&A for a description of the Company’s funding sources.

#### 5. Related Party Transactions

On May 17, 2012 the Company announced Sears Holdings' plan to pursue a distribution, on a pro rata basis, to its shareholders, of a portion of its holdings in the Company such that, immediately following the distribution, Sears Holdings would retain approximately 51% of the issued and outstanding shares of Sears Canada. The distribution was made on November 13, 2012 to Sears Holdings' stockholders of record as of the close of business on November 1, 2012, the record date for the distribution. Every share of Sears Holdings common stock held as of the close of the business on the record date entitled the holder to a distribution of 0.4283 Sears Canada common shares. In connection with the announced distribution, the Company has filed documents with the SEC.

As at March 14, 2013, Sears Holdings and its affiliates are the beneficial holders of 51,962,391 common shares, representing approximately 51 % of the Company's total outstanding common shares.

In the ordinary course of business, the Company and Sears Holdings periodically share selected services, associates, and tangible and intangible assets. Transactions between the Company and Sears Holdings are recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. See Note 30 “Related party transactions” of the Notes to the Consolidated Financial Statements for a detailed description of these related party transactions.

#### Intangible Properties

The Company has a license from Sears Roebuck to use the name “Sears” as part of its corporate name. The Company also has licenses from Sears Roebuck to use other brand names, including Kenmore®, Craftsman®, and DieHard®. The Company has established procedures to register and otherwise vigorously protect its intellectual property, including the protection of the Sears Roebuck trademark used by the Company in Canada.

#### Cross Border Vendor Agreement

The Company is party to a cross border vendor agreement with Sears Roebuck establishing a collaboration and allowing the Company and Sears Roebuck to use each other's websites to sell merchandise in the United States and Canada. Merchandise sold pursuant to the agreement will obligate the Company or Sears Roebuck, as applicable, to pay fees to the other party equal to (i) for some transactions, a percentage of merchandise selling prices, and (ii) for other transactions, a percentage of the revenue booked by the applicable seller. This agreement can be terminated by either party on 60 days' written notice and will also terminate upon a transaction that results in the Company no longer being an affiliate of Sears Holdings.

### Software Agreement

The Company and Sears Roebuck are party to an information technology agreement for the sharing of information technology and software development, ownership and costs, which agreement (i) either party may terminate on 90 days' written notice, or (ii) will automatically terminate if Sears Holdings ceases to control 50% of the voting power of Sears Canada.

### Import Services

Pursuant to an agreement between Sears Roebuck 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 stipulated percentage of the value of the imported merchandise. In Fiscal 2012, Sears Canada paid \$5.1 million to Sears Holdings in connection with this agreement compared to \$4.7 million in Fiscal 2011.

### Review and Approval

Material related party transactions are currently reviewed by the Audit Committee of the Company's Board of Directors (the "Audit Committee"). The Audit Committee is responsible for pre-approving all related party transactions that have a value greater than \$1.0 million.

## 6. Shareholders' Equity

The only outstanding shares of the Company are common shares. The number of outstanding common shares at the end of Fiscal 2012 and Fiscal 2011 Consolidated Statement of Financial Position are as follows:

	As at February 2, 2013	As at January 28, 2012
Outstanding common shares	101,877,662	102,748,295

In Fiscal 2012, no common shares were issued (2011: no common shares were issued) with respect to the exercise of options pursuant to the Employees Stock Plan.

On May 24, 2011, the Company filed a Normal Course Issuer Bid with the Toronto Stock Exchange ("TSX") for the period of May 25, 2011 to May 24, 2012 ("2011 NCIB"). Pursuant to the 2011 NCIB, the Company was permitted to purchase for cancellation up to 5% of its issued and outstanding common shares, equivalent to 5,268,599 common shares based on the common shares issued and outstanding as at May 9, 2011. The Company did not purchase common shares under the 2011 NCIB if such shares could not be purchased at prices that the Company considered attractive. Decisions regarding the timing of purchases were based on market conditions and other factors. The Company did not renew its 2011 NCIB subsequent to May 24, 2012.

From time to time, when the Company did not possess material undisclosed information about itself or its securities, it entered into a pre-defined plan with a designated broker to allow for the repurchase of common shares at times when the Company ordinarily would not have been active in the market due to its own internal trading blackout periods, insider trading rules, or otherwise. Any such plans entered into with the Company's designated broker were adopted in accordance with the requirements of applicable Canadian securities laws.

During Fiscal 2012, 870,633 shares were purchased for \$9.7 million (2011: 2,668,800 shares were purchased for \$42.0 million) and cancelled. As at March 14, 2013, there were 101,877,662 common shares and 5,080 tandem award options outstanding under the Employees Stock Plan.

Shareholders may obtain, without charge, a copy of the Notice of 2011 NCIB that the Company filed with the TSX by contacting the Company at 416-941-4428 or [home@sears.ca](mailto:home@sears.ca).

## 7. Profit Sharing and Stock-Based Compensation

### *a. Employee Profit Sharing Plan*

The Sears Plan for Sharing Profits with Employees (“Employee Profit Sharing Plan”), established in 1976, was discontinued on January 1, 2005. Upon the announcement of the discontinuance of the plan, members had the option to retain or sell their common shares of the Company held in the plan. During Fiscal 2012, the Company wound up the Employee Profit Sharing Plan and distributed the remaining assets to its eligible members.

### *b. Stock Option and Share Purchase Plans for Employees and Directors*

The Company has three stock-based compensation plans: the Employees Stock Plan, the Stock Option Plan for Directors and the Directors’ Share Purchase Plan.

The Employees Stock Plan, which expired on April 19, 2008, provided for the granting of options and Special Incentive Shares and Options, which vested over three years and expired ten years from the grant date. The Employee Stock Plan permitted the issuance of tandem awards. Following the last grant in 2004, the Company discontinued the granting of options and Special Incentive Shares and Options under the Employees Stock Plan. Notwithstanding the expiry of the Employees Stock Plan, all outstanding stock options may be exercised or allowed to expire in accordance with the terms of their grants. For the fiscal year ended February 2, 2013 there were 5,440 options outstanding under the Employees Stock Plan.

The Stock Option Plan for Directors provides for the granting of stock options to Directors who are not employees of the Company or Sears Holdings. Options granted under the Stock Option Plan for Directors generally vest over three years and are exercisable within ten years from the grant date. No stock options have been granted under the Stock Option Plan for Directors since the last grant in 2003.

The Directors’ Share Purchase Plan provides for the granting of common shares to Directors, to be purchased by the Company on the TSX, as part of their annual remuneration for services rendered on the Board. Following the last grant in 2005, the Company has discontinued the granting of shares under the Directors’ Share Purchase Plan.

## 8. Event After the Reporting Period

Subsequent to year end, the Company finalized an exclusive, multi-year licensing arrangement with SHS Services Management Inc. (“SHS Services”), which will result in SHS Services overseeing the day-to-day operations of all Sears installed home improvements business. The licensing agreement, effective March 3, 2013, is expected to result in a reduction to revenues and expenses; however, the impact to net earnings is not expected to be significant.

## 9. Accounting Policies and Estimates

### *a. Critical Accounting Estimates*

In the application of the Company’s accounting policies, management is required to make judgments, estimates and assumptions with regard 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 within the next fiscal year.

#### *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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16 “Provisions” in the Notes to the Consolidated Financial Statements.

#### *Inventory*

##### *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.

##### *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.

##### *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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 7 “Inventories” in the Notes to the Consolidated Financial Statements.

#### *Impairment of Property, Plant and Equipment and Intangible Assets*

The Company’s property, plant and equipment and intangible assets have been allocated to Cash Generating Units (“CGU”). Determining whether the CGU is impaired requires an estimation of the recoverable amount of the CGU, which is the higher of the fair value less costs to sell and its value in use. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating the expected future cash flows using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 9 “Property, plant and equipment and investment property”, and Note 10.2 “Intangible assets” respectively, in the Notes to the Consolidated Financial Statements.

#### *Impairment of Goodwill*

Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the CGU to which the goodwill is allocated. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating expected future cash flows using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in reduction to “Goodwill” on the Consolidated Statements of Financial Position and a charge to “Selling, administrative and other expenses” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 10 “Goodwill and intangible assets” in the Notes to the Consolidated Financial Statements.

#### *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” in the Consolidated Statements of Net Earnings (Loss) and Other Comprehensive Income (Loss). For additional information, see Note 20 “Retirement benefit plans” in the Notes to the Consolidated Financial Statements.

#### *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 based on historical behaviour and trends in redemption rates and redemption values.

Changes in estimates may result in changes to “Deferred revenue” (current and non-current) in the Consolidated Statements of Financial Position and an increase or decrease to “Revenue” and/or “Cost of goods and services sold” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 13 “Deferred revenue” in the Notes to the Consolidated Financial Statements.

#### *Derivative Assets and Liabilities*

All derivatives are measured at fair value. U.S. dollar option contracts are traded over-the-counter and give holders the right to buy, or sell, a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar option contracts are derived using a Black-Scholes valuation model. The Company is required to estimate various inputs which are used in this model 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 “Other comprehensive income (loss)” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 14 “Financial instruments” in the Notes to the Consolidated Financial Statements.

#### *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 “Cost of goods and services sold” or “Selling, administrative and other expenses” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16 “Provisions” in the Notes to the Consolidated Financial Statements.

#### *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 a building, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to “Property, plant and equipment”, “Principal payments on long-term obligations due within one year” 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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 19 “Leasing arrangements” in the Notes to the Consolidated Financial Statements.

## 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 earnings (loss) will be affected positively or negatively.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax 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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 22 "Income taxes" in the Notes to the Consolidated Financial Statements.

### ***b. 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. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

On December 16, 2011, the IASB issued amendments to three previously released standards. They are as follows:

#### *IAS 32, Financial Instruments: Presentation ("IAS 32")*

The IASB amended IAS 32 to address inconsistencies in current practice in the application of offsetting criteria. The amendments provide clarification with respect to the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

#### *IFRS 7, Financial Instruments: Disclosures ("IFRS 7")*

The IASB first amended IFRS 7 on October 7, 2010, to require additional disclosures regarding transfers of financial assets. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company applied these amendments beginning the first quarter of its Fiscal 2012 year.

On December 16, 2011, the IASB approved amendments to IFRS 7, which establishes disclosure requirements to help users better assess the effect or potential effect of offsetting arrangements on a company's financial position. These amendments are effective for annual periods beginning on or after January 1, 2013. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact on the Company's disclosures.

#### *IFRS 9, Financial Instruments ("IFRS 9")*

The IASB issued IFRS 9 on November 12, 2009, which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments.

The first phase of the project provides guidance on the classification and measurement of financial assets. IFRS 9 was subsequently reissued on October 28, 2010, incorporating new requirements on accounting for financial liabilities. On December 16, 2011, the IASB amended the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. The amendment also provides relief from the requirement to recast comparative financial statements for the effect of applying IFRS 9. The Company is monitoring the impact of amendments to this standard and is currently assessing the impact on the Company's disclosures.

On June 16, 2011, the IASB issued amendments to the following standard:

*IAS 1, Presentation of Financial Statements ("IAS 1")*

The IASB has amended IAS 1 to require additional disclosures for items presented in OCI on a before-tax basis and requires items to be grouped and presented in OCI based on whether they are potentially reclassifiable to earnings or loss subsequently (i.e. items that may be reclassified and those that will not be reclassified to earnings or loss). These amendments are effective for annual periods beginning on or after July 1, 2012 and require full retrospective application. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact to its consolidated financial statements.

On May 12, 2011, the IASB issued four new standards, all of which are applicable to Annual Reporting periods beginning on or after January 1, 2013. The Company is currently assessing the impact of these standards on its consolidated financial statements and related note disclosures. The following is a list and description of these standards:

*IAS 28, Investments in Associates and Joint Ventures ("IAS 28")*

IAS 28 (as amended in 2011) supersedes IAS 28 (2003), *Investments in Associates* and outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those policies);

*IFRS 10, Consolidated Financial Statements ("IFRS 10")*

IFRS 10 establishes the standards for the presentation and preparation of consolidated financial statements when an entity controls one or more entities;

*IFRS 11, Joint Arrangements ("IFRS 11")*

IFRS 11 replaces IAS 31, *Interests in Joint Ventures* ("IAS 31") and requires that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly;

*IFRS 12, Disclosure of Involvement with Other Entities ("IFRS 12")*

IFRS 12, along with IFRS 11 described above, replaces IAS 31. IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of and the risks associated with, the entity's interests in joint ventures and the impact of those interests on its financial position, financial performance and cash flows; and

*IFRS 13, Fair Value Measurement ("IFRS 13")*

IFRS 13 provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. This standard applies when another IFRS requires or permits fair value measurements or disclosures. IFRS 13 does not apply for share-based payment transactions, leasing transactions and measurements that are similar to, but are not fair value.

**c. Early adoption of IAS 19 (Revised) – Employee Benefits ("IAS 19")**

The Company has elected to early adopt IAS 19 (Revised) in the first quarter of 2012. On June 16, 2011, the IASB issued amendments to IAS 19 which included the elimination of the "corridor approach," which is the option to defer and amortize the recognition of actuarial gains and losses. The significant amendments to IAS 19 are as follows:

- The "corridor approach" is to be replaced with full and immediate recognition of actuarial gain and loss remeasurements in "Other comprehensive (loss) income" ("OCI");
- Retirement benefit costs are to consist of service costs, net interest and remeasurements, with remeasurements being recorded in OCI;
- Past service costs are to be recognized immediately in the Consolidated Statements of Net Earnings (Loss);

- Expected returns on plan assets will no longer be recognized in profit or loss. Instead, interest income on plan assets, calculated using the discount rate used to measure the pension obligation, will be recognized in the Consolidated Statements of Net Earnings (Loss),
- Plan administration costs are to be expensed as incurred; and
- Disclosures relating to retirement benefit plans will be enhanced and will include discussions on risk associated with each plan, an explanation of items recognized in the consolidated financial statements and descriptions of the amount, timing and uncertainty on the Company's future cash flows.

The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The amendments are required to be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. As discussed above, the Company has elected to early adopt the amendments to IAS 19, and as such, the Company has retrospectively adjusted the assets and liabilities for the 52-week periods ending January 28, 2012, January 29, 2011 and January 31, 2010 and income and expenses and cash flows for the 52-week periods ended January 28, 2012 and January 29, 2011.

*Impact on financial statement captions*

A summary of the impact arising from the application of the change in accounting policy is as follows:

*Consolidated Statements of Financial Position*

<i>(Increase (decrease) in CAD millions)</i>	As at January 28, 2012
Retirement benefit asset	\$ (187.7)
Retirement benefit liability	308.2
Net change to retirement benefit asset and liability	(495.9)
Deferred tax assets	84.0
Deferred tax liabilities	(43.6)
Net change to deferred tax assets and liabilities	127.6
Accumulated other comprehensive loss	(141.7)
Retained earnings	(226.6)

*Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss)*

<i>(Increase (decrease) in CAD millions, except per share amounts)</i>	53-Week Period Ended February 2, 2013
Selling, administrative and other expenses	\$ (24.4)
Earnings before income taxes	24.4
Deferred income tax expense	6.4
Net earnings	18.0
Basic net earnings per share	0.17
Diluted net earnings per share	0.17
Other comprehensive income	1.3
Total comprehensive income	19.3

*Consolidated Statements of Cash Flows*

<i>(Increase (decrease) in CAD millions)</i>	53-Week Period Ended February 2, 2013
Net earnings	\$ 18.0
Retirement benefit plans expense	(24.4)
Income tax expense	6.4

Please refer to Note 20 "Retirement benefit plans" in the Notes to the Consolidated Financial Statements for the prior year comparative figures.

## 10. Disclosure Controls and Procedures

### *Disclosure Controls and Procedures*

Management of the Company is responsible for establishing and maintaining a system of disclosure controls and procedures ("DC&P") that are designed to provide reasonable assurance that information required to be disclosed by the Company in its public disclosure documents, including its Annual and Interim MD&A, Annual and Interim Financial Statements, and Annual Information Form is recorded, processed, summarized and reported within required time periods and includes controls and procedures designed to ensure that the information required to be disclosed by the Company in its public disclosure documents is accumulated and communicated to the Company's management, including the Chief Executive Officer ("CEO") and Interim Chief Financial Officer ("Interim CFO"), to allow timely decisions regarding required DC&P.

Management of the Company, including the CEO and Interim CFO, has caused to be evaluated under their supervision, the Company's DC&P, and has concluded that the Company's DC&P was effective for the year ended February 2, 2013.

### *Internal Control over Financial Reporting*

Management of the Company is also 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 IFRS.

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 has evaluated whether there were changes in the internal control over financial reporting during Fiscal 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting and has determined that no material changes occurred during this period.

