Court File No. ___________________

SEARS CANADA INC.,
AND RELATED APPLICANTS

PRE-FILING REPORT OF FTI CONSULTING CANADA INC., AS PROPOSED MONITOR

June 22, 2017

Contents

Court File No.

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

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

APPLICANTS

PRE-FILING REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS PROPOSED MONITOR

A. INTRODUCTION

1. FTI Consulting Canada Inc. ("**FTI**" or the "**Proposed Monitor**") understands that Sears Canada Inc. ("**Sears Canada**") and a number of its operating subsidiaries (collectively with Sears Canada, the "**Sears Canada Group**") intend to make an application (the "**Initial Application**") under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") for an initial order (the "**Proposed Initial Order**") granting certain relief, including, *inter alia*, a stay of proceedings against the Sears Canada Group and Sears Connect LP ("**Sears Connect**") until July 22, 2017, and appointing FTI as the monitor (the "**Monitor**"). The proceedings to be commenced by the Sears Canada Group will be referred to herein as the "**CCAA Proceedings**".

2. The purpose of this pre-filing report of the Monitor to the Court (the "**Pre-Filing Report**") is to inform the Court of the following:

(a) FTI's qualifications to act as Monitor, if appointed;

(b) the activities of FTI and its counsel, Norton Rose Fulbright Canada LLP ("**NRFC**"), to date, including the opinion prepared by NRFC (the "**NRFC Security Opinion**") in respect of the validity and enforceability of security held by Wells Fargo Capital Finance Corporation Canada ("**Wells Fargo**") and GACP Finance Co., LLC ("**GACP**");

(c) an overview of the Sears Canada Group's business and affairs, the events leading up to the CCAA Proceedings and the Sears Canada Group's restructuring efforts to date;

(d) FTI's comments regarding the Sears Canada Group's cash management system;

(e) FTI's comments regarding certain intercompany funding transactions;

(f) FTI's comments regarding the Sears Canada Group's proposed stakeholder communication plan (the "**Communication Plan**");

(g) FTI's comments regarding the Sears Canada Group's proposed treatment of certain pre-filing payables in the Proposed Initial Order;

(h) FTI's comments regarding the proposed extension of the stay of proceedings to Sears Connect and other third parties;

(i) FTI's comments regarding the Sears Canada Group's consolidated cash flow projections of its receipts and disbursements to September 16, 2017 (the "**Cash Flow Forecast**") and the reasonableness thereof, in accordance with section 23(1)(b) of the CCAA;

(j) FTI's comments regarding the Sears Canada Group's request for the approval of a $300 million debtor-in-possession ("**DIP**") revolving credit facility (the "**DIP**

ABL Facility"), and a DIP term loan facility in an amount equal to the U.S. dollar equivalent of $150 million (the "**DIP Term Loan Facility**", and together with the DIP ABL Facility, the "**DIP Facility**"), and corresponding charges in respect thereof (namely a "**ABL DIP Lenders' Charge**" and a "**Term DIP Lenders' Charge**" and collectively, the "**DIP Lenders' Charges**").

(k) FTI's comments regarding Sears Canada's key employee retention plan (the "**KERP**"), and the Sears Canada Group's request for a charge in favour of the beneficiaries of the KERP (the "**KERP Charge**");

(l) FTI's comments regarding the Sears Canada Group's proposed administration charge (the "**Administration Charge**"), proposed directors' and officers' charge (the "**Directors' Charge**") and proposed financial advisor charge (the "**FA Charge**", and together with the Administration Charge, the Directors' Charge, the KERP Charge, the FA Charge, and the DIP Lenders' Charges, the "**Proposed CCAA Charges**");

(m) FTI's comments regarding the Sears Canada Group's request for approval of the engagement letter of BMO Nesbitt Burns Inc. ("**BMO Capital Markets**") as investment banker and financial advisor to the Sears Canada Group;

(n) a discussion of the Sears Canada Group's intended next steps in the CCAA Proceedings; and

(o) FTI's conclusions and recommendation with respect to the proposed CCAA Proceedings and certain of the relief sought in the Proposed Initial Order.

B. TERMS OF REFERENCE

3. In preparing this Pre-Filing Report, the Proposed Monitor has relied upon audited and unaudited financial information of the Sears Canada Group, the Sears Canada Group's books and records, certain financial information and forecasts prepared by the Sears Canada Group, and discussions with various parties, including senior management ("**Management**") of, and advisors to, Sears Canada (collectively, the "**Information**").

4. Except as otherwise described in this Pre-Filing Report:

(a) the Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook; and

(b) the Proposed Monitor has not examined or reviewed the financial forecasts or projections referred to in this Pre-Filing Report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.

5. Future-oriented financial information reported in or relied on in preparing this Pre-Filing Report is based on Management's assumptions regarding future events. Actual results will vary from these forecasts and such variations may be material.

6. The Proposed Monitor has prepared this Pre-Filing Report in connection with the Initial Application. The Pre-Filing Report should not be relied on for any other purpose.

7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

8. Capitalized terms not otherwise defined herein have the meanings ascribed to them in the affidavit of Mr. Billy Wong, the Chief Financial Officer of Sears Canada filed in support of the Initial Application (the "**Wong Affidavit**").

C. FTI'S QUALIFICATIONS TO ACT AS MONITOR

9. On November 22, 2016, Sears Canada engaged FTI to assist it in understanding its options and to prepare, on a contingency basis, for the possibility of insolvency proceedings in which FTI would act as Monitor (subject to Court approval). Greg Watson and Paul Bishop, each a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended, lead the FTI team with carriage of this matter.

10. Since becoming engaged by Sears Canada, FTI has acquired knowledge of the business and operations of the Sears Canada Group, including its personnel, stakeholders and the key issues in the proposed CCAA Proceedings. As a result, FTI is in a position to immediately act as Monitor in the CCAA Proceedings if appointed by this Court.

11. Neither FTI nor any of its representatives or affiliates has been, at any time in the past two years:

(a) a director, officer or employee of any member of the Sears Canada Group;

(b) related to any member of the Sears Canada Group, or to any director or officer of any member of the Sears Canada Group; or

(c) the auditor, accountant or legal counsel, or a partner or an employee of the auditor, accountant or legal counsel, of any member of the Sears Canada Group.

12. At no time has FTI had any involvement with any member of the Sears Canada Group other than in its current role as Proposed Monitor.

13. FTI has consented to act as Monitor should this Court grant the Sears Canada Group's request for the Proposed Initial Order. A copy of FTI's consent to act as Monitor is attached as Exhibit "L" to the Wong Affidavit.

D. FTI'S INVOLVEMENT TO DATE AND THE NRFC SECURITY OPINION

Proposed Monitor's Activities

14. The Proposed Monitor has been extensively involved in a number of activities leading up to the filing date, including:

(a) participating in discussions with Management, counsel to the Sears Canada Group and the Directors and Officers (as defined below), and BMO Capital Markets. These discussions have been carried out in connection with the business and affairs of the Sears Canada Group generally, as well as the Initial Application;

(b) reviewing and commenting on the Sears Canada Group's Cash Flow Forecast;

(c) reviewing and considering various documentation and information in connection with the Sears Canada Group's business, operations and the CCAA Proceedings, including but not limited to:

   (i) the Sears Canada Group's cash management system;

   (ii) the DIP Facility;

   (iii) the Communication Plan;

   (iv) the proposed store closures and related employee terminations;

   (v) the proposed inventory liquidation process;

   (vi) the KERP; and

   (vii) the quantum, nature and ranking of the Proposed CCAA Charges;

(d) engaging with NRFC as its legal counsel to consider issues with respect to the foregoing, and instructing NRFC to perform security reviews in order to deliver the NRFC Security Opinion; and

(e) preparing this Pre-Filing Report.

