

**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., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC., and 3339611 CANADA INC.

Applicants

**RESPONDING MOTION RECORD AND COMPENDIUM OF CERTAIN FORMER DIRECTORS
OF SEARS CANADA INC.
(Returnable on December 3, 2018)**

November 27, 2018

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TO: **SERVICE LIST**

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Tab 1

Court File No.

Ontario
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ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

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

APPLICANTS

AFFIDAVIT OF BILLY WONG
(Sworn June 22, 2017)

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

AND SAY:

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

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

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

3. This Affidavit is organized in the following sections:

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Introduction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporate Structure of the Sears Canada Group

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

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

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

A. Sears Canada's Subsidiaries

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

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

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

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

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

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

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

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

B. Sears Canada's Major Shareholders

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Chief Place of Business

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

The Business of the Applicants

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. Store Formats and Locations

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

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

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

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

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

B. Hometown Dealers

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

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

² The other three stores are corporate stores.

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

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

C. Corbeil Franchisees

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

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

D. Real Estate and Leases

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

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

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

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

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

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

i. ***Landlords***

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

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

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

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

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

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

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

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

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

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

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

v. ***Other Owned Properties***

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

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

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

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

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

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

E. Merchandising and Sourcing

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

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

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

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

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

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

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

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

F. Distribution

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

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

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

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

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

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

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

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

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

G. Consignment Goods

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

H. Employees

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

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

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

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

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

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

i. *Sears Canada Store Level*

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

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

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

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

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

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

iii. ***Corbeil Employees***

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

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

iv. ***Sears Contact Employees***

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

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

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

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

vi. ***Payroll***

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

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

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

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

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

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

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

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

I. Pension and Other Post-Retirement Benefit Plans

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

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

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

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

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

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

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

i. *Sears Pension Plan*

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

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

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

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

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

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

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

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

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

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

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

ii. *Supplemental Plan*

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

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

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

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

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

iii. ***168886 Eastern Plan***

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

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

iv. ***168886 Western Plan***

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

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

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

v. ***PRB Plan***

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

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

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

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

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

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

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

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

vii. ***Retiree Group***

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

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

viii. *Notice to Pension Plan Beneficiaries*

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

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

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

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

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

J. Loyalty Program, Gift Cards and Warranties

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

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

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

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

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

K. Royalty Contracts

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

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

L. Critical Suppliers

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

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

M. Charitable Efforts

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

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

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

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

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

N. Outstanding Litigation Claims

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

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

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

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

The Financial Position of the Sears Canada Group

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

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

A. Assets

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

i. ***Current Assets***

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

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

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

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

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

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

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

B. Liabilities

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

i. *Current Liabilities*

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

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

ii. *Non-Current Liabilities*

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

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

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

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

C. Revenue

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

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

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

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

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

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

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

D. Secured Debt and Credit Facilities

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

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

ii. *Description of Credit Facilities*

(a) *Wells Fargo Revolving Credit Facility*

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

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

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

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

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

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

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

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

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

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

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

(b) *GACP Term Loans*

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

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

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

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

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

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

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

(c) *Collateral under the Credit Agreements*

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

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

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

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

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

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

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

Cash Management System

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

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

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

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

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

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

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

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

A. Sears Canada Receipts

i. Credit/Debit Payments

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

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

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

ii. ***Cash Receipts***

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

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

iii. ***Other Receipts***

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

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

B. Sears Canada Disbursements

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

i. *Payroll*

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

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

ii. *Health Benefits*

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

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

iii. ***Vendor Payments***

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

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

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

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

v. ***Other Disbursements***

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

C. Corbeil Cash Management System

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

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

D. SLH Cash Management System

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

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

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

E. Intercompany Debt

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

The Urgent Need for Relief under the CCAA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Restructuring Efforts to Date

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

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

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

A. Sears 2.0

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

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

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

B. Initium

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

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

C. Real Estate

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

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

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

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

D. Cost Reduction

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

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

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

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

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

F. Additional Efforts to Boost Liquidity

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

Relief Sought

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

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

A. Stay of Proceedings

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

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

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

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

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

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

B. DIP Financing

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

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

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

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

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

232. The DIP Facility includes the following commercial terms:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Monitor

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

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

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

D. Financial Advisor

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

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

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

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

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

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

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

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

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

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

E. Key Employee Retention Plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

F. Administration Charge

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

G. Directors’ and Officers’ Protection

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

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

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

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

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

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

H. Postponement Of Annual Meeting Of Shareholders

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

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

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

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

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

I. Payments During this CCAA Proceeding

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

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

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

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

Conclusion

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

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

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



Commissioner for Taking Affidavits
Karin Sachar

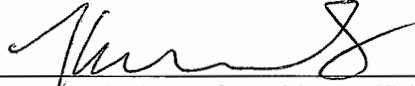


Billy Wong

Tab D

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

THIS 22nd DAY OF JUNE, 2017.



A commissioner for taking Affidavits

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The preparation and presentation of the Company's consolidated financial statements and the overall accuracy and integrity of the Company's financial reporting are the responsibility of management. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and include certain amounts that are based on management's best estimates and judgments. Financial information contained elsewhere in this Annual Report is consistent with the information set out in the consolidated financial statements.

In fulfilling its responsibilities, management has developed and maintains an extensive system of disclosure controls and procedures and internal control over financial reporting processes that are designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and reported within the required time periods, and financial records are reliable for the preparation of the financial statements. The Company's internal auditors also review and evaluate internal controls on behalf of management.

The Board of Directors monitors management's fulfillment of its responsibilities for financial reporting and internal controls principally through the Audit Committee. The Audit Committee, which is comprised solely of independent directors, meets regularly with management, the internal audit department and the Company's external auditors to review and discuss audit activity and results, internal accounting controls and financial reporting matters. The external auditors and the internal audit department have unrestricted access to the Audit Committee, management and the Company's records. The Audit Committee is also responsible for recommending to the Board of Directors the proposed nomination of the external auditors for appointment by the shareholders. Based upon the review and recommendation of the Audit Committee, the consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors.

The Company's external auditors, Deloitte LLP, have audited the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the IASB.



Brandon G. Stranzl
Executive Chairman



Billy Wong
Chief Financial Officer

Toronto, Ontario
April 26, 2017

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. The control framework used by the Company's management to assess the effectiveness of the Company's internal control over financial reporting is the *Internal Control - Integrated Framework 2013* (COSO framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Internal control systems, regardless of superiority in design, have inherent limitations. Therefore, even those systems that have been determined to have been designed effectively can only provide reasonable assurance with respect to financial reporting and financial statement preparation.

Management of the Company, including its Executive Chairman and Chief Financial Officer, has evaluated the Company's internal control over financial reporting and has concluded that it was effective as at January 28, 2017.

Deloitte LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements for the fiscal year ended January 28, 2017, has issued its opinion on the Company's internal control over financial reporting as stated in their report included herein.



Brandon G. Stranzl
Executive Chairman



Billy Wong
Chief Financial Officer

Toronto, Ontario
April 26, 2017

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated financial statements of Sears Canada Inc. and subsidiaries (the “Company”), which comprise the consolidated statements of financial position as at January 28, 2017 and January 30, 2016, and the consolidated statements of net loss and comprehensive loss, consolidated statements of changes in shareholders’ equity, and consolidated statements of cash flows for the 52-week periods ended January 28, 2017 and January 30, 2016, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sears Canada Inc. and subsidiaries as at January 28, 2017 and January 30, 2016, and their financial performance and their cash flows for the 52-week periods ended January 28, 2017 and January 30, 2016 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of January 28, 2017, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 26, 2017 expressed an unqualified opinion on the Company’s internal control over financial reporting.



Chartered Professional Accountants
Licensed Public Accountants
April 26, 2017
Toronto, Canada

Report of Independent Registered Public Accounting Firm

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

We have audited the internal control over financial reporting of Sears Canada Inc. and subsidiaries (the “Company”) as of January 28, 2017, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2017, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the 52 week-period ended January 28, 2017 of the Company and our report dated April 26, 2017 expressed an unmodified/unqualified opinion on those financial statements.

DeWitt LLP

Chartered Professional Accountants
Licensed Public Accountants
April 26, 2017
Toronto, Canada

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(in CAD millions)</i>	Notes	As at January 28, 2017	As at January 30, 2016
ASSETS			
Current assets			
Cash	5	\$ 235.8	\$ 313.9
Accounts receivable, net	6,13,15	67.1	59.4
Income taxes recoverable	21	12.3	35.9
Inventories	7	598.5	664.8
Prepaid expenses	8	34.5	31.0
Derivative financial assets	13	0.1	6.6
Assets classified as held for sale	28	57.0	22.1
Total current assets		1,005.3	1,133.7
Non-current assets			
Property, plant and equipment	9,18	227.1	444.1
Investment properties	9	2.0	17.0
Intangible assets	10	2.0	22.5
Deferred tax assets	21	0.7	0.6
Other long-term assets	11,13,15,16	7.3	15.3
Total assets		\$ 1,244.4	\$ 1,633.2
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	13,14	\$ 319.8	\$ 332.7
Deferred revenue	12	136.1	158.3
Provisions	15	61.6	75.8
Income taxes payable		0.6	2.6
Other taxes payable		22.3	17.3
Derivative financial liabilities	13	0.6	—
Current portion of long-term obligations	13,16,18,23	3.7	4.0
Total current liabilities		544.7	590.7
Non-current liabilities			
Long-term obligations	13,16,18,23	16.6	20.2
Deferred revenue	12	69.4	74.2
Retirement benefit liability	13,19	308.6	326.9
Other long-term liabilities	15,17	82.9	67.0
Total liabilities		1,022.2	1,079.0
SHAREHOLDERS' EQUITY			
Capital stock	22	14.9	14.9
Share-based compensation reserve	22	3.1	—
Retained earnings		418.0	739.0
Accumulated other comprehensive loss		(213.8)	(199.7)
Total shareholders' equity	23	222.2	554.2
Total liabilities and shareholders' equity		\$ 1,244.4	\$ 1,633.2

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

On Behalf of the Board of Directors,



B.G. Stranzl
Executive Chairman and Director



G. Savage
Director

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
For the 52-week periods ended January 28, 2017 and January 30, 2016

<i>(in CAD millions, except per share amounts)</i>	Notes	2016	2015
Revenue	24	\$ 2,613.6	\$ 3,145.7
Cost of goods and services sold	7,13,25	1,900.5	2,145.9
Selling, administrative and other expenses	9,10,13,18,19,25	1,135.5	1,298.1
Operating loss		(422.4)	(298.3)
Gain on lease termination and sale and leaseback transactions	26	105.9	67.2
Gain on termination of credit card arrangement	27	—	170.7
Gain on settlement of retirement benefits	19, 25	—	5.1
Finance costs	16,18,21	8.9	9.7
Interest income	5	7.2	2.3
Loss before income taxes		(318.2)	(62.7)
Income tax (expense) recovery			
Current	21	(0.3)	(8.1)
Deferred	21	(2.5)	2.9
		(2.8)	(5.2)
Net loss		\$ (321.0)	\$ (67.9)
Basic and diluted net loss per share	31	\$ (3.15)	\$ (0.67)
Net loss		\$ (321.0)	\$ (67.9)
Other comprehensive (loss) income, net of taxes:			
Items that may subsequently be reclassified to net loss:			
(Loss) gain on foreign exchange derivatives		(12.6)	19.2
Reclassification to net loss of loss (gain) on foreign exchange derivatives		5.0	(18.7)
Items that will not subsequently be reclassified to net loss:			
Remeasurement (loss) gain on net defined retirement benefit liability	19,21	(6.5)	50.8
Total other comprehensive (loss) income, net of taxes		(14.1)	51.3
Total comprehensive loss		\$ (335.1)	\$ (16.6)

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the 52-week periods ended January 28, 2017 and January 30, 2016

<i>(in CAD millions)</i>	Notes	Capital stock	Share-based compensation reserve	Retained earnings	Accumulated other comprehensive loss			Shareholders' equity
					Foreign exchange derivatives designated as cash flow hedges	Remeasurement (loss) gain	Total accumulated other comprehensive loss	
Balance as at January 30, 2016		\$ 14.9	\$ —	\$ 739.0	\$ 7.2	\$ (206.9)	\$ (199.7)	\$ 554.2
Net loss				(321.0)	—	—	—	(321.0)
<i>Other comprehensive (loss) income</i>								
Loss on foreign exchange derivatives, net of income tax recovery of \$2.6	13				(12.6)	—	(12.6)	(12.6)
Reclassification of net loss on foreign exchange derivatives, net of income tax recovery of nil	13				5.0	—	5.0	5.0
Remeasurement loss on net defined retirement benefit liability	19,21				—	(6.5)	(6.5)	(6.5)
Total other comprehensive loss		—	—	—	(7.6)	(6.5)	(14.1)	(14.1)
Total comprehensive loss		—	—	(321.0)	(7.6)	(6.5)	(14.1)	(335.1)
Share-based compensation	22	—	3.1	—	—	—	—	3.1
Balance as at January 28, 2017		\$ 14.9	\$ 3.1	\$ 418.0	\$ (0.4)	\$ (213.4)	\$ (213.8)	\$ 222.2
Balance as at January 31, 2015		\$ 14.9	\$ —	\$ 806.9	\$ 6.7	\$ (257.7)	\$ (251.0)	\$ 570.8
Net loss				(67.9)	—	—	—	(67.9)
<i>Other comprehensive income (loss)</i>								
Gain on foreign exchange derivatives, net of income tax expense of \$7.1	13				19.2	—	19.2	19.2
Reclassification of gain on foreign exchange derivatives, net of income tax expense of \$6.9	13				(18.7)	—	(18.7)	(18.7)
Remeasurement gain on net defined retirement benefit liability	19,21				—	50.8	50.8	50.8
Total other comprehensive income		—	—	—	0.5	50.8	51.3	51.3
Total comprehensive (loss) income		—	—	(67.9)	0.5	50.8	51.3	(16.6)
Balance as at January 30, 2016		\$ 14.9	\$ —	\$ 739.0	\$ 7.2	\$ (206.9)	\$ (199.7)	\$ 554.2

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 52-week periods ended January 28, 2017 and January 30, 2016

<i>(in CAD millions)</i>	Notes	2016	2015
Cash flow used for operating activities			
Net loss		\$ (321.0)	\$ (67.9)
Adjustments for:			
Depreciation and amortization expense	9,10	31.4	48.4
Share-based compensation	22	3.1	(0.4)
(Gain) loss on disposal of property, plant and equipment		(4.4)	0.3
Net impairment losses	9,10,28	52.3	63.3
Gain on lease termination and sale and leaseback transactions	26	(105.9)	(67.2)
Gain on termination of credit card arrangement	27	—	(170.7)
Finance costs	16,18,21	8.9	9.7
Interest income	5	(7.2)	(2.3)
Retirement benefit plans expense	19	14.1	18.9
Gain on settlement of retirement benefits	19	—	(5.1)
Short-term disability expense	19	4.6	4.9
Income tax expense	21	2.8	5.2
Interest received	5	7.4	1.1
Interest paid	16	(3.4)	(2.7)
Retirement benefit plans contributions	19	(43.5)	(48.6)
Income tax refunds, net	21	25.0	87.6
Changes in non-cash working capital balances	32	0.1	(64.3)
Changes in non-cash long-term assets and liabilities	33	(5.7)	(11.7)
		(341.4)	(201.5)
Cash flow generated from investing activities			
Purchases of property, plant and equipment and intangible assets	9,10	(27.4)	(45.4)
Proceeds from sale of property, plant and equipment		3.1	0.3
Proceeds from termination of credit card arrangement	27	—	174.0
Net proceeds from lease termination and sale and leaseback transactions	26	295.0	130.0
		270.7	258.9
Cash flow used for financing activities			
Interest paid on finance lease obligations	16,18	(1.7)	(1.9)
Repayment of long-term obligations		(3.9)	(3.9)
		(5.6)	(5.8)
Effect of exchange rate on cash at end of period		(1.8)	3.3
(Decrease) increase in cash		(78.1)	54.9
Cash at beginning of period		\$ 313.9	\$ 259.0
Cash at end of period	5	\$ 235.8	\$ 313.9

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Sears Canada Inc. is incorporated in Canada. The address of its registered office and principal place of business is 290 Yonge Street, Suite 700, Toronto, Ontario, Canada M5B 2C3. The principal activities of Sears Canada Inc. and its subsidiaries (the “Company”) include the sale of goods and services through the Company’s Retail channels, which includes its full-line department, Sears Home, Hometown, Outlet, Corbeil Electric Inc. stores, and its Direct (catalogue/internet) channel.

2. Significant accounting policies

2.1 Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

2.2 Basis of preparation and presentation

The principal accounting policies of the Company have been applied consistently in the preparation of its consolidated financial statements for all periods presented. These financial statements follow the same accounting policies and methods of application as those used in the preparation of the 2015 Annual Consolidated Financial Statements. The Company’s significant accounting policies are detailed in Note 2.

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments, measured at fair value, and the retirement benefit liability, which is the net total of retirement benefit plan assets and the present value of accrued retirement benefit plan obligations. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company as well as all of its subsidiaries.

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to January 31. The fiscal years for the 2016 and 2015 consolidated financial statements represent the 52-week period ended January 28, 2017 (“Fiscal 2016” or “2016”) and the 52-week period ended January 30, 2016 (“Fiscal 2015” or “2015”), respectively.

The Company’s consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency.

2.5 Uses and sources of liquidity

The Fiscal 2016 financial statements have been prepared on the basis of management’s assessment of the Company’s ability to continue as a going concern (the “assessment”). In determining whether the assessment is appropriate, management has considered available information for the 12 months from the issuance of the Fiscal 2016 financial statements. Management acknowledges that the Company continues to face a challenging competitive environment with recurring operating losses and negative cash flows from operating activities in the last five fiscal years. While the Company continues to focus on its overall profitability, it reported a net loss in Fiscal 2016 and the Company was required to fund cash used in operating activities with cash from investing activities. Management also considered the impact of the disclosures made by Sears Holdings Corporation (“Sears Holdings”), the beneficial holder of 11.7% of the common shares of the Company, with respect to Sears Holding’s ability to continue operating on a going concern basis. In addition, management also evaluated its licensing arrangement with Sears Holdings (see Note 29), and assumed that there was no significant impact to its assessment. In the preparation of the Fiscal 2016 financial statements, management has applied significant judgments to determine that no material uncertainties exist related to events or conditions that cast significant doubt on the Company’s ability to continue as a going concern.

In response to the recurring operating losses and negative cash flows from operating activities, the Company has taken a number of actions to enhance its financial flexibility, to fund its ongoing business operations and to meet its obligations. During Fiscal 2016, the Company completed a lease termination and a series of sale and leaseback transactions, as described in Note 26, for total net proceeds of \$295.0 million. Subsequent to Fiscal 2016, the Company completed two sale and leaseback transactions, as described in Note 34, for a total consideration of \$57.0 million less customary closing adjustments.

Subsequent to Fiscal 2016, the Company entered into a Credit Agreement (the “Term Credit Agreement”) dated March 20, 2017 with a syndicate of lenders for a five-year secured term loan (the “Term Loan”) of up to \$300.0 million. The Term Loan is in addition to the Company’s existing \$300.0 million secured revolving credit facility pursuant to a Credit Agreement (the “Amended Credit Facility”) with a different syndicate of lenders dated September 10, 2010, as amended (see Note 16). As at January 28, 2017, the Company had no funded borrowings on the Amended Credit Facility and the availability under the Amended Credit Facility was \$192.3 million. The Amended Credit Facility matures on May 28, 2019. The Term Loan is available in two tranches: a first tranche of \$125.0 million (before transaction fees) which was drawn in full on March 20, 2017, and a second tranche of up to a further \$175.0 million (before transaction fees and to be secured by qualifying owned and leased real estate), which is available to be drawn at the Company’s option, subject to the satisfaction of various conditions including receipt of satisfactory appraisals and environmental reports. The Amended Credit Facility and the Term Credit Agreement are secured by a first charge on the Company’s inventory, credit card receivables and related assets, and a selection of the Company’s owned and leased real estate that is to be mutually agreed and which satisfies eligibility criteria. The respective rights of the lenders under the Term Credit Agreement and the lenders under the Amended Credit Facility as to the security and the priority of their security are governed by an intercreditor agreement between each group of lenders.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula that takes into account the value of inventory and receivables less applicable reserves. Similarly, availability under the Term Loan is also determined pursuant to a borrowing base formula that also takes into account the value of the real estate that forms part of the security for the second tranche less applicable reserves. On a monthly basis, where the amount of loans outstanding exceeds the amount of the applicable borrowing base, the Company is required to repay the amount of such excess.

The Company has established a sales strategy on key merchandising initiatives and is actively working with suppliers to align future merchandise cost prices with more competitive out-the-door selling prices. With the expected higher margins and continued adjustments made to pricing and product assortment to better align to the market and customer preferences, the Company expects improved profitability in Fiscal 2017.

If the Company’s actual performance differs materially from its plans and continues to experience operating losses, and is not able to receive the full amount of the second tranche of the Term Credit Agreement, the Company may need to pursue additional sources of liquidity. Management expects that obtaining the additional liquidity from the second tranche up to a further \$175.0 million (before transaction fees, to be secured by qualifying owned and leased real estate), the continued focus on expense management and obtaining additional liquidity from the owned and leased properties, will provide the necessary cash position to support operations for 12 months from the issuance of the Fiscal 2016 financial statements.

Based on the above significant judgments, the Company expects to end with a positive cash balance and continue as a going concern for 12 months from the issuance of the Fiscal 2016 financial statements.

2.6 Segments

The Company is comprised of one reportable segment, Merchandising. The Company’s operations include the sale of goods and services through its operating segments, the Retail channels and the Direct channel. The Company’s chief operating decision maker, identified as the Executive Chairman, allocates resources and assesses performance of the business and other activities at the operating segment level.

2.7 Cash

Cash is considered to be restricted when it is subject to contingent rights of a third party customer, vendor, government agency or financial institution. Cash is also considered to be restricted when it is pledged voluntarily as collateral under the senior secured revolving credit facility to provide additional security to lenders.

2.8 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method, based on individual items. The cost is comprised of the purchase price, plus the costs incurred in bringing the inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. Rebates and allowances received from vendors are recognized as a reduction to the cost of inventory, unless the rebates clearly relate to the reimbursement of specific expenses. A provision for shrinkage and obsolescence is calculated based on historical experience. All inventories consist of finished goods.

2.9 Property, plant and equipment

Property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. Property, plant and equipment within one of the Company’s retail stores and one of the Company’s logistics centres have been classified as held for sale in the Consolidated Statements of Financial Position (see Note 28).

When the significant parts of an item of property, plant and equipment have varying useful lives, they are accounted for as separate components of property, plant and equipment. Depreciation is calculated based on the depreciable amount of the asset or significant component thereof, if applicable, which is the cost of the asset or significant component less its residual value. Depreciation is recognized using the straight-line method for each significant component of an item of property, plant and equipment and is recorded in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss. The estimated useful lives are 2 to 13 years for equipment and fixtures and 10 to 50 years for buildings and building improvements. The estimated useful lives, residual values and depreciation methods for property, plant and equipment are reviewed annually and adjusted, if appropriate, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds from sale or the cost of retirement and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

For a discussion on the impairment of tangible assets, refer to Note 2.12. Property, plant and equipment are reviewed at the end of each reporting period to determine if there are any indicators of impairment.

2.10 Investment properties

The Company’s investment properties consist of vacant land which is not currently used in its operations. Investment properties are measured at their deemed cost less accumulated impairment losses.

The fair value of an investment property is estimated using observable data based on the current cost of acquiring a comparable property within the market area and the capitalization of the property’s anticipated revenue. The Company engages independent qualified third parties to conduct appraisals of its investment properties, when needed.

The gain or loss arising from the disposal or retirement of an investment property is determined as the difference between the proceeds from sale or the cost of retirement, and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

For a discussion on the impairment of tangible assets, refer to Note 2.12. Investment properties are reviewed at the end of each reporting period to determine if there are any indicators of impairment.

2.11 Intangible assets

Intangible assets consist primarily of finite life purchased and internally developed software. Finite life intangible assets are carried at cost less accumulated amortization and accumulated impairment losses and are amortized on a straight-line basis over their estimated useful lives which range from 2 to 5 years. The useful lives of primarily all intangible assets are finite. Certain intangible assets have an indefinite useful life, as there is no foreseeable limit to the period during which the Company expects the assets to generate net cash inflows. Amortization expense is included in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss. The estimated useful lives and amortization methods for intangible assets are reviewed annually, with the effect of any changes in estimates being accounted for on a prospective basis.

Internally developed software costs are capitalized when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- The Company intends to complete the software product;
- The Company has an ability to use the software;
- The Company can demonstrate how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization are limited to those that are directly related to each software development project.

2.12 Impairment of tangible assets and intangible assets

At the end of each reporting period, the Company reviews property, plant and equipment, investment properties and intangible assets for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the assets are then grouped together into the smallest group of assets that generate independent cash inflows from continuing use (the “cash generating unit” or “CGU”) and a recoverable amount is estimated for that CGU. The Company has determined that its CGUs are primarily its retail stores.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs. Otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the asset or CGU will be reduced to its recoverable amount and an impairment loss is recognized immediately. If an impairment for a CGU has been identified, an impairment loss is recognized as a reduction in the carrying amount of the assets included in the CGU on a pro rata basis.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is revised to an estimate of its recoverable amount limited to the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately.

2.13 Leasing arrangements

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.13.1 The Company as lessor

The Company has entered into a number of agreements to sub-lease premises to third parties. All sub-leases to third parties are classified as operating leases. Rental income from operating leases is recognized as a reduction of rent expense on a straight-line basis over the term of the lease.

2.13.2 The Company as lessee

Assets held under finance leases are initially recognized by the Company at the lower of the fair value of the asset and the present value of the minimum lease payments. The corresponding current and non-current liabilities to the lessor are included in the Consolidated Statements of Financial Position as a finance lease obligation in “Current portion of long-term obligations” and “Long-term obligations”, respectively. The assets are depreciated using the same accounting policy as applicable to property, plant and equipment (see Note 2.9).

Lease payments are apportioned between finance costs and the lease obligation in order to achieve a constant rate of interest on the remaining balance of the liability. The minimum lease payments are allocated between the land and building element in proportion to the relative fair values of the leasehold interests, in each of these elements of the lease.

Assets under operating leases are not recognized by the Company. Operating lease payments are recognized in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss.

In the event that lease incentives are received from the landlord, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.14 Retirement benefit plans

The Company currently maintains a defined contribution and a defined benefit registered pension plan, which covers eligible regular full-time and part-time employees, a non-registered supplemental savings arrangement and a defined benefit non-pension retirement plan, which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust.

2.14.1 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed or matching contributions based on employee contributions into a separate legal entity and has no further legal or constructive obligation to pay additional amounts. Company contributions to the defined contribution retirement benefit plan are recognized as an expense when employees have rendered services entitling them to the contributions.

2.14.2 Defined benefit plans

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations prepared by independent qualified actuaries at least every three years. Remeasurements comprised of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognized immediately in the Consolidated Statements of Financial Position with a charge or credit to “Other comprehensive (loss) income, net of taxes” (“OCI”) in the Consolidated Statements of Net Loss and Comprehensive Loss, in the period in which they occur. The Company performs remeasurements at least annually. Remeasurements recorded in OCI are not subsequently reclassified into profit or loss. However, the entity may transfer those amounts recognized in OCI within “Accumulated other comprehensive loss” (“AOCL”) in the Consolidated Statements of Changes in Shareholders’ Equity. Past service cost is recognized in profit or loss in the period of plan amendment. Net-interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Defined benefit costs are split into three categories:

- service cost, past-service cost, gains and losses on curtailments and settlements;
- net interest expense or income;
- remeasurements.

The Company presents the first two components of defined benefit costs in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss.

Remeasurements are recorded in OCI.

The retirement benefit obligation recognized in the Consolidated Statements of Financial Position represents the actual deficit or surplus in the Company’s defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

2.14.3 Termination benefits

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

2.15 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes. Revenue is reduced for estimated customer returns, discounts and other similar allowances.

2.15.1 Sale of goods

Revenue from the sale of goods is recognized upon delivery of goods to the customer. In the case of goods sold in-store, delivery is generally complete at the point of sale. For goods subject to delivery such as furniture or major appliances, and goods sold online or through the catalogue, delivery is complete when the goods are delivered to the customers’ selected final destination or picked up from a catalogue/online agent. In the case of goods subject to installation, such as home improvement products, revenue is recognized when the goods have been delivered and the installation is complete.

2.15.2 Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

Extended warranty service contracts

The Company sells extended warranty service contracts with terms of coverage generally between 12 and 60 months. Revenue from the sale of each contract is deferred and amortized on a straight-line basis over the term of the related contract.

Product repair, handling and installation services

Product repair, handling and installation services revenue is recognized once the services are complete. These services are performed within a short timeframe.

2.15.3 Commission and licensee fee revenue

The Company earns commission revenue by selling various products and services that are provided by third parties, such as sales of travel services, home improvement products and insurance programs. As the Company is not the primary obligor in these transactions, these commissions are recognized upon sale of the related product or service.

Fee revenue is received from a variety of licensees that operate in the Company’s stores. Revenue earned is based on a percentage of licensee sales. Revenue is recorded upon sale of the related product or service.

Revenue was received from JPMorgan Chase Bank, N.A. (Toronto Branch) (“JPMorgan Chase”) relating to credit sales in Fiscal 2015. Revenue was primarily based on a percentage of sales charged on the Sears Card or Sears MasterCard and was included in revenue when the sale occurred (see Note 27 for additional information).

2.15.4 Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be reliably measured. Interest income is accrued on a periodic basis by reference to the principal outstanding and the applicable interest rate.

2.15.5 Customer loyalty program

The Sears Club Points Program (the “Program”) allows members to earn points from eligible purchases made on any tender accepted by the Company. Members can then redeem points in accordance with the Program rewards schedule for merchandise. When points are earned, the Company defers revenue equal to the fair value of the awards adjusted for expected redemptions.

When awards are redeemed, the redemption value of the awards is charged against deferred revenue and recognized as revenue. The expected future redemption rates are reviewed on an ongoing basis and are adjusted based upon expected future activity.

2.15.6 Gift cards

The Company sells gift cards through its retail stores, websites and third parties with no administrative fee charges or expiration dates. No revenue is recognized at the time gift cards are sold. Revenue is recognized as a merchandise sale when the gift card is redeemed by the customer. The Company also recognizes income when the likelihood of the gift card being redeemed by the customer is remote, which is generally at the end of 18 months subsequent to issuance, estimated based on historical redemption patterns.

2.15.7 Cost of goods and services sold

Cost of goods and services sold includes the purchase price of merchandise sold, freight and handling costs incurred in preparing the related inventory for sale, installation costs incurred relating to the sale of goods subject to installation, write-downs taken on inventory during the period, physical inventory losses and costs of services provided during the period relating to services sold, less rebates from suppliers relating to merchandise sold.