## 11. Risks and Uncertainties

### **Risks Relating to Our Business**

*If the Company is unable to compete effectively in the highly competitive retail industry, the Company's business and results of operations could be materially adversely affected.*

The Canadian retail market remains highly competitive as key players and new entrants compete for market share. International retailers continue to expand into Canada while existing competitors enhance their product offerings and become direct competitors. The Company's competitors include traditional full-line department stores, discount department stores, wholesale clubs, "big-box" retailers, internet retailers and specialty stores offering alternative retail formats. Failure to develop and implement appropriate competitive strategies and the performance of Sears competitors could have a material adverse effect on the Company's business, results of operations and financial condition.

To stay competitive and relevant to Sears customers, significant initiatives in support of the Company's strategic plan are underway for Fiscal 2012. These initiatives include improvements in business processes, advancements in information technology and other organizational changes. The achievement of strategic goals may be adversely affected by a wide range of factors, many of which are beyond the Company's control. The inability to execute and integrate strategic plans could have a negative impact on the Company's current operations, market reputation, customer satisfaction and financial position. The Company's potential to implement and achieve Sears long-term strategic objectives is dependent on the achievement of these strategic plans and initiatives. There can be no assurance that such plans and initiatives will yield the expected results, either of which could cause the Company to fall short in achieving financial objectives and long-range goals.

Additional risk may arise when foreign retailers carrying on business in Canada in competition with Sears engage in marketing activities which are not in full compliance with Canadian legal requirements regarding advertising and labeling rules and product quality standards. Such retailers may gain an unfair advantage and their activities may negatively affect the Company's business and results of operations.

The majority of the performance payments earned pursuant to the credit card marketing and servicing alliance with JPMorgan Chase are related to customers' purchases using the Sears Card and Sears MasterCard. The credit card industry is highly competitive as credit card issuers continue to expand their product offerings to distinguish their cards. As competition increases, there is a risk that a reduction in the percentage of purchases charged to the Sears Card and Sears MasterCard may negatively impact the Company's results of operations and financial condition.

***Due to the seasonality of the Company's business, the Company's results of operations would be adversely affected if Sears business performed poorly in the fourth quarter or as a result of unseasonable weather patterns.***

The Company's operations are seasonal in nature with respect to results of operations and in products and services offered. Merchandise and service revenues, as well as performance payments received from JPMorgan Chase, vary by quarter based upon consumer spending behavior. Historically, the Company's revenues and earnings have been higher in the fourth quarter due to the holiday season and we have reported a disproportionate level of earnings in that quarter. As a result, the fourth quarter results of operations significantly impacts the Company's annual results of operations. The Company's fourth quarter results of operations may fluctuate significantly, based on many factors, including holiday spending patterns and weather conditions. In addition, the Company offers many seasonal goods and services. The Company establishes budgeted inventory levels and promotional activity in accordance with its strategic initiatives and expected consumer demand. Businesses that generate revenue from the sale of seasonal merchandise and services are subject to the risk of changes in consumer spending behavior as a result of unseasonable weather patterns.

***If the Company fails to offer merchandise and services that Sears customers want, Sears sales may be limited, which would reduce the Company's revenues and profits and adversely impact Sears results of operations.***

To be successful, the Company must identify, obtain supplies and offer to customers attractive, relevant and high-quality merchandise and services on a continuous basis. Customers' preferences may change over time. If we misjudge either the demand for products and services Sears sells or the Company's customers' purchasing habits and tastes, the Company may be faced with excess inventories of some products and missed opportunities for products and services Sears chose not to offer. This could have a negative effect on the Company's revenues and profits and adversely impact Sears results of operations.

***The Company's failure to retain Sears senior management team and to continue to attract qualified new personnel could adversely affect the Company's business and results of operations.***

The Company's success is dependent on its ability to attract, motivate and retain senior leaders and other key personnel. The loss of one or more of the members of the Company's senior management may disrupt Sears business and adversely affect Sears results of operations. Furthermore, the Company may not be successful in attracting, assimilating and retaining new personnel to grow Sears business profitably. The inability to attract and retain key personnel could have an adverse effect on the Company's business.

***If the Company does not successfully manage its inventory levels, the Company's results of operations will be adversely affected.***

The Company must maintain sufficient in-stock inventory levels to operate the business successfully while minimizing out-of-stock levels. A significant portion of inventory is sourced from vendors requiring advance notice periods in order to supply the quantities that we require. These lead times may adversely impact the Company's ability to respond to changing consumer preferences, resulting in inventory levels that are insufficient to meet demand or in merchandise that may have to be sold at lower prices. Inappropriate inventory levels or a failure to accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory may negatively impact the Company's results of operations.

***The Company relies extensively on computer systems to process transactions, summarize results and manage its business. Disruptions in these systems could harm the Company's ability to run its business.***

Given the number of individual transactions that the Company processes each year, it is critical that the Company maintain uninterrupted operation of its computer and communications hardware and software systems. These systems are subject to obsolescence, damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events such as fires, natural disasters and adverse weather occurrences and usage errors by the Company's employees. If the systems are damaged or cease to function properly, the Company may have to make a significant investment to fix or replace them, may suffer interruptions in operations in the interim and the Company's reputation with its customers may be harmed.

The Company's ability to maintain sufficient inventory levels in its stores is critical to the Company's success and largely depends upon the efficient and uninterrupted operation of its computer and communications hardware and software systems. Any material interruption in the Company's computer operations may have a material adverse effect on the Company's business and results of operations.

***The Company relies on foreign sources for significant amounts of its merchandise, and the Company's business may therefore be negatively affected by the risks associated with international trade.***

The Company is dependent upon a significant amount of products that originate from non-Canadian markets. In particular, the Company sources a significant amount of products from China. The Company is subject to the risks that are associated with the sourcing and delivery of this merchandise, including: potential economic, social and political instability in jurisdictions where suppliers are located; increased shipping costs, potential transportation delays and interruptions; adverse foreign currency fluctuations, changes in international laws, rules and regulations pertaining to the importation of products and quotas; and the imposition and collection of taxes and duties. Any increase in cost to the Company of merchandise purchased from foreign vendors or restriction on the merchandise made available to the Company by such vendors could have an adverse effect on the Company's business and results of operations.

***Damage to the reputations of the brands the Company sells could reduce the Company's revenues and profits and adversely impact the Company's results of operations.***

As a diverse and multi-channel retailer, the Company promotes many brands as part of the Company's normal course of business. These brands include the Sears brand, Sears private label brands for product lines such as Jessica, and non-proprietary brands exclusive to Sears. Damage to the reputation of these brands or the reputation of the suppliers of these brands could negatively impact consumer opinions of the Company or its related products and reduce its revenues and profits and adversely impact its results of operations. In those circumstances, it may be difficult and costly for Sears to regain customer confidence.

***If the Company's relationships with its significant suppliers were to be impaired, it could have a negative impact on the Company's competitive position and its results of operations and financial condition.***

Although the Company's business is not substantially dependent on any one supplier, the Company's relationship with certain suppliers is of significance to its merchandising strategy, including attracting customers to its locations, cross-segment sales and image. The loss of a significant supplier relationship could result in lower revenues and decreased customer interest in Sears stores, which, in turn, would adversely affect Sears results of operations and financial condition. In addition, Sears may not be able to develop relationships with new suppliers, and products from alternative sources, if any, may be of a lesser quality and more expensive than those Sears currently purchases.

***The lack of willingness of the Company's vendors to provide acceptable payment terms could negatively impact Sears liquidity and/or reduce the availability of products or services that Sears seeks to procure.***

The Company depends on its vendors to provide it with financing for the Company's purchases of inventory and services. Sears vendors could seek to limit the availability of vendor credit to Sears or other terms under which they sell to Sears, or both, which could negatively impact the Company's liquidity. In addition, the inability of the Company's vendors to access liquidity, or the insolvency of the Company's vendors, could lead to their failure to deliver inventory or other services to Sears. Certain of the Company's vendors may finance their operations and/or reduce the risk associated with collecting accounts receivable from Sears by selling or "factoring" the receivables or by purchasing credit insurance or other forms of protection from loss associated with Sears credit risks. The ability of Sears vendors to do so is subject to the Company's perceived credit quality. The Company's vendors could be limited in their ability to factor receivables or obtain credit protection in the future because of Sears perceived financial position and credit worthiness, which could reduce the availability of products or services the Company seeks to procure.

***The Company may be subject to product liability claims if people or properties are harmed by the products the Company sells or the services it offers.***

The Company sells products produced by third party manufacturers. Some of these products may expose the Company to product liability claims relating to personal injury, death or property damage caused by such products and may require the Company to take actions, such as product recalls. In addition, the Company also provides various services which could give rise to such claims. Although Sears maintains liability insurance to mitigate these potential claims, Sears cannot be certain that its coverage will be adequate for liabilities actually incurred or that insurance will continue to be available on economically reasonable terms or at all.

Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature, as well as product recalls, could also have a negative impact on customer confidence in the products and services Sears offers and on the Company's reputation, and adversely affect the Company's business and its results of operations.

***If the Company does not maintain the security of its customers, associates or Company information, the Company could damage its reputation, incur substantial additional costs and become subject to litigation.***

Any significant security compromise or breach of customer, associate or Company data, either held or maintained by the Company or its third party providers, could significantly damage the Company's reputation and brands and result in additional costs, lost sales, fines and/or lawsuits. The regulatory environment in Canada related to information security and privacy is very rigorous. There is no guarantee that the procedures that we have implemented to protect against unauthorized access to secured data are adequate to safeguard against all data security breaches. A data security breach could negatively impact the Company's business and its results of operations.

***The performance of the Company's real estate joint ventures may be affected by events outside of the Company's control.*** The primary objective of the Company's real estate joint venture operations is to maximize the returns on its investments in shopping center real estate. Sears reviews the performance of these joint ventures on a regular basis. Shopping center investments are non-core assets that Sears sells when Sears believes it is financially advantageous to do so. Similarly, the Company may also develop excess land within these real estate holdings and shopping center joint venture investments when it is advantageous to do so. The return on such transactions is contingent on the state of the economic environment and other factors. In addition, the credit worthiness and financial stability of tenants and partners could negatively impact the Company's results of operations.

***The Company is subject to a number of long-term real estate leases which could restrict the Company's ability to respond to changes in demographics or the retail environment and adversely affect the Company's results of operations.***

As of February 2, 2013, the Company operated a total of 118 Full-line Department stores, 357 specialty stores (including 48 Sears Home stores, 11 Outlet stores, four Appliances and Mattresses stores, 261 Hometown Dealer stores operated under independent local ownership and 33 Corbeil stores), 1,512 catalogue merchandise pick-up locations and 101 Sears Travel offices. Company owned stores consist of 14 Full-line Department stores and two Sears Home stores, with the majority of the remainder held under long-term leases. While the Company is able to change its merchandise mix and relocate stores in order to maintain competitiveness, the Company is restricted from vacating a current site without breaching its contractual obligations and incurring lease-related expenses for the remaining portion of the lease-term. The long-term nature of the leases may limit the Company's ability to respond in a timely manner to changes in the demographic or retail environment at any location, which could adversely affect the Company's results of operations. In addition, when leases for the stores in the Company's ongoing operations expire, the Company may be unable to negotiate renewals, either on commercially acceptable terms, or at all, which could cause us to close stores. Accordingly, the Company is subject to the risks associated with leasing real estate, which could have an adverse effect on the Company's results of operations.

***The Company may be subject to legal proceedings if the Company violates the operating covenants in its real estate leases that could adversely affect the Company's business and results of operations.***

As of February 2, 2013, the Company had operating covenants with landlords for approximately 100 Sears brand corporate stores. An operating covenant generally requires the Company, during normal operating hours, to operate a store continuously as per the identified format in the lease agreement. As of February 2, 2013, the remaining term of the various Sears operating covenants ranged from less than one year to 25 years, with an average remaining term of approximately seven years. Failure to observe operating covenants may result in legal proceedings against the Company and adversely affect the Company's business and results of operations.

***The Company is subject to laws and regulations that impact its business and a failure to comply with such laws and regulations could lead to lawsuits or regulatory actions against the Company that could adversely affect the Company's business and results of operations.***

Laws and regulations are in place to protect the interests and well-being of the Company's customers and communities, business partners, suppliers, employees, shareholders and creditors. Changes to statutes, laws, regulations or regulatory policies, including changes in the interpretation, implementation or enforcement of statutes, laws, regulations and regulatory policies, could adversely affect the Company's business and results of operations. In addition, Sears may incur significant costs in the course of complying with any changes to applicable statutes, laws, regulations and regulatory policies.

The Company's failure to comply with applicable statutes, laws, regulations or regulatory policies could result in a judicial or regulatory judgment or sanctions and financial penalties that could adversely impact the Company's reputation, business and results of operations. Although the Company believes that it has taken reasonable measures designed to ensure compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which it conducts business, there is no assurance that the Company will always be in compliance or deemed to be in compliance.

***The Company is required to comply with federal and provincial environmental laws and regulations, the cost of which may adversely affect the Company's results of operations and financial condition.***

The Company is exposed to environmental risk 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 Company is currently remediating various locations across Canada where it operated auto centers, gas bars and a logistics facility. The extent of the remediation and the costs thereof have not yet been determined. Sears continues to monitor the costs of remediation and appropriately provide for these costs in its reserves. If we commit to renovating a leased or owned building that contains or may contain asbestos, or if asbestos is inadvertently disturbed, we will be legally obligated to comply with asbestos removal standards. The extent of this liability has not yet been determined because the costs to remove asbestos depend upon factors including, among others, the location and extent of any renovations undertaken. Inadvertent disturbance of asbestos cannot be foreseen. The costs incurred by Sears could be significant and may negatively impact the Company's results of operations and financial condition.

***The Company is exposed to a variety of legal proceedings, including class action lawsuits, and tax audits which, if adversely decided, could materially adversely affect the Company.***

The Company is currently involved in various legal proceedings incidental to the normal course of business. Although the Company is of the view that the final disposition of any such litigation is not expected to have a material adverse effect on its liquidity, consolidated financial position or results of operations, the outcome of such litigation cannot be predicted with certainty.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While we believe that the Company's tax filing positions are appropriate and supportable, periodically, certain matters are reviewed and from time to time and challenged by the tax authorities. As the Company routinely evaluates and provides for potentially unfavorable outcomes with respect to any tax audits, it believes that the final disposition of tax audits will not have a material adverse effect on its liquidity, consolidated financial position or results of operations. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and net earnings could be affected positively or negatively in the period in which the tax audits are completed.

***Events outside the Company's control such as social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, systems breakdowns or power outages could have a material adverse effect on the Company's business and results of operations.***

The Company's business is sensitive to customers' spending patterns, which may be affected by domestic and international social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, or other significant events outside of the Company's control, any of which could lead to a decrease in spending by consumers. In addition, such events as well as systems breakdowns and power outages could cause store closures, disrupt supply chain or other operations, delay shipments of merchandise to consumers, reduce revenue and result in expenses to repair or replace facilities. Disruptions during a peak season such as the month of December, which may account for up to 40% of a year's earnings, could have a particularly adverse effect on the Company's business and results of operations.

***The Company's business could suffer if it is unsuccessful in making, integrating, and maintaining acquisitions and investments.***

From time to time we pursue strategic acquisitions of, joint ventures with, or investments in, other companies or businesses, although the Company has no present commitments with respect to any material acquisitions or investments. Any such acquisition, joint venture or investment that the Company makes may require Sears to spend its cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce the Company's profitability and harm its business.

Acquisitions, joint ventures and investments also increase the complexity of the Company's business and place strain on its management, personnel, operations, supply chain, financial resources, and internal financial controls and reporting functions. The Company may not be able to manage acquisitions, joint ventures or investments effectively, which could damage the Company's reputation, limit its growth and adversely affect its business and results of operations.

### **Financial Risks**

*The Company's business has been and will continue to be affected by Canadian and worldwide economic conditions; a persistence or worsening of current economic conditions could lead to reduced revenues and gross margins, and negatively impact the Company's liquidity.*

The Company plans its operations giving regard to economic and financial variables that are beyond its control. Changes to these variables may adversely impact the Company's performance. Should the current economic conditions persist or worsen, heightened competition, a further decline in consumer confidence, lower disposable income, higher unemployment and personal debt levels may result, which could lead to reduced demand for the Company's products and services. Any of these events could cause the Company to increase inventory markdowns and promotional expenses, thereby reducing the Company's gross margins and results of operations. The Company's results of operations have been negatively impacted as a result of the current economic conditions and the volatility in the Canadian and global economies and it is difficult to accurately assess the potential impact on the Company's business. If the Canadian or global economies continue to worsen, however, the Company could experience a decline in same store sales, erosion of gross profit and profitability.