NRFC Security Opinion

15. As counsel to the Proposed Monitor, NRFC reviewed the security granted by Sears Canada and its subsidiary Corbeil Électrique Inc. ("**Corbeil**") to Wells Fargo and GACP pursuant to two credit agreements:

(a) the credit agreement dated September 10, 2010 among Sears Canada, as borrower, Wells Fargo as administrative agent and co-collateral agent, GE Canada Finance Holding Company as co-collateral agent and documentation agent, CIBC Asset-Based Lending Inc. ("**CIBC**") and Bank of Montreal ("**BMO**") as co-syndication agents, Wells Fargo, GE Capital Markets (Canada) Limited, GE Capital Markets, Inc., CIBC and BMO as joint lead-arrangers and bookrunners and the banks and financial institutions from time to time party thereto as lenders, as may be amended, supplemented, or restated from time to time (the "**Wells Pre-Filing Credit Agreement**"); and

(b) the credit agreement dated March 20, 2017 among Sears Canada, as borrower, GACP as administrative agent and syndication agent, KKR Capital Markets LLC and GACP as joint lead arrangers and TPG Speciality Lending, Inc. as documentation agent and the lenders from time to time party thereto, as lenders, as may be amended, supplemented, or restated from time to time (the "**GACP Pre-Filing Credit Agreement**").

16. NRFC has advised the Proposed Monitor of its view that, subject to the assumptions and qualifications typically contained in security opinions of this nature, the security granted by Sears Canada and Corbeil in respect of the Wells Pre-Filing Credit Agreement and the GACP Pre-Filing Credit Agreement (the "**Pre-Filing Security**") constitute good and valid security enforceable in accordance with their respective terms in the jurisdictions in which NRFC is qualified to practice law, namely British Columbia, Alberta, Ontario and Quebec (the "**Provinces**"). The NRFC Security Opinion also confirms that the Pre-Filing Security is registered in the personal and movable property security registries of the Provinces, and on title to Sears Canada's owned properties in Belleville, Peterborough and Trois-Rivières.

17. NRFC has further advised the Proposed Monitor that the Pre-Filing Security appears to be registered in the personal property security registries of all other provinces and against title to Sears Canada's owned properties in Prince Edward Island and Manitoba. If this Court grants the Proposed Initial Order, the Proposed Monitor intends to instruct NRFC to obtain opinions from agents in these other jurisdictions.

E. OVERVIEW OF THE SEARS CANADA GROUP'S BUSINESS AND AFFAIRS

18. The Wong Affidavit sets out detailed information with respect to the Sears Canada Group's business and operations, as well as the causes of its ongoing financial distress. The information contained in this Pre-Filing Report is intended to provide context for, and to facilitate an understanding of, the issues addressed in this Pre-Filing Report and is not intended to be an exhaustive summary of all matters relating to the business of the

Sears Canada Group. The Proposed Monitor recommends that readers carefully review all of the materials filed by the Sears Canada Group in connection with the Initial Application, including the Wong Affidavit.

Sears Canada

19. Sears Canada operates from a head office located in Toronto, Ontario. Sears Canada has been a part of the Canadian retail landscape since the early 1950s and remains, including through its subsidiary Corbeil, one of Canada's largest retailers with a presence in all 10 provinces.

20. As of April 29, 2017, Sears Canada's sales, distribution and logistics network included:

    (a) 161 owned and leased stores, distribution centres and warehouses, with the largest concentration of stores in Ontario, of which 16 are operated by Corbeil;

    (b) a network of 62 "Sears Hometown" store dealers;

    (c) 16 Corbeil franchisees; and

    (d) 514 independently-operated direct-purchase pick-up counters and 191 counters imbedded in other Sears Canada locations.

21. The Sears Canada Group employs approximately 17,000 individuals across Canada, and 27 in the United States.

22. Sears Canada is a publicly traded company whose shares are, as of this date, listed on the Toronto Stock Exchange ("**TSX**") and NASDAQ.

23. Sears Canada's major shareholders are Fairholme Capital Management, LLC, ESL Investments, Inc. and Edward S. Lambert. ESL Investments, Inc. and Edward S. Lambert own their shares both directly and through Sears Holdings Corporation ("**Sears US**"), a US public company that operates Sears stores in the United States.

24. The business and operations of Sears Canada and Sears US are independent except for a number of commercial agreements described in the Wong Affidavit. According to the

information provided to the Proposed Monitor by Sears Canada, Sears Canada made payments totalling approximately $2.8 million to Sears US in relation to these commercial agreements during the fiscal year ended January 28, 2017 ("**Fiscal 2016**").

Business of the Sears Canada Group

25. The principal activities of the Sears Canada Group involve the sale of goods and services through its department stores, its "Sears Home" stores, its "Sears Hometown" dealer network, its outlet stores, its Corbeil appliance stores, and via its online e-commerce platform.

26. As described in further detail in the Wong Affidavit, the Sears Canada Group also carries on other business operations that are ancillary to its retail operations. These ancillary operations include transportation and logistics services, call centres, sales of mobile phones and telephone plans, and warranty and maintenance programs.

Sears Canada's Debt Structure

27. Sears Canada's debt structure consists principally of the Wells Pre-Filing Credit Agreement and the GACP Pre-Filing Credit Agreement.

28. The Wells Pre-Filing Credit Agreement provides for a senior secured revolving credit facility up to a maximum of $300 million with a maturity date of May 28, 2019 (the "**Wells Revolving Credit Facility**"). Revolving advances and letters of credit are available under the Wells Revolving Credit Facility.

29. Availability under the Wells Revolving Credit Facility is determined by a borrowing base calculation on certain assets of Sears Canada and Corbeil less the amount of reserves, including a $196 million reserve as of May 2017 in respect of a potential deficit in the defined benefit component (the "**DB Component**") of Sears Canada's pension plan (the "**Pension Plan**") in the event of the wind-up of the DB Component of the Pension Plan.

30. Sears Canada has informed the Proposed Monitor that it does not have any remaining availability under the Wells Revolving Credit Facility. The principal outstanding under the Wells Pre-Filing Credit Agreement was approximately $42 million as of June 19,

2017, additionally approximately $128 million in letters of credit were outstanding as of the same date (the "**Existing LCs**").

31. The GACP Pre-Filing Credit Agreement provides for a term loan credit facility with an initial term loan of the US dollar equivalent of $125 million and a delayed draw term loan which cannot exceed the lesser of (i) the US dollar equivalent of $175 million and (ii) a borrowing base of 50% of owned real property and 30% of leasehold real property, less the amount of reserves. The maturity date of the GACP Pre-Filing Credit Agreement is stated to be for a term of five years, subject to earlier termination in certain circumstances where the Wells Revolving Credit Facility is terminated or if certain circumstances arise that could trigger the termination of the Wells Revolving Credit Facility.

32. While the GACP Pre-Filing Credit Agreement provides for two tranches of term loans in the maximum aggregate amount of US $93.9 million plus the US dollar equivalent of $175 million (collectively, the "**GACP Pre-Filing Credit Facility**"), Sears Canada has so far only accessed the first tranche of US $93.9 million.

33. The Proposed Monitor understands that Sears Canada did not draw on the second tranche as the amount that Sears Canada could expect to borrow under the second tranche was reduced to an amount of up to $109.1 million minus fees. Sears Canada concluded that it was not prudent to encumber its remaining real estate assets for borrowings that were significantly less than the US dollar equivalent of $175 million originally anticipated.

34. The rights and priorities of Wells Fargo and GACP on behalf of the lenders they represent are governed by an intercreditor agreement dated March 20, 2017 (the "**Intercreditor Agreement**") between Wells Fargo and GACP and acknowledged by Sears Canada and Corbeil. A copy of the Intercreditor Agreement is attached as Exhibit "J" to the Wong Affidavit.