2.16 Foreign currency translation

Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rates prevailing at that date.

Exchange differences arising on re-translation are recognized in the Consolidated Statements of Net Loss and Comprehensive Loss in the period in which they arise, except for exchange differences on certain foreign currency hedging transactions (see Note 13.3).

Non-monetary assets and liabilities denominated in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction and are not retranslated.

2.17 Consideration from a vendor

The Company has arrangements with its vendors that provide for rebates subject to binding contractual agreements. Rebates on inventories subject to binding agreements are recognized as a reduction of the cost of sales or related inventories for the period, provided the rebates are probable and reasonably estimable. Rebates on advertising costs subject to binding agreements are recognized as a reduction of the advertising expense for the period, provided the rebates are probable and reasonably estimable.

2.18 Taxation

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

2.18.1 Current tax

Tax currently payable or recoverable is based on taxable earnings or loss for the reporting period. Taxable income differs from earnings as reported in the Consolidated Statements of Net Loss and Comprehensive Loss, due to income or expenses that are taxable or deductible in other years and items that are not taxable or deductible for tax purposes. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as at the end of the reporting period and includes any adjustments to taxes payable and/or taxes recoverable in respect of prior years.

2.18.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable earnings or loss.

Deferred tax liabilities are typically recognized for taxable temporary differences. Deferred tax assets are typically recognized for deductible temporary differences to the extent that it is probable that taxable income will be available, against which deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable net earnings or loss nor the accounting income or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and written down to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applicable in the period in which the liability is settled or the asset is realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax assets and liabilities are not discounted.

2.18.3 Current and deferred tax for the period

Current and deferred tax are recognized as a tax expense or recovery in the Consolidated Statements of Net Loss and Comprehensive Loss, except when they relate to items that are recognized outside of earnings or loss (whether in OCI, or directly in equity), in which case, the tax is also recognized outside of earnings or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination. Interest on the Company's tax position is recognized as a finance cost.

2.19 Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties specific to the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of such cash flows.

When some or all of the economic resources required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.19.1 Onerous contract provisions

An onerous contract provision is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations. The provision is measured at the present value of the lower of the expected cost of terminating the contract or the expected cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract. The onerous contract provision is included in "Other provisions" as seen in Note 15.

2.19.2 General liability provisions

The Company purchases third party insurance for automobile, damage to a claimant's property or bodily injury from use of a product and general liability claims that exceed a certain dollar level. However, the Company is responsible for the payment of claims under these insured limits. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies which are based on historical data and validated by an independent third party. Loss estimates are adjusted based on actual claims settlements and reported claims (see Note 15).

2.19.3 Warranty provisions

An estimate for warranty provisions is made at the time the merchandise is sold based on historical warranty trends (see Note 15).

2.19.4 Returns and allowances provisions

Provisions for returns and allowances are made based on historical rates which represent the expected future outflow of economic resources on current sales (see Note 15).

2.19.5 Environmental provisions

The Company is exposed to environmental risks as an owner, lessor and lessee of property. Under federal and provincial laws, the owner, lessor or lessee could be liable for the costs of removal and remediation of certain hazardous substances on its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could lead to claims against the Company. The provision is based on assessments conducted by third parties, as well as historical data (see Note 15).

2.20 Financial assets

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value plus transaction costs, except for those financial assets at 'fair value through profit or loss' ("FVTPL") for which the transaction costs are expensed as incurred.

Financial assets and liabilities are offset with the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified into the following categories: financial assets at FVTPL, ‘available-for-sale’ (“AFS”) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2.20.1 Effective interest method

The effective interest method calculates the amortized cost of a financial asset or financial liability and allocates interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flow (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest income or expense is recognized on an effective interest basis for financial assets and financial liabilities other than those classified as at FVTPL.

2.20.2 Financial assets at FVTPL

Financial assets are classified at FVTPL when the financial asset is either held-for-trading or it is designated as at FVTPL.

2.20.3 AFS financial assets

Gains and losses arising from changes in fair value of AFS are recognized in OCI, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized in “Selling, administrative and other expenses” or “Interest income” in the Consolidated Statements of Net Loss and Comprehensive Loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously included in AOCL is reclassified to “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss.

2.20.4 Loans and receivables

Cash held by the bank and restricted cash are classified as ‘loans and receivables’ and are measured at amortized cost.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are also classified as ‘loans and receivables’. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables, where the recognition of interest would be immaterial.

2.20.5 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that the estimated future cash flow of the financial asset have been negatively affected as a result of events that have occurred after its initial recognition.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- probability that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of any impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flow discounted at the financial asset’s initial effective interest rate. When a subsequent event causes the amount of any impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Statements of Net Loss and Comprehensive Loss.

The carrying amount of the financial asset is reduced by any impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, its carrying amount is written off including any amounts previously recorded in the allowance account. Subsequent recoveries of amounts previously written off are credited to “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss. Changes in the carrying amount of the allowance account are also recognized in “Selling, administrative and other expenses”.

2.20.6 Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flow from the asset expire, or when substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.21 *Financial liabilities and equity instruments*

2.21.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2.21.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

2.21.3 Financial liabilities

Financial liabilities are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

2.21.4 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when they are either held-for-trading or designated as at FVTPL. Currently, the Company does not have any financial liabilities that have been designated as at FVTPL upon initial recognition.

2.21.5 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost with interest expense recognized on an effective interest method.

The Company amortizes debt issuance transaction costs over the life of the debt using the effective interest method.

2.21.6 Derecognition of financial liabilities

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

2.22 *Derivative financial instruments*

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details on derivative financial instruments are disclosed in Note 13.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized immediately in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss, unless the derivative is designated and effective as a hedging instrument, in which case, the timing of the recognition depends on the nature of the hedge relationship. The Company designates certain derivatives as hedges of highly probable forecasted transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognized as a financial asset, whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

2.22.1 Hedge accounting

The Company designates certain hedging instruments, which include derivatives, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedging relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedging transactions. At the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 13 sets out details of the fair values of the derivative instruments used for hedging purposes.

2.22.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. The gain or loss relating to the ineffective portion is recognized immediately in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss. Amounts previously recognized in OCI and accumulated in AOCL within equity are reclassified in the periods when the hedged items are recognized (i.e. to “Cost of goods and services sold” in the Consolidated Statements of Net Loss and Comprehensive Loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gains or losses accumulated in AOCL within equity at the time of discontinuation remain in equity and are transferred to “Cost of goods and services sold” in the Consolidated Statements of Net Loss and Comprehensive Loss when the forecasted transaction is ultimately recognized. When a forecasted transaction is no longer expected to occur, the gains or losses accumulated in equity are recognized immediately.

2.23 Net loss per share

Net loss per share is calculated using the weighted average number of shares outstanding during the reporting period. Diluted net loss per share is determined using the ‘treasury stock method,’ which considers the potential for the issuance of new shares created by unexercised in-the-money options, if any such options are outstanding.

2.24 Share-based compensation

The Company granted restricted share units (“RSUs”) to an employee in Fiscal 2015 under an equity-based compensation plan. For equity-settled awards, the fair value of the grant of RSUs is recognized as a compensation expense over the period that the related service is rendered with a corresponding increase in equity. The total amount expensed is recognized over a three-year vesting period on a tranche basis, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the estimate of the number of equity interests that are expected to vest is revised. The impact of the revision to original estimates, if any, is recognized in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss.

3. Issued standards not yet adopted

The Company monitors the standard setting process for new standards and interpretations issued by the IASB that the Company may be required to adopt in the future.

In January 2016, the IASB issued the following new standard:

IFRS 16, Leases (“IFRS 16”)

IFRS 16 replaces IAS 17, *Leases* (“IAS 17”). This standard will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. Adoption of IFRS 16 is mandatory and will be effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. During Fiscal 2016, the Company has formed an implementation team who is currently in the process of assessing the impact of adopting this standard on the Company’s consolidated financial statements and related note disclosures.

In July 2014, the IASB issued the final publication of the following standard:

IFRS 9, Financial Instruments (“IFRS 9”)

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows. This standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will permit more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Adoption of IFRS 9 is mandatory and will be effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. During Fiscal 2016, the Company has formed an implementation team who is currently in the process of assessing the impact of adopting this standard on the Company’s consolidated financial statements and related note disclosures.

In May 2014, the IASB issued the following new standard:

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 replaces IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. During Fiscal 2016, the Company has formed an implementation team who is currently in the process of assessing the impact of adopting this standard on the Company’s consolidated financial statements and related note disclosures.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company’s accounting policies, management is required to make judgments, estimates and assumptions with regards to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company’s accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities.

4.1 Legal liabilities

Assessing the financial outcome of uncertain legal positions requires judgment to be made regarding the relative merits of each claim and the extent to which a claim is likely to be successful. The assessments are based on reviews conducted by internal and external counsel, when appropriate.

Changes in estimates or assumptions could cause changes to “Provisions” on the Consolidated Statements of Financial Position and a charge or credit to “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 15.

4.2 Inventory

4.2.1 Obsolescence, valuation and inventory stock losses

Inventory is written down to reflect future losses on the disposition of obsolete merchandise. Future losses are estimated based on historical trends that vary depending on the type of inventory.

An adjustment is made each period to value inventory at the lower of cost and net realizable value. This adjustment is estimated based on historical trends that vary depending on the type of inventory.

Inventory is adjusted to reflect estimated inventory stock losses incurred in the year based on recent historical inventory count data.

4.2.2 Vendor rebates

Inventory is adjusted to reflect vendor rebates received or receivable based on vendor agreements. This adjustment is estimated based on historical data and current vendor agreements.

4.2.3 Freight

Inbound freight incurred to bring inventory to its present location is estimated each reporting period and is included in the cost of inventory. This estimate is based on historical freight costs incurred.

Changes in estimates may result in changes to “Inventories” on the Consolidated Statements of Financial Position and a charge or credit to “Cost of goods and services sold” in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 7.

4.3 Impairment of property, plant and equipment and intangible assets

The Company's property, plant and equipment and intangible assets have been allocated to CGUs. At the end of each reporting period, the carrying amounts of property, plant and equipment and intangible assets are assessed to determine if there is any evidence that an asset is impaired. Determining if there are any facts and circumstances indicating impairment loss is a subjective process involving judgment and a number of estimates and assumptions. If there are such facts and circumstances, the recoverable amount of the asset is estimated.

Assets that cannot be tested individually for impairment are grouped into the smallest group of assets that generates cash inflows through continued use that are largely independent of the cash inflows from other assets or groups of assets (cash generating unit or CGU).

The recoverable amount of an asset or a CGU is the higher of its value in use and fair value less costs to sell. To determine value in use, expected future cash flows are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In the process of measuring expected future cash flows, the Company makes assumptions about future operating profit. These assumptions relate to future events and circumstances. Although the assumptions are based on market information available at the time of the assessment, actual results may vary.

The Company's corporate and intangible assets do not generate separate cash flows. If there is evidence that a corporate or intangible asset is impaired, the recoverable amount is determined for the CGU to which the corporate asset belongs. Impairments are recorded when the carrying amount of the CGU to which the corporate asset belongs is higher than its recoverable amount.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 9 and Note 10.

4.4 Retirement benefit liability

The retirement benefit liability is estimated based on certain actuarial assumptions, including the discount rate, inflation rate, salary growth and mortality rates. New regulations and market driven changes may impact the assumptions made.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and OCI in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 19.

4.5 Loyalty program deferred revenue

The fair value of Sears Club points granted is deferred at the time of the related initial sale transaction and is recognized upon redemption of the points for merchandise. The redemption value of the points is estimated at the initial sale transaction, based on historical behaviour and trends in redemption rates and redemption values, as well as an adjustment for the percentage of points that are expected to be converted to reward cards, but for which the likelihood of redemption is remote ("reward card breakage").

Changes in estimates may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 12.

4.6 Derivative assets and liabilities

All derivatives are measured at fair value. U.S. dollar forward contracts are traded over-the-counter and give holders the right to buy a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of fuel swaps is based on counterparty confirmations tested for reasonableness by discounting estimated future cash flows derived from the terms and maturity of each contract using market fuel prices at the measurement date. The Company is required to estimate various inputs which are used in these calculations that are a combination of quoted prices and observable market inputs. The fair values of derivatives include an adjustment for credit risk when appropriate.

Changes in estimates may result in changes to "Derivative financial assets" and "Derivative financial liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold", "Selling, administrative and other expenses" or OCI in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 13.

4.7 Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Revenue", "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 15.

4.8 Leasing arrangements

The Company has applied judgment in the classification of its leasing arrangements, which is determined at the inception of the lease and is based on the substance of the transaction, rather than its legal form. The Company's leases were evaluated based on certain significant assumptions including the discount rate, economic life of an asset, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Current portion of long-term obligations" and "Long-term obligations" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and "Finance costs" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 18.

4.9 Taxes

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, certain matters are periodically challenged by tax authorities. The Company applies judgment and routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and its net loss will be affected positively or negatively. The Company also uses judgment in assessing the likelihood that deferred income tax assets will be recovered from future taxable income by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax assets", "Other long-term assets", "Income and other taxes payable" and "Deferred tax liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Income tax (expense) recovery" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 21.

4.10 Gift cards

The gift card liability is based on the total amount of gift cards outstanding which have not yet been redeemed by customers. The Company also recognizes income when the likelihood of redeeming the gift card is remote ("gift card breakage"). Gift card breakage is estimated based on historical redemption patterns. Changes in estimates of the redemption patterns may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net Loss and Comprehensive Loss.

5. Cash and interest income

Cash

The components of cash were as follows:

<i>(in CAD millions)</i>	As at January 28, 2017		As at January 30, 2016	
Cash	\$	134.7	\$	306.9
Restricted cash		101.1		7.0
Total cash	\$	235.8	\$	313.9

As at January 28, 2017, restricted cash of \$100.0 million (January 30, 2016: nil) was pledged voluntarily as collateral under the senior secured revolving credit facility to provide additional security to lenders. The other components of restricted cash are further discussed in Note 20.

Interest income

Interest income for the fiscal year ended January 28, 2017 totaled \$7.2 million (2015: \$2.3 million). During Fiscal 2016, the Company received \$7.4 million (2015: \$1.1 million) in cash related to interest income. Interest income for the fiscal year ended January 28, 2017 of \$3.1 million (2015: \$1.1 million) related to refund interest on net cash income tax receipts (see Note 21 for additional information), \$1.7 million related to interest income recognized on maturity of an investment, with the balance related primarily to cash.

6. Accounts receivable, net

The components of accounts receivable, net were as follows:

<i>(in CAD millions)</i>	As at January 28, 2017	As at January 30, 2016
Deferred receivables	\$ 0.2	\$ 0.2
Other receivables	66.9	59.2
Total accounts receivable, net	\$ 67.1	\$ 59.4

Other receivables primarily consist of amounts due from customers and amounts due from vendors.

Included in the accounts receivable balances above are amounts that are past due but are not provided for, as the Company considers the balances to be collectible. These past due accounts receivable balances are listed below:

<i>(in CAD millions)</i>	As at January 28, 2017	As at January 30, 2016
Greater than 30 days	\$ 9.9	\$ 5.1
Greater than 60 days	3.4	2.4
Greater than 90 days	11.6	8.3
Total	\$ 24.9	\$ 15.8

The following is a continuity of the Company's allowances for uncollectable accounts receivable:

<i>(in CAD millions)</i>	As at January 28, 2017	As at January 30, 2016
Allowances, beginning of year	\$ 6.0	\$ 8.3
Net additions (write-off)	0.1	(2.3)
Allowances, end of year	\$ 6.1	\$ 6.0

7. Inventories

The amount of inventory recognized as an expense during Fiscal 2016 was \$1,700.8 million (2015: \$1,943.8 million), which included \$42.6 million (2015: \$66.2 million) of inventory write-downs to reduce the carrying amount of inventory to net realizable value. These expenses were included in "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss. Inventory write-downs included reversals of prior period inventory write-downs for Fiscal 2016 of \$3.1 million (2015: \$1.6 million), due to an increase in net realizable value.

8. Prepaid expenses

The components of prepaid expenses were as follows:

<i>(in CAD millions)</i>	As at January 28, 2017	As at January 30, 2016
Rent	\$ 9.5	\$ 10.7
Contracts	13.7	11.5
Supplies	3.0	2.8
Insurance	1.0	0.8
Other	7.3	5.2
Total prepaid expenses	\$ 34.5	\$ 31.0

9. Property, plant and equipment and investment properties

The following is a continuity of property, plant and equipment:

<i>(in CAD millions)</i>	Land	Buildings and Leasehold Improvements	Finance Lease Buildings	Finance Lease Equipment	Equipment and Fixtures	Total
Cost or deemed cost						
Balance at January 31, 2015	\$ 228.4	\$ 1,086.4	\$ 41.5	\$ 1.0	\$ 1,136.0	\$ 2,493.3
Additions	—	14.0	—	0.1	9.6	23.7
Disposals	(52.1)	(16.3)	(3.5)	—	(13.7)	(85.6)
Net movement to assets held for sale ²	(2.5)	(16.3)	—	—	(7.0)	(25.8)
Balance at January 30, 2016	\$ 173.8	\$ 1,067.8	\$ 38.0	\$ 1.1	\$ 1,124.9	\$ 2,405.6
Additions	—	13.6	—	—	11.5	25.1
Disposals	(57.2)	(84.2)	(5.0)	—	(40.7)	(187.1)
Net movement to assets held for sale ²	(45.0)	(130.0)	—	—	(36.0)	(211.0)
Balance at January 28, 2017	\$ 71.6	\$ 867.2	\$ 33.0	\$ 1.1	\$ 1,059.7	\$ 2,032.6
Accumulated depreciation and impairment						
Balance at January 31, 2015	\$ —	\$ 847.9	\$ 34.1	\$ 0.5	\$ 1,043.2	\$ 1,925.7
Depreciation expense ¹	—	19.7	2.0	0.3	22.9	44.9
Disposals	—	(15.6)	(3.5)	—	(13.7)	(32.8)
Net impairment losses ¹	—	10.5	5.4	—	23.3	39.2
Net movement to assets held for sale ²	—	(8.5)	—	—	(7.0)	(15.5)
Balance at January 30, 2016	\$ —	\$ 854.0	\$ 38.0	\$ 0.8	\$ 1,068.7	\$ 1,961.5
Depreciation expense ¹	—	11.7	—	0.3	15.6	27.6
Disposals	—	(38.1)	(5.0)	—	(38.1)	(81.2)
Impairment losses ¹	—	8.9	—	—	15.2	24.1
Net movement to assets held for sale ²	—	(91.9)	—	—	(34.6)	(126.5)
Balance at January 28, 2017	\$ —	\$ 744.6	\$ 33.0	\$ 1.1	\$ 1,026.8	\$ 1,805.5
Net balance at January 28, 2017	\$ 71.6	\$ 122.6	\$ —	\$ —	\$ 32.9	\$ 227.1
Net balance at January 30, 2016	\$ 173.8	\$ 213.8	\$ —	\$ 0.3	\$ 56.2	\$ 444.1

¹ Depreciation expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

² Represents the balances related to certain retail stores and logistics centres. Refer to Note 28 "Assets classified as held for sale" for additional information.

Impairment losses

The Company performed an impairment analysis on its CGUs as required by IAS 36, *Impairment of Assets*. The net impairment losses (reversals) recognized for the current and prior fiscal years were as follows:

<i>(in CAD millions)</i>	2016	2015
Sears full-line department stores	\$ 11.6	\$ 43.1
Direct channel	10.5	6.5
Other	2.0	4.7
Distribution centre	—	(15.1)
Total net impairment losses	\$ 24.1	\$ 39.2

The impairment losses were due to indicators (in particular a decrease in revenue or decrease in cash flows) that the recoverable amounts were less than the carrying values. The recoverable amounts of the CGUs tested were determined as the higher of fair value less costs to sell, or value in use. In calculating fair value less costs to sell, the Company conducted appraisals of certain land and building properties that it owned or leased, with the assistance of independent qualified third party appraisers. The valuation methods used to determine fair value included the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land. In calculating value in use, the Company used the present value of the estimated cash flows over management's best estimate of the useful life of the CGUs' assets, as applicable. A pre-tax discount rate of 14.0% was based on management's best estimate of the CGUs' weighted average cost of capital considering the risks facing the CGUs.

Impairment reversal

In prior years, an impairment loss of \$44.4 million was recorded related to the Montreal distribution centre. During Fiscal 2015, an impairment reversal of \$15.1 million was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss in Fiscal 2015. The impairment reversal was included in the net impairment losses for 2015 in "Buildings and Leasehold Improvements."

Investment properties

Investment properties owned by the Company represent vacant land with no operating activity. During Fiscal 2016, there were disposals of \$19.7 million of investment properties and no additions, impairment losses or reversals.

As at January 28, 2017, the carrying value was \$2.0 million of which nil was included in "Assets held for sale" (January 30, 2016: \$21.7 million of which \$4.7 million was included in "Assets held for sale"). The fair value of investment properties was \$2.8 million (January 30, 2016: \$30.3 million). The fair value of the investment properties are classified within Level 3 of the fair value hierarchy (described further in Note 13.6). The Company engaged independent qualified third party appraisers to conduct appraisals and the fair value was determined using direct sales comparisons.

10. Intangible assets

The following is a continuity of intangible assets:

<i>(in CAD millions)</i>	Application Software	Information System Software and Other	Total
Cost or deemed cost			
Balance at January 31, 2015	\$ 66.0	\$ 136.2	\$ 202.2
Additions	27.1	3.0	30.1
Disposals	—	(0.1)	(0.1)
Balance at January 30, 2016	\$ 93.1	\$ 139.1	\$ 232.2
Additions	3.2	0.1	3.3
Disposals	—	(0.1)	(0.1)
Balance at January 28, 2017	\$ 96.3	\$ 139.1	\$ 235.4
Accumulated amortization			
Balance at January 31, 2015	\$ 57.2	\$ 128.8	\$ 186.0
Amortization expense ¹	3.4	0.1	3.5
Disposals	—	(0.1)	(0.1)
Impairment losses ¹	20.3	—	20.3
Balance at January 30, 2016	\$ 80.9	\$ 128.8	\$ 209.7
Amortization expense ¹	3.7	0.1	3.8
Disposals	—	—	—
Impairment losses ¹	11.1	8.8	19.9
Balance at January 28, 2017	\$ 95.7	\$ 137.7	\$ 233.4
Net balance at January 28, 2017	\$ 0.6	\$ 1.4	\$ 2.0
Net balance at January 30, 2016	\$ 12.2	\$ 10.3	\$ 22.5

¹ Amortization expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

Impairment loss

During Fiscal 2016, the Company recognized an impairment loss of \$19.9 million (2015: \$20.3 million) on intangible assets of a number of Sears full-line department stores, Sears Home stores, Hometown stores, Sears Travel locations, the Direct channel and Sears Home Services. The impairment loss was due to indicators (in particular a decrease in revenue or decrease in cash flows) that the recoverable amount was less than the carrying value. The loss was included in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss.

11. Other long-term assets

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

<i>(in CAD millions)</i>	As at January 28, 2017	As at January 30, 2016
Income taxes recoverable	\$ —	\$ 3.8
Prepaid rent	4.8	5.2
Receivables	0.1	1.8
Investments	—	1.3
Unamortized debt transaction costs	2.4	3.2
Other long-term assets	\$ 7.3	\$ 15.3

12. Deferred revenue

The components of deferred revenue were as follows:

<i>(in CAD millions)</i>	As at January 28, 2017	As at January 30, 2016
Arising from extended warranty service contracts ⁽ⁱ⁾	\$ 122.7	\$ 131.2
Arising from unshipped sales ⁽ⁱⁱ⁾	40.4	50.8
Arising from customer loyalty program ⁽ⁱⁱⁱ⁾	29.5	34.1
Arising from gift card issuances ^(iv)	8.1	10.7
Other ^(v)	4.8	5.7
Total deferred revenue	\$ 205.5	\$ 232.5
Current	\$ 136.1	\$ 158.3
Non-current	69.4	74.2
Total deferred revenue	\$ 205.5	\$ 232.5

The following explanations describe the Company’s deferred revenue:

- (i) Deferred revenue arising from the sale of extended warranty service contracts, which provide coverage for product repair services over the term of the contracts.
- (ii) Deferred revenue arising from the sale of merchandise which has not yet been delivered to or picked up by the customer. The revenue is recognized once the merchandise is delivered to the customer.
- (iii) Deferred revenue arising from the Sears Club loyalty program.
- (iv) Deferred revenue arising from the purchase of gift cards by customers that have not yet been redeemed for merchandise. The revenue is recognized primarily upon redemption of the gift card.
- (v) Other includes deferred revenue for services that have not yet been fully rendered. The revenue is recognized when the goods have been delivered or by reference to the stage of completion of the service.

13. Financial instruments

In the ordinary course of business, the Company enters into financial agreements with banks and other financial institutions to reduce underlying risks associated with interest rates, foreign currency, and commodity prices. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Financial instrument risk management

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange, interest rate, fuel price and natural gas price risk.

13.1 Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash, accounts receivable and other long-term assets.

Cash, accounts receivable, derivative instruments and investments included in other long-term assets totaling \$303.0 million as at January 28, 2017 (January 30, 2016: \$381.2 million) expose the Company to credit risk should the borrower default on maturity of the instruments. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from third parties as a result of ongoing credit evaluations and review of accounts receivable collectability. An allowance account included in "Accounts receivable, net" in the Consolidated Statements of Financial Position totaled \$6.1 million as at January 28, 2017 (January 30, 2016: \$6.0 million). As at January 28, 2017, no individual party represented 10.0% or more of the Company's net accounts receivable (January 30, 2016: no individual party represented 10% or more of the Company's net accounts receivable).

13.2 Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains access to adequate funding sources to seek to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at January 28, 2017:

(in CAD millions)	Carrying Amount	Contractual Cash Flow Maturities				
		Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	\$ 319.8	\$ 319.8	\$ 319.8	\$ —	\$ —	\$ —
Finance lease obligations including payments due within one year ¹	20.3	24.6	5.0	9.9	6.9	2.8
Operating lease obligations ²	—	380.2	82.9	135.5	85.8	76.0
Royalties ²	—	11.6	3.1	5.9	2.6	—
Purchase agreements ^{2,3}	—	22.4	15.2	6.7	0.5	—
Retirement benefit plans obligations ⁴	308.6	207.4	47.9	88.4	71.1	—
	\$ 648.7	\$ 966.0	\$ 473.9	\$ 246.4	\$ 166.9	\$ 78.8

¹ Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.7%.

² Operating lease obligations, royalties and certain purchase agreements are not reported in the Consolidated Statements of Financial Position.

³ Certain vendors require minimum purchase commitment levels over the term of the contract. A portion of these obligations are included in "Other long-term liabilities" in the Consolidated Statements of Financial Position.

⁴ Payments are based on a funding valuation as at December 31, 2015 which was completed on September 27, 2016. Any obligation beyond 2021 would be based on a funding valuation to be completed as at December 31, 2018 or earlier at the Company's discretion.

Market risk

Market risk exists as a result of the potential for losses caused by changes in market factors such as foreign currency exchange rates, interest rates and commodity prices.

13.3 Foreign exchange risk

The Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at January 28, 2017, there were forward contracts outstanding with a notional value of U.S. \$82.0 million (January 30, 2016: U.S. \$168.0 million) and a fair value of \$0.6 million included in “Derivative financial liabilities” (January 30, 2016: \$6.6 million included in “Derivative financial assets”) in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to June 2017. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under IAS 39. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods purchased for resale (“hedged item”). As at January 28, 2017, the designated portion of these hedges was considered effective.

While the notional principal of these outstanding financial instruments is not recorded in the Consolidated Statements of Financial Position, the fair value of the contracts is included in “Derivative financial assets” or “Derivative financial liabilities”, depending on the fair value, and classified as current or long-term, depending on the maturities of the outstanding contracts. Changes in the fair value of the designated portion of contracts are included in OCI for cash flow hedges, to the extent the designated portion of the hedges continues to be effective, with any ineffective portion included in “Cost of goods and services sold” in the Consolidated Statements of Net Loss and Comprehensive Loss. Amounts previously included in OCI are reclassified to “Cost of goods and services sold” in the same period in which the hedged item impacts net loss.

During Fiscal 2016, the Company recorded a gain of \$1.1 million (2015: loss of \$3.2 million), in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss, relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash, accounts receivable and accounts payable.

The year end exchange rate was 0.7612 U.S. dollars to one Canadian dollar. A 10% appreciation or depreciation of the U.S. dollar and/or the Canadian dollar exchange rate was determined to have an after-tax impact on net loss of less than \$0.1 million for U.S. dollar denominated balances included in cash and accounts payable.

13.4 Interest rate risk

Interest rate risk reflects the sensitivity of the Company’s financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive.

Net assets included in cash and other long-term assets, and borrowings under the Amended Credit Facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at January 28, 2017 was a net asset of \$235.8 million (January 30, 2016: net asset of \$315.2 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net loss of \$0.4 million for net assets subject to interest rate risk included in cash and other long-term assets at the end of Fiscal 2016.

13.5 Fuel and natural gas price risk

The Company entered into fuel and natural gas derivative contracts to manage the exposure to diesel fuel and natural gas prices and help mitigate volatility in cash flow for the transportation service business and utilities expense, respectively. As at January 28, 2017, the fixed to floating rate swap contracts outstanding had a fair value of \$0.1 million included in “Derivative financial assets” (January 30, 2016: less than \$0.1 million included in “Derivative financial assets”) in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to January 31, 2017 with monthly settlement of maturing contracts.

13.6 Classification and fair value of financial instruments

The estimated fair values of financial instruments presented are based on relevant market prices and information available at those dates. The following table summarizes the classification and fair value of certain financial instruments as at the specified dates. The Company determines the classification of a financial instrument when it is initially recorded, based on the underlying purpose of the instrument. As a significant number of the Company’s assets and liabilities, including inventories and capital assets, do not meet the definition of financial instruments, values in the tables below do not reflect the fair value of the Company as a whole.

The fair value of financial instruments are classified and measured according to the following three levels, based on the fair value hierarchy.

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data

(in CAD millions)

Classification	Balance Sheet Category	Fair Value Hierarchy	As at January 28, 2017	As at January 30, 2016
Fair value through profit or loss				
U.S. \$ derivative contracts	Derivative financial (liabilities) assets	Level 2	\$ (0.6)	\$ 6.6
Fuel and natural gas derivative contracts	Derivative financial assets	Level 2	0.1	—
Long-term investments	Other long-term assets	Level 3	—	1.3

All other assets that are financial instruments not listed in the chart above have been classified as “Loans and receivables”. All other financial instrument liabilities have been classified as “Other liabilities” and are measured at amortized cost in the Consolidated Statements of Financial Position. The carrying value of these financial instruments approximate fair value given that they are primarily short-term in nature. During Fiscal 2016, no transfers of financial instruments occurred between levels of the fair value hierarchy (2015: nil).