Increasing fuel and energy costs may have a significant negative impact on the Company's operations. The Company requires significant quantities of fuel for the vehicles used to distribute and deliver inventory and the Company is exposed to the risk associated with variations in the market price for petroleum products. The Company could experience a disruption in energy supplies, including its supply of gasoline, as a result of factors that are beyond the Company's control, which could have an adverse effect on the Company's business. Certain of the Company's vendors also are experiencing increases in the cost of various raw materials, such as cotton, oil-related materials, steel and rubber, which could result in increases in the prices that the Company pays for merchandise, particularly apparel, appliances and tires and adversely affect the Company's results of operations.

### **Liquidity Risk**

The Company could face liquidity risk due to various factors, including but not limited to, the unpredictability of the current economic climate, failure to secure appropriate funding vehicles and cash flow issues relating to the operation and management of the business. Failure to fulfill financial obligations due and owing from the Company as a result of this liquidity risk could have undesirable consequences on Sears.

*Fluctuations in U.S. and Canadian dollar exchange rates may affect the Company's results of operations.*

The Company's foreign exchange risk is currently limited to currency fluctuations between the Canadian and U.S. dollar. The Company is vulnerable to increases in the value of the U.S. dollar relative to the Canadian dollar because the majority of its revenues are denominated in Canadian dollars and a substantial amount of the merchandise the Company purchases is priced in U.S. dollars. The costs of these goods in Canadian dollars rise when the U.S. dollar increases in value relative to the Canadian dollar and, as a result, the Company may be forced to increase its prices or reduce its gross margins. We may use foreign currency forward and option contracts to hedge the exchange rate risk on a portion of the Company's expected requirement for U.S. dollars. There can be no assurance that the Company's hedging efforts will achieve their intended results or that the Company's estimate of its requirement for U.S. dollars will be accurate, with the result that currency fluctuations may have an adverse impact on the Company's results of operations.

In addition, the appreciation of the Canadian dollar over the past few years relative to the U.S. dollar presents an additional challenge to the Company as its customers are motivated to cross-border shop, which may have an adverse impact on the Company's results of operations.

*The Company is exposed to counterparty credit risk which could adversely affect its results of operations.*

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of counterparties to meet their payment obligations to the Company. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, short-term investments, accounts receivable and investments included in other long-term assets. Cash and cash equivalents, accounts receivable, derivative financial assets, and other long-term assets of \$314.5 million as at February 2, 2013 (January 28, 2012: \$514.9 million) expose the Company to credit risk should the borrower default on maturity of the investment.

Although the Company seeks to manage 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, there can be no assurance that the Company will be able to successfully manage its credit risk.

The Company invests its surplus cash in investment grade, short-term money market instruments, the return on which depends upon interest rates and the credit worthiness of the issuer. The Company attempts to mitigate credit risk resulting from the possibility that an issuer may default on repayment by requiring that issuers have a minimum credit rating and limiting exposures to individual borrowers.

***The Company is exposed to interest rate risk which could adversely affect its results of operations.***

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. Cash and cash equivalents and borrowings under the Company's \$800.0 million senior secured revolving credit facility, or the Credit Facility, are subject to interest rate risk. The total outstanding balance subject to interest rate risk as at February 2, 2013 was a net asset of \$238.3 million (January 28, 2012: \$297.7 million). An increase or decrease in interest rate of 0.25% would cause an immaterial after-tax impact on net earnings (loss).

***Expenses associated with the Company's retirement benefit plans may fluctuate significantly depending on changes in actuarial assumptions, future market performance of plan assets, and other events outside of the Company's control and adversely affect the Company's results of operations.***

The Company currently maintains a defined benefit registered pension plan, a non-registered supplemental savings arrangement and a defined benefit non-pension post-retirement plan, which provides life insurance, medical and dental benefits to eligible retired associates through a health and welfare trust. The defined benefit plan continues to accrue benefits related to future compensation increases although no further service credit is earned. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for associates who had not achieved the eligibility criteria for these non-pension post-retirement benefits as at December 31, 2008.

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, 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 materially from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase. See Note 20.4 "Pension assumptions" of the Notes to the 2012 Annual Consolidated Financial Statements for more information on the weighted-average actuarial assumptions for the plans.

***The Company faces risks associated with impairment of goodwill and other assets.***

The Company's goodwill, intangible assets and long-lived assets, primarily consisting of stores and joint ventures, are subject to periodic testing for impairment. A significant amount of judgment is involved in the periodic testing. Failure to achieve sufficient levels of cash flow within each of the Company's cash generating units or specific operating units could result in impairment charges for goodwill and intangible assets or fixed asset impairment for long-lived assets, which could have a material adverse effect on the Company's reported results of operations.

### **Risks Relating to the Company's Relationship with Sears Holdings**

*The Company may lose rights to some intellectual property if Sears Holdings' equity ownership in the Company falls below specified thresholds.*

The Company relies on its right to use the “Sears” name, including as part of the Company's corporate and commercial name, which the Company considers a significant and valuable aspect of its business. The Company's right to use the “Sears” name and certain other brand names was granted pursuant to a license agreement with Sears Holdings.

The Company's license to use the “Sears” name and certain brand names may be terminated if Sears Holdings' indirect ownership interest in the Company is reduced to less than 25%. In addition, the Company's license to use the “Sears” name may also terminate upon the occurrence of certain bankruptcy events. Losing the Company's right to use these intellectual properties could significantly diminish the Company's competitiveness and could materially harm its business. If the license agreement is terminated, the Company would attempt to renegotiate the license agreement although the terms of any renegotiated license agreement would likely be less favorable to the Company.

*Some of the Company's directors and executive officers may have conflicts of interest because of their ownership of Sears Holdings common stock and positions with Sears Holdings.*

Some of our directors and executive officers own Sears Holdings common stock. In addition, one of our directors, William R. Harker, is a consultant to Sears Holdings. Ownership of Sears Holdings common stock by our directors and officers and the presence of persons associated with Sears Holdings on the Company's board of directors could create, or appear to create, conflicts of interest with respect to matters involving both the Company and Sears Holdings.

### **Risks Relating to Our Common Shares**

*As long as Sears Holdings or ESL Investments, Inc. (“ESL”) controls the Company, a shareholder's ability to influence matters requiring shareholder approval will be limited.*

Sears Holdings controls approximately 51% of the Company's voting power and ESL directly controls approximately 28% of the Company's voting power. As of the date of this MD&A, ESL controlled Sears Holdings and, therefore, ESL directly or indirectly controls approximately 79% of the Company's voting power. So long as ESL directly or indirectly controls a majority of the Company's outstanding common shares, ESL will have the ability to control the election of the board of directors and the outcome of certain shareholder votes.

Accordingly, Sears Holdings and ESL will continue to have the ability to exercise control over certain actions to be taken or approved by the Company's directors and shareholders, including with respect to certain mergers or business combinations or dispositions of all or substantially all of the Company's assets. Sears Holdings and ESL's voting control may discourage transactions involving a change of control of the Company, including transactions in which a shareholder might otherwise receive a premium for his/her shares over the then-current market price. Subject to certain limits, Sears Holdings is also not prohibited from selling a controlling interest in the Company to a third party and may do so without shareholder approval and, subject to applicable laws, without providing for a purchase of a shareholder's common shares.

Sears Holdings and ESL's interests may be different than a shareholder's interests and Sears Holdings and ESL may have investments in other companies that may compete with the Company, and may have interests from time to time that diverge from the interests of shareholders, particularly with regard to new investment opportunities.

In addition, conflicts of interest may arise between Sears Holdings and/or ESL and the Company, including corporate opportunities, potential acquisitions or transactions, as well as other matters. The Company may be adversely affected by any conflicts of interest between Sears Holdings and/or ESL and the Company.

Furthermore, neither Sears Holdings nor ESL owes the Company or the Company's shareholders any fiduciary duties under Canadian law.

## 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, who are employees of the Company, 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.



Calvin McDonald  
President and Chief Executive Officer



E.J. Bird  
Interim Chief Financial Officer

Toronto, Ontario  
March 14, 2013

**Report of Independent Registered Chartered Accountants**

To the Shareholders and Board of Directors of  
Sears Canada Inc.

We have audited the accompanying consolidated financial statements of Sears Canada Inc. and subsidiaries, which comprise the consolidated statements of financial position as at February 2, 2013 and January 28, 2012 and the consolidated statements of net earnings (loss) and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the 53 and 52-week periods ended February 2, 2013 and January 28, 2012, 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**

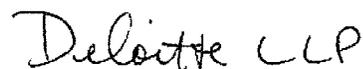
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 February 2, 2013 and January 28, 2012 and their financial performance and cash flows for the 53 and 52-week periods ended February 2, 2013 and January 28, 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.



Independent Registered Chartered Accountants  
Licensed Public Accountants  
March 14, 2013  
Toronto, Canada

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## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

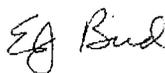
<i>(in CAD millions)</i>	Notes	As at February 2, 2013	As at January 28, 2012
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	\$ 237.0	\$ 397.4
Accounts receivable, net	6,14	76.2	116.2
Income taxes recoverable	22	5.5	4.1
Inventories	7	851.4	823.9
Prepaid expenses	8	30.1	27.9
<b>Total current assets</b>		<b>1,200.2</b>	<b>1,369.5</b>
<b>Non-current assets</b>			
Property, plant and equipment	9,19	840.0	872.0
Investment property	9	21.7	21.7
Intangible assets	10,2	27.2	23.6
Goodwill	10,1	8.7	8.7
Investment in joint ventures	11	263.4	301.4
Deferred tax assets	22	83.8	84.6
Other long-term assets	12,14,16,22	34.1	49.2
<b>Total assets</b>		<b>\$ 2,479.1</b>	<b>\$ 2,730.7</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	14,15	\$ 482.0	\$ 576.8
Deferred revenue	13	197.5	208.0
Provisions	16	66.3	64.8
Income taxes payable	22	—	1.0
Other taxes payable		33.9	42.8
Current portion of long-term obligations	14,17,19,25	5.2	5.1
<b>Total current liabilities</b>		<b>784.9</b>	<b>898.5</b>
<b>Non-current liabilities</b>			
Long-term obligations	14,17,19,25	30.9	117.6
Deferred revenue	13	90.7	89.2
Retirement benefit liability	20,1	415.7	452.3
Deferred tax liabilities	22	5.8	5.3
Other long-term liabilities	16,18	74.7	75.8
<b>Total liabilities</b>		<b>1,402.7</b>	<b>1,638.7</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	24	14.9	15.0
Retained earnings	24,25	1,208.2	1,218.5
Accumulated other comprehensive loss		(146.7)	(141.5)
<b>Total shareholders' equity</b>		<b>1,076.4</b>	<b>1,092.0</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 2,479.1</b>	<b>\$ 2,730.7</b>

The accompanying notes are an integral part of these consolidated financial statements.

On Behalf of the Board of Directors,



W.C. Crowley  
Chairman of the Board



E.J. Bird  
Director

**CONSOLIDATED STATEMENTS OF NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)**  
**For the 53 and 52-week periods ended February 2, 2013 and January 28, 2012**

<i>(in CAD millions, except per share amounts)</i>	Notes	2012	2011
Revenue	26	\$ 4,300.7	\$ 4,619.3
Cost of goods and services sold	7	2,749.2	2,932.3
Selling, administrative and other expenses	9,10,20,4,27	1,634.4	1,737.9
<b>Operating loss</b>		<b>(82.9)</b>	<b>(50.9)</b>
Gain on lease terminations	28	167.1	—
Gain on sale of interest in joint venture	11	8.6	—
Gain on settlement of post-retirement benefits	20	21.1	—
Finance costs	17,22	13.3	16.0
Interest income	5	4.1	1.7
Share of income from joint ventures	11	9.5	8.3
<b>Earnings (loss) before income taxes</b>		<b>114.2</b>	<b>(56.9)</b>
Income tax (expense) recovery			
Current	22	(8.2)	(18.7)
Deferred	22	(4.8)	25.3
		<b>(13.0)</b>	<b>6.6</b>
<b>Net earnings (loss)</b>		<b>\$ 101.2</b>	<b>\$ (50.3)</b>
Basic net earnings (loss) per share	32	\$ 0.99	\$ (0.48)
Diluted net earnings (loss) per share	32	\$ 0.99	\$ (0.48)
Net earnings (loss)		\$ 101.2	\$ (50.3)
Other comprehensive loss, net of taxes:			
Loss on foreign exchange derivatives, net of income tax recovery of nil (2011: recovery of \$1.7)		—	(4.1)
Reclassification to net earnings (loss) of (gain) loss on foreign exchange derivatives, net of income tax recovery of nil (2011: recovery of \$2.8)		(0.2)	7.1
Remeasurement loss on net defined retirement benefit liability, net of income tax recovery of \$3.5 (2011: recovery of \$27.4)	20.7	(5.0)	(79.1)
<b>Total other comprehensive loss</b>		<b>(5.2)</b>	<b>(76.1)</b>
<b>Comprehensive income (loss)</b>		<b>\$ 96.0</b>	<b>\$ (126.4)</b>

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**For the 53 and 52-week periods ended February 2, 2013 and January 28, 2012**

<i>(in CAD millions)</i>	Notes	Accumulated other comprehensive loss (income)					Shareholders' equity
		Capital stock	Retained earnings	Foreign exchange derivatives designated as cash flow hedges	Remeasurement loss	Total Accumulated other comprehensive loss (income)	
<b>Balance as at January 28, 2012</b>		\$ 15.0	\$1,218.5	\$ 0.2	\$ (141.7)	\$ (141.5)	\$ 1,092.0
Net earnings			101.2	—	—	—	101.2
<i>Other comprehensive loss</i>							
Reclassification of gain on foreign exchange derivatives				(0.2)	—	(0.2)	(0.2)
Remeasurement loss on net defined retirement benefit liability				—	(5.0)	(5.0)	(5.0)
<b>Total other comprehensive loss</b>		—	—	(0.2)	(5.0)	(5.2)	(5.2)
<b>Total comprehensive income (loss)</b>		—	101.2	(0.2)	(5.0)	(5.2)	96.0
Repurchases of common shares	24	(0.1)	(9.6)				(9.7)
Dividends declared			(101.9)				(101.9)
<b>Balance as at February 2, 2013</b>		\$ 14.9	\$1,208.2	\$ —	\$ (146.7)	\$ (146.7)	\$ 1,076.4
<b>Balance as at January 29, 2011</b>		\$ 15.4	\$1,310.4	\$ (2.8)	\$ (62.6)	\$ (65.4)	\$ 1,260.4
Net loss			(50.3)	—	—	—	(50.3)
<i>Other comprehensive (loss) income</i>							
Loss on foreign exchange derivatives				(4.1)	—	(4.1)	(4.1)
Reclassification of loss on foreign exchange derivatives				7.1	—	7.1	7.1
Remeasurement loss on net defined retirement benefit liability				—	(79.1)	(79.1)	(79.1)
<b>Total other comprehensive (loss) income</b>		—	—	3.0	(79.1)	(76.1)	(76.1)
<b>Total comprehensive (loss) income</b>		—	(50.3)	3.0	(79.1)	(76.1)	(126.4)
Repurchases of common shares	24	(0.4)	(41.6)				(42.0)
<b>Balance as at January 28, 2012</b>		\$ 15.0	\$1,218.5	\$ 0.2	\$ (141.7)	\$ (141.5)	\$ 1,092.0

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 53 and 52-week periods ended February 2, 2013 and January 28, 2012

<i>(in CAD millions)</i>	Notes	2012	2011
<b>Cash flow (used for) generated from operating activities</b>			
Net earnings (loss)		\$ 101.2	\$ (50.3)
Adjustments for:			
Depreciation and amortization expense	9,10.2	113.3	114.9
Impairment (reversal) losses	9	(0.2)	2.5
Loss on disposal of property, plant and equipment		1.2	1.1
Gain on sale of interest in joint venture	11	(8.6)	—
Gain on lease terminations	28	(167.1)	—
Finance costs	17	13.3	16.0
Interest income	5	(4.1)	(1.7)
Share of income from joint ventures	11	(9.5)	(8.3)
Retirement benefit plans expense	20.4	31.6	30.2
Gain on settlement of post-retirement benefits	20	(21.1)	—
Short-term disability expense	20.4	8.4	8.4
Income tax expense (recovery)	22	13.0	(6.6)
Interest received	5	2.3	1.6
Interest paid	17	(5.3)	(4.6)
Retirement benefit plans contributions	20.4	(63.0)	(17.9)
Income tax refunds (payments), net	22	9.0	(21.6)
Other income tax (deposits) receipts, net	22	(4.1)	—
Changes in non-cash working capital	33	(122.2)	29.6
Changes in long-term assets and liabilities		32.0	(8.3)
		(79.9)	85.0
<b>Cash flow generated from (used for) investing activities</b>			
Purchases of property, plant and equipment and intangible assets	9,10.2	(97.5)	(84.3)
Proceeds from sale of property, plant and equipment		2.2	0.7
Proceeds from lease terminations	28	175.0	—
Proceeds from sale of Cantrex operations	29	3.5	—
Proceeds from sale of joint venture	11	38.3	—
Dividends received from joint ventures		18.4	20.1
		139.9	(63.5)
<b>Cash flow used for financing activities</b>			
Interest paid on finance lease obligations	17,19	(2.4)	(2.2)
Repayment of long-term obligations		(142.3)	(117.1)
Proceeds from long-term obligations		35.8	105.0
Dividend payments	24	(101.9)	—
Repurchases of common shares	24	(9.7)	(42.0)
		(220.5)	(56.3)
Effect of exchange rate on cash and cash equivalents at end of period		0.1	(0.1)
<b>Decrease in cash and cash equivalents</b>		<b>(160.4)</b>	<b>(34.9)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>\$ 397.4</b>	<b>\$ 432.3</b>
<b>Cash and cash equivalents at end of period</b>		<b>\$ 237.0</b>	<b>\$ 397.4</b>

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 channel, which includes its Full-line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electrique Inc. ("Corbeil") stores, and its Direct (catalogue/internet) channel. It also includes service revenue related to product repair, home improvement, and logistics. Commission revenue includes travel, insurance, and performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch) ("JPMorgan Chase") under the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has partnered with Thomas Cook Canada Inc. ("Thomas Cook") in a multi-year licensing arrangement, under which Thomas Cook manages the day-to-day operations of all Sears Travel offices. Licensee fee revenues are comprised of payments received from licensees, including Thomas Cook, that operate within the Company's stores. The Company is a party to a number of joint ventures which have been classified as jointly controlled entities for financial reporting purposes. These joint ventures are jointly controlled by the venturers who are entitled to a share of the joint ventures' income or loss.