35. The Intercreditor Agreement provides that:

(a) the security of the lenders under the Wells Revolving Credit Facility on, among other things, credit card receivables, deposit accounts (other than specified accounts), securities accounts (other than specified securities accounts), inventory and certain specified real property, ranks in priority to any security of the lenders under the GACP Pre-Filing Credit Facility; and

(b) the security of the lenders under the GACP Pre-Filing Credit Facility on, among other things, equipment, furniture, fixtures and certain owned and leased real property (to the extent security over such real property is granted) ranks in priority to any security of the lenders under the Wells Revolving Credit Facility,

in each case for all obligations up to prescribed maximum amounts.[1]

The Sears Canada Group's Financial Difficulties

36. As indicated in the Wong Affidavit, the Sears Canada Group has incurred consistent losses and experienced negative operating cash flow for the past several years.

37. The Sears Canada Group's 2016 revenues were nearly $500 million less than its 2015 revenues due in part to the implementation of operational restructuring measures that resulted in decreased catalogue distribution, termination of existing revenue-generating licenses and store closures. The Sears Canada Group's audited financial statements for Fiscal 2016 show an operating loss of $422.4 million and a net loss of $321 million after interest, taxes, and other expenses.

38. The following chart shows Sears Canada Group's declining revenues and increasing losses from 2012 to the present:

(in Millions)	**Fiscal 2012**	**Fiscal 2013**	**Fiscal 2014**	**Fiscal 2015**	**Fiscal 2016**
Total Revenue	$4,346.5	$3,991.8	$3,424.5	$3,145.7	$2,613.6
Adjusted EBITDA	$73.5	$35.7	$(122.4)	$(160.5)	$(282.9)
Net Earnings (Loss)	$101.2	$446.5	$(338.8)	$(67.9)	$(321)

[1] The foregoing is only a description of selected terms of the Intercreditor Agreement. Neither FTI nor NRFC have provided any opinion on the priority of any party's security interest overs assets of any of the Applicants.

39. The Sears Canada Group's financial statements for the first fiscal quarter of 2017 (the "**Quarterly Statements**") indicate that the Sears Canada Group experienced a net loss of $144.4 million, compared to a net loss of $63.6 million for the same quarter last year.

40. The Quarterly Statements also indicated a decrease of 15.2% in revenues compared to the same quarter last year.

41. As at the date of the Quarterly Statements, the Sears Canada Group reported assets with a book value totalling approximately $1.187 billion and liabilities of approximately $1.108 billion.

42. As at the date of the Quarterly Statements, the Sears Canada Group's main assets were its inventory (with a book value of approximately $658 million), its owned real properties and lease portfolio (with a book value of approximately $233 million) and its accounts receivable (with a book value of approximately $61 million).

43. As of June 19, 2017, the Sears Canada Group had approximately $139 million of cash on hand.

44. As at the date of the Quarterly Statements, the Sears Canada Group's main liabilities for accounting purposes were its indebtedness pursuant to the Wells Revolving Credit Facility (approximately $42 million outstanding as at June 19, 2017 plus approximately $128 million of Existing LCs as at June 19, 2017), the GACP Pre-Filing Facility (approximately US $93.9 million) and potential pension liability on wind-up of the DB Component of the Pension Plan, which could total nearly $267 million.

45. As at June 19, 2017, Sears Canada Group also had outstanding accounts payable totaling approximately $176 million.

46. The Quarterly Statements included a statement that cash on hand and forecast cash flows from operations were not expected to be sufficient to meet the Sears Canada Group's obligations coming due over the next 12 months.

47. Following the release of the Quarterly Statements, the Proposed Monitor understands that an increased number of suppliers have required accelerated payment terms or, in certain

cases, payment in full of outstanding invoices, prior to supplying additional merchandise or services to the Sears Canada Group.

Restructuring Efforts to Date

48. The Sears Canada Group has undertaken significant restructuring efforts over the past three years, which are set out in detail in the Wong Affidavit. The Proposed Monitor understands that the Sears Canada Group has:

(a) implemented "Sears 2.0", a program aimed at updating the products offered at Sears Canada stores, store layouts, and the Sears Canada brand generally;

(b) created "Initium", an e-commerce lab and innovation hub designed to generate novel digital business solutions, and which has led to the introduction of a new website and technology infrastructure platform;

(c) the on-going repatriation of its call centre services from an overseas outsource provider to domestic in-house call centre services;

(d) divested owned real estate assets, and engaged in sale and lease back transactions;

(e) closed underperforming stores;

(f) introduced a new off-price business, "The Cut @ Sears";

(g) rebranded the private Sears label; and

(h) implemented other cost-reduction measures including headcount reductions and exiting unprofitable lines of business.

49. Despite these restructuring efforts, the Sears Canada Group has been unable to achieve profitability and now faces a liquidity crisis.

Events Leading up to the Proposed CCAA Proceedings

50. The specific events leading up to the proposed CCAA Proceedings are explained in the Wong Affidavit.

51. In short, Sears Canada has experienced significant and continuing losses, resulting in negative net cash outflows which have ranged from $30 million to $100 million per month over the past five months. In May 2017, the Sears Canada Group's cash on hand depleted at a rate of approximately $20 million per week.

52. While Sears Canada's cash balances at June 19, 2017 aggregate approximately $139 million, Sears Canada does not have access to sufficient additional liquidity under its existing credit facilities and, given the Sears Canada Group's continuing operating losses, will be unable to satisfy its liabilities in the near future.

53. Sears Canada is also facing challenges in respect of its Pension Plan. According to the latest valuation reports, the Pension Plan has a potential wind-up deficit of approximately $267 million. In addition, special payments under the DB Component of the Pension Plan are forecast to be substantial in 2017 and 2018. The Wong Affidavit discusses these special payments in greater detail.

F. THE SEARS CANADA GROUP'S CASH MANAGEMENT SYSTEM

54. The Proposed Monitor has reviewed the description of the cash management system for the members of the Sears Canada Group set out in the Wong Affidavit and believes those descriptions to be accurate.

55. The chart below provides a summary of the Sears Canada Group's banking service providers:

	Financial Institution						
Legal Entity	**RBC**	**BMO**	**CIBC**	**TD**	**HSBC**	**Scotia**	**National Bank**
Sears Canada Inc.	R & D	R & D	R & D	R & D	D	R & D	R & D
S.L.H. Transport Inc.	R & D	-	-	-	-	-	-
168886 Canada Inc.	D	-	-	-	-	-	-
Corbeil Electrique Inc.	R & D	-	-	-	-	-	-
Sears Canada Charitable Foundation	D	-	-	-	-	-	-
2497089 Ontario Inc.	R & D	-	-	-	-	-	-
Initium Logistic Services Inc.	R	-	-	-	-	-	-
Sears Contact Services Inc.	D	-	-	-	-	-	-
Sears Floor Covering Centres Inc.	R & D	-	-	-	-	-	-
The Cut Inc.	D	-	-	-	-	-	-

R = Receipts; D = Disbursements

56. This cash management system is critical to the ongoing management of the Sears Canada Group's business and affairs. Replacement of the cash management system would be

costly and time consuming. Accordingly, the Proposed Monitor supports the Sears Canada Group's request to continue to operate its existing cash management system throughout the CCAA Proceedings.

G. CERTAIN INTERCOMPANY FUNDING TRANSACTIONS

57. The Proposed Monitor has observed that, from time to time, funds are transferred either upstream or downstream amongst some members of the Sears Canada Group, particularly S.L.H. Transport Inc. ("**SLH**") and Corbeil.

58. The Proposed Monitor understands that, in the ordinary course, funds are transferred from Sears Canada to SLH to fund payroll and other overhead expenses**.** Corbeil funds its own operations primarily from its cash receipts; however, Sears Canada also provides funding to Corbeil on an as needed basis throughout the year. Any excess cash generated by Corbeil is periodically transferred from Corbeil to Sears Canada. The amounts transferred between Sears Canada, SLH and Corbeil are not immaterial.

59. Sears Canada has advised that the cash transfers to SLH are necessary to ensure the continued operation of SLH, which provides necessary services for the Sears Canada Group. For Corbeil, Management has advised that it may periodically sweep cash from Corbeil on an as needed basis to manage the liquidity of the Sears Canada Group as a whole.