14. Accounts payable and accrued liabilities

The components of “Accounts payable and accrued liabilities” as included in the Consolidated Statements of Financial Position were as follows:

<i>(in CAD millions)</i>	As at January 28, 2017	As at January 30, 2016
Total accounts payable	\$ 167.9	\$ 162.5
Accrued liabilities		
Payroll and employee benefits	22.9	29.0
Merchandise accruals	56.0	65.6
Short-term leasehold inducements	8.0	8.3
Advertising accruals	6.9	11.9
Other accrued liabilities	58.1	55.4
Total accrued liabilities	\$ 151.9	\$ 170.2
Total accounts payable and accrued liabilities	\$ 319.8	\$ 332.7

15. Provisions

The following is a continuity which shows the change in provisions during Fiscal 2016 and Fiscal 2015:

<i>(in CAD millions)</i>	As at January 30, 2016	Additional Provisions	Release of Provisions	Reversed Provisions	As at January 28, 2017
Insurance ⁽ⁱ⁾	\$ 12.1	\$ 5.4	\$ (5.2)	\$ —	\$ 12.3
Returns and allowances ⁽ⁱⁱ⁾	11.1	9.3	(8.3)	—	12.1
Warranties ⁽ⁱⁱⁱ⁾	5.2	—	(1.0)	—	4.2
Sales tax ^(iv)	26.7	2.8	(2.4)	(24.6)	2.5
Severance ^(v)	16.4	36.1	(25.7)	(3.5)	23.3
Environmental ^(vi)	6.4	1.6	(1.9)	(0.3)	5.8
Other provisions ^(vii)	2.9	13.5	(5.5)	—	10.9
Total provisions	\$ 80.8	\$ 68.7	\$ (50.0)	\$ (28.4)	\$ 71.1
Current	\$ 75.8	\$ 64.2	\$ (50.0)	\$ (28.4)	\$ 61.6
Non-current ^{(iii), (vi)}	5.0	4.5	—	—	9.5
Total provisions	\$ 80.8	\$ 68.7	\$ (50.0)	\$ (28.4)	\$ 71.1

<i>(in CAD millions)</i>	As at January 31, 2015		Additional Provisions		Release of Provisions		Reversed Provisions		As at January 30, 2016	
Insurance ⁽ⁱ⁾	\$	13.7	\$	3.2	\$	(4.8)	\$	—	\$	12.1
Returns and allowances ⁽ⁱⁱ⁾		12.0		6.5		(7.4)		—		11.1
Warranties ⁽ⁱⁱⁱ⁾		8.2		0.6		(3.6)		—		5.2
Sales tax ^(iv)		6.0		22.1		(1.4)		—		26.7
Severance ^(v)		11.9		28.7		(18.3)		(5.9)		16.4
Environmental ^(vi)		6.1		2.7		(2.1)		(0.3)		6.4
Other provisions ^(vii)		5.5		—		(2.4)		(0.2)		2.9
Total provisions	\$	63.4	\$	63.8	\$	(40.0)	\$	(6.4)	\$	80.8
Current	\$	58.6	\$	63.6	\$	(40.0)	\$	(6.4)	\$	75.8
Non-current ^{(iii) (vi)}		4.8		0.2		—		—		5.0
Total provisions	\$	63.4	\$	63.8	\$	(40.0)	\$	(6.4)	\$	80.8

The following explanations describe the Company's provisions:

- (i) The provision for insurance, or general liability claims, represents the Company's best estimate of the future outflow of economic resources due to automobile, product and other general liability claims. Insurance claims relating to this provision are expected to be paid over the next several years; however, as the Company has no unconditional right to defer the settlement past at least 12 months, this provision is considered to be current. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies validated by an independent third party. These actuarial methodologies utilize historical data to project future incurred losses. Loss estimates are adjusted based on reported claims and actual settlements.
- (ii) The provision for returns and allowances represents the Company's best estimate of the future outflow of economic resources due to merchandise returns and allowances. Returns and allowances relating to this provision are expected to be realized over the next 12 months. Uncertainty exists relating to the amount and timing of returns and allowances, therefore, historical data has been used to arrive at this estimate.
- (iii) The provision for warranty claims represents the Company's best estimate of the future outflow of economic resources that will be required due to the Company's warranty obligations. Uncertainty exists relating to the number of incidents requiring merchandise repair and the related costs. This provision is estimated based on historical warranty trends and costs. The provision for warranty claims is primarily expected to be realized within 72 months, with the balance included in "Provisions" and "Other long-term liabilities" in the Consolidated Statements of Financial Position.
- (iv) The Company maintains provisions for sales tax assessments under active discussion, audit, dispute or appeal with tax authorities. These provisions represent the Company's best estimate of the amount expected to be paid based on qualitative and quantitative assessments. Though uncertainty exists around the timing of settlement of the disputes or appeals with tax authorities, the Company expects that sales tax provisions will be settled within four years. However, as the Company has no unconditional right to defer the settlement of these provisions past at least 12 months, these provisions are classified as current.
- (v) The provision for severance represents the Company's best estimate of the future outflow of payments to terminated employees. Uncertainty exists in certain cases relating to the amount of severance that will be awarded in court proceedings. As the Company has no unconditional right to defer these payments past at least 12 months, this provision is classified as current.
- (vi) The environmental provision primarily represents the costs to remediate environmental contamination associated with decommissioning auto centres to meet regulatory requirements. The provision is based on assessments conducted by third parties as well as historical data. The timing of payments for remediation is uncertain and as the Company has no unconditional right to defer most of these payments past at least 12 months, the balance is included primarily in "Provisions", with the remainder of the balance included in "Other long-term liabilities" in the Consolidated Statements of Financial Position.
- (vii) Other provisions primarily relate to onerous contracts. The provision for onerous contracts represents the Company's best estimate of the future outflow of payments when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected. Uncertainty exists in certain cases relating to the expected economic benefits under an onerous contract, however the Company expects the onerous contract provisions to be settled within five years. The liability that is expected to be settled within 12 months is included in "Provisions", with the remainder of the balance included in "Other long-term liabilities" in the Consolidated Statements of Financial Position.

16. Long-term obligations and finance costs

Long-term obligations

The Company's debt consists of finance lease obligations. In September 2010, the Company entered into an \$800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015.

On May 28, 2014, the Company announced that it had extended the term of the Credit Facility (the "Amended Credit Facility") to May 28, 2019 and reduced the total credit limit to \$300.0 million. The Amended Credit Facility is secured with a first lien on inventory and credit card receivables.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula, up to a maximum availability of \$300.0 million. Availability under the Amended Credit Facility was \$192.3 million as at January 28, 2017 (January 30, 2016: \$120.1 million). In 2013, as a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company provided additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply. As at January 28, 2017, four properties in Canada had been pledged to the lenders under the Amended Credit Facility. The reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the value of real estate assets pledged as additional collateral.

The Amended Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at January 28, 2017.

As at January 28, 2017, the Company had no funded borrowings on the Amended Credit Facility. The Company had unamortized transaction costs associated with the Amended Credit Facility of \$2.4 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (January 30, 2016: no funded borrowings and unamortized transaction costs of \$3.2 million included in "Other long-term assets"). In addition, the Company had \$107.7 million (January 30, 2016: \$63.3 million) of letters of credit outstanding under the Amended Credit Facility. These letters of credit cover various payment obligations. Interest on drawings under the Amended Credit Facility and letter of credit fee are determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Amended Credit Facility are due monthly and are added to principal amounts outstanding.

As at January 28, 2017, the Company had no outstanding merchandise letters of credit (January 30, 2016: U.S. \$4.8 million) used to support the Company's offshore merchandise purchasing program.

Finance costs

Interest expense on long-term obligations, including finance lease obligations, the current portion of long-term obligations, amortization of transaction costs, accretion on the long-term portion of provisions and commitment fees on the unused portion of the Amended Credit Facility for Fiscal 2016 totaled \$7.2 million (2015: \$6.3 million). Interest expense was included in "Finance costs" in the Consolidated Statements of Net Loss and Comprehensive Loss. Also included in "Finance costs" for Fiscal 2016, was an expense of \$1.7 million for interest on income tax assessments and reassessments of the current and prior years (2015: expense of \$3.4 million).

The Company's cash payments for interest on long-term obligations, including finance lease obligations, the current portion of long-term obligations and commitment fees on the unused portion of the Credit Facility for Fiscal 2016 totaled \$5.1 million (2015: \$4.6 million).

17. Other long-term liabilities

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

<i>(in CAD millions)</i>	As at January 28, 2017	As at January 30, 2016
Leasehold inducements	\$ 35.3	\$ 43.3
Straight-line rent liability	33.4	11.7
Miscellaneous	14.2	12.0
Total other long-term liabilities	\$ 82.9	\$ 67.0

The non-current portions of the warranties and environmental provisions (see Note 15) are reflected in the miscellaneous component of "Other long-term liabilities" in the Consolidated Statements of Financial Position.

18. Leasing arrangements

18.1 Finance lease arrangements – Company as lessee

As at January 28, 2017, the Company had finance lease arrangements related to the building and equipment components of certain leased properties, which include retail, office and warehouse locations. The related land components of these properties have been separately classified as operating leases. The buildings and equipment held under finance leases are used in the normal course of operations and do not contain significant unusual or contingent lease terms or restrictions. Building leases typically run for a period of 1 to 10 years, with some leases providing multiple options to renew after that date. Equipment leases typically run for a period of 1 to 5 years, with some leases providing an option to renew after that date.

Finance lease buildings and equipment are included in the Consolidated Statements of Financial Position under “Property, plant and equipment”. Note 9 provides further details on the net carrying value of these assets, which as at January 28, 2017 was nil (January 30, 2016: \$0.3 million).

As at January 28, 2017, the corresponding finance lease obligations, current and non-current, were \$3.7 million (January 30, 2016: \$4.0 million) and \$16.6 million (January 30, 2016: \$20.2 million), included in the Consolidated Statements of Financial Position under “Current portion of long-term obligations” and “Long-term obligations,” respectively (see Note 16).

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

(in CAD millions)	As at January 28, 2017			As at January 30, 2016		
	Finance lease payments	Future finance costs	Present value of minimum lease payments	Finance lease payments	Future finance costs	Present value of minimum lease payments
Within 1 year	\$ 5.0	\$ 1.3	\$ 3.7	\$ 5.6	\$ 1.6	\$ 4.0
2 years	5.0	1.1	3.9	5.0	1.5	3.5
3 years	4.9	0.8	4.1	5.0	1.1	3.9
4 years	3.8	0.5	3.3	4.9	0.8	4.1
5 years	3.1	0.3	2.8	3.8	0.5	3.3
Thereafter	2.8	0.3	2.5	5.9	0.5	5.4
Total minimum payments	\$ 24.6	\$ 4.3	\$ 20.3	\$ 30.2	\$ 6.0	\$ 24.2

Interest on finance lease obligations is recognized in “Finance costs” in the Consolidated Statements of Net Loss and Comprehensive Loss (see Note 16). Included in total “Finance costs” in Fiscal 2016, was \$1.7 million (2015: \$1.9 million) of interest paid related to finance lease obligations.

18.2 Operating lease arrangements – Company as lessee

As at January 28, 2017, the Company had operating lease arrangements related to leased land, retail and office properties as well as equipment assets. The leases typically run for a period of 1 to 10 years, with some leases providing an option to renew after that date. Some leases include additional or contingent rent payments that are based on sales and step rent payments which are recognized on a straight-line basis over the term of the lease. During Fiscal 2016, contingent rent recognized as an expense in respect of operating leases totaled \$0.8 million (2015: \$0.3 million). Rental expense for all operating leases totaled \$106.2 million in Fiscal 2016 (2015: \$99.9 million). These expenses are included in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss.

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

(in CAD millions)	As at January 28, 2017		As at January 30, 2016	
	\$	\$	\$	\$
Within 1 year	\$ 82.9	\$ 81.2	\$ 81.2	\$ 81.2
2 years	72.1	71.4	71.4	71.4
3 years	63.4	58.8	58.8	58.8
4 years	53.1	46.4	46.4	46.4
5 years	32.7	35.1	35.1	35.1
Thereafter	76.0	83.4	83.4	83.4
Total operating lease obligations ¹	\$ 380.2	\$ 376.3	\$ 376.3	\$ 376.3

¹ Operating lease obligations are not reported in the Consolidated Statements of Financial Position.

The Company has a number of agreements to sub-lease premises to third parties, which are all classified as operating leases. During Fiscal 2016, total sub-lease income from leased premises was \$2.0 million (2015: \$2.4 million). As at January 28, 2017, total future minimum lease payments receivable from third party tenants were \$12.9 million (2015: \$15.0 million).

19. Retirement benefit plans

The Company currently maintains a hybrid registered pension plan with a defined benefit component and a defined contribution component which covers eligible, regular full-time employees as well as some of its part-time employees. The defined benefit component provides pensions based on length of service and final average earnings. In addition to a registered retirement savings plan, the pension plan includes a non-registered supplemental savings arrangement in respect to the defined benefit component. The non-registered portion of the plan is maintained to enable certain employees to continue saving for retirement in addition to the registered limit as prescribed by the Canada Revenue Agency. The Company also maintains a defined benefit non-pension retirement plan which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust (“Other Benefits Plan”). Also provided for under the health and welfare trust are short-term disability payments for active employees. The Company’s accounting policies related to retirement benefit plans are described in Note 2.14.

In July 2008, the Company amended its pension plan and introduced a defined contribution component. The defined benefit component continues to accrue benefits related to future compensation increases although no further service credit is earned, and no contributions are made by employees. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for employees who had not achieved the eligibility criteria for these non-pension retirement benefits as at December 31, 2008.

In December 2009, the Company made the decision to change funding for non-pension retirement benefits from an actuarial basis to a pay-as-you-go basis to allow the surplus in the health and welfare trust to be utilized to make benefit payments. In addition, to further utilize the surplus, short-term disability payments of eligible employees are paid on a pay-as-you-go basis from the health and welfare trust. Beginning in February 2015, the Company began funding the Other Benefits Plan payments as well as short-term disability payments of active employees since the surplus in the health and welfare trust has been depleted.

In December 2013, the Company amended the early retirement provision of its defined benefit plan to eliminate a benefit for employees who voluntarily resign prior to age of retirement, with effect January 1, 2015. In addition, the Company amended the defined benefit plan for improvements that increase portability of employee benefits, with effect March 1, 2014. In December 2013, the Company froze the benefits offered under the Other Benefits Plan to benefits levels as at January 1, 2015.

During Fiscal 2015, the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits plan. The Company paid \$4.0 million to settle acceptances from the Other Benefits plan offer and recorded a pre-tax gain on settlement of retirement benefits of \$5.1 million (\$5.4 million settlement gain less fees of \$0.3 million) during Fiscal 2015 related to these offers. This payment is included in “Retirement benefit plans contributions” in the Consolidated Statements of Cash Flows. To determine the settlement gain, the Other Benefits plan was remeasured as at the date of settlement, which also resulted in a \$2.0 million increase to “Other comprehensive income (loss)” (“OCI”).

Risks associated with retirement benefit plans

There is no assurance that the Company’s retirement benefit plans will be able to earn the assumed rate of return. New regulations and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates. Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses. In any year, actual experience differing from the assumptions may be material.

Plan assets consist primarily of cash, alternative investments and marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions. Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase.

Plan amendments, curtailments and settlements

In Fiscal 2012, the Company amended the non-registered supplemental savings arrangement in respect to the defined benefit plan to allow the use of letters of credit to satisfy the funding requirement of its deficit. As at January 28, 2017, a letter of credit with a notional value of \$6.8 million was on deposit with the Trustee for the non-registered portion of the defined benefit plan (January 30, 2016: notional value of \$2.1 million).

Maturity profile of retirement benefit plan obligations

The weighted average durations of the Registered Retirement Plans, Non-registered Pension Plan and Other Benefits Plan are all approximately 10.2 years (2015: approximately 10.3 years).

The Company’s contractual cash flow maturity relating to retirement benefit plan obligation payments is included under “Liquidity risk” in Note 13.

19.1 Retirement benefit asset and liability

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2015, which was completed on September 27, 2016. An actuarial valuation of the health and welfare trust is performed at least every three years, with the last valuation completed as of January 31, 2014.

(in CAD millions)	2016				2015			
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Defined benefit plan assets								
Fair value, beginning balance	\$ 1,106.5	\$ 48.1	\$ 1.5	\$1,156.1	\$ 1,217.8	\$ 50.8	\$ 1.9	\$1,270.5
Interest income	33.2	1.4	—	34.6	39.1	1.6	—	40.7
Remeasurement gain (loss) on return on plan assets	32.0	0.1	0.6	32.7	(36.5)	(1.5)	(0.1)	(38.1)
Employer contributions	18.6	2.6	17.1	38.3	20.3	0.8	21.1	42.2
Administrative expenses	(0.5)	—	—	(0.5)	(0.5)	—	—	(0.5)
Benefits paid ¹	(139.1)	(4.2)	(17.6)	(160.9)	(133.7)	(3.6)	(21.4)	(158.7)
Fair value of plan assets, ending balance	\$ 1,050.7	\$ 48.0	\$ 1.6	\$1,100.3	\$ 1,106.5	\$ 48.1	\$ 1.5	\$1,156.1
Defined benefit plan obligations								
Accrued obligations, beginning balance	\$ 1,226.6	\$ 52.9	\$ 203.5	\$1,483.0	\$ 1,391.7	\$ 55.1	\$ 231.1	\$1,677.9
Interest cost	35.8	1.5	5.7	43.0	44.5	1.7	6.9	53.1
Benefits paid	(139.1)	(4.2)	(13.0)	(156.3)	(133.6)	(3.6)	(16.5)	(153.7)
Settlement gain	—	—	—	—	—	—	(5.4)	(5.4)
Actuarial losses (gain)	37.7	0.1	1.4	39.2	(76.0)	(0.3)	(12.6)	(88.9)
Accrued plan obligations, ending balance	\$ 1,161.0	\$ 50.3	\$ 197.6	\$1,408.9	\$ 1,226.6	\$ 52.9	\$ 203.5	\$1,483.0
Funded status of plan – (deficit)	(110.3)	(2.3)	(196.0)	(308.6)	(120.1)	(4.8)	(202.0)	(326.9)
Retirement benefit liability at end of fiscal year, net	\$ (110.3)	\$ (2.3)	\$ (196.0)	\$ (308.6)	\$ (120.1)	\$ (4.8)	\$ (202.0)	\$ (326.9)

¹ Benefits paid from the funded assets include retiree benefits and short-term disability of active employees. Other benefits consist of retiree health and dental claims.

19.2 Fair value of plan assets

The fair value of plan assets disaggregated by asset class and fair value hierarchy level was as follows (measured at January 31, 2017 and January 31, 2016):

(in CAD millions)	As at January 28, 2017				As at January 30, 2016			
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
<i>Cash and cash equivalents</i>								
Level 2	\$ 12.4	\$ 23.0	\$ 1.6	\$ 37.0	\$ 166.1	\$ 23.0	\$ —	\$ 189.1
<i>Corporate bonds and notes</i>								
Level 2	305.2	—	—	305.2	369.4	—	—	369.4
Level 3	136.7	—	—	136.7	141.5	—	1.5	143.0
Subtotal	441.9	—	—	441.9	510.9	—	1.5	512.4
<i>Common stock, preferred stock and REITS</i>								
Level 1	294.3	—	—	294.3	193.9	—	—	193.9
<i>Common or collective trusts</i>								
Level 2	160.5	24.4	—	184.9	150.8	24.9	—	175.7
<i>Short-term collective investment funds</i>								
Level 2	136.4	0.6	—	137.0	101.6	0.2	—	101.8
Level 3	1.5	—	—	1.5	—	—	—	—
Subtotal	137.9	0.6	—	138.5	101.6	0.2	—	101.8
<i>Hedge funds</i>								
Level 3	0.6	—	—	0.6	1.1	—	—	1.1
<i>Receivables (liabilities)</i>								
Level 1	4.2	—	—	4.2	5.8	—	—	5.8
Level 2	4.2	—	—	4.2	(21.3)	—	—	(21.3)
Subtotal	8.4	—	—	8.4	(15.5)	—	—	(15.5)
<i>Miscellaneous other liabilities</i>								
Level 1	(5.3)	—	—	(5.3)	(2.4)	—	—	(2.4)
Total fair value of plan assets	\$ 1,050.7	\$ 48.0	\$ 1.6	\$ 1,100.3	\$ 1,106.5	\$ 48.1	\$ 1.5	\$ 1,156.1

The three levels of the fair value hierarchy referenced above are discussed in Note 13.6.

19.3 Plan assets investment allocation

During Fiscal 2016, the Company changed the target asset allocation to 50-70% fixed income and 30-50% equity for the defined benefit registered pension plan. For the assets in the health and welfare trust, included in Other Benefits Plan, the asset allocation is 100% fixed income. As at the end of Fiscal 2016 and 2015, the assets were in line with the target allocation range. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

The plan's target allocation is determined taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

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

	As at January 28, 2017			As at January 30, 2016		
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Fixed income securities	58.3%	75.5%	100.0%	69.6%	69.5%	100.0%
Alternative investments	0.1%	—%	—%	0.1%	—%	—%
Equity securities	41.6%	24.5%	—%	30.3%	30.5%	—%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

19.4 Pension assumptions

The significant actuarial assumptions were as follows (weighted average assumptions):

	As at January 28, 2017			As at January 30, 2016		
	Registered Retirement Plans	Non- Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non- Registered Pension Plan	Other Benefits Plan
Discount rate used in calculation of Accrued benefit plan obligations	3.70%	3.60%	3.60%	3.80%	3.70%	3.70%
Benefit plans expense	3.00%	2.90%	2.90%	3.00%	3.00%	2.90%
Rate of compensation increase used in calculation of Accrued benefit plan obligations	3.30%	3.30%	3.30%	3.50%	3.50%	3.50%
Benefit plans expense	3.30%	3.30%	3.30%	3.50%	3.50%	3.50%
Expected long-term rate of return on plan assets used in calculation of benefit plans expense	3.00%	2.90%	2.90%	3.00%	3.00%	2.90%
Health care cost trend rates						
Used in calculation of accrued benefit plan obligations			4.47%			4.62%
Used in calculation of benefit plans expense			4.62%			4.77%
Cost trend rate declines to			2.45%			2.45%
Year that the rate reaches assumed constant			2030			2030

19.5 Sensitivity of significant actuarial assumptions

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

<i>(in CAD millions)</i>	2016			2015		
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate sensitivity						
Accrued benefit plan obligations						
100 basis point increase in discount rate	\$ (122.0)	\$ (4.8)	\$ (18.3)	\$ (130.7)	\$ (5.1)	\$ (21.2)
100 basis point decrease in discount rate	148.6	5.8	21.7	160.3	6.1	25.2
Benefit plans expense						
100 basis point increase in discount rate	(3.6)	(0.1)	0.9	(5.7)	(0.2)	1.0
100 basis point decrease in discount rate	1.8	0.1	(1.1)	3.2	0.1	(1.3)
Rate of compensation increase sensitivity						
Accrued benefit plan obligations						
50 basis point increase in rate of compensation increase	6.6	0.2	n/a	8.1	0.3	n/a
50 basis point decrease in rate of compensation increase	(6.1)	(0.2)	n/a	(7.2)	(0.2)	n/a
Benefit plans expense						
50 basis point increase in rate of compensation increase	0.2	—	n/a	0.4	—	n/a
50 basis point decrease in rate of compensation increase	(0.2)	—	n/a	(0.3)	—	n/a
Health care cost trend rate sensitivity						
Accrued benefit plan obligations						
100 basis point increase in health care trend rate	n/a	n/a	16.0	n/a	n/a	18.6
100 basis point decrease in health care trend rate	n/a	n/a	(13.8)	n/a	n/a	(16.0)
Benefit plans expense						
100 basis point increase in health care trend rate	n/a	n/a	0.5	n/a	n/a	0.6
100 basis point decrease in health care trend rate	n/a	n/a	(0.4)	n/a	n/a	(0.5)

The methods and assumptions used in determining the above sensitivity are consistent with the methods and assumptions used to determine the pension plan obligations and with the methods and assumptions used in Fiscal 2015.

19.6 Retirement benefit plans expense and contributions

The expense for the defined benefit, defined contribution and Other Benefits Plan for Fiscal 2016 and Fiscal 2015, was as follows:

(in CAD millions)	2016				2015			
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Net interest	\$ 2.8	\$ 0.1	\$ 5.7	\$ 8.6	\$ 5.4	\$ 0.1	\$ 6.9	\$ 12.4
Settlement gain	—	—	—	—	—	—	(5.4)	(5.4)
Administrative expenses	0.5	—	—	0.5	0.5	—	0.3	0.8
Net defined benefit plans expense	\$ 3.3	\$ 0.1	\$ 5.7	\$ 9.1	\$ 5.9	\$ 0.1	\$ 1.8	\$ 7.8
Net defined contribution plan expense	4.8	—	0.2	5.0	5.8	—	0.2	6.0
Total retirement benefit plans expense ¹	\$ 8.1	\$ 0.1	\$ 5.9	\$ 14.1	\$ 11.7	\$ 0.1	\$ 2.0	\$ 13.8

¹ Not included in total expense recognized are short-term disability payments of \$4.6 million (2015: \$4.9 million) that were paid from the health and welfare trust. Both short-term disability and the retirement benefit plans expense are included in "Selling, administrative and other expenses", unless disclosed elsewhere, in the Company's Consolidated Statements of Net Loss and Comprehensive Loss.

Total cash contributions made by the Company to its defined benefit, defined contribution and Other Benefits Plans, for the fiscal year ended January 28, 2017 were \$43.5 million (2015: \$48.6 million), which included \$4.6 million (2015: \$4.9 million), related to short-term disability payments and nil during Fiscal 2016 (2015: \$4.0 million) to settle acceptances from the Other Benefits Plan offers mentioned above. During the 52-week period ending February 3, 2018, it is estimated that the Company will make contributions of approximately \$69.0 million to its defined benefit, defined contribution and Other Benefits Plan, which include funding obligations as described in Note 13.2.

19.7 Remeasurements of the net defined retirement benefit liability

(in CAD millions)	2016				2015			
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Actuarial gain (loss) on difference between expected interest income and actual return on plan assets	\$ 32.0	\$ 0.1	\$ 0.6	\$ 32.7	\$ (36.5)	\$ (1.5)	\$ (0.1)	\$ (38.1)
Actuarial (loss) gain due to change in financial assumptions	(18.2)	0.7	(3.4)	(20.9)	68.0	2.4	9.7	80.1
Actuarial (loss) gain due to all other experiences	(19.5)	(0.8)	2.0	(18.3)	8.0	(2.1)	2.9	8.8
Total remeasurement (loss) gain, net of income taxes ¹	\$ (5.7)	\$ —	\$ (0.8)	\$ (6.5)	\$ 39.5	\$ (1.2)	\$ 12.5	\$ 50.8

¹ Total remeasurement (loss) gain, net of income taxes, is included in "Total other comprehensive income (loss)" in the Company's Consolidated Statements of Net Loss and Comprehensive Loss.

The actuarial losses associated with changes in financial assumptions are due to decreases in the discount rate as at January 28, 2017 for the Registered Retirement Plans of 0.1% (2015: 0.5% increase), Non-registered Pension Plan of 0.1% (2015: 0.4% increase), and Other Benefits Plan of 0.1% (2015: 0.5% increase).

20. Contingent liabilities

20.1 Legal proceedings

The Company is involved in various legal proceedings incidental to the normal course of business. The Company takes into account all available information, including guidance from experts (such as internal and external legal counsel) at the time of reporting to determine if it is probable that a present obligation (legal or constructive) exists, if it is probable that an outflow of resources embodying economic benefit will be required to settle such obligation and whether the Company can reliably measure such obligation at the end of the reporting period. The Company is of the view that, although the outcome of such legal proceedings cannot be predicted with certainty, the final disposition is not expected to have a material adverse effect on the consolidated financial statements, including its Consolidated Statements of Financial Position, Consolidated Statements of Net Loss and Comprehensive Loss, and Consolidated Statements of Cash Flows.

20.2 Commitments and guarantees

Commitments

As at January 28, 2017, cash that was restricted represented cash pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program of nil (January 30, 2016: \$7.0 million, which is equal to U.S. \$5.0 million), and cash pledged as collateral with a counterparty related to outstanding derivative contracts of \$1.1 million (January 30, 2016: nil), which was equal to U.S. \$0.8 million (January 30, 2016: nil).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 13.2 "Liquidity risk".

Guarantees

The Company has provided the following significant guarantees to third parties:

Royalty License Agreements

The Company pays royalties under various merchandise license agreements, which are generally based on the sale of products. Certain license agreements require a minimum guaranteed payment of royalties over the term of the contract, regardless of sales. Total future minimum royalty payments under such agreements were \$11.6 million as at January 28, 2017 (January 30, 2016: \$15.9 million).

Other Indemnification Agreements

In the ordinary course of business, the Company has provided indemnification commitments to counterparties in transactions such as leasing transactions, royalty agreements, service arrangements, investment banking agreements and director and officer indemnification agreements. The foregoing indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of changes in laws and regulations, or as a result of litigation or statutory claims, or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and typically do not provide for any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the consolidated financial statements with respect to these indemnification commitments.

21. Income taxes

The average combined federal and provincial statutory income tax rate applied to the Company was 26.9% for Fiscal 2016 (2015: 26.8%). A reconciliation of income taxes at the average statutory tax to actual income tax expense for Fiscal 2016 and Fiscal 2015 is as follows:

<i>(in CAD millions)</i>	2016		2015	
Loss before income taxes	\$	(318.2)	\$	(62.7)
Income tax recovery at the average statutory tax rate	\$	(85.6)	\$	(16.8)
(Decrease) increase in income taxes resulting from				
Non-taxable portion of capital gain		(16.1)		(33.3)
Non-deductible items		1.5		1.0
Prior year adjustments		11.3		—
Non-recognition of deferred taxes assets, net		94.6		56.7
Others		(2.6)		(2.6)
		3.1		5.0
Effective tax rate before the following adjustments		(1.0)%		(8.0)%
Changes in tax rates or imposition of new taxes		(0.3)		0.2
Total income tax expense	\$	2.8	\$	5.2
Effective tax rate		(0.9)%		(8.3)%

The Company's total net cash refunds of income taxes for the current year was \$25.0 million (2015: net refund of \$87.6 million), primarily relating to the settlement for fiscal years 2006 to 2008 and the carry back of losses generated by the Company in Fiscal 2014, and included refund interest on net cash income tax receipts of \$3.1 million (2015: \$1.1 million) (see Note 5 for additional information).

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. During Fiscal 2016, the Company recorded an expense of \$1.7 million for interest on income tax assessments and reassessments of the current and prior years (2015: expense of \$3.4 million).