The indirect parent of the Company is Sears Holdings Corporation ("Sears Holdings"), incorporated in the U.S. in the state of Delaware. The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Florida) through Sears Holdings.

### 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 as issued by the International Accounting Standards Board ("IFRS"), which are effective and applicable to the Company as at the end of its current fiscal year.

#### 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 recast 2011 Annual Consolidated Financial Statements. The Company's significant accounting policies are detailed in Note 2.

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 2012 and 2011 consolidated financial statements represent the 53-week period ended February 2, 2013 ("Fiscal 2012" or "2012") and the 52-week period ended January 28, 2012 ("Fiscal 2011" or "2011"), respectively.

The Company's consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Company reports as a single business segment but operates several operating segments, with operations focused on the merchandising of products and services (see Note 23).

#### 2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments that are measured at fair value and the retirement benefit asset, which is the net total of plan assets and the present value of the retirement benefit liability. On transition to IFRS, the Company elected to measure certain of its property, plant and equipment at fair value. The fair value was set as the deemed cost, in accordance with IFRS 1, as at that date, and represents the historical cost basis measurement. 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. Real estate joint venture investments are accounted for using the equity method of accounting (described further in Note 2.13).

Subsidiaries include all entities where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

All intercompany balances and transactions, income and expenses arising from intercompany transactions are eliminated in the preparation of the consolidated financial statements.

### *2.5 Cash and cash equivalents*

Cash and cash equivalents include highly liquid investments with maturities of 90 days or less at the date of purchase. Cash and cash equivalents are considered to be restricted when they are subject to contingent rights of a third party customer, vendor, government agency or financial institution.

### *2.6 Short-term investments*

Short-term investments include investments with maturities between 91 to 364 days from the date of purchase.

### *2.7 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.

### *2.8 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. The cost of self-constructed assets includes site preparation costs, design and engineering fees, freight (only on initial freight costs incurred between the vendor and the Company), installation expenses and provincial sales tax (Saskatchewan, Manitoba and Prince Edward Island), and is net of any vendor subsidies or reimbursements. An allocation of general and specific incremental interest charges for major construction projects is also included in the cost of related assets.

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 Earnings (Loss) and Comprehensive Income (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 Earnings (Loss) and Comprehensive Income (Loss).

For a discussion on the impairment of tangible assets refer to Note 2.11. Property, plant and equipment are reviewed at the end of each reporting period to determine whether there is an indicator of impairment.

### *2.9 Investment property*

The Company's investment property consists of vacant land which is not currently used in its operations. Investment property is measured at its deemed cost less accumulated impairment losses.

The fair values of the investment property is estimated using observable data based on the current cost of acquiring comparable properties 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 property.

The gain or loss arising on the disposal or retirement of an item of 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 Earnings (Loss) and Comprehensive Income (Loss).

Investment property is reviewed at the end of each reporting period to determine whether there is any indicator of impairment.

## *2.10 Intangible assets*

### *2.10.1 Finite life intangible assets other than goodwill*

Finite life intangible assets consist of purchased and internally developed software. 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 all intangible assets other than goodwill are finite. Amortization expense is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The estimated useful lives and amortization methods for intangible assets other than goodwill 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.

### *2.10.2 Goodwill*

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired ("the acquisition date"). Goodwill is measured as the excess of the sum of the consideration transferred, over the net fair value of identifiable assets acquired less liabilities assumed as of the acquisition date.

## *2.11 Impairment of tangible assets and intangible assets with finite useful lives*

At the end of each reporting period, the Company reviews property, plant and equipment, investment property, intangible assets and goodwill 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.

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, the impairment is first allocated to goodwill before other assets held by the CGU. Where goodwill is not part of a CGU, 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 (not applicable to goodwill), 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 had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately.

## *2.12 Impairment of goodwill*

Goodwill is not amortized but is reviewed for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Company's CGUs expected to benefit from the synergies of the combination.

CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to the other assets of the unit on a

pro-rata basis, based on the carrying amount of each asset in the unit. Impairment losses for goodwill are not reversed in subsequent periods.

### *2.13 Investment in joint ventures*

Joint ventures are those entities over which the Company has joint control, established by contractual agreement. The Company is a party to a number of joint ventures which have been classified as jointly controlled entities for financial reporting purposes. These joint ventures are jointly controlled by the venturers who are entitled to a share of the joint ventures' income or loss.

Investments in joint ventures are accounted for using the equity method as follows:

- From the date that joint control commences, until the date that it ceases, the Company's share of post-acquisition income or losses from joint ventures is recognized in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), with a corresponding increase or decrease to the carrying amount of the investments.
- The joint venture reporting periods used in the application of the equity method differ from the Company's reporting period end by 1 to 2 months.
- The accounting policies of the joint ventures are aligned with those of the Company for the purposes of applying the equity method.
- Gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint ventures, and losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

The Company presents its joint venture investments in "Investment in joint ventures" on the Consolidated Statements of Financial Position. The Company presents its share of income or losses from joint ventures in "Share of income from joint ventures" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

### *2.14 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.

#### *2.14.1 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 on a straight-line basis over the term of the lease.

#### *2.14.2 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 "Principal payments on long-term obligations due within one year" and "Long-term obligations," respectively. The assets are depreciated using the same accounting policy as applicable to property, plant and equipment (see Note 2.8).

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 Earnings (Loss) and Comprehensive Income (Loss).

In the event that lease incentives are received to enter into leases, 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.

### *2.15 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 associates, a non-registered supplemental savings arrangement and a defined benefit non-pension post retirement plan, which provides life insurance, medical and dental benefits to eligible retired associates through a health and welfare trust.

### 2.15.1 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.

### 2.15.2 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 3 years. Remeasurements comprising 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 statement of financial position with a charge or credit to other comprehensive income (loss) in the period in which they occur. Remeasurements recorded in Other comprehensive income (loss) are not recycled into profit or loss. However, the entity may transfer those amounts recognized in other comprehensive income (loss) within Accumulated other comprehensive income (loss). 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 Earnings (Loss) and Comprehensive Income (Loss).

Remeasurements are recorded in Other comprehensive income (loss).

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.

### 2.15.3 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.

## 2.16 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.

### 2.16.1 Sale of goods

Revenue from the sale of goods is recognized upon delivery to the customer. Revenue relating to goods sold subject to installation, such as home improvement products, is recognized when the goods have been delivered and the installation is complete.

### 2.16.2 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 which is typically one day.

### 2.16.3 Commission and licensee fee revenue

#### *Commission 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.

#### *Licensee fee revenue*

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.

#### *Credit card revenue*

Revenue is received from JPMorgan Chase relating to credit sales. Revenue is based on a percentage of sales charged on the Sears Card or Sears MasterCard and is included in revenue when the sale occurs.

### 2.16.4 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.

### 2.16.5 Customer loyalty program

The Sears Club Points Program (the "Program") allows members to earn points from eligible purchases made on their Sears Card and/or Sears MasterCard. 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 redemption rates are reviewed on an ongoing basis and are adjusted based upon expected future activity.

### 2.16.6 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.

### 2.17 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.

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.

Exchange differences arising on retranslation are recognized in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) in the period in which they arise, except for exchange differences on certain foreign currency hedging transactions.

### 2.18 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.

### 2.19 Taxation

Income tax expense represents the sum of current tax expense and deferred tax expense.

### 2.19.1 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 Earnings (Loss) and Comprehensive Income (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.

### 2.19.2 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 generally recognized for taxable temporary differences. Deferred tax assets are generally 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and investments in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable earnings against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced 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 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.

### 2.19.3 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 Earnings (Loss) and Comprehensive Income (Loss), except when they relate to items that are recognized outside of earnings or loss (whether in Other comprehensive income (loss), "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.

### 2.20 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.

#### 2.20.1 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.

#### 2.20.2 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.

#### 2.20.3 Warranty provisions

An estimate for warranty provisions is made at the time the merchandise is sold based on historical warranty trends. Please also see Note 16.

#### 2.20.4 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.

#### 2.20.5 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.

### 2.21 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, 'held-to-maturity' investments, '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. Currently the Company does not have any 'held-to-maturity' investments.

#### 2.21.1 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.

#### 2.21.2 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.

### 2.21.3 AFS financial assets

The Company's cash equivalents have been classified as AFS financial assets and are measured at fair value. Gains and losses arising from changes in fair value 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 Earnings (Loss) and Comprehensive Income (Loss). Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously included in accumulated other comprehensive income (loss) ("AOCI") is reclassified to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

### 2.21.4 Loans and receivables

Cash held by the bank and restricted cash and cash equivalents 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.

### 2.21.5 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 Earnings (Loss) and Comprehensive Income (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 Earnings (Loss) and Comprehensive Income (Loss). Changes in the carrying amount of the allowance account are also recognized in "Selling, administrative and other expenses".

### 2.21.6 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.

## 2.22 Financial liabilities and equity instruments

### 2.22.1 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.

### 2.22.2 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.

### 2.22.3 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'.

### 2.22.4 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.

### 2.22.5 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.

### 2.22.6 Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

### 2.23 Net earnings (loss) per share

Net earnings (loss) per share is calculated using the weighted average number of shares outstanding during the reporting period. Diluted net earnings (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.

### 2.24 Changes in Accounting Policy

#### *IAS 19 (Revised), Employee Benefits ("IAS 19")*

The Company elected to early adopt IAS 19 (Revised) in the first quarter of 2012. On June 16, 2011, the IASB issued amendments to IAS 19 which included the elimination of the "corridor approach," which is the option to defer and amortize the recognition of actuarial gains and losses. The significant amendments to IAS 19 are as follows:

- The "corridor approach" is to be replaced with full and immediate recognition of actuarial gain and loss remeasurements in "Other comprehensive income (loss)" ("OCI");
- Retirement benefit costs are to consist of service costs, net interest and remeasurements, with remeasurements being recorded in OCI;
- Past service costs are to be recognized immediately in the Consolidated Statements of Net Earnings (Loss);
- Expected returns on plan assets will no longer be recognized in profit or loss. Instead, interest income on plan assets, calculated using the discount rate used to measure the pension obligation, will be recognized in the Consolidated Statements of Net Earnings (Loss);
- Plan administration costs are to be expensed as incurred; and
- Disclosures relating to retirement benefit plans will be enhanced and will include discussions on risk associated with each plan, an explanation of items recognized in the consolidated financial statements and descriptions of the amount, timing and uncertainty on the Company's future cash flows.

The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The amendments are required to be applied retrospectively in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

As the Company adopted the amendments to IAS 19 in the first quarter of 2012, the Company has retrospectively adjusted the assets and liabilities as at January 28, 2012, January 29, 2011 and January 31, 2010 and income, expenses and cash flow for the 52-week periods ended January 28, 2012 and January 29, 2011.

*Impact on financial statement captions*

A summary of the impact arising from the application of the change in accounting policy is as follows:

*Consolidated Statements of Financial Position*

<i>(Increase (decrease) in CAD millions)</i>	As at January 28, 2012
Retirement benefit asset	\$ (187.7)
Retirement benefit liability	308.2
Net change to retirement benefit asset and liability	(495.9)
Deferred tax assets	84.0
Deferred tax liabilities	(43.6)
Net change to deferred tax assets and liabilities	127.6
Accumulated other comprehensive loss	(141.7)
Retained earnings	(226.6)

*Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss)*

<i>(Increase (decrease) in CAD millions, except per share amounts)</i>	53-Week Period Ended February 2, 2013
Selling, administrative and other expenses	\$ (24.4)
Earnings before income taxes	24.4
Deferred income tax expense	6.4
Net earnings	18.0
Basic net earnings per share	0.17
Diluted net earnings per share	0.17
Other comprehensive income	1.3
Total comprehensive income	19.3

*Consolidated Statements of Cash Flows*

<i>(Increase (decrease) in CAD millions)</i>	53-Week Period Ended February 2, 2013
Net earnings	\$ 18.0
Retirement benefit plans expense	(24.4)
Income tax expense	6.4

Please refer to Note 20 for the prior year comparative figures.

**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. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

On December 16, 2011, the IASB issued amendments to three previously released standards. They are as follows:

*IAS 32, Financial Instruments: Presentation ("IAS 32")*

The IASB amended IAS 32 to address inconsistencies in current practice in the application of offsetting criteria. The amendments provide clarification with respect to the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

*IFRS 7, Financial Instruments: Disclosures ("IFRS 7")*

The IASB first amended IFRS 7 on October 7, 2010, to require additional disclosures regarding transfers of financial assets. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company applied these amendments beginning the first quarter of its Fiscal 2012 year.

On December 16, 2011, the IASB approved amendments to IFRS 7, which establishes disclosure requirements to help users better assess the effect or potential effect of offsetting arrangements on a company's financial position. These amendments are effective for annual periods beginning on or after January 1, 2013. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact on the Company's disclosures.

*IFRS 9, Financial Instruments ("IFRS 9")*

The IASB issued IFRS 9 on November 12, 2009, which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments.

The first phase of the project provides guidance on the classification and measurement of financial assets. IFRS 9 was subsequently reissued on October 28, 2010, incorporating new requirements on accounting for financial liabilities. On December 16, 2011, the IASB amended the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. The amendment also provides relief from the requirement to recast comparative financial statements for the effect of applying IFRS 9. The Company is monitoring the impact of amendments to this standard and is currently assessing the impact on the Company's disclosures.

On June 16, 2011, the IASB issued amendments to the following standard:

*IAS 1, Presentation of Financial Statements ("IAS 1")*

The IASB has amended IAS 1 to require additional disclosures for items presented in OCI on a before-tax basis and requires items to be grouped and presented in OCI based on whether they are potentially reclassifiable to earnings or loss subsequently (i.e. items that may be reclassified and those that will not be reclassified to earnings or loss). These amendments are effective for annual periods beginning on or after July 1, 2012 and require full retrospective application. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact to its consolidated financial statements.

On May 12, 2011, the IASB issued four new standards, all of which are applicable to Annual Reporting periods beginning on or after January 1, 2013. The Company is currently assessing the impact of these standards on its consolidated financial statements and related note disclosures. The following is a list and description of these standards:

*IAS 28, Investments in Associates and Joint Ventures ("IAS 28")*

IAS 28 (as amended in 2011) supersedes IAS 28 (2003), *Investments in Associates* and outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those policies);

*IFRS 10, Consolidated Financial Statements ("IFRS 10")*

IFRS 10 establishes the standards for the presentation and preparation of consolidated financial statements when an entity controls one or more entities;

*IFRS 11, Joint Arrangements ("IFRS 11")*

IFRS 11 replaces IAS 31, *Interests in Joint Ventures* ("IAS 31") and requires that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly;

*IFRS 12, Disclosure of Involvement with Other Entities ("IFRS 12")*

IFRS 12, along with IFRS 11 described above, replaces IAS 31. IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of and the risks associated with, the entity's interests in joint ventures and the impact of those interests on its financial position, financial performance and cash flows; and

*IFRS 13, Fair Value Measurement (“IFRS 13”)*

IFRS 13 provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a ‘fair value hierarchy’. This standard applies when another IFRS requires or permits fair value measurements or disclosures. IFRS 13 does not apply for share-based payment transactions, leasing transactions and measurements that are similar to, but are not fair value.