60. The Proposed Monitor understands that the Sears Canada Group records these transactions as intercompany receivables/payables, and that the Sears Canada Group's books and records contain sufficient detail to accurately track such transactions. The Proposed Monitor further understands that such transactions are currently permitted under the Pre-Filing Credit Agreements and under the DIP Credit Agreements (as defined below).

61. If appointed Monitor, the Proposed Monitor intends to review and track intercompany transfers and will report to the Court on such transfers as appropriate.

H. COMMUNICATION PLAN

62. With the assistance of Longview Communications Inc., counsel to the Sears Canada Group and the Proposed Monitor, the Sears Canada Group has prepared a detailed Communication Plan to inform stakeholder groups of the CCAA Proceedings.

63. Individual, targeted communications are proposed to be sent to employees, pensioners, suppliers, landlords and other groups, which communications include frequently asked questions (the "**FAQs**") explaining the general nature of the Initial Application and the CCAA Proceedings, the role of the Court and the Monitor, as well as the immediate implications of the Proposed Initial Order for each particular stakeholder group.

64. The Communication Plan is comprehensive and is consistent with the scope of other communication plans employed at the outset of similar scale CCAA proceedings.

65. The Communication Plan and Proposed Initial Order contemplate that the Monitor is to post materials in connection with the proposed CCAA Proceedings on the Monitor's website at http://cfcanada.fticonsulting.com/searscanada (the "**Monitor's Website**"). If appointed, the Monitor will also post English and French versions of the FAQs on the Monitor's Website.

66. The Monitor, if appointed, will also make available a dedicated email address (searscanada@fticonsulting.com) and phone numbers (1.416.649.8113 or toll free 1.855.649.8113) to stakeholders who may have additional questions in respect of the CCAA Proceedings.

I. PAYMENT OF PRE-FILING AMOUNTS

67. The Proposed Initial Order provides the Sears Canada Group with the authority to pay certain expenses whether incurred prior to or following the commencement of the CCAA Proceedings. Specifically, the Sears Canada Group would retain the authority to pay, among other things:

    (a) outstanding wages, salaries and certain other employee-related payments;

(b) fees and disbursements of Assistants (as such term is defined in the Proposed Initial Order) retained in respect of the CCAA Proceedings;

(c) outstanding and future amounts required to honour the Sears Canada Group's customer obligations, including the Loyalty Program (as defined in the Wong Affidavit); and

(d) outstanding and future amounts necessary to honour warranty service contracts and gift cards.

68. In addition, with the Proposed Monitor's consent, the Sears Canada Group would retain the authority to pay amounts owing to certain critical service providers if needed to ensure the uninterrupted operation of the Sears Canada Group's business. These suppliers may include logistics or supply chain providers (including transportation providers, freight forwarders, armored truck carriers, fuel providers, and maintenance and parts providers), providers of credit, debit, gift card or payment processing services, providers of information technology, internet technology, and other technology services and other third party suppliers.

69. The Proposed Monitor has reviewed the Sears Canada Group's accounts payable and believes that authorizing the payment of certain limited pre-filing amounts as contemplated in the Proposed Initial Order (with the oversight of the Monitor) is reasonable and necessary in the circumstances. The flexibility provided by these provisions is intended to enable the Sears Canada Group to help mitigate disruption to ordinary business operations during the CCAA Proceedings.

70. The involvement of the Monitor will also help ensure that all stakeholder interests are adequately represented when the payment of pre-filing amounts is being considered.

J. EXTENSION OF STAY OF PROCEEDINGS TO SEARS CONNECT AND OTHERS

71. Pursuant to the Proposed Initial Order, the Sears Canada Group is seeking a stay of all proceedings against Sears Canada and the other members of the Sears Canada Group until July 22, 2017 (the "**Stay of Proceedings**").

72. The Sears Canada Group is also seeking to extend the Stay of Proceedings and other provisions of the Proposed Initial Order to Sears Connect, which operates a wireless, phone and long distance business. For the reasons stated in the Wong Affidavit, the Proposed Monitor believes that it is appropriate to extend the Stay of Proceedings and other provisions of the Proposed Initial Order to Sears Connect.

73. In addition, the Sears Canada Group is seeking to extend the Stay of Proceedings to:

(a) prevent parties to agreements with "Sears Hometown" store dealers or Corbeil franchisees, which operate an integral part of the Sears Canada Group's network by selling the Sears Canada Group's products, from exercising any rights against these dealers and franchisees that arise as a result of the commencement of the CCAA Proceedings or the insolvency of the Sears Canada Group; and

(b) protect landlords against legal action by other tenants at premises where Sears Canada's stores are located, many of whom have lease agreements that provide remedies in the event that a Sears Canada store ceases operations. It has been accepted in recent retail restructuring proceedings that staying proceedings of this nature facilitates the *status quo* and relieves landlords of some of the immediate burden they may bear as a result of having their rights against the Sears Canada Group stayed.

74. The Proposed Monitor believes that the proposed extension of the Stay of Proceedings is essential for the preservation of the Sears Canada Group's enterprise value and to allow for the orderly conduct of the CCAA Proceedings.

K. CASH FLOW FORECAST

75. The Cash Flow Forecast, together with Management's report on the cash-flow statement as required by section 10(2)(b) of the CCAA, is attached as Appendix "A" to this Pre-Filing Report. The Cash Flow Forecast covers the 13-week period ending September 16, 2017.

76. The Cash Flow Forecast shows an operational cash outflow of $25.7 million, a net cash outflow of $311.8 million, a paydown of pre-filing indebtedness in the amount of $248.0 million, and professional fees of $25.4 million for that period. The Cash Flow Forecast is summarized below:

CAD $ in millions	
Operating Receipts	$ 528.0
Operating Disbursements	(553.7)
Operating Cash Inflows / (Outflows)	**(25.7)**
Professional Fees	(25.4)
Repayment of Existing Credit Facilities	(248.0)
DIP Fees and Interest	(12.7)
Net Cash Inflows / (Outflows)	**(311.8)**
Cash	
Beginning Balance	125.0
Net Cash Inflows / (Outflows)	(311.8)
DIP Draws / (Repayments)	216.9
Ending Balance	**$ 30.1**

77. As shown in the Cash Flow Forecast, the Sears Canada Group will require additional funding for operations totalling approximately $216.9 million during the period ending September 16, 2017. It is intended that additional operating financing will be available under the DIP Facility, described in greater detail below.

78. Pursuant to section 23(1)(b) of the CCAA[2] and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practice 09-1, the Proposed Monitor hereby reports to the Court as follows:

(a) the Proposed Monitor has reviewed the Cash Flow Forecast, which was prepared by Management for the purpose described in notes to the Cash Flow Forecast

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

(the "**Forecast Notes**"), using the Probable Assumptions and Hypothetical Assumptions set out therein;

(b) the review consisted of inquiries, analytical procedures and discussion related to information provided by certain members of Management and employees of the Sears Canada Group. Since Hypothetical Assumptions need not be supported, the Proposed Monitor's procedures with respect to the Hypothetical Assumptions were limited to evaluating whether the Hypothetical Assumptions were consistent with the purpose of the Cash Flow Forecast. The Proposed Monitor has also reviewed the support provided by Management for the Probable Assumptions and the preparation and presentation of the Cash Flow Forecast;

(c) based on that review, and as at the date of this Pre-Filing Report, nothing has come to the attention of the Proposed Monitor that causes it to believe that:

  (i) the Hypothetical Assumptions are inconsistent with the purpose of the Cash Flow Forecast;

  (ii) the Probable Assumptions are not suitably supported or consistent with the plans of the Sears Canada Group or do not provide a reasonable basis for the Cash Flow Forecast, given the Hypothetical Assumptions; or

  (iii) the Cash Flow Forecast does not reflect the Probable and Hypothetical Assumptions;

(d) since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the forecast even if the Hypothetical Assumptions occur. Those variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. The Proposed Monitor also expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Pre-Filing Report, or relied upon by the Proposed Monitor in preparing this Pre-Filing Report; and

(e) the Cash Flow Forecast has been prepared solely for the purpose described in the Forecast Notes. The Cash Flow Forecast should not be relied upon for any other purpose.