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

The tax effects of the significant components of temporary timing differences giving rise to the Company's net deferred tax assets were as follows:

<i>(in CAD millions)</i>	As at January 30, 2016	Recognized in earnings	Recognized in equity	As at January 28, 2017
Deferred revenue	\$ 0.6	\$ 0.3	\$ —	\$ 0.9
Other long term liabilities	19.1	(3.0)	—	16.1
Derivative financial assets	(2.7)	—	2.8	0.1
Property, plant and equipment	(4.2)	—	—	(4.2)
Investment property	(21.5)	11.9	—	(9.6)
Intangible assets	1.1	0.5	—	1.6
Retirement benefit obligations	87.6	(6.2)	1.7	83.1
Provisions	60.8	(8.4)	—	52.4
Non-capital losses	51.5	88.8	—	140.3
Other	8.2	8.2	—	16.4
Write down of deferred tax assets	(122.0)	—	—	(122.0)
Non-recognition of deferred tax assets	(77.9)	(94.6)	(1.9)	(174.4)
Total deferred tax assets, net	\$ 0.6	\$ (2.5)	\$ 2.6	\$ 0.7

<i>(in CAD millions)</i>	As at January 31, 2015	Recognized in earnings	Recognized in equity	As at January 30, 2016
Deferred revenue	\$ 0.5	\$ 0.1	\$ —	\$ 0.6
Other long term liabilities	21.8	(2.7)	—	19.1
Derivative financial assets	(2.5)	(0.4)	0.2	(2.7)
Property, plant and equipment	(7.9)	3.7	—	(4.2)
Investment property	(28.0)	6.5	—	(21.5)
Intangible assets	1.1	—	—	1.1
Retirement benefit obligations	108.2	(7.0)	(13.6)	87.6
Provisions	49.6	11.2	—	60.8
Non-capital losses	10.4	41.1	—	51.5
Other	1.1	7.1	—	8.2
Write down of deferred tax assets, net	(122.0)	—	—	(122.0)
Non-recognition of deferred tax assets	(35.0)	(56.7)	13.8	(77.9)
Total deferred tax (liabilities) assets, net	\$ (2.7)	\$ 2.9	\$ 0.4	\$ 0.6

The Company assesses the likelihood that the deferred tax assets will be realizable at the end of each reporting period and adjusts the carrying amount accordingly, by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws. The Company has determined that it was not appropriate to recognize all of its deferred tax assets as it was not probable that sufficient taxable income would be available to allow part of the assets to be recovered. This accounting treatment has no effect on the Company's ability to utilize deferred tax assets to reduce future cash tax payments. As of January 28, 2017, the Company has not recognized the benefit of approximately \$520.8 million of loss carry forwards on its Financial Statements (which expire in the taxation years from 2035 to 2037) and approximately \$4.9 million in Ontario minimum tax, which could be used to reduce taxes payable in future periods. The aggregate amount of net deductible temporary differences and loss carry forwards as at January 28, 2017, was approximately \$1,083.6 million, and the tax benefit associated with these items was approximately \$291.5 million using the statutory tax rate of 26.9%, which together with the Ontario minimum tax recoverable of approximately \$4.9 million amounted to a total tax benefit of \$296.4 million.

During Fiscal 2014, the Company recognized a write down of the deferred tax assets for \$122.0 million. \$88.6 million of this charge was included in “Deferred income tax recovery (expense)”, and as a portion of the deferred tax assets originated through equity, \$33.4 million of this charge was included in OCI in the Consolidated Statements of Net Loss and Comprehensive Loss in accordance with IAS 12, *Income Taxes*. The aggregate amount of deductible temporary differences for which no deferred tax asset is recognized as at January 28, 2017, is approximately \$1,083.6 million (January 30, 2016: \$727.6 million).

22. Capital stock and share-based compensation

Capital Stock

ESL Investments, Inc., and investment affiliates including Edward S. Lampert, collectively “ESL”, form the largest shareholder of the Company, both directly through ownership in the Company, and indirectly through shareholdings in Sears Holdings.

As at January 28, 2017, ESL was the beneficial holder of 46,162,515 or 45.3%, of the common shares of the Company (January 30, 2016: 46,162,515 or 45.3%). Sears Holdings was the beneficial holder of 11,962,391 or 11.7%, of the common shares of the Company as at January 28, 2017 (January 30, 2016: 11,962,391 or 11.7%). The issued and outstanding shares are fully paid and have no par value.

The authorized common share capital of the Company consists of an unlimited number of common shares without nominal or par value and an unlimited number of class 1 preferred shares, issuable in one or more series. As at January 28, 2017, the total number of common shares issued and outstanding of the Company was 101,877,662 (January 30, 2016: 101,877,662) with stated value of \$14.9 million (January 30, 2016: \$14.9 million).

Share-based compensation

During Fiscal 2016, the Company granted 500,000 RSUs to an executive under an equity-based compensation plan. These RSUs had a grant-date fair value of \$4.2 million. The fair value of the grant was determined based on the Company’s share price at the date of grant. The RSUs are entitled to accrue common share dividends equivalent to those declared by the Company, which would be settled by a grant of additional RSUs to the executive.

During Fiscal 2014, the Company granted 225,000 RSUs to an executive under an equity-based compensation plan, which were forfeited in Fiscal 2015. These RSUs had a grant-date fair value of \$1.9 million. The fair value of the grant was determined based on the Company’s share price at the date of grant, and was entitled to accrue common share dividends equivalent to those declared by the Company, which would be settled by a grant of additional RSUs to the executive.

Compensation expense related to RSUs included in “Selling, administrative and other expenses” for Fiscal 2016 was \$3.1 million (2015: recovery of \$0.4 million).

23. Capital disclosures

The Company’s objectives when managing capital are:

- Maintain financial flexibility thus allowing the Company to preserve its ability to meet financial objectives and continue as a going concern;
- Provide an appropriate return to shareholders; and
- Maintain a capital structure that allows the Company to obtain financing should the need arise.

The Company manages and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets. In order to maintain or adjust the capital structure, the Company may pay a dividend or return capital to shareholders, modify debt levels or sell assets.

The Company defines capital as follows:

- Long-term obligations, including the current portion of long-term obligations (“Total long-term obligations”); and
- Shareholders’ equity.

The following table presents summary quantitative data with respect to the Company’s capital resources:

<i>(in CAD millions)</i>	As at January 28, 2017	As at January 30, 2016
Total long-term obligations	\$ 20.3	\$ 24.2
Shareholders’ equity	222.2	554.2
Total	\$ 242.5	\$ 578.4

24. Revenue

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

<i>(in CAD millions)</i>	2016	2015
Apparel and Accessories	\$ 994.4	\$ 1,108.6
Home and Hardlines	1,143.4	1,476.4
Other merchandise revenue	205.8	207.0
Services and other	237.6	245.6
Commission and licensee revenue	32.4	108.1
Total revenue	\$ 2,613.6	\$ 3,145.7

25. Employee benefits expense

The components of the Company's employee benefits expense were as follows:

<i>(in CAD millions)</i>	2016	2015
Wages and salaries	\$ 376.5	\$ 432.6
Paid absences ¹	35.0	40.0
Benefits		
Provincial healthcare costs	9.4	10.3
Flex benefits	10.1	12.4
Retirement benefit plans expense ²	14.0	13.5
Statutory deductions ³	27.0	30.9
Severance	36.1	25.3
Other employer paid benefits	10.4	5.6
Total benefits expense	\$ 518.5	\$ 570.6

¹ Paid absences are expenses related to vacation, statutory holidays and sick days.

² Included in Retirement benefit plans expense for Fiscal 2016 was nil related to the settlement of retirement benefits under the non-pension retirement benefit plan (2015: \$5.4 million gain related to the settlement of retirement benefits under the non-pension retirement benefit plan excluding fees of \$0.3 million).

³ Statutory deductions consist of the employer portion of payment for the Canada Pension Plan and Employment Insurance.

These expenses are included in "Cost of goods and services sold", "Selling, administrative and other expenses" and "Gain on settlement of retirement benefits" in the Consolidated Statements of Net Loss and Comprehensive Loss.

26. Gain on lease termination and sale and leaseback transactions

During Fiscal 2016, the Company completed a real estate transaction, as previously announced on December 9, 2016, for net proceeds of \$62.1 million (total consideration of \$62.9 million less adjustments). The transaction mainly consisted of a sale and leaseback of a retail store located in Kitchener, Ontario, and a lease termination of the office floors of the Toronto Eaton Centre located in Toronto, Ontario. The total gain on the transaction was \$51.7 million which was recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2016, the Company completed the sale and leaseback of its logistics centre located in Port Coquitlam, British Columbia, for net proceeds of \$22.4 million. The total gain on the sale and leaseback transaction was \$9.7 million which was recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2016, the Company completed the sale of its Broad Street logistics centre located in Regina, Saskatchewan, for net proceeds of \$8.5 million. The total loss on the sale was \$1.5 million which was recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2016, the Company completed the sale of its Park Street logistics centre located in Regina, Saskatchewan, for net proceeds of \$18.1 million. The total gain on the sale was \$5.4 million which was recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2016, the Company completed the sale and leaseback of its logistics centre located in Calgary, Alberta, for net proceeds of \$83.9 million. The total gain on this sale and leaseback transaction was \$40.1 million, \$15.2 million of which was recognized immediately in the Consolidated Statements of Net Loss and Comprehensive Loss. The remaining \$24.9 million of the gain was deferred and is being amortized over the term of the lease as a reduction in rent expense, included in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss. In determining the appropriate amount of gain to defer in accordance with IAS 17, the Company conducted an appraisal of the property to determine its fair value, with the assistance of independent qualified third party appraisers. The valuation method used to determine the fair value of the property was the direct sales comparison approach for land. The deferred gain was included in “Other long-term liabilities” and “Accounts payable and accrued liabilities” in the Consolidated Statements of Financial Position.

During Fiscal 2016, the Company completed the sale and leaseback of its logistics centre located in Vaughan, Ontario, for net proceeds of \$100.0 million. The total gain on this sale and leaseback transaction was \$25.4 million which was recognized immediately in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2015, the Company completed the sale and leaseback of three properties to the Concord Pacific Group of Companies (“Concord”), for net proceeds of \$130.0 million (\$140.0 million of total consideration less \$10.0 million of adjustments). The properties in the transactions included the Company’s stores and surrounding area located at the North Hill Shopping Centre in Calgary, Alberta, Metropolis at Metrotown in Burnaby, British Columbia and Cottonwood Mall in Chilliwack, British Columbia. The total gain on the sale and leaseback transactions was \$76.9 million, \$67.2 million of which was recognized immediately in the Consolidated Statements of Net Loss and Comprehensive Loss. The remaining \$9.7 million of the gain was deferred and is being amortized between four to seven years as a reduction in rent expense, included in “Selling, administrative and other expenses” in the Consolidated Statements of Net Loss and Comprehensive Loss. In determining the appropriate amount of gain to defer in accordance with IAS 17, the Company conducted appraisals of each property to determine their fair values, with the assistance of independent qualified third party appraisers. The valuation method used to determine the fair values of each property was the direct sales comparison approach for land. The deferred gain was included in “Other long-term liabilities” and “Accounts payable and accrued liabilities” in the Consolidated Statements of Financial Positions. Upon completion of the sale and leaseback transactions, the Company was released from all previous agreements with Concord, and the demand mortgage for \$25.0 million previously secured by the property in Burnaby, British Columbia, was discharged.

27. Gain on termination of credit card arrangement

On November 23, 2015, the Company received a payment of \$174.0 million from JPMorgan Chase as a result of the sale of their portfolio of credit card accounts and related receivables related to the Sears credit card and Sears Mastercard. The Company recognized a net gain of \$170.7 million in the Consolidated Statements of Net Loss and Comprehensive Loss. The Company’s credit card marketing and servicing alliance agreement with JPMorgan Chase ended on November 15, 2015.

28. Assets classified as held for sale

Land and buildings are transferred to assets classified as held for sale, from property, plant and equipment and investment property, when they meet the criteria to be assets classified as held for sale in accordance to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (“IFRS 5”). The proposed sale transactions have been approved by senior management of the Company and are expected to close within the next 12 months.

As at January 28, 2017, the assets of one retail store and one logistics centre were separately classified as held for sale in the Consolidated Statements of Financial Position. As at January 30, 2016, the assets of certain logistics centres were separately classified as held for sale in the Consolidated Statements of Financial Position.

The following is a continuity of assets classified as held for sale:

<i>(in CAD millions)</i>		Retail Store		Logistics Centre		Total
Balance at January 31, 2015	\$	—	\$	13.3	\$	13.3
Additions		—		12.6		12.6
Disposals		—		—		—
Impairment losses		—		(3.8)		(3.8)
Balance at January 30, 2016	\$	—	\$	22.1	\$	22.1
Additions ¹		17.6		69.7		87.3
Disposals ²		(10.2)		(33.9)		(44.1)
Impairment losses		(0.4)		(7.9)		(8.3)
Balance at January 28, 2017	\$	7.0	\$	50.0	\$	57.0

¹ Included in additions were the assets of one retail store and one logistics centre which were classified as held for sale and subsequently disposed of in Fiscal 2016. See Note 26 "Gain on lease termination and sales leaseback transactions" for additional information regarding disposals.

² See Note 26 "Gain on lease termination and sales leaseback transactions" for additional information regarding disposals.

Impairment loss

The carrying values of the property, plant and equipment and investment property on one retail store and certain logistics centres were higher than the estimated fair values less costs to sell, and as a result, the Company recognized an impairment loss of \$8.3 million in Fiscal 2016 (2015: \$3.8 million on one logistics centre). The impairment losses were included in the "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

The Company will continue to assess the fair value less costs to sell of the assets classified as held for sale at the end of each reporting period and adjust the carrying amounts accordingly. To determine the fair value less costs to sell of the assets classified as held for sale, the Company will consider factors such as expected future cash flows using appropriate market rental rates, the estimated costs to sell and an appropriate discount rate to calculate the fair value. The carrying amounts of the assets classified as held for sale are not necessarily indicative of their fair values, as they have been recorded at the lower of their carrying amounts and fair values less costs to sell in accordance with IFRS 5.

The operations of the retail stores and logistics centres classified as held for sale, were not presented as discontinued operations in the Consolidated Statements of Net Loss and Comprehensive Loss, as they did not represent a separate geographical area of operations or a separate major line of business.

29. Related party transactions

The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Delaware). Details of transactions between the Company and a related party are disclosed below.

During Fiscal 2016 and Fiscal 2015, the Company entered into the following transactions with a related party:

<i>(in CAD millions)</i>	2016				2015			
	Purchase of goods	Services received	Other	Total	Purchase of goods	Services received	Other	Total
Sears Holdings Corporation	\$ —	\$ 2.8	\$ 0.2	\$ 3.0	\$ —	\$ 3.8	\$ 0.2	\$ 4.0

The following balances were outstanding as at January 28, 2017 and January 30, 2016:

<i>(in CAD millions)</i>	Amounts receivable from a related party	
	As at January 28, 2017	As at January 30, 2016
Sears Holdings Corporation	\$ —	\$ 0.2

<i>(in CAD millions)</i>	Amounts payable to a related party	
	As at January 28, 2017	As at January 30, 2016
Sears Holdings Corporation	\$ 0.2	\$ 0.5

Intangible Properties

The Company has a license from Sears, Roebuck and Co. (a wholly-owned subsidiary of Sears Holdings) to use the name “Sears” as part of its corporate name and other brand names including Kenmore® and DieHard®, collectively referred to as the “License Agreement”. The Company has established procedures to register and otherwise vigorously protect its intellectual property, including the protection of the Sears Holdings’ trademarks used by the Company in Canada.

The License Agreement states that, if Sears Holdings’ ownership interest in the Company is reduced to less than 10.0%, the License Agreement would remain in effect for a period of five years after such reduction in ownership, (subject to an extension of up to four years at a royalty rate to be agreed equal to the lesser of a fair market rate based on the value of such mark or the lowest rate which will provide a reasonable incentive to induce the Company to phase out the use of such mark during such extended period, if the Company reasonably determines that a longer transition is necessary) after which the Company would no longer be permitted to use the “Sears” name and certain other brand names. In addition, the License Agreement also provides that the Company’s license to use the “Sears” name and certain other brand names will terminate on the occurrence of certain bankruptcy events involving the Company. In addition, in the event of a bankruptcy proceeding involving Sears Holdings, there is a risk of the License Agreement being terminated under applicable U.S. insolvency legislation. Losing such rights could significantly diminish the Company’s competitiveness in the marketplace and could materially harm the business. If the license agreement is terminated, the Company may attempt to renegotiate such agreement although the terms of any such renegotiated agreement may be less favourable to the Company.

Import Services and Consulting Services

Pursuant to an agreement between Sears Holdings and the Company dated January 1, 1995, Sears Canada utilizes the international merchandise purchasing services of Sears Holdings. Sears Holdings may provide assistance to the Company with respect to monitoring and facilitating the production, inspection and delivery of imported merchandise and the payment to vendors. Sears Canada pays Sears Holdings a fee based on a stipulated percentage of the value of the imported merchandise.

The related party transactions with Sears Holdings are in the ordinary course of business for shared merchandise purchasing services. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. These balances are included in “Accounts payable and accrued liabilities” and “Accounts receivable, net” in the Consolidated Statements of Financial Position.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior fiscal periods for bad or doubtful debts in respect of the amounts owed by Sears Holdings.

The Company’s Audit Committee is responsible for pre-approving all related party transactions that have a value greater than \$1.0 million.

30. Key management personnel compensation

Key management personnel are those individuals having the authority and responsibility for planning, directing and controlling the activities of the Company. The total compensation expense for the Company’s key management personnel was as follows:

<i>(in CAD millions)</i>		2016		2015
Salaries and perquisites	\$	13.0	\$	11.4
Annual incentive plans and other bonuses		3.2		3.7
Pensions		0.1		0.1
Termination benefits		1.6		4.9
Total key management personnel compensation	\$	17.9	\$	20.1

31. Net loss per share

A reconciliation of the number of shares used in the net loss per share calculation is as follows:

<i>(Number of shares)</i>		2016		2015
Weighted average number of shares per basic net loss per share calculation		101,877,662		101,877,662
Effect of dilutive instruments outstanding		—		—
Weighted average number of shares per diluted net loss per share calculation		101,877,662		101,877,662

“Net loss” as disclosed in the Consolidated Statements of Net Loss and Comprehensive Loss was used as the numerator in calculating the basic and diluted net loss per share. For 2016 and 2015, there were no outstanding dilutive instruments.

32. Changes in non-cash working capital balances

Cash used for non-cash working capital balances were comprised of the following:

<i>(in CAD millions)</i>	2016	2015
Accounts receivable, net	\$ (7.7)	\$ 12.5
Inventories	66.3	(23.4)
Prepaid expenses	(3.5)	(2.3)
Derivative financial assets	(3.1)	1.3
Accounts payable and accrued liabilities	(18.6)	(35.3)
Deferred revenue	(22.2)	(12.9)
Provisions	(14.2)	17.2
Income and other taxes payable and recoverable	1.3	(18.1)
Effect of foreign exchange rates	1.8	(3.3)
Cash used for non-cash working capital balances	\$ 0.1	\$ (64.3)

33. Changes in non-cash long-term assets and liabilities

Cash used for non-cash long-term assets and liabilities were comprised of the following:

<i>(in CAD millions)</i>	2016	2015
Other long-term assets	\$ 7.2	\$ 4.3
Other long-term liabilities	(13.5)	(16.3)
Other	0.6	0.3
Cash used for non-cash long-term assets and liabilities	\$ (5.7)	\$ (11.7)

34. Events after the reporting period

On March 1, 2017, the Company announced it had completed the sale and leaseback transaction of its logistics centre located in Ville St. Laurent, Quebec, for a total consideration of \$50.0 million less customary closing adjustments. This property, including land, building and equipment, had a net carrying value of approximately \$50.0 million included in “Assets classified as held for sale” in the Consolidated Statements of Financial Position as at January 28, 2017. The accounting impact will be determined during the 13-week period ending April 29, 2017.

Concurrently with the sale by Sears Holdings of its Craftsman business, including the Craftsman® brand, to Stanley, Black & Decker, Inc., the Company’s license agreement with Sears Holdings was amended to remove the Craftsman® brand and the Company entered into a trademark license agreement dated March 8, 2017 directly with Stanley, Black & Decker, Inc. for a non-exclusive license (the first 15 years of which are royalty free) to use the Craftsman® brand in Canada.

On March 20, 2017, the Company entered into a Credit Agreement with a syndicate of lenders for a five-year secured term loan of up to \$300.0 million. The loan is available in two tranches, of which \$125.0 million has been drawn, and up to \$175.0 million is available on a delayed-draw basis at the Company’s option, subject to mutually agreed assets being contributed to the borrowing base. The loan is available for general corporate purposes.

On March 27, 2017, the Company closed the sale and leaseback transaction of its retail store located in Regina, Saskatchewan, for a total consideration of \$7.0 million less customary closing adjustments. This property, including land, building and equipment, had a net carrying value of approximately \$7.0 million included in “Assets classified as held for sale” in the Consolidated Statements of Financial Position as at January 28, 2017. The accounting impact will be determined during the 13-week period ending April 29, 2017.

35. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on April 25, 2017.

DIRECTORS AND OFFICERS**Board of Directors****Shahir Guindi**

Managing Partner, Montreal Office
Osler, Hoskin & Harcourt LLP

R. Raja Khanna^{1,2,4}

Chief Executive Officer
Blue Ant Media Inc.

Deborah E. Rosati^{1,4}

Corporate Director and Advisor

Anand A. Samuel^{2,3}

Analyst
ESL Investments Inc.

Graham Savage^{1,2,4}

Corporate Director

S. Jeffrey Stollenwerck³

President, Sears Real Estate Business
Sears Holdings Corporation

Brandon G. Stranzl³

Executive Chairman of the Corporation

Heywood Wilansky²

President and Chief Executive Officer
Strategic Management Resources LLC

Officers**Brandon G. Stranzl**

Executive Chairman

Philip Mohtadi

General Counsel and Corporate Secretary

Billy Wong

Executive Vice-President and Chief Financial Officer

Becky Penrice

Executive Vice-President and Chief Operating
Officer

Committees

- 1 Audit Committee
- 2 Human Resources and Compensation Committee
- 3 Investment Committee
- 4 Nominating and Corporate Governance Committee

CORPORATE INFORMATION**Head Office**

Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto, Ontario
M5B 2C3

Website: sears.ca
E-mail: 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 416-941-4422.

The Company's regulatory filings can be found on the SEDAR website at sedar.com and on the U.S. Securities Exchange Commission (SEC) website at sec.gov.

Stock Exchange Listing

Toronto Stock Exchange
Trading symbol: SCC
NASDAQ
Trading symbol: SRSC

Transfer Agents and Registrars

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: canstockta.com
E-Mail: inquiries@canstockta.com

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY
11219

Answerline: 1-800-937-5449
Fax: 718-236-2641
Website: amstock.com
E-Mail: info@amstock.com

Annual Meeting

The Annual Meeting of the Shareholders of Sears Canada Inc. will be held on Wednesday, June 14, 2017 at 8:00 a.m. in the Auditorium, Fourth floor, 290 Yonge Street, Toronto, Ontario Canada.

Édition française du rapport annuel

On peut se procurer l'édition française de ce rapport en écrivant au :

Service national des communications
Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto (Ontario)
M5B 2C3

Pour de plus amples renseignements au sujet de la Société, veuillez écrire au service national des communications, ou composer le 416-941-4422.

Les dépôts réglementaires de la Société se trouvent sur le site Web de SEDAR à l'adresse sedar.com et sur le site Web de la Securities Exchange Commission (« SEC ») des États-Unis à l'adresse sec.gov.

Tab 2

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., 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., 6988741 CANADA INC.,
10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531
CANADA INC., 168886 CANADA INC., and 3339611 CANADA INC.

Applicants

AFFIDAVIT OF JOSEPH HAMALIUK

(Sworn November 27, 2018)

I, Joseph Hamaliuk, of the City of Toronto, in the Province of Ontario MAKE OATH AND
SAY:

1. I am an articling student at the law firm of Cassels Brock and Blackwell LLP ("**CBB**"), counsel to certain former directors (the "**Former Directors**") of Sears Canada Inc. ("**Sears Canada**"). I am assisting with this matter and have reviewed portions of the file. As such, I have knowledge of the matters contained in this affidavit. Where my knowledge is based on information and belief, I have so stated and believe such information and belief to be true.
2. I make this affidavit for the purpose of attaching correspondence between counsel relevant to the issue of production requests for relevant Sears Canada documents which are currently in the possession, power or control of the Monitor and/or Litigation Investigator, in relation to the litigation which the Monitor and Litigation Investigator seek to commence against the Former Directors and others.

3. I am advised by Christopher Horkins, an associate at CBB assisting with this matter, that the following exhibits represent the relevant correspondence between counsel on this issue in the lead up to the Monitor and Litigation Investigator's motions returnable on December 3, 2018:

- (a) A copy of a letter from John Birch of CBB to Jeremy Dacks of Osler, Hoskin & Harcourt LLP, counsel for Sears Canada, and Alan B. Merskey of Norton Rose Fulbright Canada LLP ("**Norton Rose**"), counsel to the Monitor, dated October 19, 2018 is attached hereto as **Exhibit "A"**;
- (b) A copy of a letter from Lynne O'Brien of Norton Rose to Mr. Birch, dated November 16, 2018, and responding to Mr. Birch's October 19, 2018 letter, is attached hereto as **Exhibit "B"**;
- (c) A copy of a letter from Mr. Birch to Matthew Gottlieb of Lax O'Sullivan Lisus Gottlieb LLP, the Litigation Investigator in this matter, and Orestes Pasparakis of Norton Rose, dated November 20, 2018 is attached hereto as **Exhibit "C"**;
- (d) A copy of a letter from Mr. Gottlieb to Mr. Birch, dated November 22, 2018, and responding to Mr. Birch's November 20, 2018 letter, is attached hereto as **Exhibit "D"**;
- (e) A copy of an email from Evan Cobb of Norton Rose to Mr. Birch, dated November 22, 2018, and responding to Mr. Birch's November 20, 2018 letter, is attached hereto as **Exhibit "E"**;
- (f) A copy of an email from Mr. Birch to Messrs. Cobb and Gottlieb, dated November 22, 2018, and responding to their respective correspondence of November 20 and 22, 2018, is attached hereto as **Exhibit "F"**;

- (g) A copy of an email from Mr. Gottlieb to Mr. Birch, dated November 23, 2018, and responding to his email of November 22, 2018, is attached hereto as **Exhibit "G"**; and
- (h) A copy of an email from Mr. Cobb to Mr. Birch, dated November 26, 2018, and responding to his email of November 22, 2018 and Mr. Gottlieb's response to same of November 23, 2018, is attached hereto as **Exhibit "H"**.

4. I swear this affidavit in support of the Former Directors' response to the motions by the Monitor and Litigation Investigator returnable on December 3, 2018, and for no other or improper purpose.

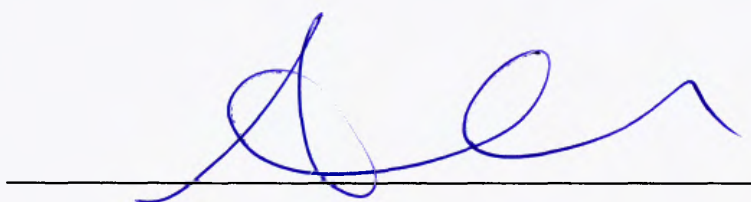
SWORN BEFORE ME at the City of Toronto, in the Province of Ontario, on November 27, 2018.

Commissioner for Taking Affidavits
(or as may be)

Alexandra Murphy

JOSEPH HAMALIUK

This is Exhibit "A" referred to in the Affidavit of Joseph Hamaliuk
sworn before me this 27th day of November, 2018.



Alexandra Murphy

A Commissioner for Taking Affidavits



CASSELS BROCK
LAWYERS

October 19, 2018

By E-mail

Mr. Jeremy Dacks
Osler, Hoskin & Harcourt LLP
100 King Street West, First Canadian Place
Suite 6200, P.O. Box 50
Toronto ON, M5X 1B8

jbirch@casselsbrock.com
tel: (416) 860-5225
fax: (416) 640-3057
file # 51243-1

Mr. Alan B. Merskey
Norton Rose Fulbright Canada LLP
Suite 3800, Royal Bank Plaza, South Tower
200 Bay Street, P.P. Box 84
Toronto, ON M5J2Z4

Dear Sirs:

Re: Claims Against Certain Officers and Directors of Sears Canada Inc. ("Sears Canada")

We are writing to you in your respective capacities as counsel for Sears Canada and for the Monitor of Sears Canada in the proceedings brought by Sears Canada under the *Companies' Creditors Arrangement Act* ("CCAA").

As you know, we are counsel to certain former directors and officers of Sears Canada (the "**Directors**"), namely Klaudio Leshnjani, William (Bill) C. Crowley, William (Bill) R. Harker, James R.G. McBurney, Ephraim J. (EJ) Bird, Calvin McDonald, , Ronald Boire, Deidra Cheeks Merriwether, Donald C. Ross, and Douglas Campbell. Now that the CCAA proceeding has been underway for more than 15 months, Sears Canada has shut down all stores, and a claims process is underway, we write with respect to documentation preservation. This is a particularly important issue given that

- (a) numerous claims have been asserted against the Directors in the CCAA claims process;
- (b) there was already litigation against Sears Canada and some of the Directors at the time that the CCAA proceedings commenced, which is only temporarily stayed and which could well continue against the Directors in the near future; and
- (c) in March 2018, the Litigation Investigator was appointed and it is likely that it will recommend the pursuit of at least some material claims against the Directors, presumably by way of proceedings outside the CCAA process.

In general terms, the actual and threatened claims against Directors ("**Claims**") relate to (i) unpaid wages and benefits to former Sears Canada employees and other employee-related liabilities; (ii) potential pension claims by former Sears Canada employees, the pension



Page 2

administrator, and the pension guarantee fund; (iii) alleged breach of fiduciary duties to various stakeholders concerning Sears Canada's inability to remain solvent; (iv) potential "oppression" claims from stakeholders alleging that Sears Canada disregarded their respective interests; and (v) environmental contamination. Depending on the outcome of the Litigation Investigator's investigation, additional Claims may be asserted.

Given the nature of the allegations that have been made, and are likely to be made, against the Directors, our clients believe that thousands of documents in the possession of Sears Canada will be vital to the defence of the Directors. Those documents should be preserved and their integrity maintained. The Directors have very few documents in their possession relating to their work at Sears Canada, given that our clients ceased to hold positions at Sears Canada many years ago.

The Directors are confident that they will be able to defend themselves on the merits. However, preservation of the documents currently in Sears Canada's possession is essential to such defence.