**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 within the next fiscal year.

*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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16.

*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 Earnings (Loss) and Comprehensive Income (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. Determining whether the CGU is impaired requires an estimation of the recoverable amount of the CGU, which is the higher of the fair value less costs to sell and its value in use. To determine the recoverable amount of the CGU, management is required to estimate its fair value by

evaluating the expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 9 and Note 10.2.

#### *4.4 Impairment of goodwill*

Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the CGU to which the goodwill is allocated. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to “Goodwill” on the Consolidated Statements of Financial Position and a charge to “Selling, administrative and other expenses” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 10.1.

#### *4.5 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” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 20.

#### *4.6 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 based on historical behaviour and trends in redemption rates and redemption values.

Changes in estimates may result in changes to “Deferred revenue” (current and non-current) on the Consolidated Statements of Financial Position and an increase or decrease to “Revenue” and/or “Cost of goods and services sold” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 13.

#### *4.7 Derivative assets and liabilities*

All derivatives are measured at fair value. U.S. dollar option contracts are traded over-the-counter and give holders the right to buy, or sell, a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar option contracts are derived using a Black-Scholes valuation model. The Company is required to estimate various inputs which are used in this model 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 “Other comprehensive income (loss)” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 14.

#### *4.8 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 “Cost of goods and services sold” or “Selling, administrative and other expenses” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16.

#### *4.9 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 a building, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to “Property, plant and equipment”, “Principal payments on long-term obligations due within one year” 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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 19.

#### 4.10 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 earnings (loss) will be affected positively or negatively.

Changes in estimates or assumptions could cause changes to “Income taxes recoverable”, “Deferred tax 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 Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 22.

### 5. Cash and cash equivalents and interest income

#### Cash and cash equivalents

The components of cash and cash equivalents were as follows:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Cash	\$ 47.6	\$ 49.0
Cash equivalents		
Government treasury bills	159.9	199.9
Bank term deposits	—	121.0
Investment accounts	20.5	20.3
Restricted cash and cash equivalents	9.0	7.2
<b>Total cash and cash equivalents</b>	<b>\$ 237.0</b>	<b>\$ 397.4</b>

The components of restricted cash and cash equivalents are further discussed in Note 21.

#### Interest income

Interest income related primarily to cash and cash equivalents for the fiscal year ended February 2, 2013 totaled \$4.1 million (2011: \$1.7 million). During Fiscal 2012, the Company received \$2.3 million (2011: \$1.6 million) in cash related to interest income.

### 6. Accounts receivable, net

The components of accounts receivable, net were as follows:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Deferred receivables	\$ 0.9	\$ 1.3
Other receivables	75.3	114.9
<b>Total accounts receivable, net</b>	<b>\$ 76.2</b>	<b>\$ 116.2</b>

Other receivables primarily consist of amounts due from customers, amounts due from vendors and amounts due from JPMorgan Chase, as part of the Company's long-term credit card marketing and servicing alliance.

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 February 2, 2013		As at January 28, 2012
Greater than 30 days	\$	5.5	\$	3.2
Greater than 60 days		2.9		3.5
Greater than 90 days		6.8		6.4
Total	\$	15.2	\$	13.1

## 7. Inventories

The amount of inventory recognized as an expense during Fiscal 2012 was \$2,537.5 million (2011: \$2,703.5 million), which includes \$92.7 million (2011: \$115.4 million) of inventory write-downs. These expenses are included in "Cost of goods and services sold" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

Inventory is pledged as collateral under the Company's revolving credit facility.

## 8. Prepaid expenses

The components of prepaid expenses were as follows:

<i>(in CAD millions)</i>		As at February 2, 2013		As at January 28, 2012
Rent	\$	13.1	\$	14.2
Contracts		7.9		5.2
Advertising raw materials		1.7		1.5
Supplies		3.1		3.6
Insurance		0.4		0.3
Miscellaneous		3.9		3.1
Total prepaid expenses	\$	30.1	\$	27.9

## 9. Property, plant and equipment and investment property

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
<b>Cost or deemed cost</b>						
Balance at January 29, 2011	\$ 231.0	\$ 1,125.8	\$ 37.5	\$ —	\$ 1,151.5	\$ 2,545.8
Additions	—	31.1	—	3.5	45.1	79.7
Disposals	—	(4.8)	—	—	(17.8)	(22.6)
<b>Balance at January 28, 2012</b>	<b>\$ 231.0</b>	<b>\$ 1,152.1</b>	<b>\$ 37.5</b>	<b>\$ 3.5</b>	<b>\$ 1,178.8</b>	<b>\$ 2,602.9</b>
Additions	—	29.8	11.7	—	40.6	82.1
Disposals	—	(32.2)	(3.5)	—	(45.0)	(80.7)
<b>Balance at February 2, 2013</b>	<b>\$ 231.0</b>	<b>\$ 1,149.7</b>	<b>\$ 45.7</b>	<b>\$ 3.5</b>	<b>\$ 1,174.4</b>	<b>\$ 2,604.3</b>
<b>Accumulated depreciation and impairment</b>						
Balance at January 29, 2011	\$ —	\$ 656.4	\$ 6.5	\$ —	\$ 982.2	\$ 1,645.1
Depreciation expense <sup>1</sup>	—	51.0	5.5	1.0	49.3	106.8
Disposals	—	(3.8)	—	—	(17.2)	(21.0)
<b>Balance at January 28, 2012</b>	<b>\$ —</b>	<b>\$ 703.6</b>	<b>\$ 12.0</b>	<b>\$ 1.0</b>	<b>\$ 1,014.3</b>	<b>\$ 1,730.9</b>
Depreciation expense <sup>1</sup>	—	49.2	5.3	1.0	47.4	102.9
Disposals	—	(25.7)	(3.5)	—	(40.1)	(69.3)
Impairment losses (reversals) <sup>1</sup>	\$ —	\$ 0.5	\$ —	\$ —	\$ (0.7)	\$ (0.2)
<b>Balance at February 2, 2013</b>	<b>\$ —</b>	<b>\$ 727.6</b>	<b>\$ 13.8</b>	<b>\$ 2.0</b>	<b>\$ 1,020.9</b>	<b>\$ 1,764.3</b>
<b>Total property, plant and equipment</b>						
<b>Net Balance at February 2, 2013</b>	<b>\$ 231.0</b>	<b>\$ 422.1</b>	<b>\$ 31.9</b>	<b>\$ 1.5</b>	<b>\$ 153.5</b>	<b>\$ 840.0</b>
Net Balance at January 28, 2012	\$ 231.0	\$ 448.5	\$ 25.5	\$ 2.5	\$ 164.5	\$ 872.0

<sup>1</sup> Depreciation expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

### Impairment loss

The Company engaged independent qualified third party appraisers to conduct appraisals of its land and building properties. The valuation methods used to determine fair value include the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

During Fiscal 2012, the Company recognized an impairment loss of \$1.9M on the Montreal distribution centre (2011: Nil). The impairment loss is due to the application of a lower market rent rate in the valuation model in comparison to the prior year. The impairment loss of \$1.9M is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

During Fiscal 2012, the Company recorded an impairment loss reversal relating to leasehold improvements (net of accumulated amortization) of \$2.1 million in "Selling, administrative and other expenses". The impairment loss reversal was a result of the proceeds received from the agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) Full-line store. The Company did not record any reversals of previously recorded impairment losses during Fiscal 2011.

### Investment property

Investment property owned by the Company represents vacant land with no operating activity. During Fiscal 2012, there were no investment property additions, disposals or impairment losses. As at February 2, 2013, the carrying value and fair value of investment property were \$21.7 million and \$25.4 million, respectively (January 28, 2012: \$21.7 million and \$23.2 million).

## 10. Goodwill and intangible assets

### 10.1 Allocation of goodwill to cash generating units

Goodwill has been allocated for impairment testing purposes to the following CGUs:

- Corbeil
- Home Improvement Product Services

The following is a continuity of goodwill, as allocated by CGU:

<i>(in CAD millions)</i>	2012		2011	
<i>Corbeil</i>				
Balance, beginning of fiscal year	\$	2.6	\$	2.6
Balance, end of fiscal year	\$	2.6	\$	2.6
<i>Home Improvement Product Services</i>				
Balance, beginning of fiscal year	\$	6.1	\$	8.6
Impairment losses		—		(2.5)
Balance, end of fiscal year	\$	6.1	\$	6.1
<b>Total goodwill</b>	<b>\$</b>	<b>8.7</b>	<b>\$</b>	<b>8.7</b>

In the assessment of impairment, management used historical data and past experience as the key assumptions in the determination of the recoverable amount. The Company completed a test for goodwill impairment on an annual basis in Fiscal 2012 and Fiscal 2011.

The Company has made certain assumptions for the discount and terminal growth rates to reflect variations in expected future cash flows. These assumptions may differ or change quickly depending on economic conditions or other events. Therefore, it is possible that future changes in assumptions may negatively impact future valuations of CGU's and goodwill, which would result in further impairment losses.

- Corbeil

The recoverable amount of this CGU is determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated cash flow over a 10 year period and a terminal value equivalent to the present value of 5 times after-tax cash flow representing the value of the business beyond the 10 year cash flow projection. Cost to sell was estimated to be 2% of the fair value, which reflects management's best estimate of the potential costs associated with divesting of the businesses considered. A discount rate of 10.2% was applied to the cash flow projections based on management's best estimate of the CGU's weighted average cost of capital considering the risks facing the CGU. Annual growth rates of 5% for the first 5 years and 2% for the subsequent 5 years were used for Corbeil given the businesses' historical growth experience and anticipated growth. The recoverable amount was determined to be greater than the carrying value including the goodwill allocated to the Corbeil CGU, therefore, no impairment was identified in Fiscal 2012 (2011: Nil).

- Home Improvement Product Services

The recoverable amount of this CGU is determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated cash flow over a 10 year period. Cost to sell was estimated to be 2% of the fair value of the business. This reflects management's best estimate of the potential costs associated with divesting of the business. A discount rate of 12% per annum was used, based on management's best estimate of the CGU's weighted average cost of capital considering the risks facing the CGU. The cash flow projection is based on management's best estimate given the new strategic relationship with SHS Services Management Inc. to commence in Fiscal 2013. For additional information, please see Note 34. The recoverable amount was determined to be greater than the carrying value including the goodwill allocated to the Home Improvement Product Services CGU, therefore, no impairment was identified in Fiscal 2012 (2011: \$2.5 million).

## 10.2 Intangible assets

The following is a continuity of intangible assets:

<i>(in CAD millions)</i>	Application Software		Information System Software		Total
Cost or deemed cost					
Balance at January 29, 2011	\$	20.0	\$	124.6	\$ 144.6
Additions		6.8		1.5	8.3
Disposals		—		(0.1)	(0.1)
<b>Balance at January 28, 2012</b>	<b>\$</b>	<b>26.8</b>	<b>\$</b>	<b>126.0</b>	<b>\$ 152.8</b>
Additions		8.1		5.8	13.9
Disposals		—		(0.4)	(0.4)
<b>Balance at February 2, 2013</b>	<b>\$</b>	<b>34.9</b>	<b>\$</b>	<b>131.4</b>	<b>\$ 166.3</b>
Accumulated amortization					
Balance at January 29, 2011	\$	10.2	\$	110.9	\$ 121.1
Amortization expense <sup>1</sup>		3.7		4.4	8.1
<b>Balance at January 28, 2012</b>	<b>\$</b>	<b>13.9</b>	<b>\$</b>	<b>115.3</b>	<b>\$ 129.2</b>
Amortization expense <sup>1</sup>		5.1		5.3	10.4
Disposals		—		(0.5)	(0.5)
<b>Balance at February 2, 2013</b>	<b>\$</b>	<b>19.0</b>	<b>\$</b>	<b>120.1</b>	<b>\$ 139.1</b>
<b>Total intangible assets</b>					
<b>Net Balance at February 2, 2013</b>	<b>\$</b>	<b>15.9</b>	<b>\$</b>	<b>11.3</b>	<b>\$ 27.2</b>
Net Balance at January 28, 2012	\$	12.9	\$	10.7	\$ 23.6

<sup>1</sup> Amortization expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). No impairment losses were recognized on intangible assets for both Fiscal 2012 and Fiscal 2011.

## 11. Investment in joint ventures

The Company's investment in joint ventures includes its share of income or losses from its joint venture interests in 11 shopping centres across Canada, most of which contain a Sears store. Joint venture investments range from 15% to 50% and are co-owned with Westcliff Group and Ivanhoe Cambridge Properties. The jointly controlled entities and Sears ownership interest in each as at February 2, 2013 are listed below:

Entity Name	Properties	Joint Venture Partner	Ownership Interest
Carrefour Richelieu Realities (St-Jérôme)	Carrefour Richelieu	Westcliff Group	50%
Carrefour Richelieu Realities (St-Jean)	Carrefour du Nord	Westcliff Group	50%
Carrefour Richelieu Realities (Carrefour Angrignon)	Carrefour Angrignon	Westcliff Group	50%
Carrefour Richelieu Realities (Place Angrignon)	Place Angrignon	Westcliff Group	50%
Carrefour Richelieu Realities (Pierre Caisse)	Place Pierre Caisse	Westcliff Group	50%
Carrefour Richelieu Realities (Drummondville)	Promenades de Drummondville	Westcliff Group	50%
Méga-Centre Drummondville	Mega Centre Drummondville	Westcliff Group	50%
Société de Gestion des Neiges Ville- Marie	Various land holdings in Quebec, Canada	Westcliff Group	50%
133562 Canada Inc.	Various land holdings in Quebec, Canada	Westcliff Group	50%
172098 Canada Inc.	Drummondville Stripmall	Westcliff Group	50%
Kildonan Place	Kildonan Place	Ivanhoe Cambridge	20%
Regionaux (Les Rivières Shopping Centre)	Les Rivières Shopping Centre	Ivanhoe Cambridge	15%
Regionaux (Les Galeries de Hull)	Les Galeries de Hull	Ivanhoe Cambridge	15%

During the fourth quarter of 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of \$38.3 million, recognizing a pre-tax gain of \$8.6 million on the sale. During the third quarter of 2011, the Company sold its share of assets in Chatham Centre for net proceeds of \$1.6 million, recognizing a pre-tax gain of \$0.1 million on the sale.

The following represents the Company's share of investments in the assets and liabilities, revenues and expenses of the joint ventures:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Current assets	\$ 3.0	\$ 6.4
Non-current assets	287.9	333.5
<b>Total assets</b>	<b>\$ 290.9</b>	<b>\$ 339.9</b>
Current liabilities	\$ 5.8	\$ 7.9
Non-current liabilities	21.7	30.6
<b>Total liabilities</b>	<b>\$ 27.5</b>	<b>\$ 38.5</b>
Investment in joint ventures	\$ 263.4	\$ 301.4

<i>(in CAD millions)</i>	2012	2011
Revenues	\$ 46.2	\$ 48.0
Expenses		
Administrative and other expenses	19.8	23.3
Impairment loss	2.2	—
Finance costs	1.5	2.0
Tax expense	—	0.1
Depreciation expense	13.2	14.3
<b>Share of income from joint ventures</b>	<b>\$ 9.5</b>	<b>\$ 8.3</b>

#### *Impairment loss*

The Company engaged independent qualified third-party appraisers to conduct appraisals of its land and building properties. The valuation methods used to determine fair value include the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

During Fiscal 2012, the Company recognized an impairment loss of \$2.2 million on the Promenades de Drummondville property (2011: Nil). The fair value of these assets were determined based on an independent, qualified third-party appraisal. The impairment loss of \$2.2 million is included in "Share of income from joint ventures" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

#### **12. Other long-term assets**

The components of other long-term assets were as follows:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Income taxes recoverable	\$ 13.9	\$ 30.3
Prepaid rent	9.4	11.0
Receivables	3.3	6.6
Investments	1.3	1.3
Unamortized debt transaction costs	6.2	—
<b>Other long-term assets</b>	<b>\$ 34.1</b>	<b>\$ 49.2</b>

### 13. Deferred revenue

The components of deferred revenue were as follows:

<i>(in CAD millions)</i>		As at February 2, 2013		As at January 28, 2012
Arising from extended warranty service contracts <sup>(i)</sup>	\$	151.5	\$	144.6
Arising from unshipped sales <sup>(ii)</sup>		60.9		65.7
Arising from customer loyalty program <sup>(iii)</sup>		37.7		41.3
Arising from gift card issuances <sup>(iv)</sup>		25.5		29.1
Arising from vendor partnership agreements <sup>(v)</sup>		6.5		9.7
Other <sup>(vi)</sup>		6.1		6.8
<b>Total deferred revenue</b>	<b>\$</b>	<b>288.2</b>	<b>\$</b>	<b>297.2</b>
Current	\$	197.5	\$	208.0
Non-current		90.7		89.2
<b>Total deferred revenue</b>	<b>\$</b>	<b>288.2</b>	<b>\$</b>	<b>297.2</b>

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 Company's Sears Club loyalty program.
- (iv) Deferred revenue arising from the purchase of gift cards by customers that have not yet been redeemed for merchandise. At redemption of the gift card, the revenue is recognized.
- (v) Deferred revenue arising from multi-element partnership agreements with vendors. The revenue is recognized in accordance with the terms of the agreements.
- (vi) Other includes deferred revenue for goods that have not yet been fully delivered or services not yet rendered. The revenue is recognized when the goods have been delivered or by reference to the stage of completion of the service.