L. DIP FINANCING

The DIP Facility

79. Pursuant to the Proposed Initial Order the Sears Canada Group is seeking authorization from this Court to enter into:

(a) a senior secured superpriority debtor-in-possession amended and restated credit agreement (the "**DIP ABL Credit Agreement**") amongst, *inter alia*, Wells Fargo, as agent (the "**DIP ABL Agent**") on behalf of the lenders named therein (the "**DIP ABL Lenders**"), Sears Canada, as borrower, and all other members of the Sears Canada Group as guarantors (the "**Guarantors**" and collectively with Sears Canada, the "**DIP Loan Parties**"), and

(b) a senior secured superpriority credit agreement (the "**DIP Term Loan Agreement**" and together with the DIP ABL Credit Agreement, the "**DIP Credit Agreements**") amongst, *inter alia*, GACP, as agent (the "**DIP Term Loan Agent**" and together with the DIP ABL Agent, the "**DIP Agents**") on behalf of the term lenders named therein (the "**DIP Term Loan Lenders**" and together with the DIP ABL Lenders, the "**DIP Lenders**"), and the DIP Loan Parties. Copies of the DIP Credit Agreements are attached as Exhibit "K" to the Wong Affidavit.

80. The terms of the DIP Facility are summarized in the table below. Unless otherwise defined herein, terms capitalized in the table have the meaning ascribed in the DIP Credit Agreements.

Maximum Amount:	Maximum aggregate $450 million senior secured priming and super-priority debtor in possession facilities, subject to separate borrowing bases. DIP Term Loan Facility in the maximum amount of the US dollar equivalent of $150 million, and DIP ABL Facility in the maximum amount of $300 million, including a letter of credit sub-facility (which includes the Existing LCs (as defined below)) in the maximum amount of $150 million (in each case subject to the applicable borrowing base), subject to Availability Reserves.[3]
Existing LCs:	To the extent a draw is made on Existing LCs, the reimbursement obligation (the "**Reimbursement Obligation**") of Sears Canada that arises as a result of the draw will be deemed to be an advance under the DIP Facility thereby reducing the Availability thereunder. Sears Canada will be required to cash collateralize the Existing LCs that are not drawn and all such Existing LCs must be fully cash collateralized on or before July 28, 2017, either (i) through cash on hand or post-filing receipts or, (ii) after the Final Availability Date, through draws under the DIP ABL Facility.
Availability:	The DIP Term Loan Facility and the initial advance under the DIP ABL Facility shall be available when all the conditions precedent are met under the respective DIP Credit Agreement including, the comeback motion having been heard and the Initial Order being a final order in full force and effect (the "**Final Availability Date**").
Repayment of Pre-Filing Obligations:	Receipts from operations and other sales of property by Sears Canada post-filing will be utilized to repay the outstanding pre-filing obligations under the DIP ABL Credit Agreement and the GACP Pre-Filing Credit Agreement, in a manner consistent with the existing Intercreditor Agreement.
Maturity Date:	December 20, 2017, subject to earlier termination as a result of specified terminating events or Events of Default.
Definitive Documentation:	Substantially similar to the terms of the Wells Pre-Filing Credit Agreement and the GACP Pre-Filing Credit Agreement, with modifications to reflect the proposed CCAA Proceedings.

[3] The aggregate availability under the DIP Credit Agreements is subject to reductions for amounts that remain outstanding from the pre-filing period under the Wells Pre-Filing Credit Agreement and the GACP Pre-Filing Credit Agreement.

Security:	Super-priority first ranking perfected lien over all present and future real and personal property of the DIP Loan Parties, subject only to ordinary course of business permitted liens, the Administration Charge, the FA Charge, the Directors' Charge to a maximum amount of $44 million and the KERP Charge to a maximum amount of $4.6 million; provided, however, that as between the DIP ABL Lenders and the DIP Term Loan Lenders, the relative priorities shall be consistent with the existing Intercreditor Agreement.	
Interest Rates:	DIP Term Loan Facility:	LIBOR + 11.0% (1.00% LIBOR floor) or USPR + 10.0% (4% USPR floor), which represents increases of 150 and 225 basis points, respectively, compared to the terms of the GACP Pre-Filing Credit Agreement.
	DIP ABL Facility:	BA/LIBOR + 4.50% or PR/BR + 3.50%, which represents increases of 225 and 175 basis points, respectively, compared to the terms of the Wells Pre-Filing Credit Agreement.
	DIP ABL L/C Fees:	(a) 4.50% per annum, in the case of a Standby L/C, and (b) 4.00% per annum, in the case of a Commercial L/C, which represents an increase of 225 basis points compared to the terms of the Wells Pre-Filing Credit Agreement.
Fees:	Structuring Fee:	DIP ABL Facility: 1.25%.
	Unused Line Fee:	DIP ABL Facility: 0.375%.
	Commitment Fee:	DIP Term Loan Facility: 3.5%.
	Exit Fee:	DIP Term Loan Facility: 1.5%.
Milestones:	The DIP Credit Agreements contain certain milestones for the Sears Canada Group's restructuring process. The milestones contemplate the completion of a successful restructuring by October 25, 2017.	
Reporting and Variance Trigger	No variance testing requirements prior to September 1, 2017, unless Excess Availability falls below a specified threshold. After such period, variances will be tested for operating net cash flow and eligible inventory. The Permitted Variances are as follows: (i) operating net cash: $25 million negative variance on a cumulative basis; and (ii) eligible inventory: eligible inventory cannot be less than 90% of the amount of eligible inventory reflected in the budget for each weekly testing period.	
Condition Precedent to Effectiveness of DIP Credit Agreements	Typical conditions precedent to the effectiveness of the DIP Credit Agreements.	

A more detailed description of the DIP Credit Agreements is provided in the Wong Affidavit.

81. The Proposed Monitor and NRFC have reviewed the terms of the DIP Credit Agreements and participated in a number of discussions with the DIP Agents and their respective counsel. The DIP Credit Agreements are the result of substantial negotiations between the DIP Agents and the Loan Parties, their respective counsel and BMO Capital Markets.

82. The Proposed Monitor makes the following observations in respect of certain of the terms of the DIP Credit Agreement:

(a) **Existing LCs:** As at June 19, 2017, Existing LCs totalling approximately $128 million were outstanding, undrawn, under the Wells Revolving Credit Facility. The beneficiaries of the Existing LCs include merchandise suppliers, landlords and other vendors of the Sears Canada Group. The draw conditions under the Existing LCs vary.

The DIP ABL Credit Agreement provides that, (i) to the extent there is a draw on an Existing LC, Sears Canada's reimbursement obligations ("**Reimbursement Obligations**") arising as a result of such draw will, following the Comeback Hearing, constitute DIP obligations secured by the ABL DIP Lenders' Charge, and (ii) to the extent undrawn, the Existing LCs will be cash collateralized.

The Sears Canada Group has not identified any secured creditors that would be prejudiced by such steps as a result of any material degradation in their collateral position. Any creditor that may assert such prejudice will be permitted to raise any such issues at the Comeback Hearing. In the interim, no irreversible steps will be taken in respect of any such collateral. Based upon the Proposed Monitor's review of applicable security registry searches, it does not appear that any material secured creditors will be 'primed' by the DIP Lenders' Charges at this stage.

(b) **Repayment of Pre-Filing Obligations**: the DIP Credit Agreements provide that no advances are to be made in order to repay pre-filing obligations under the Pre-Filing Credit Agreements. Rather, the pre-filing obligations are to be repaid over the course of the proposed CCAA Proceedings using the Sears Canada Group's cash on hand and receipts from operations or divestitures.