We therefore request, as a protective measure, that Sears Canada ensure that any documents (in whatever medium or form) currently in its power, possession, and control, and which are relevant to Claims, be preserved. We also ask that such documents be provided to our firm, as counsel to the Directors. The types of relevant documents that should be preserved and provided to the Directors include, but are not limited to, the following:

1. Board packages;
2. Board minutes and resolutions;
3. Legal, accounting and other professional advice and opinions about corporate/board decisions and or steps that are the subject of the Claims;
4. Advice and information provided to the Directors by Sears Canada management relating to the decisions and steps that are the subject of the Claims;
5. Emails relating to the subject of the Claims;
6. Records showing the financial state of Sears Canada during the Directors' tenure at Sears Canada, including financial analysis performed in support of dividend payments;
7. Internal Sears Canada memoranda showing the role of management and the board of directors in making key decisions about the subject of the Claims; and
8. Documents which demonstrate the relationship between Sears Canada, Sears Holdings Corporation, and ESL Investments Inc. and that Sears Canada acted appropriately and its own best interests without any improper influence of outside parties.

We are prepared to meet with you to discuss the preservation and collection of documents relevant to the Claims. We also ask, prior to commencing the document collection process, that you provide the particulars of the volume and format of documents that exist and are currently in Sears Canada's possession. Given that there is a risk that key records of Sears Canada (especially documents stored on computers and computer servers) may be destroyed, misplaced, altered or lost, we would like to work with Sears Canada as soon as possible to undertake document preservation and, when required, document gathering. Our firm has a well



Page 3

recognized discovery management practice that can work with your law firms and Sears Canada to ensure that any documentary discovery obligations are fulfilled.

We look forward to hearing from you.

Yours truly,
Cassels Brock & Blackwell LLP

A handwritten signature in cursive script that reads 'John N. Birch'.

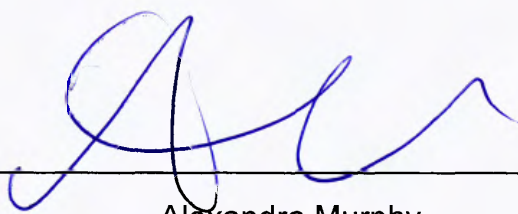
John N. Birch
Services provided by a Professional Corporation

JB/am

cc:

Mary I.A. Buttery and Natalie E. Levine, *Cassels Brock & Blackwell LLP*

This is Exhibit “B” referred to in the Affidavit of Joseph Hamaliuk
sworn before me this 27th day of November, 2018.

A handwritten signature in blue ink, appearing to read 'Alexandra Murphy', is written over a horizontal black line.

Alexandra Murphy

A Commissioner for Taking Affidavits

November 16, 2018

NORTON ROSE FULBRIGHT

Barristers & Solicitors / Patent & Trade-mark Agents

Sent By E-mail

Mr. John N. Birch
Cassels Brock & Blackwell LLP
2100 Scotia Plaza
40 King Street West
Toronto, Ontario M5H 3C2

Norton Rose Fulbright Canada LLP
Royal Bank Plaza, South Tower, Suite 3800
200 Bay Street, P.O. Box 84
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F: +1 416.216.3930
nortonrosefulbright.com

Lynne O'Brien
+1 416.216.3923
Lynne.O'Brien@nortonrosefulbright.com

Your reference
51243-1

Our reference
1000299972

Dear Mr. Birch:

Claims against certain officers and directors of Sears Canada Inc.

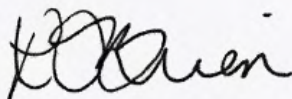
We are in receipt of your October 19, 2018 letter. We confirm that the Monitor is mindful of preservation issues relating to Sears Canada Inc. documents. The Monitor has worked, and continues to work, with Sears Canada Inc. to ensure that reasonable steps have been taken to preserve the available potentially relevant data.

We note that each of your clients also have obligations to preserve documents. Please ensure that your clients have taken reasonable steps to preserve all documents (paper and electronic) in their possession. This includes, but is not limited to:

- all data that may be on any computer, hard drive, phone or other device (personal and/or work);
- emails from any of their email accounts (personal and/or work);
- text messages or any other form of electronic communication they may have used during the time they were directors or officers of Sears Canada Inc.

Finally, your request for production of documents and a meeting to discuss documents is premature. We will be happy to arrange a meeting at the appropriate time.

Yours very truly,



Lynne O'Brien

MLO/tl

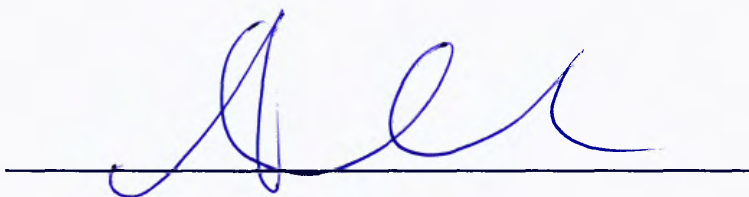
Copy to: Alan B. Merskey, *Norton Rose Fulbright*
Evan Cobb, *Norton Rose Fulbright*

CAN_DMS: \124025235

Norton Rose Fulbright Canada LLP is a limited liability partnership established in Canada.

Norton Rose Fulbright Canada LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright South Africa Inc and Norton Rose Fulbright US LLP are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are at nortonrosefulbright.com.

This is Exhibit "C" referred to in the Affidavit of Joseph Hamaliuk
sworn before me this 27th day of November, 2018.



Alexandra Murphy

A Commissioner for Taking Affidavits



CASSELS BROCK
LAWYERS

November 20, 2018

By E-mail mgottlieb@counsel-toronto.com;
orestes.pasparakis@nortonrosefulbright.com

jbirch@casselsbrock.com
tel: (416) 860-5225
fax: (416) 640-3057
file # 51243-1

Matthew Gottlieb
Lax O'Sullivan Lisus Gottlieb LLP
145 King St W., Suite 2750
Toronto, ON M5H 1J8

Orestes Pasparakis
Norton Rose Fulbright Canada LLP
200 Bay Street, Suite 3800
Toronto, ON M5J 2Z4

Dear Mr. Gottlieb and Mr. Pasparakis:

Re: Anticipated Litigation against Former Directors and Officers of Sears Canada Inc. ("Sears Canada")

As you are aware, our firm is counsel to 10 former directors and officers of Sears Canada (the "Directors").

Based on the motion materials served by each of your firms in relation to the motion scheduled for December 3, 2018, it is apparent that both the Monitor and the Litigation Investigator intend to pursue "fast track" litigation against our clients and others if the relief being sought on that date is granted. Such litigation is very material and important to our clients and the other defendants given that damages of \$509 million will be sought. The motion materials also suggest that additional claims are currently being investigated and could later be pursued.

In the process undertaken by the Litigation Investigator and Monitor to date, there is clearly both an imbalance and some unfairness relating to relevant documents. Paragraph 22 of the 27th Report of the Monitor indicates that the Monitor received over 100,000 documents and files from Sears Canada and related companies and undertook a targeted review in relation to the contemplated claims against the Directors and others. Paragraph 11(b) of the First Report of the Litigation Investigator acknowledges that the Litigation Investigator reviewed documents provided to it by the Applicants concerning possible claims against the Directors and other defendants. However, none of these documents was provided to the Directors.

The information that we have received indicates that overall, one or more of our various clients sat on the board of Sears Canada between June 2001 and August 2015. As a result of their role as directors (and, in some cases, officers) of Sears Canada, our clients had the right to access corporate documents of Sears Canada at any time during their tenure, including, without



limitation, board packages, legal and other professional opinions and analysis, and other materials underpinning decisions made by the board.

On October 19, 2018, I wrote to Jeremy Dacks of Osler, Hoskin & Harcourt LLP and Alan Merskey of Norton Rose Fulbright Canada LLP asking them to ensure that Sears Canada documents were gathered and preserved. The letter also indicated that our firm wanted to work with Sears Canada "as soon as possible" to undertake document preservation and gathering.

On November 16, 2018, I received a response from Lynne O'Brien of Norton Rose Fulbright Canada LLP indicating, among other things, that "your request for production of documents and a meeting to discuss documents is premature". We wholeheartedly disagree with this position being taken by the Monitor, a party that is supposed to be neutral and act in the interests of all stakeholders (which include the Directors, who are creditors of Sears Canada). It is of serious concern to our firm and our clients that the Monitor and the Litigation Investigator have apparently accessed and reviewed numerous documents for the purposes of determining that claims should be asserted against the Directors and then preparing the draft Statement of Claim found in the Motion Record. As directors, our clients have an entitlement to access documents of Sears Canada covering the period when they sat on the board.

Accordingly, we immediately seek the cooperation of the Monitor and the Litigation Investigator to allow our clients access to two sets of items. First, please provide immediate access to all records of Sears Canada relating to any actual or possible claims being asserted, including those arising out of the payment of any dividends. This would have to include the full 100,000 documents referred to in the Monitor's Report, as well as any documents provided to the Litigation Investigator. We infer that these documents exist in electronic form and therefore it should be a simple matter for the Monitor to simply provide a copy (including an index) that our firm can load into its litigation support software, iPro.

Second, as you are aware, Sears Canada and the Directors jointly retained Stikeman Elliott LLP to represent them in defending the 2013 and 2015 actions brought by Hometown Sears dealers. In light of that joint retainer, our clients are entitled to obtain a full copy of the files (including documents gathered for and/or produced in those actions) held by that firm. We have spoken to Sam Hosseini of that firm who advises that she is prepared to immediately release the files to our firm as soon as the Monitor provides its approval. There is no basis on which the Monitor could withhold its approval given that the Directors are joint clients of that firm. We ask the Monitor to provide the required consent to Stikeman Elliott LLP immediately.

As I indicated in my letter dated October 19, 2018, since our clients left the board of Sears Canada many years ago (in some cases as far back as May 2012), they do not currently have anywhere near a complete set of documents relating to their work as directors. That is one key reason why it is vitally important for our firm to obtain immediate access to Sears Canada documents. Having had the advantage of those documents for the purposes of preparing a Statement of Claim, the Monitor and the Litigation Investigator can hardly take the position that they can withhold documents from the Directors. Such withholding is all the more of concern given that the proposed litigation being brought by the Monitor and the Litigation Investigator will



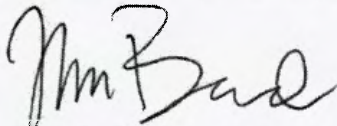
Page 3

be on behalf of creditors of Sears Canada and it would be incongruous for the representative(s) of creditors bringing the litigation to have access to documents while withholding them from the very individuals that had access as part of their tenure on the board.

In conclusion, we also emphasize that to the extent that there is any delay in providing documents to the Directors, that will delay the litigation given that our firm will need to fully review those items before filing its defence and moving forward with documentary and oral discovery (in the event the court authorizes proceedings to be brought). Since it apparently took the Litigation Investigator and the Monitor more than eight months to review the documents and consider potential claims, those parties can hardly take the position that the Directors should be stuck with some much shorter, arbitrary time frame to do their own analysis.

We await your confirmation that the Directors will be immediately provided with the Sears Canada documents and a copy of the Stikeman Elliott LLP file.

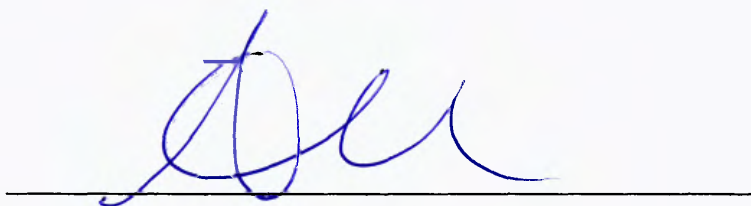
Yours truly,
Cassels Brock & Blackwell LLP



John N. Birch
Services provided by a Professional Corporation
JNB/ah

cc: Mary Buttery and Natalie Levine

This is Exhibit "D" referred to in the Affidavit of Joseph Hamaliuk
sworn before me this 27th day of November, 2018.



Alexandra Murphy

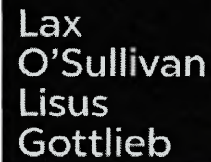
A Commissioner for Taking Affidavits

Matthew P. Gottlieb

Direct 416 644 5353 mgottlieb@counsel-toronto.com
File No. 14282

Lax O'Sullivan Lius Gottlieb LLP

Suite 2750, 145 King Street W, Toronto ON M5H 1J8 Canada
T 416 598 1744 F 416 598 3730 www.counsel-toronto.com

The logo for Lax O'Sullivan Lius Gottlieb is a black square with the firm's name in white, sans-serif font. The name is stacked vertically: "Lax" on the first line, "O'Sullivan" on the second, "Lius" on the third, and "Gottlieb" on the fourth.

November 22, 2018

BY EMAIL

John N. Birch
Cassels Brock & Blackwell LLP
2100 Scotia Plaza
40 King Street West
Toronto, ON M5H 3C2

Dear Mr. Birch:

Re: Sears Canada Inc.

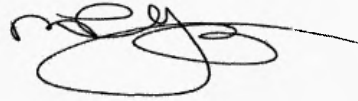
Thank you for your letter dated November 20, 2018.

We respectfully disagree with the content of the letter and in particular disagree that former directors of a company are entitled to access company documents at this time or are otherwise entitled to be provided with documents/production outside of a discovery process. Further, there is no unfairness or impropriety regarding the Litigation Inspector's review of documents in order to fulfil its mandate (pursuant to the Amended Litigation Investigator Order of the Court dated April 26, 2018). As you know, it is always the case that a potential plaintiff reviews the documents in its possession to determine whether to commence a claim. It does not have the obligation to provide those documents to prospective defendants or defendants outside of the discovery process.

- 2 -

Finally, in addition to what is set out above, the Litigation Investigator is not authorized under the Order to provide documents to you or your clients. In any event, as we note above, we would not comply with your request – it should be dealt with in a discovery process should proceedings be commenced.

Yours truly,

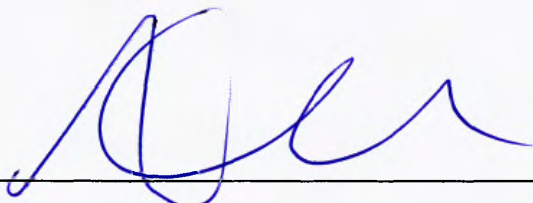
A handwritten signature in black ink, appearing to read 'Matthew P. Gottlieb', with a long horizontal line extending to the right.

Matthew P. Gottlieb

MPG/hop

Copy to: Orestes Pasparakis (Norton Rose)
Evan Cobb (Norton Rose)

This is Exhibit “E” referred to in the Affidavit of Joseph Hamaliuk
sworn before me this 27th day of November, 2018.



Alexandra Murphy

A Commissioner for Taking Affidavits

Murphy, Alex

From: Cobb, Evan [evan.cobb@nortonrosefulbright.com]
Sent: Thursday, November 22, 2018 11:16 AM
To: Birch, John
Cc: Pasparakis, Orestes; Matt Gottlieb; Helen Osijczuk-Pawlyk
Subject: RE: Sears Canada Inc. - sent on behalf of Matthew P. Gottlieb

John,
 We have your letter of November 20, 2018. We agree with the Litigation Inspector's response below. In addition, we note the Monitor is aware of its obligations in these proceedings, including to stakeholders. Your letter appears to suggest that the Monitor has some specific duty to act in the interests of your clients in their capacities as proposed defendants to the Monitor's claim. The Monitor does not agree. The Monitor is of the view that it is in the interest of all stakeholders that any litigation that is authorized by the Court proceed in an orderly and efficient manner. The Monitor does not believe the expenditure of estate funds responding to broad document requests is justified unless and until the Court grants an order allowing the Monitor's claim to proceed, at which time a coordinated and expedited process for relevant document production can be established. Documents would need to be reviewed for relevance and privilege, keeping in mind the interests of all stakeholders. Further, it is not reasonable, proportionate or in the interests of stakeholders for the Monitor to simply provide all of the documents in its possession to your clients. The Monitor has contacted Stikeman Elliott and will obtain the documents in their possession that were received from Sears Canada. We cannot provide the Monitor's position on releasing those documents until we have an understanding of their contents. However, we should note that we understand the documents were collected, and in some cases produced, only in connection with the franchise class action proceedings to which the directors were not parties.

Regards,
Evan Cobb
 Partner

Norton Rose Fulbright Canada LLP / S.E.N.C.R.L., s.r.l.
 Royal Bank Plaza, South Tower, Suite 3800
 200 Bay Street, P.O. Box 84, Toronto, ON M5J 2Z4 Canada

T: +1 416.216.1929 | F: +1 416.216.3930

evan.cobb@nortonrosefulbright.com

NORTON ROSE FULBRIGHT

From: Helen Osijczuk-Pawlyk [<mailto:hosijczuk@counsel-toronto.com>]
Sent: November-22-18 10:20 AM
To: 'Birch, John'
Cc: Cobb, Evan; Pasparakis, Orestes; Matt Gottlieb
Subject: Sears Canada Inc. - sent on behalf of Matthew P. Gottlieb

Please see attached.

Helen Osijczuk-Pawlyk
 Sent on behalf of Matthew P. Gottlieb
 Direct: (416) 598-5759
hosijczuk@counsel-toronto.com



Lax O'Sullivan Lisus Gottlieb LLP
Suite 2750, 145 King Street West
Toronto ON M5H 1J8 Canada
T 416 598 1744 F 416 598 3730

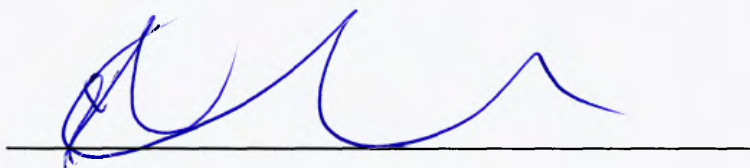
counsel-toronto.com

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nortonrosefulbright.com

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This is Exhibit “F” referred to in the Affidavit of Joseph Hamaliuk
sworn before me this 27th day of November, 2018.



Alexandra Murphy

A Commissioner for Taking Affidavits

Murphy, Alex

From: Birch, John
Sent: Thursday, November 22, 2018 1:17 PM
To: 'Cobb, Evan'; Matthew P. Gottlieb (mgottlieb@counsel-toronto.com)
Cc: Pasparakis, Orestes; Buttery, Mary I.A.; Levine, Natalie; Horkins, Christopher; Murphy, Alex
Subject: Response of Monitor and L.I. to directors' request for documents

Dear Messrs. Cobb and Gottlieb,

We have now had a chance to review your respective responses to my November 20 letter about giving the directors access to the documents. We are naturally disappointed with the position that you are taking and believe that your basis for the refusal to provide documents is entirely incorrect as a matter of law and process.


By virtue of their positions at Sears Canada, the directors were and remain entitled to documents in the files of that corporation, all the more so now given that Sears Canada has ceased to operate. What now appears to have happened is that two entities that are not Sears Canada (namely the Monitor and the Litigation Investigator) are now purporting to make decisions on behalf of Sears Canada about access to its documents. This is extremely troubling because, in the threatened litigation, the Monitor and Litigation Trustee intend to assert the rights of creditors (not of Sears Canada) and they will be acting adverse to the interests of Sears Canada as well.

Worse, the Monitor and the Litigation Trustee will be adverse to the directors in the litigation while purporting to assert control over the very documents that the directors require to defend themselves. This is plainly unfair and unreasonable.

It is not an answer to say that the plaintiffs in the action will choose what documents are relevant and then produce them. These are documents that are within the power and control of the directors and the directors wish to assert their rights to the documents now, well before any document production is undertaken. For example, as I said in my letter, the directors need to have the documents to file their defences.

With respect to the Stikeman Elliott files, any document or part of any file that pertains to the joint retainer by Sears Canada and the directors should be immediately provided to our firm. It is a clear principle of law that there are no secrets between joint clients of a law firm and thus the Monitor has no power to block Stikeman Elliott's delivery to our firm of all documents relating to any joint retainer to which any of our clients was a party. Further, the argument that some documents in the hands of Stikeman Elliott can be withheld because they relate to some other non-joint retainer is without merit because those other documents are ones to which the directors are entitled to have access by virtue of their time on the board. For example, many of our clients were directors at the time that the 2013 action was commenced and moved forward and the board had the power to oversee and make decisions about that litigation. We therefore repeat that the Monitor should immediately contact Stikeman Elliott to have a copy of its files released to us.

Finally, we would like to know at this stage whether, if the litigation is allowed to proceed, the Monitor or the Litigation Trustee intend to assert the privilege of Sears Canada as the basis for withholding from the directors any documents that are relevant to the litigation, including documents that the directors saw and relied on. This question goes to the very heart of the defences that are likely to be raised. I would therefore appreciate a prompt response on this issue.

	<p>John Birch Direct: +1 416 860 5225 • Fax: +1 416 640 3057 • jbirch@casselsbrock.com 2100 Scotia Plaza, 40 King Street West, Toronto, Ontario, M5H 3C2 www.casselsbrock.com Services provided through a Professional Corporation</p>
--	---

From: Cobb, Evan [mailto:evan.cobb@nortonrosefulbright.com]
Sent: Thursday, November 22, 2018 11:16 AM

To: Birch, John
Cc: Pasparakis, Orestes; Matt Gottlieb; Helen Osijczuk-Pawlyk
Subject: RE: Sears Canada Inc. - sent on behalf of Matthew P. Gottlieb

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In addition, we note the Monitor is aware of its obligations in these proceedings, including to stakeholders. Your letter appears to suggest that the Monitor has some specific duty to act in the interests of your clients in their capacities as proposed defendants to the Monitor's claim. The Monitor does not agree.

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Regards,

Evan Cobb
Partner

Norton Rose Fulbright Canada LLP / S.E.N.C.R.L., s.r.l.
Royal Bank Plaza, South Tower, Suite 3800
200 Bay Street, P.O. Box 84, Toronto, ON M5J 2Z4 Canada
T: +1 416.216.1929 | F: +1 416.216.3930
evan.cobb@nortonrosefulbright.com

NORTON ROSE FULBRIGHT

From: Helen Osijczuk-Pawlyk [mailto:hosijczuk@counsel-toronto.com]
Sent: November-22-18 10:20 AM
To: 'Birch, John'
Cc: Cobb, Evan; Pasparakis, Orestes; Matt Gottlieb
Subject: Sears Canada Inc. - sent on behalf of Matthew P. Gottlieb

Please see attached.

Helen Osijczuk-Pawlyk
Sent on behalf of Matthew P. Gottlieb
Direct: (416) 598-5759
hosijczuk@counsel-toronto.com

Lax O'Sullivan Lisus Gottlieb LLP
Suite 2750, 145 King Street West
Toronto ON M5H 1J8 Canada




T 416 598 1744 F 416 598 3730
counsel-toronto.com

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This is Exhibit “G” referred to in the Affidavit of Joseph Hamaliuk
sworn before me this 27th day of November, 2018.

A handwritten signature in blue ink, consisting of a large, stylized 'A' followed by a cursive 'M' and a long, sweeping tail that ends in a small hook.

Alexandra Murphy

A Commissioner for Taking Affidavits

Murphy, Alex

From: Matt Gottlieb [mgottlieb@lolg.ca]
Sent: Friday, November 23, 2018 2:56 PM
To: Birch, John; 'Cobb, Evan'
Cc: Pasparakis, Orestes; Buttery, Mary I.A.; Levine, Natalie; Horkins, Christopher; Murphy, Alex; Andrew Winton; Philip Underwood; Jessica Zhi
Subject: RE: Response of Monitor and L.I. to directors' request for documents [IWOV-Client.FID78046]

Thank you for your email. Our position has not changed. We should point out that we do not agree with, nor do we think there is any basis for, your statement that the directors "remain entitled to documents in the files of that corporation". As with all litigation, production issues can be dealt with (and should be dealt) at the appropriate time. Pre-pleading is not that time.

I am hopeful that the parties will be able to work out all production issues, including privilege issues, and if not the court will, at the right time, assist the parties in resolving those issues.

We cannot, in our role as Litigation Investigator, give a position on what privilege will or will not be waived by the Litigation Trustee (if appointed). That is not an issue within our mandate. Again, it is not the time for that issue.

From: Birch, John <jbirch@casselsbrock.com>
Sent: November-22-18 1:17 PM
To: 'Cobb, Evan' <evan.cobb@nortonrosefulbright.com>; Matt Gottlieb <mgottlieb@counsel-toronto.com>
Cc: Pasparakis, Orestes <orestes.pasparakis@nortonrosefulbright.com>; Buttery, Mary I.A. <mbuttery@casselsbrock.com>; Levine, Natalie <nlevine@casselsbrock.com>; Horkins, Christopher <chorkins@casselsbrock.com>; Murphy, Alex <amurphy@casselsbrock.com>
Subject: Response of Monitor and L.I. to directors' request for documents

Dear Messrs. Cobb and Gottlieb,

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Worse, the Monitor and the Litigation Trustee will be adverse to the directors in the litigation while purporting to assert control over the very documents that the directors require to defend themselves. This is plainly unfair and unreasonable.

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John Birch

Direct: +1 416 860 5225 • Fax: +1 416 640 3057 • jbirch@casselsbrock.com

2100 Scotia Plaza, 40 King Street West, Toronto, Ontario, M5H 3C2

www.casselsbrock.com

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From: Cobb, Evan [<mailto:evan.cobb@nortonrosefulbright.com>]
Sent: Thursday, November 22, 2018 11:16 AM
To: Birch, John
Cc: Pasparakis, Orestes; Matt Gottlieb; Helen Osijczuk-Pawlyk
Subject: RE: Sears Canada Inc. - sent on behalf of Matthew P. Gottlieb

John,

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Regards,

Evan Cobb
 Partner

Norton Rose Fulbright Canada LLP / S.E.N.C.R.L., s.r.l.
 Royal Bank Plaza, South Tower, Suite 3800
 200 Bay Street, P.O. Box 84, Toronto, ON M5J 2Z4 Canada
 T: +1 416.216.1929 | F: +1 416.216.3930
evan.cobb@nortonrosefulbright.com

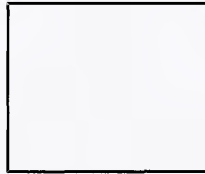
NORTON ROSE FULBRIGHT

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Sent: November-22-18 10:20 AM
To: 'Birch, John'
Cc: Cobb, Evan; Pasparakis, Orestes; Matt Gottlieb
Subject: Sears Canada Inc. - sent on behalf of Matthew P. Gottlieb

Please see attached.

Helen Osijczuk-Pawlyk
Sent on behalf of Matthew P. Gottlieb
Direct: (416) 598-5759
hosijczuk@counsel-toronto.com

Lax O'Sullivan Lisus Gottlieb LLP
Suite 2750, 145 King Street West
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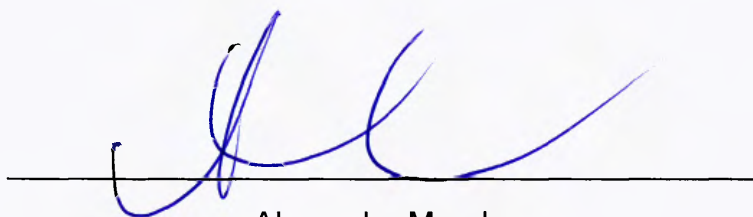
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This is Exhibit “H” referred to in the Affidavit of Joseph Hamaliuk
sworn before me this 27th day of November, 2018.



Alexandra Murphy

A Commissioner for Taking Affidavits

Murphy, Alex

From: Cobb, Evan [evan.cobb@nortonrosefulbright.com]
Sent: Monday, November 26, 2018 1:05 PM
To: Matt Gottlieb; Birch, John
Cc: Pasparakis, Orestes; Buttery, Mary I.A.; Levine, Natalie; Horkins, Christopher; Murphy, Alex; Andrew Winton; Philip Underwood; Jessica Zhi
Subject: RE: Response of Monitor and L.I. to directors' request for documents [IWOV-Client.FID78046]

Mr. Birch,

The Monitor again agrees with the position set out by the Litigation Investigator below.

We are also unaware of any legal basis for the former directors' asserted entitlement to, or power and control over, Sears Canada's documents.

If the Monitor is authorized to pursue its claim, we will work cooperatively with all parties to resolve production issues. If an agreed resolution cannot be reached, the court's direction may be required.

The Monitor does not believe the current situation where only the Monitor and the Litigation Investigator have access to Sears Canada's documents is unfair. Both the Monitor and the Litigation Trustee, if appointed on the Litigation Investigator's motion, would be pursuing claims on behalf of Sears Canada (in the case of the Litigation Trustee) or for the benefit of Sears Canada (in the case of the Monitor) and at Sears Canada's cost. All recoveries would go to Sears Canada. Neither the Monitor nor the Litigation Trustee have any independent interest in the litigation. The document production process that would apply if Sears Canada was the plaintiff should continue to apply in this case.

The Monitor's current understanding is that all of the documents in Stikeman Elliott's possession were produced in non-joint retainer matters and all of such documents were provided by Sears Canada. For that reason, we have requested that these documents be delivered to the Monitor to be dealt with in the same manner as any other Sears Canada documents.

We cannot respond to your inquiry regarding the Monitor's or the Litigation Trustee's position on any particular Sears Canada privileged documents that may be identified and may be relevant if the litigation is authorized to proceed. If such a situation does arise, the Monitor will provide its position at that time when all of the facts and circumstances are known. We do note that the Monitor does not have the power to waive Sears Canada's privilege at this time.

Regards,

Evan Cobb
 Partner

Norton Rose Fulbright Canada LLP / S.E.N.C.R.L., s.r.l.
 Royal Bank Plaza, South Tower, Suite 3800
 200 Bay Street, P.O. Box 84, Toronto, ON M5J 2Z4 Canada
 T: +1 416.216.1929 | F: +1 416.216.3930
evan.cobb@nortonrosefulbright.com

NORTON ROSE FULBRIGHT

From: Matt Gottlieb [mailto:mgottlieb@olg.ca]
Sent: November-23-18 2:55 PM
To: 'Birch, John'; Cobb, Evan
Cc: Pasparakis, Orestes; Buttery, Mary I.A.; Levine, Natalie; Horkins, Christopher; Murphy, Alex; Andrew Winton; Philip Underwood; Jessica Zhi
Subject: RE: Response of Monitor and L.I. to directors' request for documents [IWOV-Client.FID78046]

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From: Birch, John <jbirch@casselsbrock.com>

Sent: November-22-18 1:17 PM

To: 'Cobb, Evan' <evan.cobb@nortonrosefulbright.com>; Matt Gottlieb <mgottlieb@counsel-toronto.com>

Cc: Pasparakis, Orestes <orestes.pasparakis@nortonrosefulbright.com>; Buttery, Mary I.A. <mbuttery@casselsbrock.com>; Levine, Natalie <nlevine@casselsbrock.com>; Horkins, Christopher <chorkins@casselsbrock.com>; Murphy, Alex <amurphy@casselsbrock.com>

Subject: Response of Monitor and L.I. to directors' request for documents

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John Birch

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From: Cobb, Evan [<mailto:evan.cobb@nortonrosefulbright.com>]
Sent: Thursday, November 22, 2018 11:16 AM
To: Birch, John
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Subject: RE: Sears Canada Inc. - sent on behalf of Matthew P. Gottlieb

John,

We have your letter of November 20, 2018. We agree with the Litigation Inspector's response below.