### 14. 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 and foreign currency. 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 and interest rate risk.

##### 14.1 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 and cash equivalents, accounts receivable and other long-term assets.

Cash and cash equivalents, accounts receivable and investments included in other long-term assets of \$314.5 million as at February 2, 2013 (January 28, 2012: \$514.9 million) expose the Company to credit risk should the borrower default on maturity of the investment. 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 customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at February 2, 2013, no customers represented greater than 10.0% of the Company's accounts receivable (January 28, 2012 : one customer represented 26.5% of the Company's accounts receivable).

#### 14.2 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 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 February 2, 2013:

(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	\$ 482.0	\$ 482.0	\$ 482.0	\$ —	\$ —	\$ —
Long-term obligations including payments due within one year <sup>1</sup>	36.1	48.4	7.6	11.6	9.7	19.5
Operating lease obligations <sup>2</sup>	n/a	496.7	96.7	155.2	98.9	145.9
Minimum purchase commitments <sup>2,4</sup>	n/a	17.5	5.0	12.5	—	—
Royalties <sup>2</sup>	n/a	2.3	1.8	0.5	—	—
Retirement benefit plans obligations <sup>2,3</sup>	415.7	114.9	29.3	58.7	26.9	—
	<b>\$ 933.8</b>	<b>\$ 1,161.8</b>	<b>\$ 622.4</b>	<b>\$ 238.5</b>	<b>\$ 135.5</b>	<b>\$ 165.4</b>

<sup>1</sup> Cash flow maturities related to long-term obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%. The Company had no borrowings on the Credit Facility at February 2, 2013.

<sup>2</sup> Minimum purchase commitments, operating lease obligations, retirement benefit plans funding obligations and royalties are not reported in the Consolidated Statements of Financial Position.

<sup>3</sup> Payments beyond 2013 are subject to a funding valuation to be completed as at December 31, 2013. Until then, the Company is obligated to fund in accordance with the most recent valuation completed as at December 31, 2010.

<sup>4</sup> Certain vendors require minimum purchase commitment levels over the term of the contract.

Management believes that cash on hand, future cash flow generated from operations and availability of current and future funding will be adequate to support these financial liabilities.

#### 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.

#### 14.3 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 February 2, 2013 and January 28, 2012, there were no contracts outstanding and therefore no derivative financial assets nor derivative financial liabilities were recognized in the Consolidated Statements of Financial Position.

During Fiscal 2012, the Company recorded a loss of \$0.6 million (2011: gain of \$0.9 million), relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The period end exchange rate was 1.0027 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net earnings (loss) of \$4.3 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable.

#### 14.4 Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. As at February 2, 2013, the Company had no interest rate swap contracts in place (January 28, 2012: nil).

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.

Cash and cash equivalents and borrowings under the secured revolving credit facility are subject to interest rate risk. The total subject to interest rate risk as at February 2, 2013 was a net asset of \$238.3 million (January 28, 2012: net asset of \$297.7 million). An increase or decrease in interest rates of 0.25% would cause an immaterial after-tax impact on net (loss) earnings.

#### 14.5 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 <sup>1</sup>	As at February 2, 2013	As at January 28, 2012
Available for sale				
Cash equivalents	Cash and cash equivalents <sup>1</sup>	Level 1	159.9	199.9
Cash equivalents	Cash and cash equivalents <sup>1</sup>	Level 2	20.5	20.3
Fair value through profit or loss				
Long-term investments	Other long-term assets	Level 3	1.3	1.3

<sup>1</sup> Interest income related to cash and cash equivalents is disclosed in Note 5.

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 short-term in nature.

### 15. 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:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Total accounts payable	\$ 305.7	\$ 401.9
Payroll and employee benefits	29.1	28.7
Merchandise accruals	71.0	45.3
Short-term leasehold inducements	9.8	8.4
Advertising accruals	12.4	12.7
Other accrued liabilities	54.0	79.8
Total accrued liabilities	\$ 176.3	\$ 174.9
Total accounts payable and accrued liabilities	\$ 482.0	\$ 576.8

### 16. Provisions

The following is a continuity which shows the change in provisions during Fiscal 2012 and Fiscal 2011:

<i>(in CAD millions)</i>	January 28, 2012	As at January 28, 2012	Additional Provisions	Release of Provisions	Reversed Provisions	February 2, 2013	As at February 2, 2013
Insurance <sup>(i)</sup>	\$ 19.4	\$ 0.2	\$ (1.3)	\$ —	\$ 18.3	\$ 18.3	
Returns and allowances <sup>(ii)</sup>	12.2	9.8	(9.0)	—	13.0	13.0	
Warranties <sup>(iii)</sup>	11.0	0.3	(0.2)	(0.1)	11.0	11.0	
Sales tax <sup>(iv)</sup>	1.6	2.5	(0.3)	(1.4)	2.4	2.4	
Severance <sup>(v)</sup>	13.5	19.3	(16.0)	(2.1)	14.7	14.7	
Environmental <sup>(vi)</sup>	4.6	2.9	(1.3)	(1.4)	4.8	4.8	
Other provisions <sup>(vii)</sup>	3.0	1.1	(1.2)	(0.4)	2.5	2.5	
Total provisions	\$ 65.3	\$ 36.1	\$ (29.3)	\$ (5.4)	\$ 66.7	\$ 66.7	
Current	\$ 64.8	\$ 36.1	\$ (29.2)	\$ (5.4)	\$ 66.3	\$ 66.3	
Non-current <sup>(iii)</sup>	0.5	—	(0.1)	—	0.4	0.4	
Total provisions	\$ 65.3	\$ 36.1	\$ (29.3)	\$ (5.4)	\$ 66.7	\$ 66.7	

<i>(in CAD millions)</i>	January 29, 2011	As at January 29, 2011	Additional Provisions	Release of Provisions	Reversed Provisions	January 28, 2012	As at January 28, 2012
Insurance <sup>(i)</sup>	\$ 23.8	\$ 1.4	\$ (5.8)	\$ —	\$ 19.4	\$ 19.4	
Returns and allowances <sup>(ii)</sup>	14.3	12.2	(14.3)	—	12.2	12.2	
Warranties <sup>(iii)</sup>	13.1	—	(2.1)	—	11.0	11.0	
Sales tax <sup>(iv)</sup>	5.4	—	(3.8)	—	1.6	1.6	
Severance <sup>(v)</sup>	2.7	12.9	(2.1)	—	13.5	13.5	
Environmental <sup>(vi)</sup>	5.0	2.9	(2.0)	(1.3)	4.6	4.6	
Other provisions <sup>(vii)</sup>	1.6	2.7	(1.3)	—	3.0	3.0	
Total provisions	\$ 65.9	\$ 32.1	\$ (31.4)	\$ (1.3)	\$ 65.3	\$ 65.3	
Current	\$ 65.3	\$ 32.1	\$ (31.3)	\$ (1.3)	\$ 64.8	\$ 64.8	
Non-current <sup>(iii)</sup>	0.6	—	(0.1)	—	0.5	0.5	
Total provisions	\$ 65.9	\$ 32.1	\$ (31.4)	\$ (1.3)	\$ 65.3	\$ 65.3	

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. Costs incurred to service warranty claims relating to this provision are expected to be paid out over the next 2 years. 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 amount of expected reimbursements recorded as at February 2, 2013 was \$2.6 million (January 28, 2012: \$2.3 million) and is reflected in "Accounts receivable, net" and "Other long-term assets" in the Consolidated Statements of Financial Position. The provision for warranty claims is comprised of both a current (claims realized within 12 months) and non-current component (claims realized between 13 and 24 months), with the balances respectively reflected in "Provisions" and "Other long-term liabilities" (see Note 18) 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 4 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 who have made claims. Uncertainty exists 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 12 months, this provision is classified as current.
- (vi) The environmental provision represents the costs to remediate environmental contamination associated with decommissioning auto centres as well as the cost to remove asbestos to meet regulatory requirements. The provision is based on assessments conducted by third parties as well as historical data. Given the timing of payments to remediate is uncertain and that the Company has no unconditional right to defer these payments past at least 12 months, this provision is classified as current.
- (vii) The provisions for other represent the Company's best estimate of various reserves relating to the future outflow of economic resources due to obligations for miscellaneous claims. The estimates for these provisions have been made on the basis of information currently available to determine the obligations. These provisions are classified as current.

## 17. Long-term obligations and finance costs

### *Long-term obligations*

Total outstanding long-term obligations were as follows:

<i>(in CAD millions)</i>	February 2, 2013	As at January 28, 2012
Finance lease obligations - Current	5.2	5.1
Total principal payments on long-term obligations due within one year	\$ 5.2	\$ 5.1
Secured revolving credit facility, net	\$ —	\$ 93.1
Finance lease obligations - Non-current	30.9	24.5
Total long-term obligations	\$ 30.9	\$ 117.6

The Company's debt consists of a secured credit facility and 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. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability under the Credit Facility was \$501.5 million as at February 2, 2013 (January 28, 2012: \$415.1 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately \$300.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders, with respect to the Company's unfunded pension liability by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to \$150.0 million. The potential additional reserve amount may increase or decrease in the future based on estimated net pension liabilities.

The Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at February 2, 2013.

As at February 2, 2013, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of \$6.2 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (January 28, 2012: borrowings of \$93.1 million, net of unamortized transaction costs of \$8.0 million, included in "Long-term obligations"). In addition, the Company had \$19.7 million (January 28, 2012: \$6.3 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments including third party payments, utility commitments and defined benefit plan deficit funding (See Note 20 for additional information on Retirement benefits plans). Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at February 2, 2013, the Company had outstanding merchandise letters of credit of U.S. \$7.9 million (January 28, 2012: U.S. \$5.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

#### *Finance costs*

Interest expense on long-term obligations, including finance lease obligations, the current portion of long-term obligations, amortization of transaction costs and commitment fees on the unused portion of the Credit Facility for Fiscal 2012 totaled \$9.4 million (2011: \$9.3 million). Interest expense is included in "Finance costs" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). Also included in "Finance costs" for Fiscal 2012, were \$3.9 million (2011: \$5.2 million) of interest on accruals for uncertain tax positions and nil (2011: \$1.5 million) related to interest on a sales tax assessment.

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 2012 totaled \$7.7 million (2011: \$6.8 million).

### **18. Other long-term liabilities**

The components of other long-term liabilities were as follows:

<i>(in CAD millions)</i>		As at February 2, 2013		As at January 28, 2012
Leasehold inducements	\$	67.1	\$	66.8
Straight-line rent liability		5.0		6.4
Miscellaneous		2.6		2.6
<b>Total other long-term liabilities</b>	<b>\$</b>	<b>74.7</b>	<b>\$</b>	<b>75.8</b>

The non-current portion of the warranties provision (see Note 16) is reflected in the miscellaneous component of "Other long-term liabilities" in the Consolidated Statements of Financial Position.

## 19. Leasing arrangements

### 19.1 Finance lease arrangements – Company as lessee

As at February 2, 2013, 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 an option 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 February 2, 2013 was \$33.4 million (January 28, 2012: \$28.0 million).

As at February 2, 2013, the corresponding finance lease obligations, current and non-current, were \$5.2 million (January 28, 2012: \$5.1 million) and \$30.9 million (January 28, 2012: \$24.5 million), included in the Consolidated Statements of Financial Position under “Principal payments on long-term obligations due within one year” and “Long-term obligations,” respectively (see Note 17).

The table below presents the future minimum lease payments of the Company’s finance lease obligations:

<i>(in CAD millions)</i>	As at February 2, 2013			As at January 28, 2012		
	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	\$ 7.6	\$ 2.4	\$ 5.2	\$ 7.0	\$ 1.9	\$ 5.1
2 years	6.5	2.1	4.4	6.0	1.5	4.5
3 years	5.1	1.9	3.2	4.8	1.2	3.6
4 years	4.8	1.6	3.2	3.3	1.1	2.2
5 years	4.9	1.4	3.5	3.1	0.9	2.2
Thereafter	19.5	2.9	16.6	14.2	2.2	12.0
<b>Total minimum payments</b>	<b>\$ 48.4</b>	<b>\$ 12.3</b>	<b>\$ 36.1</b>	<b>\$ 38.4</b>	<b>\$ 8.8</b>	<b>\$ 29.6</b>

Interest on finance lease obligations is recognized immediately in “Finance costs” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) (see Note 17). Included in total “Finance costs” in Fiscal 2012, was \$2.4 million (2011: \$2.2 million) of interest related to finance lease obligations.

### 19.2 Operating lease arrangements – Company as lessor

The Company has a number of agreements to sub-lease premises to third parties, which are all classified as operating leases. During Fiscal 2012, total sub-lease income from leased premises was \$3.0 million (2011: \$2.8 million).

As at February 2, 2013, total future minimum lease payments receivable from third party tenants were \$10.3 million (2011: \$9.7 million).

### 19.3 Operating lease arrangements – Company as lessee

As at February 2, 2013, the Company had operating lease arrangements related to leased 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 2012, contingent rent recognized as an expense in respect of operating leases totaled \$0.9 million (2011: \$0.9 million). Rental expense for all operating leases totaled \$105.6 million in Fiscal 2012 (2011: \$103.4 million). These expenses are included in “Selling, administrative and other expenses” in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

The table below presents the contractual maturities of future minimum lease payments for the Company's operating leases:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Within 1 year	\$ 96.7	\$ 102.7
2 years	85.1	86.2
3 years	70.1	66.8
4 years	52.9	55.9
5 years	46.0	42.1
Thereafter	145.9	156.4
<b>Total operating lease obligations <sup>1</sup></b>	<b>\$ 496.7</b>	<b>\$ 510.1</b>

<sup>1</sup> Operating lease obligations are not reported in the Consolidated Statements of Financial Position

## 20. Retirement benefit plans

The Company currently maintains a defined benefit registered pension plan and a defined contribution registered pension plan which covers eligible, regular full-time associates as well as some of its part-time associates. The defined benefit plan 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 plan. The non-registered portion of the plan is maintained to enable certain associates 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 post retirement plan which provides life insurance, medical and dental benefits to eligible retired associates 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 associates. The Company's accounting policies related to retirement benefit plans are described in Note 2.15.

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. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for associates who had not achieved the eligibility criteria for these non-pension post retirement benefits as at December 31, 2008. Effective December 2009, the Company made the decision to change funding for non pension post 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 associates are paid on a pay-as-you-go basis from the health and welfare trust and are no longer funded by the Company.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid \$18.1 million and recorded a pre-tax settlement gain of \$21.1 million (\$21.9 million net of \$0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

The Company early adopted the amendments to IAS 19 beginning January 29, 2012, with retrospective application to prior reporting periods. A description of the nature of the change in accounting policy and a summary of its impact to the Company's consolidated financial statements are included in Note 2.

### *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.

*Asset-liability matching strategies*

Beginning in Fiscal 2011, the Company adopted an asset-liability matching strategy in the Other Benefits Plan wherein assets are invested in accordance with a short-term fixed income mandate. The current portfolio is primarily bonds with maturities not exceeding two years. This investment strategy is aligned with the expected use of the assets, which is to fund the Company's retiree health benefits and short-term disability payments within the next two years.

*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. At February 2, 2013 a letter of credit with a notional value of \$4.6 million was on deposit with the Trustee for the non-registered portion of the defined benefit plan.

In January 2013, the Company announced the termination of 700 associates. This event did not require the recording of a curtailment as its impact on the pension plan was not significant.

*Maturity profile of retirement benefit plan obligations*

The weighted average durations of the Registered Retirement Plans, Non-registered Pension Plan and Other Benefit Plan are all approximately 11 years.