(c) **Timing of Initial Advance:** the DIP Credit Agreements are structured such that no cash advances will be available to the Sears Canada Group until after the Comeback Hearing.

(d) **Fees and Interest Rates:** based on its experience and on information available to it, the Proposed Monitor is of the view that the interest rates and the fees provided in the DIP Credit Agreements are not outside the ranges for similarly situated DIP facilities; and

(e) **DIP Lenders:** the proposed DIP Facility is provided by the two existing secured lender groups, and, as a result, neither lender group is 'primed' by the DIP Facility.

DIP Lenders' Charge

83. The Proposed Initial Order seeks the granting of the DIP Lenders' Charges with respect to the obligations under the DIP Credit Agreements and the other definitive documents in respect of the DIP Facility once they are entered into.

84. The Proposed Initial Order contemplates that the DIP Lenders' Charges (as well as the other Proposed CCAA Charges) are to have priority over all security interests, charges and claims, including deemed trusts, in the assets of the Sears Canada Group but not over holders of purchase money security interests ("**PMSIs**") and statutory super-priority deemed trusts and liens for unpaid employee source deductions.

85. The Proposed Monitor understands that counsel to the Sears Canada Group will be providing notice of the Proposed Initial Order and Comeback Hearing, upon issuance of the Proposed Initial Order (if issued). Notice would be provided to those parties who have registrations against the assets of the Sears Canada Group (other than PMSIs) and pension beneficiaries, either directly and through counsel if represented by counsel, with

a view to give those parties as much notice as reasonably possible of the Proposed Initial Order and the Comeback Hearing.

86. The Proposed Monitor and its counsel have engaged in discussions with Sears Canada and its counsel, as well as BMO Capital Markets and counsel for the DIP Agents, regarding the Sears Canada Group's funding requirements and the proposed DIP Facility.

87. The Proposed Monitor supports the Sears Canada Group's request for authority to enter into the DIP Credit Agreements. The DIP Facility is the only realistic source of financing available given Sears Canada's rapidly deteriorating financial situation, the DIP Lenders' positions in the debt structure and the rate of necessary consumption of existing cash on hand.

88. The Proposed Monitor understands that BMO Capital Markets also held discussions with another potential financier regarding the Sears Canada Group's DIP funding requirements. The Proposed Monitor understands that BMO Capital Markets' view was that given the rapidly deteriorating financial position of the Applicants, any non-current lender would likely be unable to conduct due diligence and provide committed DIP financing in the urgent timeframe required.

89. The Proposed Monitor has also considered the facts and circumstances giving rise to the CCAA Proceedings and section 11.2(4) of the CCAA. In particular:

(a) the term of the DIP Facility is sufficient to cover the duration of the Sears Canada Group's intended restructuring process at this time;

(b) aside from specific planned store closures, it is anticipated that the business of the Sears Canada Group will continue to operate as a going concern during the restructuring process and the financing to be provided is consistent with the forecast liquidity needs of the Sears Canada Group during that period;

(c) the DIP Facilities are provided by the two largest secured creditors of Sears Canada and Corbeil, who are supportive of the proposed restructuring process at this time;

(d) the proposed restructuring process cannot move forward without the DIP Facility and, as a result, the DIP Facility enhances the prospects of a viable restructuring of the Sears Canada Group's business in the Proposed Monitor's view;

(e) the DIP Facility is to be advanced based upon a borrowing base that is intended to ensure the amounts drawn are consistent with the nature and value of the Sears Canada Group's property; and

(f) any creditor that believes it may be prejudiced by the DIP Facility will have an opportunity to raise any objections at the Comeback Hearing to be scheduled by the Court.

M. KERP AND KERP CHARGE

90. The Proposed Monitor was also involved in the development of the KERP, which is intended to create incentives for certain key employees to remain with the Sears Canada Group through the CCAA Proceedings to perform effectively, as measured by specific key performance indicators, and to achieve a going concern outcome for the business. In addition, the KERP incentivizes key employees to help facilitate a successful liquidation of the Closing Stores (as defined below) and an orderly exit from the premises. A summary of the terms of the KERP is attached as Confidential Appendix "B" to this Pre-Filing Report.

91. The KERP covers 159 employees (the "**KERP Participants**"), 43 of whom are employed as executives and senior management at Sears Canada's head office, and 116 of whom who are employed in various roles as store general managers, assistant store managers, operations managers, merchandising specialists, and loss prevention personnel at the Closing Stores. The Proposed Monitor understands that each of the KERP Participants performs a role critical to implementing the Sears Canada Group's restructuring goals and is unlikely to be replaced on a timely basis or at a reasonable cost.

92. The estimated maximum cost of the KERP is approximately $9.2 million, of which approximately $7.6 million relates to head office participants and approximately $1.6 million corresponds to Closing Store managers. The Proposed Initial Order therefore

provides for a KERP Charge in the amount of $9.2 million to secure the Sears Canada Group's obligations to the KERP Participants. The priority of the KERP Charge is proposed to be bifurcated with $4.6 million ranking only behind the Administration Charge and the FA Charge, and the balance of $4.6 million ranking behind the DIP Lenders' Charges.

Executives and Senior Management

93. The proposed payment structure of the KERP is intended to incentivize executives and members of senior management to achieve a going concern transaction and to remain in their employment until the earlier of:

(a) the completion of a successful restructuring plan, whether through a recapitalization or a sale of all or part of the Sears Canada Group's business (a "**Successful Restructuring**");

(b) the termination of the CCAA Proceedings; or

(c) the termination of the individual's employment without cause.

94. The aggregate KERP entitlement varies between 25% and 100% of each executive and senior management's 2017 base salary, and is earned and payable in tranches:

(a) **First Tranche**: a payment equal to 25% of the executive or senior manager's aggregate entitlement is earned and payable on the earlier of (i) a Successful Restructuring and (ii) 45 days after the commencement of the CCAA Proceedings, provided in each case that the employee remains employed at that time. To the extent that an employee, other than one of the eight senior executives mentioned below, is terminated without cause before one of the events described in (i) or (ii), that employee's First Tranche payment will be prorated for the number of days he or she was employed between the filing date and day 45 of the CCAA Proceedings.

In the case of nine senior executives of Sears Canada, payment of the First Tranche is earned and fully payable without pro-ration on the filing date and will be paid on the earlier of (i) a Successful Restructuring, (ii) 45 days after the commencement of the CCAA Proceedings, or (iii) the termination of their employment without cause.

(b) **Second Tranche**: a second payment equal to 25% of the executive or senior manager's aggregate entitlement is earned upon the earlier of (i) a Successful Restructuring, and (ii) 90 days after the commencement of the CCAA Proceedings, provided in each case that the employee remains employed at that time. To the extent an employee is terminated without cause before one of the events described in (i) and (ii), the Second Tranche payment will be prorated for the number of days he or she was employed between day 45 and day 90 after the filing date.

(c) **Third Tranche**

(i) **Interim Payment** (not applicable to eight senior executives (collectively, the "**Senior Executives**")): a payment equal to 25% of the executive or senior manager's aggregate entitlement is earned upon the earlier of (i) a Successful Restructuring, and (ii) 180 days after the commencement of the CCAA Proceedings, provided in each case that the employee remains employed at that time. To the extent an employee is terminated without cause before one of the events described in (i) and (ii), the Third Tranche payment will be prorated for the number of days he or she was employed between day 90 and day 180 after the filing date.

(ii) **Final Payment:** (A) the remaining 25% of the executive or senior manager's (excluding the Senior Executives) aggregate entitlement is only earned upon (x) the completion of a Successful Restructuring, and (y) the successful completion of key performance indicators described in the KERP, provided in each case that the employee remains employed at that time; and (B) in respect the remaining 50% for the Senior Executives' entitlement is only earned upon a Successful Restructuring, the achievement of which is to be determined by the Board of Directors, provided that the employee remains employed at that time.