In addition, we note the Monitor is aware of its obligations in these proceedings, including to stakeholders. Your letter appears to suggest that the Monitor has some specific duty to act in the interests of your clients in their capacities as proposed defendants to the Monitor's claim. The Monitor does not agree.

The Monitor is of the view that it is in the interest of all stakeholders that any litigation that is authorized by the Court proceed in an orderly and efficient manner. The Monitor does not believe the expenditure of estate funds responding to broad document requests is justified unless and until the Court grants an order allowing the Monitor's claim to proceed, at which time a coordinated and expedited process for relevant document production can be established. Documents would need to be reviewed for relevance and privilege, keeping in mind the interests of all stakeholders. Further, it is not reasonable, proportionate or in the interests of stakeholders for the Monitor to simply provide all of the documents in its possession to your clients.

The Monitor has contacted Stikeman Elliott and will obtain the documents in their possession that were received from Sears Canada. We cannot provide the Monitor's position on releasing those documents until we have an understanding of their contents. However, we should note that we understand the documents were collected, and in some cases produced, only in connection with the franchise class action proceedings to which the directors were not parties.

Regards,

Evan Cobb
 Partner

Norton Rose Fulbright Canada LLP / S.E.N.C.R.L., s.r.l.
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NORTON ROSE FULBRIGHT

From: Helen Osijczuk-Pawlyk [<mailto:hosijczuk@counsel-toronto.com>]
Sent: November-22-18 10:20 AM
To: 'Birch, John'
Cc: Cobb, Evan; Pasparakis, Orestes; Matt Gottlieb
Subject: Sears Canada Inc. - sent on behalf of Matthew P. Gottlieb

Please see attached.

Helen Osijczuk-Pawlyk

Sent on behalf of Matthew P. Gottlieb

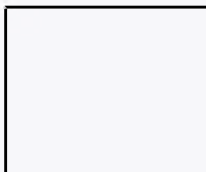
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ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
PROCEEDING COMMENCED AT
TORONTO

AFFIDAVIT OF JOSEPH HAMLJUK

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Lawyers for Certain Former Directors of Sears Canada Inc.

Tab 3

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**



THE HONOURABLE MR.
JUSTICE HAINEY

)
)
)

FRIDAY, THE 8th
DAY OF DECEMBER, 2017

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

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

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

CLAIMS PROCEDURE ORDER

THIS MOTION, made by the Applicants, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. c-36, as amended (the “**CCAA**”) for an order establishing a claims procedure for the identification and quantification of certain claims against (i) the Applicants and SearsConnect (collectively, the “**Sears Canada Entities**”) and (ii) the current and former directors and officers of the Sears Canada Entities, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Notice of Motion of the Applicants, the Affidavit of Billy Wong sworn on December 1, 2017 including the exhibits thereto, the Eighth Report of FTI Consulting Canada

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Inc., in its capacity as monitor (the “**Monitor**”), filed, and on hearing the submissions of respective counsel for the Applicants, the Monitor, Pension Representative Counsel (as defined below), Employee Representative Counsel (as defined below), the Pension Plan Administrator (as defined below), the Superintendent (as defined below), and such other counsel as were present, no one else appearing although duly served as appears from the Affidavits of Service of Justine Erickson sworn December 4, 2017,

SERVICE

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

DEFINITIONS AND INTERPRETATION

2. THIS COURT ORDERS that any capitalized term used and not defined herein shall have the meaning ascribed thereto in the Amended and Restated Initial Order in these proceedings dated June 22, 2017 as amended, restated, supplemented and/or modified from time to time (the “**Initial Order**”).

3. THIS COURT ORDERS that for the purposes of this Order the following terms shall have the following meanings:

- (a) “**Advisors**” means, collectively, any actuarial, financial, legal and other advisors and assistants;
- (b) “**Agent**” means the contractual joint venture comprised of Gordon Brothers Canada ULC, Merchant Retail Solutions ULC, Tiger Capital Group, LLC and GA Retail Canada ULC;

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- (c) “**Agency Agreements**” means: (i) the Amended and Restated Agency Agreement between Sears Canada Inc. and the Agent dated July 12, 2017 and amended and restated on July 14, 2017, and (ii) the Amended and Restated Agency Agreement between Sears Canada Inc. and the Agent dated October 10, 2017;
- (d) “**Assessments**” means Claims of Her Majesty the Queen in Right of Canada or of any Province or Territory or Municipality or any other taxation authority in any Canadian or foreign jurisdiction, including, without limitation, amounts which may arise or have arisen under any notice of assessment, notice of objection, notice of reassessment, notice of appeal, audit, investigation, demand or similar request from any taxation authority;
- (e) “**Business Day**” means a day, other than a Saturday, Sunday or statutory holiday, on which banks are generally open for business in Toronto, Ontario;
- (f) “**CCAA Proceedings**” means the CCAA proceedings commenced by the Applicants in the Court under Court File No. CV-17-11846-00CL;
- (g) “**Claim**” means:
 - (i) any right or claim of any Person against any of the Sears Canada Entities, whether or not asserted, including in connection with any indebtedness, liability or obligation of any kind whatsoever of any such Sears Canada Entity to such Person, in existence on the Filing Date, whether or not such right or claim is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured; disputed, undisputed, legal, equitable, secured, unsecured, perfected, unperfected, present, future, known, or

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unknown, by guarantee, surety or otherwise, and whether or not such right is executory or anticipatory in nature, including rights or claims with respect to any Assessment, Construction Claim, Warranty, any claim brought by any representative plaintiff on behalf of a class in a class action, or contract, or by reason of any equity interest; right of ownership of or title to property or assets or right to a trust or deemed trust (statutory, express, implied, resulting, constructive or otherwise), and any right or ability of any Person to advance a claim for contribution or indemnity or otherwise against any of the Sears Canada Entities with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future, which right or claim, including in connection with indebtedness, liability or obligation, is based in whole or in part on facts that existed prior to the Filing Date, including for greater certainty any claim against any of the Sears Canada Entities for indemnification by any Director or Officer in respect of a D&O Claim (each, a **“Pre-Filing Claim”**, and collectively, the **“Pre-Filing Claims”**);

- (ii) any right or claim of any Sears Supplier against any of the Sears Canada Entities in connection with any non-payment by any such Sears Canada Entity to such Sears Supplier for goods or services supplied to such Sears Canada Entity on or after the Filing Date (each, a **“Post-Filing Claim”**, and collectively, the **“Post-Filing Claims”**);
- (iii) any right or claim of any Person against any of the Sears Canada Entities, including in connection with any indebtedness, liability or obligation of any

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kind whatsoever of any such Sears Canada Entity to such Person, arising on or after the Filing Date, including without limitation rights or claims arising with respect to the restructuring, disclaimer, resiliation, termination or breach by such Sears Canada Entity on or after the Filing Date of any contract, lease or other agreement whether written or oral, but excluding any Post-Filing Claims (each, a “**Restructuring Period Claim**”, and collectively, the “**Restructuring Period Claims**”); and

- (iv) any right or claim of any Person against one or more of the Directors and/or Officers howsoever arising, whether or not such right or claim is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, perfected, unperfected, present, future, known, or unknown, by guarantee, surety or otherwise, and whether or not such right is executory or anticipatory in nature, including any Assessments and any right or ability of any Person to advance a claim for contribution, indemnity or otherwise against any of the Directors and/or Officers with respect to any matter, action, cause or chose in action, however arising, for which any Director or Officer is alleged to be, by statute or otherwise by law or equity, liable to pay in his or her capacity as a Director or Officer (each a “**D&O Claim**”, and collectively, the “**D&O Claims**”),

including any Claim arising through subrogation against any Sears Canada Entity or Director or Officer, provided however that in any case “**Claim**” shall not include an Excluded Claim;

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- (h) “**Claimant**” means any Person asserting a Claim, including without limitation any Construction Claimant, General Creditor Claimant, Landlord Claimant or Intercompany Claimant;
- (i) “**Claims Officer**” means the individuals designated by the Court pursuant to paragraph 62 of this Order;
- (j) “**Claims Process**” means the procedures outlined in this Order in connection with the solicitation and assertion of Claims against the Sears Canada Entities and/or the Directors and Officers;
- (k) “**Construction Claim**” means: (i) a Claim, including a D&O Claim, asserted under the trust provisions of applicable Provincial Lien Legislation or a Claim asserted against the holdback under applicable Provincial Lien Legislation; or (ii) a Claim secured in whole or in part by the registration of a builders’ or construction lien under applicable Provincial Lien Legislation against any real property that has been or is owned or leased by any of the Sears Canada Entities, or a Claim secured in whole or in part by any security held in connection with a Vacated or Discharged Lien;
- (l) “**Construction Claimant**” means a Person asserting a Construction Claim;
- (m) “**Construction Claims Bar Date**” means 5:00 p.m. on February 15, 2018;
- (n) “**Construction Claims Package**” means the document package consisting of a Notice of Construction Claim, a blank Notice of Dispute of Construction Claim, a Construction Contractor Instruction Letter, a Construction Sub-Contractor

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Instruction Letter and such other materials as the Monitor, in consultation with the Sears Canada Entities, may consider appropriate or desirable;

- (o) **“Construction Contractor”** means a Construction Claimant contracting directly with the Sears Canada Entities or an agent of the Sears Canada Entities in connection with the improvement of any real property that has been or is owned or leased by any of the Sears Canada Entities;
- (p) **“Construction Contractor Instruction Letter”** means the instruction letter to Construction Contractors, substantially in the form attached as Schedule “M” hereto, regarding the Notice of Construction Claim, completion of a Notice of Dispute of Construction Claim by a Construction Contractor, and the Claims Process described herein, and directing such Construction Contractors to send a copy of the Notice of Construction Claim and the Construction Sub-Contractor Instruction Letter to all Construction Sub-Contractors with which such Construction Contractor has a direct contractual agreement or engagement in connection with the relevant improvement to any real property that has been or is owned or leased by any of the Sears Canada Entities;
- (q) **“Construction Sub-Contractor”** means a Construction Claimant not contracting directly with or employed directly by the Sears Canada Entities or an agent of the Sears Canada Entities but who supplied services, materials or work to an improvement to any real property that has been or is owned or leased by any of the Sears Canada Entities under an agreement (written or oral) or engagement with a Construction Contractor or under an agreement or engagement with another subcontractor of any level;

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- (r) **“Construction Sub-Contractor Instruction Letter”** means the instruction letter to be sent by each Construction Contractor and Construction Sub-Contractor to all Construction Sub-Contractors with which each such Construction Contractor or Construction Sub-Contractor has a direct contractual agreement or engagement in connection with the relevant improvement, substantially in the form attached as Schedule “N” hereto, notifying such Construction Sub-Contractors that all Construction Claims in respect of their services as Construction Sub-Contractors shall be included in the Claim of the relevant Construction Contractor for the purposes of this Claims Process and directing such Construction Sub-Contractors to: (i) send a copy of the Notice of Construction Claim and the Construction Sub-Contractor Instruction Letter to all Construction Sub-Contractors with which such Construction Sub-Contractor has a direct contractual agreement or engagement in connection with the relevant improvement, and (ii) contact their Construction Contractor directly to determine and negotiate with their Construction Contractor any rights they may have with respect to any such Construction Contractor’s Construction Claim;
- (s) **“Court”** means the Ontario Superior Court of Justice (Commercial List);
- (t) **“D&O Claim Instruction Letter”** means the letter containing instructions for completing the D&O Proof of Claim form, substantially in the form attached as Schedule “D” hereto;
- (u) **“D&O Proof of Claim”** means the proof of claim to be filed by Claimants in connection with any D&O Claim, substantially in the form attached as Schedule “E” hereto, which shall include all supporting documentation in respect of such

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D&O Claim; and for greater certainty, a “D&O Proof of Claim” shall include a D&O Proof of Claim filed online through the Monitor’s website;

- (v) “**Director**” means anyone who is or was or may be deemed to be or have been, whether by statute, operation of law or otherwise, a director or *de facto* director of any of the Sears Canada Entities, in such capacity;
- (w) “**Employee**” means any (i) active or inactive union or non-union employee of any one of the Sears Canada Entities on or after the Filing Date, including an employee of any one of the Sears Canada Entities who received notice of termination of employment dated on or after the Filing Date; and (ii) former employee of any one of the Sears Canada Entities who was terminated for cause at any time or who received notice of cessation of termination or severance payments dated on or after the Filing Date;
- (x) “**Employee Claim**” means a Claim, including a D&O Claim, that may be asserted by or on behalf of an Employee, and shall include any Employee Claim arising through subrogation;
- (y) “**Employee Claims Process**” means a claims process to be approved pursuant to a further Order of this Court that shall, among other things, set forth the procedure for the solicitation and assertion of Employee Claims against the Sears Canada Entities and/or the Directors and Officers;
- (z) “**Employee Letter**” means the letter from Employee Representative Counsel to be disseminated by the Monitor, in consultation with the Sears Canada Entities and Employee Representative Counsel, to all Employees represented by Employee

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Representative Counsel advising, among other things, that their Employee Claims will be dealt with through a separate Employee Claims Process, which letter shall be substantially in the form attached hereto as Schedule "I";

- (aa) **"Employee Representative Counsel"** means Ursel Phillips Fellows Hopkinson LLP;
- (bb) **"Employee Representative Counsel's Website"** means <http://www.upfhlaw.ca/areas-of-practice/sears-canada-employees-and-former-employees/>;
- (cc) **"Employee Representatives"** means Paul Webber, Nancy Demeter, Sheena Wrigglesworth, Barb Wilser and Darrin Whitney, or such other representatives as may be duly appointed by Employee Representative Counsel;
- (dd) **"Excluded Claim"** means any:
 - (i) Claim that may be asserted by any beneficiary of the Administration Charge, the FA Charge, the KERP Priority Charge, the Directors' Priority Charge, the KERP Subordinated Charge and the Directors' Subordinated Charge and any other charges granted by the Court in the CCAA Proceedings, with respect to such charges;
 - (ii) Claim by the Agent under the Agency Agreements;
 - (iii) Employee Claim;
 - (iv) Sears Pension Claim;

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- (v) Other Pensioner Claim;
- (vi) Monitor Claim; and
- (vii) Claim that may be asserted by any of the Sears Canada Entities against any Directors and/or Officers;

and for greater certainty, shall include any Excluded Claim arising through subrogation;

- (ee) “**Filing Date**” means June 22, 2017;
- (ff) “**General Creditor Claim**” means a Claim, other than a Construction Claim or Intercompany Claim;
- (gg) “**General Creditor Claimant**” means a Person asserting a General Creditor Claim;
- (hh) “**General Creditor Claims Bar Date**” means 5:00 p.m. on March 2, 2018;
- (ii) “**General Creditor Claims Package**” means the document package which shall be disseminated by the Monitor to any potential General Creditor Claimant in accordance with the terms of this Order (including, if practicable, by way of email, where electronic addresses are known), consisting of the Notice to General Creditor Claimants, a blank Proof of Claim, a Proof of Claim Instruction Letter, a blank D&O Proof of Claim, and a D&O Claim Instruction Letter, and such other materials as the Monitor, in consultation with the Sears Canada Entities, may consider appropriate or desirable;

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- (jj) “**General Creditor Post-Filing Claims Bar Date**” means 5:00 p.m. on April 2, 2018;
- (kk) “**General Creditor Restructuring Period Claims Bar Date**” means, in respect of a Restructuring Period Claim, the later of (i) 5:00 p.m. on the date that is 45 days after the date on which the Monitor sends a General Creditor Claims Package with respect to a Restructuring Period Claim and (ii) the General Creditor Claims Bar Date;
- (ll) “**Intercompany Claim**” means any Claim that may be asserted against any of the Sears Canada Entities by or on behalf of any of the Sears Canada Entities or any of their affiliated companies, partnerships, or other corporate entities (and for greater certainty, excluding any Claim that may be asserted against any of the Sears Canada Entities by or on behalf of Sears Holdings Corporation or any of its affiliated companies, partnerships or other corporate entities that are not Sears Canada Entities) and excluding any Monitor Claim;
- (mm) “**Intercompany Claimant**” means a Person asserting an Intercompany Claim;
- (nn) “**Landlord**” means a landlord under any real property lease or occupancy agreement for any of the Applicants’ leased premises;
- (oo) “**Landlord Claim**” means any Claim, including any D&O Claim, of a Landlord;
- (pp) “**Landlord Claimant**” means a Landlord asserting a Landlord Claim;
- (qq) “**Landlord Claims Bar Date**” means, in respect of a Landlord Claim, the later of (i) 5:00 p.m. on the date that is 45 days after the date on which the Monitor sends a

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General Creditor Claims Package with respect to a Landlord Claim and (ii) 5:00 p.m. on April 2, 2018;

- (rr) “**Meeting**” means any meeting of the creditors of the Sears Canada Entities called for the purpose of considering and voting in respect of a Plan;
- (ss) “**Monitor Claim**” means a Claim, including a D&O Claim and any claim pursued in accordance with section 36.1 of the CCAA, that may be asserted by the Monitor;
- (tt) “**Monitor’s Website**” means <http://cfcanada.fticonsulting.com/searscanada/>;
- (uu) “**Monitor’s Intercompany Claims Report**” shall have the meaning set out in paragraph 60 herein;
- (vv) “**Notice of Construction Claim**” means the notice, substantially in the form attached as Schedule “K” hereto, advising each Construction Contractor of its Construction Claim (which shall, for greater certainty, be deemed to include the Construction Claims of all Construction Sub-Contractors who provided materials and/or services under an agreement with the Construction Contractor or another Construction Sub-Contractor of any level in connection with the improvement) as valued by the Sears Canada Entities with the assistance of the Monitor based on the books and records of the Sears Canada Entities;
- (ww) “**Notice of Dispute of Construction Claim**” means the notice, substantially in the form attached as Schedule “L” hereto, which may be delivered to the Monitor by a Construction Contractor or, where appropriate, by a Construction Sub-Contractor disputing a Notice of Construction Claim, with reasons for its dispute;

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- (xx) “**Notice to General Creditor Claimants**” means the notice for publication by the Monitor, substantially in the form attached as Schedule “A” hereto, which shall include, without limitation: (i) a notice to all Claimants (that are not Sears Suppliers) with potential General Creditor Claims below \$1,000 that such Claimants will not be provided with a General Creditor Claims Package and should obtain a copy from the Monitor’s website or request a copy from the Monitor; (ii) a notice to holders of Warranties stating that no Proofs of Claim are required to be filed in connection with any potential Warranty Claim because all Proofs of Claim with respect to potential Warranty Claims will be deemed to be properly submitted by the Sears Canada Entities, based on the Sears Canada Entities’ books and records, on behalf of each Warranty holder, and (iii) a notice informing holders of gift cards and Sears Loyalty Points that all gift cards and Sears Loyalty Points will no longer be accepted by the Sears Canada Entities after January 21, 2018;
- (yy) “**Notice of Dispute of Revision or Disallowance**” means the form substantially in the form attached as Schedule “F” hereto;
- (zz) “**Notice of Revision or Disallowance**” means the form substantially in the form attached as Schedule “G” hereto;
- (aaa) “**Officer**” means anyone who is or was or may be deemed to be or have been, whether by statute, operation of law or otherwise, an officer or *de facto* officer of any of the Sears Canada Entities, in such capacity;
- (bbb) “**Order**” means this Claims Procedure Order;

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- (ccc) “**Other Employee Letter**” means the letter from the Monitor to be disseminated by the Monitor, in consultation with the Sears Canada Entities, to Employees not represented by Employee Representative Counsel (provided that where such Employees are subject to union representation, the Monitor shall only be required to send such letter to the unions representing the unionized Employees) advising, among other things, that their Employee Claims will be dealt with through a separate Employee Claims Process, which letter shall be substantially in the form attached hereto as Schedule “H”;
- (ddd) “**Other Pensioner**” means any retiree and any current or former employee of the Sears Canada Entities with (i) entitlements under the Supplemental Plan, and any other pension or retirement plan of the Sears Canada Entities (not including the Sears Pension Plan), and/or (ii) other post-employment benefits entitlements;
- (eee) “**Other Pensioner Claim**” means a Claim, including a D&O Claim, that may be asserted by or on behalf of an Other Pensioner, and shall include any Other Pensioner Claim arising through subrogation;
- (fff) “**Pensioner**” means any Sears Pensioner or Other Pensioner;
- (ggg) “**Pensioner Claim**” means any Sears Pension Claim or Other Pensioner Claim;
- (hhh) “**Pensioner Claims Process**” means a claims process to be approved pursuant to a further Order of this Court that shall, among other things, set forth the procedure for the solicitation and assertion of Pensioner Claims against the Sears Canada Entities and/or the Directors and Officers;

With such other changes as may be agreed to by Pension Representative Counsel, the Pension Plan Administrator, the Sears Canada Entities and the Monitor - 16 -

- (iii) **"Pensioner Letter"** means the letter from Pension Representative Counsel to be disseminated by Pension Representative Counsel, in consultation with the Sears Canada Entities, the Pension Plan Administrator (in respect of the Sears Pension Plan) and the Monitor, to all Pensioners advising, among other things, that their Pensioner Claims will be dealt with through a separate Pensioner Claims Process, which letter shall be substantially in the form attached hereto as Schedule "J";
- (jjj) **"Pension Plan Administrator"** means Morneau Shepell Ltd. in its capacity as administrator of the Sears Pension Plan;
- (kkk) **"Pension Plan Administrator Website"** means https://www.pensionwindups.morneaushepell.com/_private/select_plan.asp?DURL=/en/plan_info/srrp/plan_info.asp;
- (lll) **"Pension Representative Counsel"** means Koskie Minsky LLP;
- (mmm) **"Pension Representative Counsel's Website"** means <https://kmlaw.ca/cases/sears-canada/>;
- (nnn) **"Pensioner Representatives"** means Bill Turner, Ken Eady and Larry Moore;
- (ooo) **"Person"** means any individual, firm, corporation, limited or unlimited liability company, general or limited partnership, association, trust (including a real estate investment trust), unincorporated organization, joint venture, government or any agency or instrumentality thereof or any other entity;
- (ppp) **"Plan"** means, as further defined in the Initial Order, any proposed plan of compromise or arrangement that may be filed in respect of any or all of the Sears

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Canada Entities pursuant to the CCAA as the same may be amended, supplemented or restated from time to time in accordance the terms thereof;

- (qqq) **“Pre-Filing Period”** means the period prior to the Filing Date;
- (rrr) **“Proof of Claim”** means the proof of claim to be filed by General Creditor Claimants in respect of Pre-Filing Claims, Post-Filing Claims and Restructuring Period Claims, substantially in the form attached as Schedule “C” hereto; and for greater certainty, a “Proof of Claim” shall include a Proof of Claim filed online through the Monitor’s website;
- (sss) **“Proof of Claim Instruction Letter”** means the letter containing instructions for completing the Proof of Claim form, substantially in the form attached as Schedule “B” hereto;
- (ttt) **“Provincial Lien Legislation”** means the *Construction Lien Act*, R.S.O., 1990, c. C.30, the *Builders’ Lien Act*, R.S.A. 2000, c. B-7, the *Builders’ Lien Act*, R.S.N.S. 1989, c. 277, the *Mechanics’ Lien Act*, R.S.N.B. 1973, c. M-6, *The Builders’ Liens Act*, C.C.S.M. c. B91, the *Builders Lien Act*, S.B.C. 1997, c. 45, and any other similar provincial mechanics, builders or construction lien legislation in Canada;
- (uuu) **“Restructuring Period”** means the period on or after the Filing Date;
- (vvv) **“Sears Loyalty Points”** means any points issued and outstanding under the Sears Club Reward Program;

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- (www) “**Sears Pension Claim**” means a Claim, including a D&O Claim, that may be asserted by or on behalf of a Sears Pensioner, Pension Representative Counsel, the Superintendent or the Pension Plan Administrator, and shall include any Sears Pension Claim arising through subrogation;
- (xxx) “**Sears Pension Plan**” means the Sears Canada Inc. Registered Retirement Plan (Reg. #0360065), a pension plan registered under the Ontario *Pension Benefits Act*, R.S.O. 1990, c. P.8 and *Income Tax Act*, R.S.C. 1985, c. 1 (5th Supp.) with a defined benefit component and a defined contribution component;
- (yyy) “**Sears Pensioner**” means any retiree and any current or former employee of the Sears Canada Entities with entitlements under the Sears Pension Plan;
- (zzz) “**Sears Supplier**” means any Person who has supplied goods or services to any Sears Canada Entity;
- (aaaa) “**Superintendent**” means the Ontario Superintendent of Financial Services as administrator of the Pension Benefits Guarantee Fund;
- (bbbb) “**Supplemental Plan**” means the Sears Canada Inc. Supplementary Retirement Plan, a non-registered supplemental pension plan maintained to provide benefits to eligible participants in the defined benefit component of the Sears Pension Plan;
- (cccc) “**Vacated or Discharged Liens**” means the builders’ or construction liens previously registered against title to any real property that has been or is owned or leased by any of the Sears Canada Entities under applicable Provincial Lien Legislation and that have been vacated pursuant to previous court orders or discharged pursuant to agreements with applicable Construction Claimants, in each

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case in accordance with the requirements under applicable Provincial Lien Legislation; and

(dddd) “**Warranty**” means a customer warranty provided by any one of the Sears Canada Entities, including any Sears Protection Agreement but excluding any manufacturer’s warranty.

4. THIS COURT ORDERS that all references as to time herein shall mean local time in Toronto, Ontario, Canada, and any reference to an event occurring on a Business Day shall mean prior to 5:00 p.m. on such Business Day unless otherwise indicated herein, and any reference to an event occurring on a day that is not a Business Day shall mean the next following day that is a Business Day.

5. THIS COURT ORDERS that all references to the word “including” shall mean “including without limitation”, all references to the singular herein include the plural, the plural include the singular, and any gender includes all genders.

GENERAL PROVISIONS

6. THIS COURT ORDERS that any Claim denominated in a foreign currency shall be converted to Canadian dollars at the Bank of Canada exchange rate in effect at the Filing Date. For reference, the exchange rate that will be applied to Claims denominated in U.S. dollars is 1.3241 CAD/USD.

7. THIS COURT ORDERS that notwithstanding any other provisions of this Order, the solicitation by the Monitor of Proofs of Claim and D&O Proofs of Claim, the delivery by the Monitor of Notices of Construction Claim, and the filing or deemed submission by any Claimant of any Proof of Claim or D&O Proof of Claim shall not, for that reason only, grant any Person any

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rights, including without limitation, in respect of the nature, quantum and priority of its Claims or its standing in the CCAA Proceedings, except as specifically set out in this Order.

8. THIS COURT ORDERS that the Monitor, in consultation with the Sears Canada Entities and the applicable Directors and Officers in respect of any D&O Claim, is hereby authorized to use reasonable discretion as to the adequacy of compliance with respect to the manner in which any forms delivered hereunder are completed and executed and the time in which they are submitted, and may, where the Monitor, in consultation with the Sears Canada Entities and the applicable Directors and Officers in respect of any D&O Claim, is satisfied that a Claim has been adequately proven, waive strict compliance with the requirements of this Order, including in respect of the completion, execution and time of delivery of such forms; provided that it is recognized and understood that certain Claims will be contingent in nature and therefore will not contain particulars of such Claims that are not yet known as at the time they are filed.

9. THIS COURT ORDERS that amounts claimed in Assessments shall be subject to this Order and there shall be no presumption of validity or deeming of the amount due in respect of the Claim set out in any Assessment.

10. THIS COURT ORDERS that the Applicants shall return to Court to seek approval of an Employee Claims Process and a Pensioner Claims Process, which shall be developed in consultation with Employee Representative Counsel, Pension Representative Counsel, the Pension Plan Administrator, the Superintendent, and the Monitor, as appropriate.

MONITOR'S ROLE

11. THIS COURT ORDERS that, in addition to its prescribed rights, duties, responsibilities and obligations under the CCAA, the Initial Order and any other orders of the Court in the CCAA Proceedings, the Monitor is hereby directed and empowered to implement the Claims Process set

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out herein and to take such other actions and fulfill such other roles as are authorized by this Order or incidental thereto.

12. THIS COURT ORDERS that the Monitor (i) shall have all of the protections given to it by the CCAA, the Initial Order, any other orders of the Court in the CCAA Proceedings, and this Order, or as an officer of the Court, including the stay of proceedings in its favour; (ii) shall incur no liability or obligation as a result of the carrying out of the provisions of this Order, including in respect of its exercise of discretion as to the completion, execution or time of delivery of any documents to be delivered hereunder, other than in respect of its gross negligence or wilful misconduct; (iii) shall be entitled to rely on the books and records of the Sears Canada Entities and any information provided by the Sears Canada Entities, all without independent investigation, provided that Intercompany Claims are subject to independent investigation by the Monitor as provided in paragraph 60 herein; and (iv) shall not be liable for any claims or damages resulting from any errors or omissions in such books, records or information.

13. THIS COURT ORDERS that: (a) the Sears Canada Entities, Officers, Directors, Employees, agents and representatives shall fully cooperate with the Monitor in the exercise of its powers and discharge of its duties and obligations under this Order, and (b) any credit insurers and factors that have: (i) offered services to vendors of the Sears Canada Entities; (ii) have acquired payables of the Sears Canada Entities to such vendors, and/or (iii) have drawn on letters of credit issued by any of the Sears Canada Entities in their favour to satisfy vendor claims as a result of any non-payment by any of the Sears Canada Entities, shall fully cooperate with the Monitor and the Sears Canada Entities by providing information to assist in the assessment of the quantum and validity of Claims.

EMPLOYEE REPRESENTATIVE COUNSEL'S ROLE

14. THIS COURT ORDERS that all Employees hired by the Applicants during the Restructuring Period shall be represented by Employee Representative Counsel pursuant to the Employee Representative Counsel Order dated July 13, 2017 *nunc pro tunc*, unless such Employees specifically notify Employee Representative Counsel that such Employees wish to opt-out of representation by the Employee Representatives and Employee Representative Counsel.

15. THIS COURT ORDERS that Darrin Whitney shall replace Sara Sawyer as an Employee Representative in these CCAA Proceedings, and that Employee Representative Counsel shall hereby be authorized to appoint any additional Employee Representatives as it deems necessary or desirable from time to time.

16. THIS COURT ORDERS that, in addition to the rights, duties, responsibilities and obligations granted to it under the Employee Representative Counsel Order dated July 13, 2017 and any other orders of the Court in the CCAA Proceedings, Employee Representative Counsel is hereby directed and empowered to assist in the establishment and implementation of an Employee Claims Process and the determination of the quantum and validity of Employee Claims for Employees represented by Employee Representative Counsel, in conjunction with the Sears Canada Entities and the Monitor, and to take such other actions and fulfill such other roles as are authorized by this Order or incidental thereto.

17. THIS COURT ORDERS that Employee Representative Counsel, the Employee Representatives and any Advisors retained by Employee Representative Counsel (i) shall have no personal liability or obligations as a result of the performance of its duties in carrying out the provisions of this Order, save and except for liability arising out of gross negligence or wilful misconduct; (ii) shall be entitled to rely on the books and records of the Sears Canada Entities and

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any information provided by the Sears Canada Entities, all without independent investigation; and (iii) shall not be liable for any claims or damages resulting from any errors or omissions in such books, records or information.