The Company's contractual cash flow maturity relating to retirement benefit plan obligation payments is included under "Liquidity Risk" in Note 14.

## 20.1 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, 2010. The next actuarial valuation assessment is required as of December 31, 2013. An actuarial valuation of the health and welfare trust is performed at least every 3 years, with the last valuation completed as of September 1, 2011.

	2012				2011			
<i>(in CAD millions)</i>	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
<b>Defined benefit plan assets</b>								
Fair value, beginning balance	\$ 1,178.9	\$ 49.3	\$ 68.7	\$1,296.9	\$ 1,241.7	\$ 47.4	\$ 89.9	\$1,379.0
Interest income	54.0	2.3	2.6	58.9	64.8	2.6	4.1	71.5
Remeasurement gain (loss) on return on plan assets	73.7	0.1	(1.9)	71.9	(14.8)	(1.6)	(1.0)	(17.4)
Employer contributions	32.7	1.5	18.8	53.0	0.9	6.4	0.7	8.0
Administrative expenses	(0.4)	—	—	(0.4)	(0.5)	—	(0.1)	(0.6)
Benefits paid <sup>1</sup>	(119.8)	(3.7)	(43.7)	(167.2)	(113.2)	(5.5)	(24.9)	(143.6)
Fair value of plan assets, ending balance	\$ 1,219.1	\$ 49.5	\$ 44.5	\$1,313.1	\$ 1,178.9	\$ 49.3	\$ 68.7	\$1,296.9
<b>Defined benefit plan obligations</b>								
Accrued obligations, beginning balance	\$ 1,377.7	\$ 50.1	\$ 321.4	\$1,749.2*	\$ 1,354.7	\$ 47.8	\$ 302.7	\$1,705.2
Total current service cost	0.9	—	—	0.9	0.9	—	—	0.9
Interest cost	62.6	2.3	14.4	79.3	70.9	2.5	15.8	89.2
Benefits paid	(119.8)	(3.7)	(35.6)	(159.1)	(113.2)	(5.5)	(16.4)	(135.1)
Settlement gain	—	—	(21.9)	(21.9)	—	—	—	—
Actuarial losses	62.7	1.7	16.0	80.4	64.4	5.3	19.3	89.0
Accrued plan obligations, ending balance	\$ 1,384.1	\$ 50.4	\$ 294.3	\$1,728.8	\$ 1,377.7	\$ 50.1	\$ 321.4	\$1,749.2
Funded status of plan – (deficit)	(165.0)	(0.9)	(249.8)	(415.7)	(198.8)	(0.8)	(252.7)	(452.3)
Retirement benefit liability at end of fiscal year, net	\$ (165.0)	\$ (0.9)	\$ (249.8)	\$ (415.7)	\$ (198.8)	\$ (0.8)	\$ (252.7)	\$ (452.3)
The retirement benefit liability is included in the Company's Consolidated Statements of Financial Position as follows:								
Retirement benefit liability	\$ (165.0)	\$ (0.9)	\$ (249.8)	\$ (415.7)	\$ (198.8)	\$ (0.8)	\$ (252.7)	\$ (452.3)
Retirement benefit liability at end of fiscal year, net	\$ (165.0)	\$ (0.9)	\$ (249.8)	\$ (415.7)	\$ (198.8)	\$ (0.8)	\$ (252.7)	\$ (452.3)

<sup>1</sup> 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.

## 20.2 Fair value of plan assets

The fair value of plan assets disaggregated by asset class and fair value hierarchy level as at February 2, 2013 and January 28, 2012 was as follows:

	As at February 2, 2013				As at January 28, 2012			
	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 1	\$ 41.2	\$ 25.2	\$ 0.1	\$ 66.5	\$ 25.5	\$ 26.3	\$ —	\$ 51.8
Subtotal	41.2	25.2	0.1	66.5	25.5	26.3	—	51.8
<i>Corporate bonds and notes</i>								
Level 1	—	—	—	—	—	—	—	—
Level 2	604.7	—	12.3	617.0	550.8	—	18.6	569.4
Level 3	59.7	—	0.9	60.6	63.1	—	0.9	64.0
Subtotal	664.4	—	13.2	677.6	613.9	—	19.5	633.4
<i>U.S. Government bonds and securities</i>								
Level 1	—	—	—	—	0.1	—	—	0.1
Level 2	0.9	—	—	0.9	1.8	—	—	1.8
Subtotal	0.9	—	—	0.9	1.9	—	—	1.9
<i>Common stock, preferred stock and REITS</i>								
Level 1	181.7	—	—	181.7	219.6	—	—	219.6
Level 2	—	—	—	—	0.9	—	—	0.9
Subtotal	181.7	—	—	181.7	220.5	—	—	220.5
<i>Common or collective trusts</i>								
Level 1	—	—	—	—	—	—	—	—
Level 2	251.8	24.3	—	276.1	282.9	23.0	—	305.9
Level 3	—	—	—	—	—	—	—	—
Subtotal	251.8	24.3	—	276.1	282.9	23.0	—	305.9
<i>Short-term collective investment funds</i>								
Level 1	—	—	—	—	—	—	—	—
Level 2	66.0	—	0.8	66.8	6.4	—	0.9	7.3
Subtotal	66.0	—	0.8	66.8	6.4	—	0.9	7.3
<i>Hedge funds, options and futures</i>								
Level 2	—	—	—	—	—	—	—	—
Level 3	3.0	—	—	3.0	15.4	—	0.2	15.6
Subtotal	3.0	—	—	3.0	15.4	—	0.2	15.6
<i>Receivables</i>								
Level 1	6.8	—	0.5	7.3	9.7	—	0.7	10.4
Level 2	(0.8)	—	—	(0.8)	(7.1)	—	—	(7.1)
Subtotal	6.0	—	0.5	6.5	2.6	—	0.7	3.3
<i>Miscellaneous other assets</i>								
Level 1	—	—	—	—	—	—	—	—
Level 2	4.1	—	29.9	34.0	9.8	—	47.4	57.2
Level 3	—	—	—	—	—	—	—	—
Subtotal	4.1	—	29.9	34.0	9.8	—	47.4	57.2
<b>Total fair value of plan assets</b>	<b>\$ 1,219.1</b>	<b>\$ 49.5</b>	<b>\$ 44.5</b>	<b>\$ 1,313.1</b>	<b>\$ 1,178.9</b>	<b>\$ 49.3</b>	<b>\$ 68.7</b>	<b>\$ 1,296.9</b>

The three levels of the fair value hierarchy referenced above are discussed in Note 14.5.

### 20.3 Plan assets investment allocation

During Fiscal 2011, the Company changed the target asset allocation to 55-75% fixed income and 25-45% equity for the registered and non-registered pension plans. For the assets in the health and welfare trust, included in Other Benefit Plans, the Company changed the asset allocation to 100% fixed income. As at the end of Fiscal 2012 and 2011, the assets were in line with the target allocation range, with the transitioning of assets from alternative investments near completion. 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.

At as the end of the current and prior fiscal years, plan assets were invested in the following classes of securities:

	As at February 2, 2013			As at January 28, 2012		
	Registered Retirement Plans	Non- Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non- Registered Pension Plan	Other Benefits Plan
Fixed income securities	72.3%	66.5%	100.0%	69.8%	69.5%	99.7%
Alternative investments	0.2%	—%	—%	1.3%	0.4%	0.3%
Equity securities	27.5%	33.5%	—%	28.9%	30.1%	—%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

### 20.4 Pension assumptions

The significant actuarial assumptions were as follows (weighted average assumptions) as at February 2, 2013 and January 28, 2012 :

	As at February 2, 2013			As at January 28, 2012		
	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	4.20%	4.20%	4.20%	4.70%	4.70%	4.60%
Benefit plans expense	4.20%	4.20%	4.20%	4.70%	4.70%	4.60%
Rate of compensation increase used in calculation of Accrued benefit plan obligations	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Benefit plans expense	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Expected long-term rate of return on plan assets used in calculation of benefit plans expense	4.20%	4.20%	4.20%	4.70%	4.70%	4.60%
Health care cost trend rates						
Used in calculation of accrued benefit plan obligations			6.14%			6.23%
Used in calculation of benefit plans expense			6.23%			6.78%
Cost trend rate declines to			3.82%			3.82%
Year that the rate reaches assumed constant			2030			2030

### 20.5 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>	2012			2011		
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
<b>Discount rate sensitivity</b>						
Accrued benefit plan obligations						
1% increase in discount rate	\$ (153.4)	\$ (4.8)	\$ (29.6)	\$ (150.2)	\$ (5.0)	(31.0)
1% decrease in discount rate	190.5	5.7	35.5	187.7	6.0	37.0
Benefit plans expense						
1% increase in discount rate	(6.7)	(0.3)	0.8	(8.1)	(0.1)	0.2
1% decrease in discount rate	5.1	0.2	(1.2)	6.1	—	(0.5)
<b>Rate of compensation increase sensitivity</b>						
Accrued benefit plan obligations						
0.5% increase in rate of compensation increase	18.5	0.5	n/a	21.9	1.0	n/a
0.5% decrease in rate of compensation increase	(16.4)	(0.3)	n/a	(19.4)	(0.6)	n/a
Benefit plans expense						
0.5% increase in rate of compensation increase	1.0	—	n/a	1.1	—	n/a
0.5% decrease in rate of compensation increase	(0.9)	—	n/a	(1.0)	—	n/a
<b>Health care cost trend rate sensitivity</b>						
Accrued benefit plan obligations						
1% increase in health care trend rate	n/a	n/a	30.7	n/a	n/a	29.2
1% decrease in health care trend rate	n/a	n/a	(26.1)	n/a	n/a	(25.0)
Benefit plans expense						
1% increase in health care trend rate	n/a	n/a	1.3	n/a	n/a	1.8
1% decrease in health care trend rate	n/a	n/a	(1.2)	n/a	n/a	(1.8)

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 2011.

### 20.6 Retirement benefit plans expense and contributions

The expense for the defined benefit, defined contribution and other benefit plans for Fiscal 2012 and Fiscal 2011, was as follows:

(in CAD millions)	2012				2011			
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Current service cost, net of employee contributions	\$ 0.9	\$ —	\$ —	\$ 0.9	\$ 0.9	\$ —	\$ —	\$ 0.9
Net interest	8.7	(0.1)	11.8	20.4	6.1	(0.1)	11.7	17.7
Settlement gain	—	—	(21.9)	(21.9)	—	—	—	—
Administrative expenses	0.4	—	—	0.4	0.5	—	0.1	0.6
Net defined benefit plans expense (income)	\$ 10.0	\$ (0.1)	\$ (10.1)	\$ (0.2)	\$ 7.5	\$ (0.1)	\$ 11.8	\$ 19.2
Net defined contribution plan expense	9.7	—	0.2	9.9	10.7	—	0.3	11.0
Total retirement benefit plans expense (income) <sup>1</sup>	\$ 19.7	\$ (0.1)	\$ (9.9)	\$ 9.7	\$ 18.2	\$ (0.1)	\$ 12.1	\$ 30.2

<sup>1</sup> Not included in total expense recognized are short-term disability payments of \$8.1 million (2011: \$8.4 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 Earnings (Loss) and Comprehensive Income (Loss).

Total cash contributions made by the Company to its defined benefit, defined contribution and other benefit plans, including payments to settle health and dental benefits of eligible members covered under the non-pension post retirement plan, for the fiscal year ended February 2, 2013 were \$63.0 million (2011: \$17.9 million). For Fiscal 2013, it is estimated that the Company will make contributions of approximately \$44.5 million to its defined benefit, defined contribution and other benefit plans, which include funding obligations as described in Note 14.2.

### 20.7 Remeasurements of the net defined retirement benefit liability

(in CAD millions)	2012				2011			
	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	\$ 73.7	\$ 0.1	\$ (1.9)	\$ 71.9	\$ (14.8)	\$ (1.6)	\$ (1.0)	\$ (17.4)
Actuarial gain (loss) due to change in demographic	—	—	—	—	19.0	0.3	(0.6)	18.7
Actuarial loss due to change in financial assumptions	(80.9)	(2.5)	(16.0)	(99.4)	(108.6)	(3.6)	(27.0)	(139.2)
Actuarial gain (loss) due to all other experiences	18.2	0.8	—	19.0	25.2	(2.0)	8.2	31.4
Total pre-tax remeasurement losses	\$ 11.0	\$ (1.6)	\$ (17.9)	\$ (8.5)	\$ (79.2)	\$ (6.9)	\$ (20.4)	\$ (106.5)
Income tax recovery on remeasurement losses				3.5				27.4
Total remeasurement losses, net of income taxes <sup>1</sup>				\$ (5.0)				\$ (79.1)

<sup>1</sup> Total remeasurement losses, net of income taxes, are included in "Other comprehensive loss" in the Company's Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

The actuarial losses associated with changes in financial assumptions are due to changes in the discount rate. The discount rate as at February 2, 2013 decreased 0.5% for the Registered Retirement Plans and the Non-registered Pension Plan (2011: a decrease of 0.7%), and 0.4% for the Other Benefits Plan (2011: a decrease of 0.8%).

## 21. Contingent liabilities

### 21.1 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 Company's Consolidated Financial Statements, including its Consolidated Statements of Financial Position, Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), and Consolidated Statements of Cash Flows.

### 21.2 Commitments and guarantees

#### Commitments

As at February 2, 2013, cash and cash equivalents that are restricted represent cash and investments pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program of \$9.0 million (January 28, 2012: \$7.2 million), which is the Canadian equivalent of U.S. \$9.0 million (January 28, 2012: U.S. \$7.2 million).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 14.2 "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 \$2.3 million as at February 2, 2013 (January 28, 2012: \$3.1 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 Company has also provided certain indemnification agreements in connection with the sale of the credit and financial services operations in November 2005. 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.

## 22. Income taxes

The average combined federal and provincial statutory income tax rate applied to the Company was 25.5% for Fiscal 2012 (2011: 28.5%) due to lower legislated statutory tax rates in the current year. A reconciliation of income taxes at the average statutory tax to actual income tax expense for Fiscal 2012 and Fiscal 2011 is as follows:

<i>(in CAD millions)</i>	2012		2011	
Earnings (loss) before income taxes	\$	114.2	\$	(56.9)
Income taxes at the average statutory tax rate	\$	29.1	\$	(16.2)
Increase (decrease) in income taxes resulting from				
Non-taxable portion of capital gain		(19.7)		—
Non-deductible items		1.7		2.1
Prior year assessments		2.7		5.1
Prior year true-up		—		(0.1)
		13.8		(9.1)
Effective tax rate before the following adjustments		12.1%		16.0%
Changes in tax rates or imposition of new taxes		(0.8)		2.5
Total income tax expense (recovery)	\$	13.0	\$	(6.6)
Effective tax rate		11.4%		11.6%

The Company's total net cash refunds or payments of income taxes for the current year was a net refund of \$4.9 million (2011: net payment of \$21.6 million).

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 2012, the Company recorded charges for interest on prior period tax re-assessments and accruals for uncertain tax positions as described in the table below, all included in the Consolidated Statement of Net Earnings (Loss) and Comprehensive Income (Loss) as follows:

<i>(in CAD millions)</i>	2012		2011	
Finance costs	\$	(3.9)	\$	(5.2)
Income tax recovery (expense):				
Current	\$	(5.4)	\$	(17.9)
Deferred	\$	2.2	\$	12.8
Total charges on uncertain tax positions	\$	(7.1)	\$	(10.3)

As the Company routinely evaluates and provides for potentially unfavourable outcomes, with respect to any tax audits, the Company believes that, other than as noted above, the final disposition of tax audits will not have a material adverse effect on liquidity.

During Fiscal 2012, the tax authorities settled a disputed tax assessment with the Company and refunded the associated deposit. As a result, the Company reclassified \$28.2 million from "Other long-term assets" to "Income taxes recoverable" in the Consolidated Statement of Financial Position. The Company received \$29.4 million in net refunds of tax and interest in respect of this issue and recognized \$1.9 million net interest income relating to this settlement in "Interest income" in the Consolidated Statement of Net Earnings (Loss) and Comprehensive Income (Loss).

In Fiscal 2012, the Company received re-assessments to previous tax filings which the Company is disputing. The Company expects to place \$54.9 million on deposit with the tax authorities relating to these disputed tax matters while the issues are being resolved. During Fiscal 2012, the Company paid \$33.5 million of the anticipated deposit of which \$11.1 million has been included in "Other long-term assets" and \$22.4 million has been included in "Income taxes recoverable" in the Consolidated Statement of Financial Position as at February 2, 2013.