Closing Store Managers

95. In the case of Closing Store managers, the proposed KERP is intended to incentivize the KERP Participants to remain employed by Sears Canada until their stores are closed.

96. KERP Participants at the store level will be entitled to 25% of their 2017 base salary, which will be earned upon the closure of the Closing Store provided a certain realization rate (liquidation proceeds minus expenses) is achieved. Realization rates will vary depending on the Closing Store.

97. The terms of the proposed KERP and the quantum of the KERP Charge are reasonable both in the circumstances and when compared to other key employee retention plans approved by this Court in the past. The Proposed Monitor accordingly supports the granting of the KERP Charge.

N. ADMINISTRATION CHARGE

98. The Proposed Initial Order provides for a $5 million Administration Charge on the Sears Canada Group's assets to secure the fees and disbursements incurred in connection with services provided to the Sears Canada Group both before and after the commencement of the CCAA Proceedings. The Administration Charge will secure services provided to the Sears Canada Group by:

(a) counsel to the Sears Canada Group;

(b) the Monitor and its counsel; and

(c) counsel to the board of directors (the "**Board of Directors**") and the special committee of the Board of Directors (the "**Special Committee**").

99. The Proposed Monitor has worked with these groups to estimate their fees and costs, and the quantum of the proposed Administration Charge.

100. Given the anticipated amount of time it will take to complete the CCAA Proceedings, the Proposed Monitor is of the view that the size and scope of the Administration Charge is reasonable in the circumstances. The Proposed Monitor therefore supports the Sears Canada Group's request that the Court approve the Administration Charge.

O. DIRECTORS' CHARGE

101. Sears Canada maintains a US $50 million directors and officers liability insurance policy (the "**D&O Insurance Policy**"). The D&O Insurance Policy insures the directors and officers of the Sears Canada Group (the "**Directors and Officers**").

102. The Proposed Monitor has worked with Sears Canada to estimate the potential liabilities that the Directors and Officers may be exposed to in their capacities as directors and officers during the CCAA Proceedings.

103. The Proposed Initial Order provides for a $63.5 million charge over the assets of the Sears Canada Group to secure the indemnity provided to the Directors and Officers in respect of liabilities they may be incurred after the filing date with respect to any failure to pay wages and source deductions, vacation pay, severance and termination amounts in certain provinces, other employee-related obligations and Sales Taxes (as defined in the Proposed Initial Order) (the "**Directors' Charge**"). The priority of the Directors' Charge is proposed to be bifurcated with $44 million ranking only behind the Administration Charge, the FA Charge and a portion the KERP Charge, and the balance of $19.5 million ranking behind the DIP Lenders' Charges and the remainder of the KERP Charge.

104. The continued support and service of the Directors and Officers will be critical during the CCAA Proceedings and will enable the Sears Canada Group to preserve value and maximize recoveries for stakeholders.

105. In arriving at the quantum for the Directors' Charge, the Proposed Monitor, Sears Canada and counsel to the Board of Directors and Special Committee, have taken into account (i) the scope and quantum of coverage provided by the D&O Insurance Policy; (ii) the Directors and Officers' potential statutory liabilities for wages, vacation pay, severance and termination, unremitted source deductions, sales and services taxes, and risks on

account of timing variances,[4] in light of the jurisdictions in which the Sears Canada Group carries on business and the number of its employees in each jurisdiction; (iii) the internal controls in place at Sears Canada to ensure the payment or remittance in the normal course of amounts that could constitute Directors and Officers liabilities; and (iv) the terms of the DIP Facility and DIP Budget.

106. The Proposed Monitor has been informed that the Directors and Officers will not continue to serve unless the Directors' Charge is granted. Accordingly, the Proposed Monitor is of the view that the granting of the Directors' Charge is necessary in the circumstances and that the quantum and scope of the charge is both fair and reasonable. The Proposed Monitor is also of the view that the Directors' Charge is consistent with this Court's practice and the potential foreseeable scope of director and officer liabilities for unremitted or unpaid employee and tax amounts in this case.

P. APPROVAL OF THE ENGAGEMENT OF BMO CAPITAL MARKETS AND THE FA CHARGE

107. BMO Capital Markets has been actively involved in assisting the Sears Canada Group with its operational and strategic review, and has played a leading role in the restructuring efforts undertaken to date including securing the DIP Facility.

108. BMO Capital Markets has also played, and will continue to play, a significant role in driving deal negotiations with various stakeholders, and in any restructuring transactions.

109. The Proposed Monitor and its counsel have reviewed the BMO Capital Markets engagement letter (the "**Engagement Letter**"), including specifically the compensation arrangements between BMO Capital Markets and Sears Canada. A copy of the Engagement Letter is attached as Confidential Appendix "C" to this Pre-Filing Report.

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[4] While timing adjustments are not often included in the scope of directors' charges, the Proposed Monitor believes that a certain adjustment is reasonable and should be included in the Directors' Charge given the seasonal nature of the business and the unique cadence during the year of various components that contribute to potential post-filing liabilities that the Directors and Officers may be exposed to during the CCAA Proceedings.

110. The Engagement Letter provides for the payment of the fees described in the table below. Terms capitalized in the table have the meaning ascribed in the Engagement Letter.

Fee Type	**Quantum**	**Credit Against Other Fees**	**Tail**
Contingency Plan Fee	$6.5 million	A 50% credit against the Financing Fee in certain circumstances	12 months post-termination
Financing Fee (Debt)	1.0% on the principal amount or commitment amount of any secured debt raised or amended.	A 50% credit against the Contingency Plan Fee in certain circumstances	12 months post-termination
Financing Fee (Equity)	2.5% on any equity privately issued.	A 50% credit against the Contingency Plan Fee in certain circumstances	12 months post-termination
Lease Negotiation Fee (for each material amendment, modification or waiver of a lease)	$75,000 per lease that is subject to such amendment modification or waiver. Increases to $150,000 for each such lease upon completion of a Contingency Plan transaction. Minimum fee: (a) $1.25 million if no Contingency Plan transaction completed. (b) $2.5 million if a Contingency Plan transaction is completed. Maximum fee: $5 million	$2.5 million of this fee will be credited against the Contingency Plan Fee.	12 months post-termination
Work Fee	$100,000 per month	No	N/A
Engagement Fee	$750,000 at commencement of engagement	No	N/A

111. The Engagement Letter also requires Sears Canada to seek an order granting BMO Capital Markets a charge for a portion of its potential fees and disbursements. Accordingly, the Sears Canada Group is seeking the FA Charge of $3.3 million in favour of BMO Capital Markets, which is proposed to rank *pari passu* with the Administration Charge.

112. BMO Capital Markets is a well-known financial advisor and investment banker and has significant expertise in providing the services contemplated by the Engagement Letter in the context of Court-supervised restructuring proceedings.

113. The Proposed Monitor is of the view that the engagement of BMO Capital Markets by Sears Canada is beneficial to the Sears Canada Group and its stakeholders generally. BMO Capital Markets has already been providing assistance and advice to the Sears Canada Group and is familiar with the Sears Canada Group's business and assets.

114. The Proposed Monitor and its counsel have reviewed publicly available and confidential information in respect of the terms of engagement of financial advisors in past CCAA proceedings and is of the view that the amounts payable under the Engagement Letter are, while on the higher end of the range when aggregated in the context of a successful restructuring, not outside market parameters.

115. The quantum of the FA Charge is reasonable in light of the terms of the Engagement Letter.

Q. ANTICIPATED NEXT STEPS IN THE CCAA PROCEEDINGS

Sale Guidelines for Closing Stores

116. The Wong Affidavit contains information with respect to Sears Canada's decision to close 59 of its stores (20 department stores, 15 "Sears Home" stores, 10 outlet stores and 14 "Hometown" stores) (the "**Closing Stores**"). A list of the Closing Stores is attached as Exhibit "C" to the Wong Affidavit.