18. THIS COURT ORDERS that the Sears Canada Entities and the Monitor shall cooperate with Employee Representative Counsel in the exercise of its powers and discharge of its duties and obligations under this Order.

PENSION REPRESENTATIVE COUNSEL'S ROLE

19. THIS COURT ORDERS that, in addition to the rights, duties, responsibilities and obligations granted to it under the Pension Representative Counsel Order dated July 13, 2017 and any other orders of the Court in the CCAA Proceedings, Pension Representative Counsel is hereby directed and empowered to assist in the establishment and implementation of a Pensioner Claims Process and the determination of the quantum and validity of Pensioner Claims in conjunction with the Sears Canada Entities, the Monitor, the Pension Plan Administrator and the Superintendent, and to take such other actions and fulfill such other roles as are authorized by this Order or incidental thereto.

20. THIS COURT ORDERS that Pension Representative Counsel, the Pensioner Representatives and any Advisors retained by Pension Representative Counsel (i) shall have no personal liability or obligations as a result of the performance of its duties in carrying out the provisions of this Order, save and except for liability arising out of gross negligence or wilful misconduct; (ii) shall be entitled to rely on the books and records of the Sears Canada Entities and any information provided by the Sears Canada Entities, all without independent investigation; and (iii) shall not be liable for any claims or damages resulting from any errors or omissions in such books, records or information.

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21. THIS COURT ORDERS that the Sears Canada Entities and the Monitor shall cooperate with Pension Representative Counsel in the exercise of its powers and discharge of its duties and obligations under this Order and with the Pension Plan Administrator and Superintendent in carrying out its duties and obligations.

NOTICE OF CLAIMS AND CLAIMS PROCESS

22. THIS COURT ORDERS that as soon as practicable, but no later than 5:00 p.m. on December 20, 2017, the Monitor shall cause a Construction Claims Package to be sent to all known Construction Claimants who are Construction Contractors, as evidenced by the books and records of the Sears Canada Entities and at the respective last known addresses as recorded in the Sears Canada Entities' books and records or in the construction lien documentation registered on title to any real property that has been or is owned or leased by any of the Sears Canada Entities, as deemed appropriate by the Monitor with the assistance of the Sears Canada Entities. The Monitor and the Sears Canada Entities shall specify in the Notice of Construction Claim included in the Construction Claims Package the Construction Contractor's Construction Claim as valued by the Sears Canada Entities, in consultation with the Monitor, based on the books and records of the Sears Canada Entities.

23. THIS COURT ORDERS that the Notice of Construction Claim provided to each Construction Contractor shall be deemed to include the Construction Claims of all Construction Sub-Contractors under an agreement (written or oral) with the Construction Contractor or another Construction Sub-Contractor of any level in connection with the improvement to any real property that has been or is owned or leased by any of the Sears Canada Entities. Each Construction Contractor and Construction Sub-Contractor is hereby directed to forward forthwith a copy of the appropriate Notice of Construction Claim and the Construction Sub-Contractor Instruction Letter

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to each Construction Sub-Contractor with which it has a direct contractual agreement or engagement in connection with the relevant improvement. Any dispute regarding a Construction Claim of a Construction Sub-Contractor is to be submitted through the Construction Contractor's Notice of Dispute of Construction Claim. For greater certainty, no Construction Sub-Contractor shall be required to submit a separate Notice of Dispute of Construction Claim in respect of its Construction Claim to the extent that such Construction Sub-Contractor's Construction Claim is captured by its Construction Contractor's Notice of Construction Claim or Notice of Dispute of Construction Claim. The Construction Sub-Contractor Instruction Letter shall direct all Construction Sub-Contractors to contact their Construction Contractor directly to review and submit any disputes with respect to their Construction Claims.

24. THIS COURT ORDERS that as soon as practicable, but no later than 5:00 p.m. on December 20, 2017, the Monitor shall cause a General Creditor Claims Package to be sent to:

- (a) each party that appears on the Service List or has requested a General Creditor Claims Package; and
- (b) any Person known to the Sears Canada Entities as potentially asserting a General Creditor Claim against any of the Sears Canada Entities (excluding any potential General Creditor Claimant with a potential General Creditor Claim below \$1,000 and that is not a Sears Supplier), as evidenced by and to the respective last known address recorded in the books and records of the Sears Canada Entities.

25. THIS COURT ORDERS that the Monitor shall cause the Notice to General Creditor Claimants to be published at least three (3) times in The Globe and Mail (National Edition) and La Presse, and in such other international publications and with such frequency as is determined by the Monitor in consultation with the Sears Canada Entities.

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26. THIS COURT ORDERS that the Monitor shall cause the Notice to General Creditor Claimants, the Employee Letter, the Other Employee Letter, the Pensioner Letter and the General Creditor Claims Package to be posted to the Monitor's Website by no later than 5:00 p.m. on December 13, 2017.

27. THIS COURT ORDERS that the Monitor shall: (i) cause the Employee Letter to be sent to all Employees represented by Employee Representative Counsel, and (ii) cause the Other Employee Letter to be sent to Employees not represented by Employee Representative Counsel (provided that where such Employees are subject to union representation, the Monitor shall only send such letter to the unions representing the unionized Employees), as soon as practicable but no later than 5:00 p.m. on December 20, 2017.

28. THIS COURT ORDERS that the Applicants shall cause the Employee Letter, the Other Employee Letter and the Pensioner Letter to be posted to the my.sears.ca portal, as soon as practicable but no later than 5:00 p.m. on December 20, 2017.

29. THIS COURT ORDERS that Employee Representative Counsel shall cause the Employee Letter to be posted to Employee Representative Counsel's Website, as soon as practicable but no later than 5:00 p.m. on December 20, 2017.

30. THIS COURT ORDERS that Pension Representative Counsel shall (i) cause the Pensioner Letter to be sent to all Pensioners, and (ii) cause the Pensioner Letter to be posted to Pension Representative Counsel's Website, as soon as practicable but no later than 5:00 p.m. on December 20, 2017.

31. THIS COURT ORDERS that the Pension Plan Administrator shall cause the Pensioner Letter to be posted to the Pension Plan Administrator Website, as soon as practicable but no later than 5:00 p.m. on December 20, 2017.

32. THIS COURT ORDERS that to the extent any Claimant requests documents or information relating to the Claims Process prior to the General Creditor Claims Bar Date, the General Creditor Post-Filing Claims Bar Date, the General Creditor Restructuring Period Claims Bar Date, or the Landlord Claims Bar Date, as applicable, the Monitor shall forthwith send such Claimant a General Creditor Claims Package, and shall direct such Claimant to the documents posted on the Monitor's Website or otherwise respond to the request for documents or information as the Monitor, in consultation with the Sears Canada Entities, may consider appropriate in the circumstances. If the Sears Canada Entities or the Monitor become aware of any further General Creditor Claims after the mailing contemplated in paragraph 24, the Monitor shall forthwith send such potential General Creditor Claimant a General Creditor Claims Package or may direct such potential Claimant to the documents posted on the Monitor's Website.

33. THIS COURT ORDERS that to the extent any Construction Claimant requests documents or information relating to the Claims Process prior to the Construction Claims Bar Date, or if the Sears Canada Entities or the Monitor become aware of any further Construction Claims, the Monitor shall respond to the request for documents or information as the Monitor, in consultation with the Sears Canada Entities, may consider appropriate in the circumstances, and/or, if appropriate, shall send such Claimant a Construction Claims Package.

34. THIS COURT ORDERS that any notices of disclaimer or resiliation delivered after the date of this Order to potential General Creditor Claimants in connection with any action taken by the Sears Canada Entities to restructure, disclaim, resiliate, terminate or breach any contract, lease

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or other agreement, whether written or oral, pursuant to the terms of the Initial Order, shall be accompanied by a General Creditor Claims Package.

35. THIS COURT ORDERS that the Claims Process and the forms of Notice to General Creditor Claimants, Proof of Claim Instruction Letter, D&O Claim Instruction Letter, Employee Letter, Other Employee Letter, Pensioner Letter, Proof of Claim, D&O Proof of Claim, Notice of Revision or Disallowance, Notice of Dispute of Revision or Disallowance, Notice of Construction Claim, Notice of Dispute of Construction Claim, Construction Contractor Instruction Letter, and Construction Sub-Contractor Instruction Letter are hereby approved, subject to any minor non-substantive changes to the forms as the Monitor and the Sears Canada Entities may consider necessary or desirable to be made from time to time.

36. THIS COURT ORDERS that the sending of the Construction Claims Package, the Construction Sub-Contractor Instruction Letter, the Employee Letter, the Other Employee Letter, the Pensioner Letter, and the General Creditor Claims Package to the applicable Persons as described above, and the publication of the Notice to General Creditor Claimants, in accordance with this Order, shall constitute good and sufficient service and delivery of notice of this Order, the Construction Claims Bar Date, the General Creditor Claims Bar Date, the General Creditor Post-Filing Claims Bar Date, the General Creditor Restructuring Period Claims Bar Date and the Landlord Claims Bar Date on all Persons who may be entitled to receive notice and who may wish to assert a Claim, and no other notice or service need be given or made and no other document or material need be sent to or served upon any Person in respect of this Order.

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FILING OF PROOFS OF CLAIM

(A) Pre-Filing Claims

37. THIS COURT ORDERS that any General Creditor Claimant, excluding any Landlord Claimant, that intends to assert a Pre-Filing Claim or D&O Claim relating to the Pre-Filing Period shall file a Proof of Claim or D&O Proof of Claim, as applicable, with the Monitor on or before the General Creditor Claims Bar Date. Any General Creditor Claimant may file a Proof of Claim or D&O Proof of Claim through the online portal on the Monitor's website, and such Proof of Claim or D&O Proof of Claim shall be deemed to have been received by the Monitor as of the time it is submitted on the Monitor's website. For the avoidance of doubt, a Proof of Claim or D&O Proof of Claim, as applicable, must be filed by every such General Creditor Claimant in respect of every such Pre-Filing Claim or D&O Claim relating to the Pre-Filing Period, regardless of whether or not a legal proceeding in respect of such Pre-Filing Claim or D&O Claim has been previously commenced.

38. THIS COURT ORDERS that any General Creditor Claimant, excluding any Landlord Claimant, that does not file a Proof of Claim or D&O Proof of Claim, as applicable, so that such Proof of Claim or D&O Proof of Claim is received by the Monitor on or before the General Creditor Claims Bar Date, or such later date as the Monitor may agree in writing or the Court may otherwise direct:

- (a) be and is hereby forever barred, estopped and enjoined from asserting or enforcing any such Pre-Filing Claim or any such D&O Claim relating to the Pre-Filing Period and all such Pre-Filing Claims or D&O Claims shall be forever extinguished;
- (b) will not be permitted to vote at any Meeting on account of such Pre-Filing Claim(s) or D&O Claim(s) relating to the Pre-Filing Period;

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- (c) will not be entitled to receive further notice with respect to the Claims Process or these proceedings unless the Monitor and/or the Sears Canada Entities become aware that such General Creditor Claimant has any other Claim; and
- (d) will not be permitted to participate in any distribution under any Plan on account of such Pre-Filing Claim(s) or D&O Claim(s).

(B) Post-Filing Claims

39. THIS COURT ORDERS that after the date of this Order, upon becoming aware of a potential Post-Filing Claim, the Monitor shall send a General Creditor Claims Package to the General Creditor Claimant in respect of such Post-Filing Claim in the manner provided for herein or may direct such potential Claimant to the documents posted on the Monitor's website.

40. THIS COURT ORDERS that any General Creditor Claimant, excluding any Landlord Claimant, that intends to assert a Post-Filing Claim shall file a Proof of Claim with the Monitor on or before the General Creditor Post-Filing Claims Bar Date. Any General Creditor Claimant, excluding any Landlord Claimant, may file a Proof of Claim through the online portal on the Monitor's website, and such Proof of Claim shall be deemed to have been received by the Monitor as of the time it is submitted on the Monitor's website.

41. THIS COURT ORDERS that any General Creditor Claimant, excluding any Landlord Claimant, that does not file a Proof of Claim in respect of a Post-Filing Claim so that such Proof of Claim is received by the Monitor on or before the General Creditor Post-Filing Claims Bar Date, or such later date as the Monitor may agree in writing or the Court may otherwise direct:

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- (a) be and is hereby forever barred, estopped and enjoined from asserting or enforcing any such Post-Filing Claim and all such Post-Filing Claims shall be forever extinguished;
- (b) will not be permitted to vote at any Meeting on account of such Post-Filing Claim(s);
- (c) will not be entitled to receive further notice with respect to the Claims Process or these proceedings unless the Monitor and/or the Sears Canada Entities become aware that such General Creditor Claimant has any other Claim; and
- (d) will not be permitted to participate in any distribution under any Plan on account of such Post-Filing Claim(s).

(C) Restructuring Period Claims

42. THIS COURT ORDERS that after the date of this Order, upon becoming aware of a circumstance giving rise to a potential Restructuring Period Claim, the Monitor shall send a General Creditor Claims Package to the General Creditor Claimant in respect of such Restructuring Period Claim in the manner provided for herein or may direct such potential Claimant to the documents posted on the Monitor's Website.

43. THIS COURT ORDERS that any General Creditor Claimant, excluding any Landlord Claimant, that intends to assert a Restructuring Period Claim or D&O Claim relating to the Restructuring Period shall file a Proof of Claim or D&O Proof of Claim, as applicable, with the Monitor on or before the General Creditor Restructuring Period Claims Bar Date. Any General Creditor Claimant, excluding any Landlord Claimant, may file a Proof of Claim or D&O Proof of Claim through the online portal on the Monitor's website, and such Proof of Claim or D&O Proof

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of Claim shall be deemed to have been received by the Monitor as of the time it is submitted on the Monitor's website. For the avoidance of doubt, a Proof of Claim or D&O Proof of Claim must be filed by every such General Creditor Claimant in respect of every such Restructuring Period Claim or D&O Claim relating to the Restructuring Period, regardless of whether or not a legal proceeding in respect of such Restructuring Period Claim or D&O Claim has been previously commenced.

44. THIS COURT ORDERS that any General Creditor Claimant, excluding any Landlord Claimant, that does not file a Proof of Claim or D&O Proof of Claim, as applicable, so that such Proof of Claim or D&O Proof of Claim is received by the Monitor on or before the General Creditor Restructuring Period Claims Bar Date, or such later date as the Monitor may agree in writing or the Court may otherwise direct:

- (a) be and is hereby forever barred, estopped and enjoined from asserting or enforcing any such Restructuring Period Claim or any such D&O Claim relating to the Restructuring Period and all such Restructuring Period Claims or D&O Claims shall be forever extinguished;
- (b) will not be permitted to vote at any Meeting on account of such Restructuring Period Claim(s) or D&O Claim(s);
- (c) will not be entitled to receive further notice with respect to the Claims Process or these proceedings unless the Monitor and/or the Sears Canada Entities become aware that such General Creditor Claimant has any other Claim; and
- (d) will not be permitted to participate in any distribution under any Plan on account of such Restructuring Period Claim(s) or D&O Claim(s).

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(D) Landlord Claims

45. THIS COURT ORDERS that any Landlord Claimant that intends to assert a Landlord Claim shall file a Proof of Claim or D&O Proof of Claim, as applicable, with the Monitor on or before the Landlord Claims Bar Date. Any Landlord Claimant may file a Proof of Claim or D&O Proof of Claim through the online portal on the Monitor's website, and such Proof of Claim or D&O Proof of Claim shall be deemed to have been received by the Monitor as of the time it is submitted on the Monitor's website. For the avoidance of doubt, a Proof of Claim or D&O Proof of Claim, as applicable, must be filed by every Landlord Claimant in respect of every Landlord Claim, regardless of whether or not a legal proceeding in respect of such Claim has been previously commenced.

46. THIS COURT ORDERS that any Landlord Claimant that does not file a Proof of Claim or D&O Proof of Claim, as applicable, so that such Proof of Claim or D&O Proof of Claim is received by the Monitor on or before the Landlord Claims Bar Date, or such later date as the Monitor may agree in writing or the Court may otherwise direct:

- (a) be and is hereby forever barred, estopped and enjoined from asserting or enforcing any such Landlord Claim and all such Landlord Claims shall be forever extinguished;
- (b) will not be permitted to vote at any Meeting on account of such Landlord Claim(s);
- (c) will not be entitled to receive further notice with respect to the Claims Process or these proceedings unless the Monitor and/or the Sears Canada Entities become aware that such Landlord Claimant has any other Claim; and

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- (d) will not be permitted to participate in any distribution under any Plan on account of such Landlord Claim(s).

47. THIS COURT ORDERS that the provisions of paragraphs 37, 38, 40, 41, and 43 to 46 herein shall not apply to Intercompany Claims or any Claims with respect to Warranties. Proofs of Claim for all Claims with respect to Warranties shall be deemed to have been properly submitted as Pre-Filing Claims or Restructuring Period Claims, as applicable, in accordance with the applicable requirements of this Order.

ADJUDICATION OF CLAIMS OTHER THAN INTERCOMPANY CLAIMS

48. THIS COURT ORDERS that, for greater certainty, the procedures outlined in paragraphs 49 to 59 herein shall not apply to the adjudication of Intercompany Claims.

Construction Claims

49. THIS COURT ORDERS that if a Construction Claimant disputes the amount of the Claim, including any D&O Claim, as set out in the Notice of Construction Claim, such Construction Claimant shall ensure that the Construction Contractor who received such Notice of Construction Claim shall deliver to the Monitor a Notice of Dispute of Construction Claim. All Notices of Dispute of Construction Claim must be received by the Monitor by no later than the Construction Claims Bar Date.

50. THIS COURT ORDERS that, in the event that a dispute raised in a Notice of Dispute of Construction Claim is not settled within a time period or in a manner satisfactory to the Monitor, in consultation with the Sears Canada Entities and the applicable Directors and Officers in respect of any D&O Claim included in a Notice of Dispute of Construction Claim, the Monitor shall refer the dispute raised in the Notice of Dispute of Construction Claim to a Claims Officer or the Court for adjudication at its election. For greater certainty, any party may file additional evidence,

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documentation, reports or information on any hearing to resolve the issues raised in a Notice of Dispute of Construction Claim and no party will object to the filing of such additional evidence on the basis that such evidence, documentation, report or information was not included in the initial Notice of Construction Claim or Notice of Dispute of Construction Claim.

51. THIS COURT ORDERS that if a Construction Contractor does not deliver to the Monitor a completed Notice of Dispute of Construction Claim, and no other Notices of Dispute of Construction Claim have been received by the Monitor from any Construction Sub-Contractors in respect of such Claim, by the Construction Claims Bar Date disputing the Construction Claim as set out in a Notice of Construction Claim, then all Construction Claimants associated with such Notice of Construction Claim shall be deemed to have accepted the Construction Contractor's Construction Claim and no such Construction Claimant shall have any further right to dispute same.

52. THIS COURT ORDERS that the Monitor shall make reasonable efforts to promptly deliver a copy of any Notice of Dispute of Construction Claim that asserts a Construction Claim against any of the Directors and Officers to such named Directors and Officers.

General Creditor Proofs of Claim

53. THIS COURT ORDERS that the Monitor, in consultation with the Sears Canada Entities, shall review each Proof of Claim submitted in accordance with this Order and received on or before the General Creditor Claims Bar Date, the General Creditor Post-Filing Claims Bar Date, the General Creditor Restructuring Period Claims Bar Date, or the Landlord Claims Bar Date, as applicable, and shall accept, revise or reject each Claim set forth in each such Proof of Claim.

54. THIS COURT ORDERS that the Monitor shall make reasonable efforts to promptly deliver a copy of any D&O Proofs of Claim, Notices of Revision or Disallowance with respect to any

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D&O Claim, and Notices of Dispute of Revision or Disallowance with respect to any D&O Claim, to the applicable Directors and Officers named therein.

55. THIS COURT ORDERS that the Monitor, in consultation with the Sears Canada Entities and the applicable Directors and Officers named in any D&O Proof of Claim, and any counsel for such Directors and Officers, shall review each D&O Proof of Claim submitted in accordance with this Order and received on or before the General Creditor Claims Bar Date, the General Creditor Restructuring Period Claims Bar Date or the Landlord Claims Bar Date, as applicable. The Monitor shall accept, revise or reject each Claim set forth in each such D&O Proof of Claim, provided that the Monitor shall not accept or revise any portion of a D&O Claim absent consent of the applicable Directors and Officers or further Order of the Court.

56. THIS COURT ORDERS that the Monitor shall notify the General Creditor Claimant who has delivered such Proof of Claim or D&O Proof of Claim, as applicable, that such Claim has been revised or rejected and the reasons therefor, by sending a Notice of Revision or Disallowance by no later than July 31, 2018 or such later date as ordered by the Court on application by the Monitor.

57. THIS COURT ORDERS that any General Creditor Claimant who intends to dispute a Notice of Revision or Disallowance hereof shall:

- (a) deliver a completed Notice of Dispute of Revision or Disallowance, along with the reasons for the dispute, to the Monitor by no later than thirty (30) days after the date on which the General Creditor Claimant is deemed to receive the Notice of Revision or Disallowance, or such other date as may be agreed to by the Monitor in writing (provided that any General Creditor Claimant may file such Notice of Dispute of Revision or Disallowance through the online portal on the Monitor's website, and such Notice of Dispute of Revision or Disallowance shall be deemed

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to have been received by the Monitor as of the time it is submitted on the Monitor's website); and

- (b) in the event that a dispute raised in a Notice of Dispute of Revision or Disallowance is not settled within a time period or in a manner satisfactory to the Monitor, in consultation with the Sears Canada Entities and the applicable Directors and Officers in respect of any D&O Claim, the Monitor shall refer the dispute raised in the Notice of Dispute of Revision or Disallowance to a Claims Officer or the Court for adjudication at its election. For greater certainty, any party may file additional evidence, documentation, reports or information on any hearing to resolve the issues raised in a Notice of Dispute of Revision or Disallowance and no party will object to the filing of such additional evidence on the basis that such evidence, documentation, report or information was not included in the initial Proof of Claim, D&O Proof of Claim or Notice of Revision or Disallowance.

58. THIS COURT ORDERS that where a General Creditor Claimant that receives a Notice of Revision or Disallowance does not file a completed Notice of Dispute of Revision or Disallowance by the time set out in paragraph 57(a), such General Creditor Claimant's Claim or D&O Claim relating to such Claim shall be deemed to be as set out in the Notice of Revision or Disallowance and such General Creditor Claimant shall have no further right to dispute same.

59. THIS COURT ORDERS that the Monitor, in consultation with the Sears Canada Entities and the applicable Directors and Officers in respect of any D&O Claim, may refer any Claim to a Claims Officer or the Court for adjudication at its election by sending written notice to the applicable parties at any time.

INTERCOMPANY CLAIMS

60. THIS COURT ORDERS that the Monitor shall prepare a report to be served on the Service List and filed with the Court for the Court to consider, detailing its review of all Intercompany Claims and assessing in detail with reasonably sufficient particulars and analysis the validity and quantum of such Claims (the “**Monitor’s Intercompany Claims Report**”). The Monitor’s Intercompany Claims Report shall be served on or before the General Creditor Claims Bar Date, unless otherwise ordered by this Court on application by the Monitor and shall contain a recommendation with respect to the next steps to be taken, if any, with respect to the determination and adjudication of Intercompany Claims. For greater certainty, nothing in the Monitor’s Intercompany Claims Report shall bind the Court with respect to its determination of the Intercompany Claims as the Court sees fit, including without limitation, the validity, priority or quantum of such Intercompany Claims.

61. THIS COURT ORDERS that each Intercompany Claim identified in the Monitor’s Intercompany Claims Report shall be deemed to have been properly submitted through a Proof of Claim in respect of such Intercompany Claim by the Intercompany Claimant as if such Claim was a Pre-Filing Claim or Restructuring Period Claim, as applicable, in accordance with the requirements of this Order, and any Intercompany Claims not included in the Monitor’s Intercompany Claims Report shall be deemed to be a General Creditor Claim barred pursuant to paragraph 38 of this Order.

CLAIMS OFFICER

62. THIS COURT ORDERS that the Hon. Mr. James Farley, Q.C., and such other Persons as may be appointed by the Court from time to time on application of the Monitor, in consultation with the Sears Canada Entities, be and are hereby appointed as Claims Officers for the Claims Process. The Monitor, in consultation with the Sears Canada Entities, is hereby permitted to seek

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the Court's referral of a disputed Construction Claim to a Construction Lien Master, who shall be appointed as a Claims Officer hereunder, in accordance with applicable Provincial Lien Legislation.

63. THIS COURT ORDERS that a Claims Officer shall determine the validity and amount of disputed Claims in accordance with this Order and to the extent necessary may determine whether any Claim or part thereof constitutes an Excluded Claim and shall provide written reasons. A Claims Officer shall determine all procedural matters which may arise in respect of his or her determination of these matters, including the manner in which any evidence may be adduced. A Claims Officer shall have the discretion to determine by whom and to what extent the costs of any hearing before a Claims Officer shall be paid.

64. THIS COURT ORDERS that the Monitor, the General Creditor Claimant, the Sears Canada Entities and the applicable Directors and Officers in respect of any D&O Claim may, within ten (10) days of such party receiving notice of a Claims Officer's determination of the value of a General Creditor Claimant's Claim, appeal such determination or any other matter determined by the Claims Officer in accordance with paragraph 63 or otherwise to the Court by filing a notice of appeal, and the appeal shall be initially returnable for scheduling purposes within ten (10) days of filing such notice of appeal.

65. THIS COURT ORDERS that the Monitor, any Construction Claimant, including a Construction Sub-Contractor, the Sears Canada Entities and the applicable Directors and Officers in respect of any D&O Claim relating to a Construction Claim may, within ten (10) days of such party receiving notice of a Claims Officer's determination of the value of a Construction Contractor's Construction Claim, appeal such determination or any other matter determined by the Claims Officer in accordance with paragraph 63 or otherwise to the Court by filing a notice of

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appeal, and the appeal shall be initially returnable for scheduling purposes within ten (10) days of filing such notice of appeal.

66. THIS COURT ORDERS that, if no party appeals the determination of value of a Claim by a Claims Officer in accordance with the requirements set out in paragraphs 64 and 65 above, the decision of the Claims Officer in determining the value of the Claim shall be final and binding upon the Sears Canada Entities, the Monitor, the applicable Directors and Officers in respect of a D&O Claim and the Claimant, and there shall be no further right of appeal, review or recourse to the Court from the Claims Officer's final determination of a Claim.

67. THIS COURT ORDERS that the provisions of paragraphs 62 to 66 herein shall not apply to Intercompany Claims.

NOTICE OF TRANSFEREES

68. THIS COURT ORDERS that, from the date of this Order until seven (7) days prior to the date fixed by the Court for any distribution in the CCAA Proceedings or any other proceeding, including a bankruptcy, leave is hereby granted to permit a Claimant to provide to the Monitor notice of assignment or transfer of a Claim to any third party, and that no assignment or transfer of a partial Claim shall be permitted.

69. THIS COURT ORDERS that, subject to the terms of any subsequent Order of this Court, if, after the Filing Date, the holder of a Claim transfers or assigns the whole of such Claim to another Person, neither the Monitor nor the Sears Canada Entities shall be obligated to give notice to or otherwise deal with the transferee or assignee of such Claim in respect thereof unless and until actual notice of transfer or assignment, together with satisfactory evidence of such transfer or assignment, shall have been received and acknowledged by the Monitor in writing and thereafter such transferee or assignee shall, for the purposes hereof, constitute the "Claimant" in respect of

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the whole of such Claim. Any such transferee or assignee of a Claim shall be bound by any notices given or steps taken in respect of such Claim in accordance with this Order prior to receipt and acknowledgement by the Monitor of satisfactory evidence of such transfer or assignment. A transferee or assignee of a Claim takes the Claim subject to any rights of set-off to which the Sears Canada Entities and/or the applicable Directors and Officers may be entitled with respect to such Claim. For greater certainty, a transferee or assignee of a Claim is not entitled to set-off, apply, merge, consolidate or combine any Claim assigned or transferred to it against or on account or in reduction of any amounts owing by such Person to the Sears Canada Entities or the applicable Directors and Officers.

SERVICE AND NOTICE

70. THIS COURT ORDERS that the Monitor may, unless otherwise specified by this Order, serve and deliver or cause to be served and delivered the Construction Claims Package, the Employee Letter, the Other Employee Letter and the General Creditor Claims Package, and any letters, notices or other documents, to the appropriate Claimants, Employees, Pensioners, unions, or other interested Persons by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery, facsimile transmission or email to such Persons at the physical or electronic address, as applicable, last shown on the books and records of the Sears Canada Entities or, where applicable, as set out in such Claimant's Proof of Claim or D&O Proof of Claim.

71. THIS COURT ORDERS that Pension Representative Counsel may, unless otherwise specified by this Order, serve and deliver or cause to be served and delivered the Pensioner Letter, and any letters, notices or other documents, to the Pensioners by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery, facsimile transmission or email to such Persons

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at the physical or electronic address, as applicable, last shown on the books and records of the Sears Canada Entities.

72. THIS COURT ORDERS that such service and delivery of any documents in connection with this Claims Process shall be deemed to have been received: (i) if sent by ordinary mail, on the third Business Day after mailing to an address within Ontario, the fifth Business Day after mailing to an address within Canada (other than within Ontario), and the tenth Business Day after mailing to an address internationally; (ii) if sent by courier or personal delivery, on the next Business Day following dispatch; and (iii) if delivered by facsimile transmission or email by 5:00 p.m. on a Business Day, on such Business Day and if delivered after 5:00 p.m. or other than on a Business Day, on the following Business Day.

73. THIS COURT ORDERS that any notice or communication required to be provided or delivered by a Claimant to the Monitor under this Order shall, unless otherwise specified in this Order, be in writing in substantially the form, if any, provided for in this Order and will be sufficiently given only if delivered by prepaid ordinary mail, registered mail, courier, personal delivery, facsimile transmission or email addressed to:

FTI Consulting Canada Inc., Sears Canada Monitor
TD Waterhouse Tower
79 Wellington Street West
Suite 2010, P.O. Box 104
Toronto, ON M5K 1G8

Attention: Sears Canada Claims Process
Email: searscanada@fticonsulting.com
Fax: 416-649-8101

Subject to paragraphs 37, 43 and 57(a) hereto, any such notice or communication delivered by a Claimant shall be deemed received upon actual receipt by the Monitor thereof during normal

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business hours on a Business Day, or if delivered outside of normal business hours, the next Business Day.

74. THIS COURT ORDERS that if, during any period during which notices or other communications are being given pursuant to this Order, a postal strike or postal work stoppage of general application should occur, such notices or other communications sent by ordinary or registered mail and then not received shall not, absent further Order of this Court, be effective and notices and other communications given hereunder during the course of any such postal strike or work stoppage of general application shall only be effective if given by courier, personal delivery, facsimile transmission or email in accordance with this Order.