Included in "Other long-term assets" in the Consolidated Statements of Financial Position, as at February 2, 2013, were receivables of \$13.9 million (January 28, 2012: \$30.3 million) related to payments made by the Company for disputed tax assessments. Of the \$33.5 million paid by the Company in deposits during the year for tax disputes, \$11.1 million in related payments was recorded in Long Term Recoverable.

The tax effects of the significant components of temporary timing differences giving rise to the Company's net deferred tax assets and liabilities were as follows:

<i>(in CAD millions)</i>	As at February 2, 2013	As at January 28, 2012
Prepaid expenses	\$ —	\$ (0.4)
Accrued liabilities and other long-term liabilities	57.1	57.2
Deferred retirement benefit plans	43.8	51.4
Other post-retirement benefits	66.0	65.0
Amounts related to tax losses carried forward	0.1	0.2
Non-depreciable property, plant and equipment	(37.3)	(36.6)
Depreciable property, plant and equipment	(49.5)	(56.6)
Deferred charges	(1.5)	(0.3)
Other	(0.7)	(0.7)
<b>Subtotal</b>	<b>\$ 78.0</b>	<b>\$ 79.2</b>
Amounts related to other comprehensive income (loss)	—	0.1
<b>Total deferred tax assets (liabilities), net</b>	<b>\$ 78.0</b>	<b>\$ 79.3</b>
Deferred tax assets	\$ 83.8	\$ 84.6
Deferred tax liabilities	(5.8)	(5.3)
<b>Total deferred tax assets (liabilities), net</b>	<b>\$ 78.0</b>	<b>\$ 79.3</b>

### 23. Operating segments

In order to identify the Company's reportable segments, the Company uses the process outlined in IFRS 8, which includes the identification of the Chief Operating Decision Maker, the identification of operating segments, which has been done based on Company formats, and the aggregation of operating segments. The Company has aggregated its operating segments into one reportable segment, which derives its revenue from the sale of merchandise and related services to customers.

### 24. Capital stock

On May 24, 2011, the Company renewed the Normal Course Issuer Bid with the Toronto Stock Exchange ("TSX") for the period of May 25, 2011 to May 24, 2012 ("2011 NCIB"). Pursuant to the 2011 NCIB, the Company was permitted to purchase for cancellation up to 5% of its issued and outstanding common shares, equivalent to 5,268,599 common shares based on the common shares issued and outstanding as at May 9, 2011. The Company did not renew its 2011 NCIB subsequent to May 24, 2012.

During Fiscal 2012, 870,633 shares were purchased for \$9.7 million (2011: 2,668,800 shares were purchased for \$42.0 million) and cancelled. The impact of the share repurchases was a decrease to "Capital stock" and "Retained earnings" in the Consolidated Statements of Financial Position of \$0.1 million and \$9.6 million (2011: \$0.4 million and \$41.6 million), respectively.

On May 17, 2012 the Company announced Sears Holdings' plan to pursue a distribution, on a pro rata basis, to its shareholders, of a portion of its holdings in the Company such that, immediately following the distribution, Sears Holdings would retain approximately 51% of the issued and outstanding shares of Sears Canada. The distribution was made on November 13, 2012 to Sears Holdings' shareholders of record as of the close of business on November 1, 2012, the record date for the distribution. Every share of Sears Holdings common stock held as of the close of business on the record date entitled the holder to a distribution of 0.4283 Sears Canada common shares. In connection with the announced distribution, the Company has filed documents with the United States Securities and Exchange Commission (SEC).

During Fiscal 2012, the Company distributed \$101.9 million to holders of common shares as an extraordinary cash dividend. Payment in the amount of \$1.00 per common share was made on December 31, 2012 to shareholders of record as at the close of business on December 24, 2012.

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 (the "Class 1 Preferred Shares"). As at the end of February 2, 2013, the only shares outstanding were common shares of the Company. The following table presents a continuity of capital stock for the fiscal years ended February 2, 2013 and January 28, 2012:

<i>(in CAD millions, except number of shares)</i>	2012		2011	
	Number of Common Shares	Stated Value	Number of Common Shares	Stated Value
Balance, beginning of fiscal year	102,748,295	\$ 15.0	105,417,095	\$ 15.4
Repurchases of common shares	(870,633)	(0.1)	(2,668,800)	(0.4)
Balance, end of fiscal year	101,877,662	\$ 14.9	102,748,295	\$ 15.0

ESL Investments, Inc., and investment affiliates including Edward S. Lampert, together form the ultimate controlling party of the Company, and is the beneficial holder of 28,158,368 or 27.6%, of the common shares of the Company as at February 2, 2013 (January 28, 2012: nil). Sears Holdings, the controlling shareholder of the Company, is the beneficial holder of 51,962,391 or 51.0%, of the common shares of the Company as at February 2, 2013 (January 28, 2012: 97,341,670.0 or 94.7%). The issued and outstanding shares are fully paid and have no par value.

## 25. 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 February 2, 2013	As at January 28, 2012
Total long-term obligations	\$ 36.1	\$ 122.7
Shareholders' equity	1,076.4	1,092.0
Total	\$ 1,112.5	\$ 1,214.7

## 26. Revenue

The components of the Company's revenue were as follows:

<i>(in CAD millions)</i>	2012	2011
Apparel and Accessories	\$ 1,474.2	\$ 1,607.9
Home and Hardlines	1,125.4	1,293.6
Major Appliances	876.3	864.0
Other merchandise revenue	362.5	360.2
Services and other	321.9	347.4
Commission revenue	113.7	116.7
Licensee revenue	26.7	29.5
Total revenue	\$ 4,300.7	\$ 4,619.3

## 27. Employee benefits expense

The components of the Company's employee benefits expense for the current and prior fiscal year were as follows:

<i>(in CAD millions)</i>	2012	2011 (Recast - Note 2)
Wages and salaries	\$ 657.9	\$ 685.0
Paid absences <sup>1</sup>	62.1	67.1
Benefits		
Provincial healthcare costs	15.5	15.4
Flex benefits	16.6	16.2
Retirement benefit plans expense	9.7	30.2
Statutory deductions <sup>2</sup>	45.7	46.0
Severance <sup>3</sup>	17.1	25.3
Other employer paid benefits	(1.2)	2.1
<b>Total benefits expense</b>	<b>\$ 823.4</b>	<b>\$ 887.3</b>

<sup>1</sup> Paid absences are expenses related to vacation, statutory holidays and sick days.

<sup>2</sup> Statutory deductions consist of the employer portion of payment for the Canada Pension Plan and Employment Insurance.

<sup>3</sup> Included in Severance for Fiscal 2012 were \$12.6 million (2011: \$19.3 million) of costs related to transformation.

These expenses are included in "Cost of goods and services sold" and "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

## 28. Gain on lease terminations

On March 2, 2012, the Company entered into an agreement to surrender and terminate early the operating leases on three properties: Vancouver Pacific Centre, Chinook Centre (Calgary) and Rideau Centre (Ottawa). The Company was a long-term and important anchor tenant in the three properties, and the landlord approached the Company with a proposal to terminate early the three leases and vacate the premises in exchange for \$170.0 million. The payment represents the amount the landlord was willing to pay for the right to redevelop the property based upon their analysis of the potential returns from redevelopment.

On the closing date, April 20, 2012, the Company received cash proceeds of \$170.0 million for the surrender of the three leases, resulting in a pre-tax gain of \$164.3 million, net of the de-recognition of leasehold improvements of \$5.7 million. The Company exited all three properties on October 31, 2012, and has no further financial obligation related to the transaction.

On June 20, 2012, the Company entered an agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) property. The landlord approached the Company with a proposal to terminate early the lease in exchange for cash proceeds of \$5.0 million, subject to certain closing conditions, on the closing date of October 26, 2012. In Fiscal 2010, the Company incurred an impairment loss of \$2.9 million relating to the property, plant and equipment at its Deerfoot property. As a result of the agreement and expected proceeds, the Company recorded an impairment loss reversal (net of accumulated amortization) of \$2.1 million in "Selling, administrative and other expenses". On the closing date of October 26, 2012, the Company vacated the property and received cash proceeds of \$5.0 million, resulting in a pre-tax gain of \$2.8 million, net of the de-recognition of leasehold improvements and furniture and fixtures of \$2.2 million. The Company has no further financial obligation related to the transaction.

## 29. Sale of Cantrex Group Inc. ("Cantrex")

On April 24, 2012, the Company entered an agreement to sell the operations of its subsidiary, Cantrex, to Nationwide Marketing Group, LLC for \$3.5 million, equal to the net carrying amount of specified Cantrex assets and liabilities. On April 29, 2012, the Company received the proceeds on the sale, de-recognized the assets and liabilities sold and recorded a gain on sale of nil.

## 30. Related party transactions

The immediate parent of the Company is Sears Holdings. The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Florida) through Sears Holdings. The Company also has investments in joint ventures, as described in Note 11.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

### 30.1 Trading transactions

During the current and prior fiscal year, the Company entered into the following trading transactions with related parties:

<i>(in CAD millions)</i>	2012				2011			
	Purchase of goods	Services received	Other	Total	Purchase of goods	Services received	Other	Total
Sears Holdings Corporation	\$ —	\$ 5.0	\$ 0.2	\$ 5.2	\$ 0.3	\$ 4.8	\$ 0.5	\$ 5.6
Real estate joint ventures	—	4.5	—	4.5	—	4.4	—	4.4
Total related party transactions	\$ —	\$ 9.5	\$ 0.2	\$ 9.7	\$ 0.3	\$ 9.2	\$ 0.5	\$ 10.0

The following balances were outstanding as at the end of the fiscal year:

<i>(in CAD millions)</i>	Amounts receivable from related parties	
	As at February 2, 2013	As at January 28, 2012
Sears Holdings Corporation	\$ 0.3	\$ 0.1
Total	\$ 0.3	\$ 0.1

<i>(in CAD millions)</i>	Amounts payable to related parties	
	As at February 2, 2013	As at January 28, 2012
Sears Holdings Corporation	\$ 0.7	\$ 0.6
Total	\$ 0.7	\$ 0.6

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 related party transactions with the various real estate joint ventures represent lease payments for the lease of the Company’s stores. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties.

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 related parties.

The Company’s Audit Committee is responsible for pre-approving all related party transactions that have a value greater than \$1.0 million.

### 31. 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 Company considers the Board of Directors and the following former and current members of senior management to be key management personnel:

- Chief Executive Officer;
- Former Senior Vice-President and Chief Financial Officer;
- Executive Vice-President and Chief Operating Officer;
- Former Executive Vice-President and Chief Administrative Officer;
- Former Executive Vice-President, Merchandising, Apparel and Accessories;
- Former Senior Vice-President, Merchandising, Home and Hardlines;

Executive Vice-President, Financial Services;  
 Senior Vice-President and Chief Information Officer, Information Technology and Business Process Improvement;  
 Senior Vice-President, General Merchandise Manager, Accessories Merchandising;  
 Senior Vice-President, General Merchandise Manager, Apparel Merchandising;  
 Senior Vice-President, Home and Hardlines, Major Appliances;  
 Senior Vice-President, Customer Experience, Shared Services and Merchant Marketing;  
 Senior Vice-President, Human Resources;  
 Former Senior Vice-President, Business Capability and Human Resources  
 Current and former Senior Vice-President, Marketing;  
 Senior Vice-President and General Counsel; and  
 Senior Vice-President, Retail Stores.

Key management personnel compensation was as follows:

<i>(in CAD millions)</i>		2012	2011
Salaries and perquisites	\$	6.5	\$ 5.2
Annual incentive plans		0.9	2.2
Pensions		0.1	—
Termination benefits		0.5	1.2
<b>Total key management personnel compensation</b>	<b>\$</b>	<b>8.0</b>	<b>\$ 8.6</b>

### 32. Net earnings (loss) per share

A reconciliation of the number of shares used in the net earnings (loss) per share calculation is as follows:

<i>(Number of shares)</i>		2012	2011
Weighted average number of shares per basic net earnings (loss) per share calculation		102,078,477	104,275,192
Effect of dilutive instruments outstanding		—	—
<b>Weighted average number of shares per diluted net earnings (loss) per share calculation</b>		<b>102,078,477</b>	<b>104,275,192</b>

“Net earnings (loss)” as disclosed in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) was used as the numerator in calculating the basic and diluted net earnings (loss) per share. For the fiscal year ended February 2, 2013, 5,440 outstanding options were excluded from the calculation of diluted net earnings per share as they were anti-dilutive. For the fiscal year ended January 28, 2012, the Company incurred a net loss and therefore all potential common shares were anti-dilutive.

### 33. Changes in non-cash working capital balances

Cash generated from (used for) non-cash working capital balances were comprised of the following:

<i>(in CAD millions)</i>		2012	2011
Accounts receivable, net	\$	36.5	\$ 27.8
Inventories		(27.5)	129.3
Prepaid expenses		(2.2)	3.9
Accounts payable and accrued liabilities		(84.5)	(95.8)
Deferred revenue		(10.6)	(16.0)
Provisions		1.6	(0.5)
Income and other taxes payable and recoverable		(35.5)	(19.2)
Effect of foreign exchange rates		—	0.1
<b>Cash generated from (used for) non-cash working capital balances</b>	<b>\$</b>	<b>(122.2)</b>	<b>\$ 29.6</b>

**34. Event after the reporting period**

Subsequent to year end, the Company finalized an exclusive, multi-year licensing arrangement with SHS Services Management Inc. ("SHS Services"), which will result in SHS Services overseeing the day-to-day operations of all Sears Home Improvements Product Services business. The licensing agreement, effective March 3, 2013, is expected to result in a reduction to revenues and expenses, however, the impact to net earnings is not expected to be significant.

**35. Approval of consolidated financial statements**

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 14, 2013.

**DIRECTORS AND OFFICERS****Board of Directors****E. J. Bird**<sup>3</sup>

Interim Chief Financial Officer of the Corporation

**William C. Crowley**<sup>2,3</sup>

Managing Member

CRK Capital Partners, LLC

**William R. Harker**<sup>2,3</sup>

Principal

The Harker Group LLC

**R. Raja Khanna**<sup>1,4</sup>

Chief Executive Officer

Blue Ant Media Inc.

**James McBurney**<sup>1,4</sup>

Chief Executive Officer

White Tiger Gold Ltd.

**Calvin McDonald**

President and Chief Executive Officer of the Corporation

**Deborah E. Rosati**<sup>1,2,4</sup>

Corporate Director and Advisor

**Donald C. Ross**<sup>2,4</sup>

Partner

Osler, Hoskin &amp; Harcourt LLP

**Officers****Calvin McDonald**

President and Chief Executive Officer

**E. J. Bird**

Interim Chief Financial Officer

**Doug Campbell**

Executive Vice-President and Chief Operating Officer

**Peter Kalen**

Executive Vice-President, Financial Services

**Klaudio Leshnjani**

Senior Vice-President and General Counsel

**Committees**

- 1 Audit Committee
- 2 Human Resources and Compensation Committee
- 3 Investment Committee
- 4 Nominating and Corporate Governance Committee

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E-mail: [home@sears.ca](mailto:home@sears.ca)

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 416-941-4428.

The Company's regulatory filings can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

**Stock Exchange Listing**

Toronto Stock Exchange  
Trading symbol: SCC

**Transfer Agent and Registrar**

CIBC Mellon Trust Company<sup>1</sup>  
P.O. Box 700, Station B  
Montreal, Québec  
H3B 3K3

Answerline: 416-682-3860  
1-800-387-0825

Fax: 1-888-249-6189

Website: [www.canstockta.com](http://www.canstockta.com)

E-Mail: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)

**Annual Meeting**

The Annual Meeting of Shareholders of Sears Canada Inc. will be held on Thursday, April 25, 2013 at 8:00 a.m. in Room 5B1, Fifth 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 de Communications de l'entreprise  
Sears Canada Inc.  
290 Yonge Street  
Suite 700  
Toronto, Ontario  
M5B 2C3

Pour de plus amples renseignements au sujet de la Société, veuillez écrire au service national de communication, ou composer le 416-941-4428.

Les dépôts réglementaires de la Société figurent sur le site Web de SEDAR à l'adresse [www.sedar.com](http://www.sedar.com).

<sup>1</sup>Canadian Stock Transfer Company Inc. acts as the Administrative Agent for CIBC Mellon Trust Company.

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*Sears*\*



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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., 9370-2751 QUÉBEC INC., 191020 CANADA 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., 698874I CANADA INC., 10011711  
CANADA INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531 CANADA INC.,  
168886 CANADA INC., AND 3339611 CANADA INC.

The Applicants

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

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

Proceeding commenced at Toronto

**RESPONDING MOTION RECORD  
(MOTION RETURNABLE MARCH 2, 2018)**

**VOLUME I OF II**

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Lawyers for Mr. Edward S. Lampert, ESL Investments  
Inc., ESL Partners, L.P. and RBS Partners, L.P. et al