117. The Proposed Monitor understands that, if this Court grants the Proposed Initial Order, the Sears Canada Group intends to return at a later date to seek this Court's approval of a

formal liquidation process in respect of inventory at the Closing Stores, on notice to interested parties, including landlords.

Authority to Suspend Certain Pension and Retiree Benefit Payments

118. The Wong Affidavit also provides information with respect to Sears Canada's obligations to make special payments in respect of the DB Component of its Pension Plan and payments in respect of its post-retirement benefit plan ("**PRB**"), which offers life, health and dental benefits to certain retirees of the Sears Canada Group.

119. The Proposed Monitor understands that, if this Court grants the Proposed Initial Order, Sears Canada intends to return at a later date to seek this Court's approval to suspend these payments. Payments in respect of the DB Component of the Pension Plan and the PRB after June 30, 2017 are not included in the Cash Flow Forecast.

Approval of Sale and Investment Solicitation Process

120. The Proposed Monitor understands that the Sears Canada Group intends to return at a later date to seek this Court's approval of a comprehensive sale and investment solicitation process (the "**SISP**") to be conducted by BMO Capital Markets under the supervision of the Monitor (if appointed). The Proposed Monitor understands that the SISP will be designed to canvass interest in a range of potential transactions involving all or part of the assets or businesses of the Sears Canada Group.

R. RECOMMENDATIONS

121. For the reasons stated in this Pre-Filing Report, the Proposed Monitor believes that it is appropriate for the Sears Canada Group to be granted protection under the CCAA and respectfully recommends that the Court grant the Proposed Initial Order.

The Proposed Monitor respectfully submits to the Court this, its Pre-Filing Report.

Dated this 22nd day of June, 2017.

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

Paul Bishop
Senior Managing Director

Greg Watson
Senior Managing Director

APPENDIX "A"

[ATTACHED]

Sears Canada Group

CCAA Cash Flow Forecast

(CAD in thousands)

Week Ending (Saturday)		24-Jun-17	1-Jul-17	8-Jul-17	15-Jul-17	22-Jul-17	29-Jul-17	5-Aug-17	12-Aug-17	19-Aug-17	26-Aug-17	2-Sep-17	9-Sep-17	16-Sep-17	13-Week
CCAA Filing Week		1	2	3	4	5	6	7	8	9	10	11	12	13	Total
Operating Receipts	[2]	**39,311**	**38,031**	**40,949**	**47,870**	**47,274**	**45,818**	**43,696**	**37,018**	**40,548**	**41,489**	**38,143**	**33,915**	**33,934**	**527,998**
Operating Disbursements															
Payroll and Employee Related Costs	[3]	(16,643)	(8,944)	(9,945)	(3,114)	(9,945)	(7,043)	(13,930)	(2,407)	(6,889)	(6,347)	(11,723)	(2,407)	(6,593)	(105,931)
Merchandise Vendors	[4]	(14,530)	(30,353)	(4,389)	(9,511)	(7,616)	(9,590)	(22,568)	(28,014)	(25,077)	(23,885)	(27,307)	(22,758)	(27,526)	(253,125)
Non-Merchandise Vendors	[5]	(5,614)	(24,346)	(6,326)	(6,326)	(6,326)	(6,326)	(10,200)	(5,632)	(5,632)	(5,632)	(17,021)	(4,884)	(4,884)	(109,151)
Rent and Property Taxes	[6]	-	(9,006)	-	(4,808)	-	-	(9,049)	-	(4,808)	-	(9,046)	-	(4,808)	(41,526)
Sales Taxes	[7]	(5,970)	-	-	-	(925)	(4,321)	-	-	-	(9,170)	-	-	-	(20,385)
Pension	[8]	-	(3,685)	-	-	-	-	-	-	-	-	-	-	-	(3,685)
IT Costs	[9]	-	-	-	-	-	-	(12,767)	-	-	-	-	-	-	(12,767)
Capital Expenditures	[10]	(492)	(492)	(697)	(697)	(697)	(697)	(530)	(530)	(530)	(530)	(424)	(424)	(424)	(7,165)
Total Operating Disbursements		**(43,249)**	**(76,825)**	**(21,357)**	**(24,456)**	**(25,509)**	**(27,976)**	**(69,044)**	**(36,584)**	**(42,937)**	**(45,565)**	**(65,522)**	**(30,474)**	**(44,235)**	**(553,734)**
Net Operating Cash Inflows / (Outflows)		**(3,937)**	**(38,794)**	**19,592**	**23,413**	**21,765**	**17,842**	**(25,348)**	**434**	**(2,388)**	**(4,076)**	**(27,380)**	**3,441**	**(10,301)**	**(25,736)**
Professional Fees	[11]	(1,808)	(3,450)	(1,959)	(7,185)	(1,320)	(1,179)	(1,179)	(1,320)	(1,179)	(1,179)	(1,179)	(1,320)	(1,179)	(25,439)
Repayments of Existing Credit Facilities	[12]	-	-	-	(126,850)	(47,274)	(45,818)	(28,069)	-	-	-	-	-	-	(248,011)
DIP Fees and Interest Paid	[13]	(9,150)	-	-	(354)	(354)	(354)	(354)	(354)	(354)	(354)	(354)	(354)	(354)	(12,692)
Net Cash Inflows / (Outflows)		**(14,895)**	**(42,244)**	**17,633**	**(110,976)**	**(27,184)**	**(29,510)**	**(54,950)**	**(1,240)**	**(3,922)**	**(5,610)**	**(28,913)**	**1,766**	**(11,835)**	**(311,879)**
Cash															
Beginning Balance		125,035	110,139	67,895	85,528	150,752	103,769	58,059	30,009	30,069	30,047	30,038	30,025	30,091	125,035
Net Cash Inflows / (Outflows)		(14,895)	(42,244)	17,633	(110,976)	(27,184)	(29,510)	(54,950)	(1,240)	(3,922)	(5,610)	(28,913)	1,766	(11,835)	(311,879)
DIP Draws / (Repayments)	[14]	-	-	-	176,200	(19,800)	(16,200)	26,900	1,300	3,900	5,600	28,900	(1,700)	11,800	216,900
Ending Balance		**110,139**	**67,895**	**85,528**	**150,752**	**103,769**	**58,059**	**30,009**	**30,069**	**30,047**	**30,038**	**30,025**	**30,091**	**30,056**	**30,056**

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SEARS

Court File No. ____________

ONTARIO

SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF [SEARS CANADA INC., CORBEIL ÉLECTRIQUE INC., S.L.H. TRANSPORT INC., THE CUT INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP., SEARS FLOOR COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC., AND 3339611 CANADA INC.] (the **"Applicants" or the "Sears Canada Group"**)

JUNE 21, 2017

REPORT ON CASH FLOW STATEMENT
(paragraph 10.2(b) of the CCAA)

The management of the Applicants has developed the assumptions and prepared the attached statement of projected cash flow as of [June 21, 2017], consisting of a 13-week cash flow forecast for the period June [18], 2017 to [Sept 16], 2017 (the "June [21] Forecast").

The hypothetical assumptions are reasonable and consistent with the purpose of the projections as described in Note 1 to the cash flow, and the probable assumptions are suitably supported and consistent with the plans of the Applicants and provide a reasonable basis for the [June [21] Forecast]. All such assumptions are disclosed in Notes 2 to [14].

Since the June [21] Forecast is based on future events, actual results will vary from the information presented and the variations may be material.

The June [21] Forecast has been prepared solely for the purpose outlined in Note 1, using the probably and hypothetical assumptions set out in Notes 2 to [14]. Consequently readers are cautioned that the June [21] Forecast may not be suitable for other purposes.

Dated at Toronto, Ontario this 21th day of June, 2017.

Billy Wong
Chief Financial Officer
Sears Canada Group

APPENDIX "B"

[CONFIDENTIAL]

APPENDIX "C"

[CONFIDENTIAL]

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF SEARS CANADA INC., *et al.*

Court File No:

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at TORONTO

PRE-FILING REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS PROPOSED MONITOR

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