MISCELLANEOUS

75. THIS COURT ORDERS that the Sears Canada Entities, the Monitor, Employee Representative Counsel, Pension Representative Counsel, the Pension Plan Administrator and the Superintendent may from time to time apply to this Court to extend the time for any action which the Sears Canada Entities, the Monitor, Employee Representative Counsel, Pension Representative Counsel, the Pension Plan Administrator or the Superintendent is required to take if reasonably required to carry out its duties and obligations pursuant to this Order and for advice and directions concerning the discharge of its powers and duties under this Order or the interpretation or application of this Order.

76. THIS COURT ORDERS that nothing in this Order shall prejudice the rights and remedies of any Directors or Officers or other Persons under the Directors' Priority Charge, the Directors' Subordinated Charge or any applicable insurance policy or prevent or bar any Person from seeking recourse against or payment from the Sears Canada Entities' insurance or any Director's or Officer's liability insurance policy or policies that exist to protect or indemnify the Directors or

Officers or other Persons, whether such recourse or payment is sought directly by the Person asserting a Claim from the insurer or derivatively through the Director or Officer or any Sears Canada Entity; provided, however, that nothing in this Order shall create any rights in favour of such Person under any policies of insurance nor shall anything in this Order limit, remove, modify or alter any defence to such Claim available to the insurer pursuant to the provisions of any insurance policy or at law; and further provided that any Claim or portion thereof for which the Person receives payment directly from, or confirmation that he or she is covered by, the Sears Canada Entities' insurance or any Director's or Officer's liability insurance or other liability insurance policy or policies that exist to protect or indemnify the Directors or Officers or other Persons shall not be recoverable as against a Sears Canada Entity or Director or Officer as applicable.

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

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

ENTERED AT / INSCRIT À TORONTO
 ON / BOOK NO:
 LE / DANS LE REGISTRE NO:

DEC 08 2017

PER / PAR:

SCHEDULE A
 NOTICE TO CREDITORS AND OTHERS OF FILING OF CLAIMS AGAINST THE
 SEARS CANADA ENTITIES AND/OR THEIR DIRECTORS AND OFFICERS

RE: NOTICE OF CLAIMS PROCESS AND CLAIMS BAR DATE IN COMPANIES' CREDITORS ARRANGEMENT ACT PROCEEDINGS 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., 4201731 CANADA INC., 168886 CANADA INC., 3339611 CANADA INC. and SEARSCONNECT (COLLECTIVELY, THE "SEARS CANADA ENTITIES")

PLEASE TAKE NOTICE that on [December 8], 2017, the Ontario Superior Court of Justice (Commercial List) issued an order (the "Claims Procedure Order") in the *Companies' Creditors Arrangement Act* proceedings of the Sears Canada Entities, commencing a claims procedure (the "Claims Process") for the purpose of identifying and determining all Claims against the Sears Canada Entities and their respective Directors and Officers (including former directors and officers). Capitalized terms used but not defined herein have the meanings ascribed to them in the Claims Procedure Order. Please review the Claims Procedure Order for the complete definitions of "Claim", "Pre-Filing Claim", "Restructuring Period Claim", "Post-Filing Claim", "Construction Claim", "Landlord Claim" and "D&O Claim" to which the Claims Process applies.

The Claims Procedure Order requires that all Persons who assert or wish to assert a Claim against the Sears Canada Entities, whether unliquidated, contingent or otherwise, and all Persons who assert a Claim against Directors or Officers of the Sears Canada Entities, MUST file a Proof of Claim or D&O Proof of Claim, as applicable, with FTI Consulting Canada Inc. in its capacity as Monitor of the Sears Canada Entities (the "Monitor") on or before 5:00 p.m. (Toronto time) on March 2, 2018 (or (i) in the case of a Restructuring Period Claim, on or before the applicable Restructuring Period Claims Bar Date, (ii) in the case of a Post-Filing Claim, on or before April 2, 2018, and (iii) in the case of a Landlord Claim, on or before the applicable Landlord Claims Bar Date).

Certain Claimants are exempted from the requirement to file a Proof of Claim or D&O Proof of Claim, as applicable, at this time including: (a) current or former employees of the Sears Canada Entities, whose Claims (of any type) are to be addressed in a future claims process being developed by the Sears Canada Entities and the Monitor, working in conjunction with Employee Representative Counsel, Pension Representative Counsel, the Pension Administrator and the Superintendent; (b) holders of Construction Claims, as Construction Contractors (as defined in the Claims Procedure Order) will be contacted by the Monitor in respect of such Construction Claims; and (c) holders of any customer warranty provided by a Sears Canada Entity for any Claim in respect of such warranty.

Please also take notice that effective as of January 21, 2018, Sears Loyalty Points and gift cards will no longer be honoured by the Sears Canada Entities.

The General Creditor Claims Bar Date is 5:00 p.m. (Toronto time) on March 2, 2018. Proofs of Claim in respect of Pre-Filing Claims against one or more of the Sears Canada Entities, and

D&O Proofs of Claim against any of the Directors and/or Officers of the Sears Canada Entities in respect of the Pre-Filing Period (*i.e.*, Claims arising prior to June 22, 2017), must be completed and filed with the Monitor on or before the General Creditor Claims Bar Date.

The General Creditor Restructuring Period Claims Bar Date is 5:00 pm (Toronto time) on the date that is the later of (i) 45 days after the date on which the Monitor sends a General Creditor Claims Package with respect to a Restructuring Period Claim and (ii) the General Creditor Claims Bar Date. Proofs of Claim and D&O Proofs of Claim in respect of Restructuring Period Claims must be completed and filed with the Monitor on or before the General Creditor Restructuring Period Claims Bar Date.

The General Creditor Post-Filing Claims Bar Date is 5:00 p.m. (Toronto time) on April 2, 2018. Proofs of Claim in respect of Post-Filing Claims (*i.e.*, claims for non-payment of goods or services supplied to a Sears Canada Entity on or after June 22, 2017) must be completed and filed with the Monitor on or before the General Creditor Post-Filing Claims Bar Date.

The Landlord Claims Bar Date is 5:00 pm (Toronto time) on the date that is the later of (i) 45 days after the date on which the Monitor sends a General Creditor Claims Package with respect to a Landlord Claim and (ii) April 2, 2018. Proofs of Claim and D&O Proofs of Claim in respect of Landlord Claims must be completed and filed with the Monitor on or before the Landlord Claims Bar Date.

Only Proofs of Claim and D&O Proofs of Claim actually received by the Monitor on or before 5:00 p.m. (Toronto time) on March 2, 2018 (or in the case of (i) a Restructuring Period Claim, on or before the Restructuring Period Claims Bar Date, (ii) in the case of a Post-Filing Claim, on or before the General Creditor Post-Filing Claims Bar Date, or (iii) in the case of a Landlord Claim, on or before the Landlord Claims Bar Date) will be considered filed on time.

FAILURE TO FILE A PROOF OF CLAIM OR D&O PROOF OF CLAIM SO IT IS RECEIVED BY THE APPLICABLE CLAIMS BAR DATE WILL RESULT IN YOUR CLAIM BEING BARRED AND EXTINGUISHED FOREVER.

Pursuant to the Claims Procedure Order, General Creditor Claims Packages, including the form of Proof of Claim and D&O Proof of Claim, will be sent by the Monitor to all known General Creditor Claimants with potential Claims above \$1,000, and to all Sears Suppliers.¹ A copy of the Claims Procedure Order, the General Creditor Claims Package (including copies of the Proof of Claim and D&O Proof of Claim forms), and other public information concerning these CCAA Proceedings may also be found at the Monitor's website at cfcanda.fticonsulting.com/searscanada.

Claimants can also, and are in fact strongly encouraged to, submit their Proofs of Claim or D&O Proofs of Claim, as applicable, at this website.

Claimants requiring further information or claim documentation, or who wish to submit a Proof of Claim or D&O Proof of Claim to the Monitor, may contact the Monitor at the following address:

FTI Consulting Canada Inc., Sears Canada Monitor

¹ This sentence to be deleted from all forms of Notice included in a General Creditor Claims Package.

TD Waterhouse Tower
79 Wellington Street West
Suite 2010, P.O. Box 104
Toronto, Ontario M5K 1G8

Attention: Sears Canada Claims Process

Tel.: 416-649-8113
Toll Free: 1-855-649-8113
Fax No.: 416-649-8101
Email: searscanada@fticonsulting.com

DATED this _____ day of December, 2017.

FTI Consulting Canada Inc.,
in its capacity as Court-appointed Monitor
of the Sears Canada Entities

SCHEDULE B
CLAIMANT'S GUIDE TO COMPLETING THE PROOF OF CLAIM FORM FOR
CLAIMS AGAINST THE SEARS CANADA ENTITIES¹

This Guide has been prepared to assist Claimants in filling out the Proof of Claim form for Claims against the Sears Canada Entities. If you have any additional questions regarding completion of the Proof of Claim form, please consult the Monitor's website at cfcanada.fticonsulting.com/searscanada or contact the Monitor, whose contact information is shown below.

Please note that this is a guide only, and that in the event of any inconsistency between the terms of this guide and the terms of the Claims Procedure Order made on [December 8], 2017 (the "Claims Procedure Order"), the terms of the Claims Procedure Order will govern. Unless otherwise defined, all capitalized terms used herein have the meanings given to them in the Claims Procedure Order.

A copy of the Claims Procedure Order and additional copies of the Proof of Claim form may be found at the Monitor's website. Claimants can, and are in fact strongly encouraged to, submit their Proof of Claim at the Monitor's website at cfcanada.fticonsulting.com/searscanada.

Note further that certain Claimants are exempted from the requirement to file a Proof of Claim or D&O Proof of Claim, as applicable, at this time including:

- (a) current or former employees of the Sears Canada Entities, whose Claims (of any type) are to be addressed in a future claims process being developed by the Sears Canada Entities and the Monitor, working in conjunction with Employee Representative Counsel, Pension Representative Counsel, the Pension Administrator and the Superintendent;
- (b) holders of Construction Claims, as Construction Contractors (as defined in the Claims Procedure Order) will be contacted by the Monitor in respect of such Construction Claims; and
- (c) holders of any customer warranty provided by a Sears Canada Entity, as the Sears Canada Entities will be deemed to have already filed Proofs of Claim on behalf of each warranty holder for the purposes of this Claims Process.

SECTION 1 – DEBTOR(S)

- 2 The full name of each Sears Canada Entity against which the Claim is asserted must be listed (see footnote 1 for complete list of Sears Canada Entities). If there are insufficient lines to record each such name, attach a separate schedule indicating the required information.

¹ The "Sears Canada Entities" are 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 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., 4201731 Canada Inc., 168886 Canada Inc., 3339611 Canada Inc., and SearsConnect.

SECTION 2(a) – CLAIMANT

- 1 A separate Proof of Claim must be filed by each legal entity or person asserting a Claim against the Sears Canada Entities, or any of them.
- 2 The Claimant shall include any and all Claims it asserts against the Sears Canada Entities, or any of them, in a single Proof of Claim.
- 3 The full legal name of the Claimant must be provided.
- 4 If the Claimant operates under a different name or names, please indicate this in a separate schedule in the supporting documentation.
- 5 If the Claim has been acquired via assignment or other transfer from another party, Section 2(b) must also be completed.
- 6 Unless the Claim is assigned or transferred, all future correspondence, notices, etc. regarding the Claim will be directed to the Claimant at the address indicated in this section.

SECTION 2(b) – PARTICULARS OF ORIGINAL CLAIMANT FROM WHOM YOU ACQUIRED CLAIM, IF APPLICABLE

- 1 If the Claimant acquired its Claim by assignment or other transfer from an original holder of the Claim, then Section 2(b) must be completed, and all documents evidencing the assignment must be attached.
- 2 The full legal name of the original holder of the Claim must be provided.
- 3 If the original holder of the Claim operates under a different name or names, please indicate this in a separate schedule in the supporting documentation.

SECTION 3 – AMOUNT AND TYPE OF CLAIM

Amount

- 1 If the Claim is a *Pre-Filing Claim* within the meaning of the Claims Procedure Order, then indicate the amount that each appropriate Sears Canada Entity was and still is indebted to the Claimant in the space reserved for Pre-Filing Claims in the “Amount of Claim” column, including interest up to and including June 22, 2017.
- 2 If the Claim is a *Restructuring Period Claim* within the meaning of the Claims Procedure Order, then indicate the Claim amount that each appropriate Sears Canada Entity was and still is indebted to the Claimant in the space reserved for Restructuring Period Claims in the “Amount of Claim” column (which is below the space reserved for Pre-Filing Claims).

For reference, a “**Restructuring Period Claim**” means any right or claim of any Person against any of the Sears Canada Entities, including in connection with any indebtedness,

liability, or obligation of any kind whatsoever of any such Sears Canada Entity to such Person arising on or after June 22, 2017, including without limitation rights or claims with respect to the restructuring, disclaimer, resiliation, termination or breach by such Sears Canada Entity on or after June 22, 2017 of any contract, lease or other agreement whether written or oral, but excluding any Post-Filing Claims.

- 3 If the Claim is a *Post-Filing Claim* within the meaning of the Claims Procedure Order, then indicate the Claim amount that each appropriate Sears Canada Entity was and still is indebted to the Claimant in the space reserved for Post-Filing Claims in the "Amount of Claim" column (which is below the space reserved for Restructuring Period Claims).

For reference "**Post-Filing Claim**" means any right or claim of any Sears Supplier against any of the Sears Canada Entities in connection with any non-payment by any such Sears Canada Entity to such Sears Supplier for goods or services supplied to such Sears Canada Entity on or after June 22, 2017.

- 4 If the Claim is a *Landlord Claim* within the meaning of the Claims Procedure Order, then indicate the amount of the Landlord Claim that is a Pre-Filing Claim, Restructuring Period Claim, or Post-Filing Claim, as applicable, in the space reserved for such Claims in the "Amount of Claim" column.
- 5 If there are insufficient lines to record each Claim amount, attach a separate schedule indicating the required information.

Currency

- 1 The amount of the Claim must be provided in the currency in which it arose.
- 2 Indicate the appropriate currency in the "Currency" column.
- 3 If the Claim is denominated in multiple currencies, use a separate line to indicate the Claim amount in each such currency. If there are insufficient lines to record these amounts, attach a separate schedule indicating the required information.
- 4 If necessary, currency will be converted in accordance with the Claims Procedure Order.

Whether Claim is Secured and Value of Security

- 1 Check the appropriate box if the Claim recorded on that line is a secured claim. If it is, indicate the value which you ascribe to the assets charged by your security in the adjacent column.
- 2 If the Claim is secured, on a separate schedule provide full particulars of the security, including the date on which the security was given, the value which you ascribe to the assets charged by your security and the basis for such valuation and attach a copy of the security documents evidencing the security.

SECTION 4 – SUPPORTING DOCUMENTATION

- 1 Attach to the Proof of Claim form all particulars of the Claim and supporting documentation, including amount, and description of transaction(s) or agreement(s), or legal breach(es) giving rise to the Claim, any claim assignment/transfer agreement or similar document, if applicable, the name of any guarantor(s) which has guaranteed the Claim, the amount of invoices, particulars of all credits, discounts, etc. claimed, as well as a description of the security, if any, granted by the affected Sears Canada Entity to the Claimant and the estimated value of such security.

SECTION 5 – CERTIFICATION

- 1 The person signing the Proof of Claim should:
 - (a) be the Claimant or authorized representative of the Claimant;
 - (b) have knowledge of all the circumstances connected with this Claim;
 - (c) assert the Claim against the Debtor(s) as set out in the Proof of Claim and certify all supporting documentation is attached; and
 - (d) have a witness to its certification.
- 2 By signing and submitting the Proof of Claim, the Claimant is asserting the Claim against each Sears Canada Entity named as a “Debtor” in the Proof of Claim.

SECTION 6 – FILING OF CLAIM

- 1 If your Claim is a Pre-Filing Claim within the meaning of the Claims Procedure Order (excluding, for greater certainty, any Pre-Filing Claim that may be asserted by a Landlord), the Proof of Claim MUST be returned to and received by the Monitor on or before 5:00 p.m. (Toronto time) on March 2, 2018 (the “General Creditor Claims Bar Date”).
- 2 If your Claim is a Restructuring Period Claim within the meaning of the Claims Procedure Order (and see item 2 of Section 3 above for an excerpt of the relevant definition) (and excluding, for greater certainty, any Restructuring Period Claim that may be asserted by a Landlord), the Proof of Claim MUST be returned to and received by the Monitor by 5:00 p.m. (Toronto time) on the date (the “General Creditor Restructuring Period Claims Bar Date”) that is the later of (i) the date that is 45 days after the date on which the Monitor sends a General Creditor Claims Package with respect to a Restructuring Period Claim and (ii) the General Creditor Claims Bar Date.
- 3 If your Claim is a Post-Filing Claim within the meaning of the Claims Procedure Order (and see item 3 of Section 3 above for an excerpt of the relevant definition) (and excluding, for greater certainty, any Post-Filing Claim that may be asserted by a Landlord), the Proof of Claim MUST be returned to and received by the Monitor on or before 5:00 p.m. (Toronto time) on April 2, 2018 (the “General Creditor Post-Filing Claims Bar Date”).

- 4 If your Claim is a Landlord Claim within the meaning of the Claims Procedure Order (including, for greater certainty, any Pre-Filing Claim, Post-Filing Claim or Restructuring Period Claim of a Landlord), the Proof of Claim MUST be returned to and received by the Monitor by 5:00 p.m. (Toronto time) on the date (the "Landlord Claims Bar Date") that is the later of (i) the date that is 45 days after the date on which the Monitor sends a General Creditor Claims Package with respect to a Landlord Claim and (ii) April 2, 2018.
- 5 Claimants are strongly encouraged to complete and submit their Proof of Claim on the Monitor's online claims submission portal which can be found at cfcanada.fticonsulting.com/searscanada. If not submitted at the online portal, Proofs of Claim must be delivered to the Monitor by prepaid ordinary mail, registered mail, courier, personal delivery, facsimile transmission or email at the following address:

FTI Consulting Canada Inc., Sears Canada Monitor
 TD Waterhouse Tower
 79 Wellington Street West
 Suite 2010, P.O. Box 104
 Toronto, Ontario M5K 1G8

Attention: Sears Canada Claims Process

Fax No.: 416-649-8101

Email: searscanada@fticonsulting.com

Failure to file your Proof of Claim so that it is actually received by the Monitor on or before 5:00 p.m. (Toronto time) on the General Creditor Claims Bar Date, the General Creditor Restructuring Period Claims Bar Date, the General Creditor Post-Filing Claims Bar Date or the Landlord Claims Bar Date, as applicable, WILL result in your Claim being forever barred and you will be prevented from making or enforcing your Claim against the Sears Canada Entities. In addition, you shall not be entitled to further notice of and shall not be entitled to participate as a creditor in the Sears Canada Entities' CCAA proceedings.

**SCHEDULE C
PROOF OF CLAIM FORM
FOR CLAIMS AGAINST THE SEARS CANADA ENTITIES¹**

Note: Claimants are strongly encouraged to complete and submit their Proof of Claim on the Monitor's online claims submission portal which can be found at cfcanada.fticonsulting.com/searscanada.

1 NAME OF SEARS CANADA ENTITY OR ENTITIES (THE "DEBTOR(S)") THE CLAIM IS BEING MADE AGAINST:

Debtor(s): _____

2 (A) PARTICULARS OF CLAIMANT

Full Legal Name of Claimant:

Full Mailing Address of Claimant:

Telephone Number of Claimant:

Facsimile Number of Claimant:

E-mail Address of Claimant:

Attention (Contact Person):

¹ The "Sears Canada Entities" are 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 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., 4201731 Canada Inc., 168886 Canada Inc., 3339611 Canada Inc., and SearsConnect.

(B) PARTICULARS OF ORIGINAL CLAIMANT FROM WHOM YOU ACQUIRED CLAIM, IF APPLICABLE

- (i) Has the Claimant acquired this Claim by assignment? Yes No
- (ii) If yes, attach documents evidencing assignment and provide full particulars of the original Claimant from whom the Claim was acquired from:

Full Legal Name of original Claimant:

Full Mailing Address of original Claimant:

Telephone Number of original Claimant:

Facsimile Number of original Claimant:

E-mail Address of original Claimant:

Attention (Contact Person):

3 AMOUNT AND TYPE OF CLAIM

The Debtor was and still is indebted to the Claimant as follows:

Currency:	Amount of <u>Pre-Filing</u> Claim (including interest up to and including June 22, 2017) ² :	Whether Claim is Secured:	Value of Security Held, if any ³ :
_____	_____	Yes <input type="checkbox"/> No <input type="checkbox"/>	_____
_____	_____	Yes <input type="checkbox"/> No <input type="checkbox"/>	_____
_____	_____	Yes <input type="checkbox"/> No <input type="checkbox"/>	_____

² Interest accruing from the Filing Date (June 22, 2017) shall not be included in any Claim.

³ If the Claim is secured, provide full particulars of the security, including the date on which the security was given, the value for which you ascribe to the assets charged by your security, the basis for such valuation and attach a copy of the security documents evidencing the security. This information may be provided in a separate schedule, if necessary.

Currency:	Amount of Restructuring Period Claim:	Whether Claim is Secured:	Value of Security Held, if any:
_____	_____	Yes <input type="checkbox"/> No <input type="checkbox"/>	_____
_____	_____	Yes <input type="checkbox"/> No <input type="checkbox"/>	_____
_____	_____	Yes <input type="checkbox"/> No <input type="checkbox"/>	_____

Currency:	Amount of Post-Filing Claim:	Whether Claim is Secured:	Value of Security Held, if any:
_____	_____	Yes <input type="checkbox"/> No <input type="checkbox"/>	_____
_____	_____	Yes <input type="checkbox"/> No <input type="checkbox"/>	_____
_____	_____	Yes <input type="checkbox"/> No <input type="checkbox"/>	_____

4 DOCUMENTATION

Provide all particulars of the Claim and supporting documentation, including amount, and description of transaction(s) or agreement(s), or legal breach(es) giving rise to the Claim, including any claims assignment/transfer agreement or similar document, if applicable, and amount of invoices, particulars of all credits, discounts, etc. claimed, description of the security, if any, granted by the affected Debtor to the Claimant and estimated value of such security.

5 CERTIFICATION

I hereby certify that:

- (a) I am the Claimant or authorized representative of the Claimant.
- (b) I have knowledge of all the circumstances connected with this Claim.
- (c) The Claimant asserts this Claim against the Debtor(s) as set out above.
- (d) Complete documentation in support of this Claim is attached.

Signature: _____ Witness: _____
(signature)

Name: _____

Title: _____ (print)

Dated at _____ this ____ day of _____, 20__.

6 FILING OF CLAIM AND APPLICABLE DEADLINES

For Pre-Filing Claims (except Pre-Filing Claims that may be asserted by a Landlord), this Proof of Claim must be returned to and received by the Monitor by 5:00 p.m. (Toronto time) on March 2, 2018 (the "**General Creditor Claims Bar Date**").

For Restructuring Period Claims (except Restructuring Period Claims that may be asserted by a Landlord), this Proof of Claim must be returned to and received by the Monitor by 5:00 p.m. (Toronto time) on the later of (i) the date that is 45 days after the date on which the Monitor sends a General Creditor Claims Package with respect to a Restructuring Period Claim and (ii) the General Creditor Claims Bar Date (the "**General Creditor Restructuring Period Claims Bar Date**").

For Post-Filing Claims (except Post-Filing Claims that may be asserted by a Landlord), this Proof of Claim must be returned to and received by the Monitor by 5:00 p.m. (Toronto time) on April 2, 2018 (the "**General Creditor Post-Filing Claims Bar Date**").

For Landlord Claims (including, for greater certainty, any Pre-Filing Claim, Post-Filing Claim or Restructuring Period Claim of a Landlord), this Proof of Claim must be returned to and received by the Monitor by 5:00 p.m. (Toronto time) on the later of (i) the date that is 45 days after the date on which the Monitor sends a General Creditor Claims Package with respect to a Landlord Claim and (ii) April 2, 2018 (the "**Landlord Claims Bar Date**").

In each case, completed forms must be delivered to the Monitor by prepaid ordinary mail, registered mail, courier, personal delivery, facsimile transmission or email at the following address:

FTI Consulting Canada Inc., Sears Canada Monitor
 TD Waterhouse Tower
 79 Wellington Street West
 Suite 2010, P.O. Box 104
 Toronto, Ontario M5K 1G8

Attention: Sears Canada Claims Process

Fax No.: 416-649-8101

Email: searscanada@fticonsulting.com

Alternatively, Claimants can, and in fact are strongly encouraged to, complete and submit their Proof of Claim on the Monitor's online claims submission portal which can be found at cfcanda.fticonsulting.com/searscanada.

Failure to file your Proof of Claim so that it is actually received by the Monitor on or before 5:00 p.m. (Toronto time) on the General Creditor Claims Bar Date, the General Creditor Restructuring Period Claims Bar Date, the General Creditor Post-Filing Claims Bar Date or the Landlord Claims Bar Date, as applicable, WILL result in your Claim being forever barred and you will be prevented from making or enforcing your Claim against the Sears Canada Entities. In addition, you shall not be entitled to further notice of and shall not be entitled to participate as a creditor in the Sears Canada Entities' CCAA proceedings.

SCHEDULE D
CLAIMANT'S GUIDE TO COMPLETING THE D&O PROOF OF CLAIM FORM
FOR CLAIMS AGAINST DIRECTORS AND/OR OFFICERS
OF THE SEARS CANADA ENTITIES¹

This Guide has been prepared to assist Claimants in filling out the D&O Proof of Claim form for Claims against the Directors and/or Officers (present and former) of the Sears Canada Entities. If you have any additional questions regarding completion of the D&O Proof of Claim, please consult the Monitor's website at cfcanada.fticonsulting.com/searscanada or contact the Monitor, whose contact information is shown below.

The D&O Proof of Claim form is for Claimants asserting a Claim against any Directors and/or Officers of the Sears Canada Entities, and NOT for Claims against the Sears Canada Entities themselves. For Claims against the Sears Canada Entities, please use the form titled "Proof of Claim Form for Claims against the Sears Canada Entities", which is available on the Monitor's website at cfcanada.fticonsulting.com/searscanada.

Please note that this is a guide only, and that in the event of any inconsistency between the terms of this guide and the terms of the Claims Procedure Order made on [December 8], 2017 (the "Claims Procedure Order"), the terms of the Claims Procedure Order will govern. Unless otherwise defined, all capitalized terms used herein have the meanings given to them in the Claims Procedure Order.

Additional copies of the D&O Proof of Claim form may be found at the Monitor's website. Claimants can, and are in fact strongly encouraged to, submit their D&O Proofs of Claim at the Monitor's website at cfcanada.fticonsulting.com/searscanada.

SECTION 1 – DEBTOR(S)

- 1 The full name of all the Directors and/or Officers (present and former) of the Sears Canada Entities against whom the Claim is asserted must be listed. If there are insufficient lines to record each such name, attach a separate schedule indicating the required information.

SECTION 2(a) – ORIGINAL CLAIMANT

- 1 A separate D&O Proof of Claim must be filed by each legal entity or person asserting a Claim against the Sears Canada Entities' Directors or Officers.
- 2 The Claimant shall include any and all D&O Claims it asserts against the Sears Canada Entities' Directors or Officers in a single D&O Proof of Claim.
- 3 The full legal name of the Claimant must be provided.

¹ The Sears Canada Entities" are 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 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., 4201731 Canada Inc., 168886 Canada Inc., 3339611 Canada Inc., and SearsConnect.

- 4 If the Claimant operates under a different name or names, please indicate this in a separate schedule in the supporting documentation.
- 5 If the D&O Claim has been acquired from another party, Section 2(b) must also be completed.
- 6 Unless the D&O Claim is assigned or transferred, all future correspondence, notices, etc. regarding the Claim will be directed to the address and contact indicated in this section.

SECTION 2(b) – PARTICULARS OF ORIGINAL CLAIMANT FROM WHOM YOU ACQUIRED CLAIM, IF APPLICABLE

- 1 If the Claimant acquired its D&O Claim by assignment or other transfer, then Section 2(b) must be completed.
- 2 The full legal name of the original holder of the D&O Claim must be provided.
- 3 If the original holder of the D&O Claim operates under a different name or names, please indicate this in a separate schedule in the supporting documentation.

SECTION 3 – AMOUNT AND TYPE OF D&O CLAIM OF CLAIMANT AGAINST DEBTOR(S)

- 1 If the D&O Claim arose in respect of the period prior to June 22, 2017, then indicate the amount the Director(s) and/or Officer(s) was/were and still is/are indebted to the Claimant in the space reserved for D&O Claims in respect of the Pre-Filing Period in the “Amount of Claim” column, including interest up to and including June 22, 2017.²
- 2 If the D&O Claim arose in respect of the period on or after June 22, 2017, then indicate the amount the Director(s) and/or Officer(s) was/were and still is/are indebted to the Claimant in the space reserved for D&O Claims in respect of the Restructuring Period in the “Amount of Claim” column.
- 3 If there are insufficient lines to record each D&O Claim amount, attach a separate schedule indicating the required information.

CURRENCY

- 1 The amount of the D&O Claim must be provided in the currency in which it arose.
- 2 Indicate the appropriate currency in the Currency column.
- 3 If the D&O Claim is denominated in multiple currencies, use a separate line to indicate the Claim amount in each such currency. If there are insufficient lines to record these amounts, attach a separate schedule indicating the required information.
- 4 If necessary, currency will be converted in accordance with the Claims Procedure Order.

² Interest accruing from the Filing Date (June 22, 2017) shall not be included in any Claim.

SECTION 4 – DOCUMENTATION

- 1 Attach to the D&O Proof of Claim form all particulars of the Claim and supporting documentation, including amount and description of transaction(s) or agreement(s), and the legal basis for the D&O Claim against the specific Directors or Officers at issue.

SECTION 5 – CERTIFICATION

- 1 The person signing the D&O Proof of Claim should:
 - (a) be the Claimant or authorized representative of the Claimant;
 - (b) have knowledge of all the circumstances connected with this D&O Claim;
 - (c) assert the Claim against the Debtor(s) as set out in the D&O Proof of Claim and certify all supporting documentation is attached; and
 - (d) have a witness to its certification.
- 2 By signing and submitting the D&O Proof of Claim, the Claimant is asserting the Claim against the Debtor(s) named in the D&O Proof of Claim.

SECTION 6 – FILING OF CLAIM AND APPLICABLE DEADLINES

- 1 All D&O Proofs of Claim in respect of D&O Claims arising prior to June 22, 2017 (except D&O Claims that may be asserted by a Landlord) MUST be received by the Monitor on or before 5:00 p.m. (Toronto time) on March 2, 2018 (the "General Creditor Claims Bar Date").
- 2 All D&O Proofs of Claim in respect of D&O Claims arising on or after June 22, 2017 (except D&O Claims that may be asserted by a Landlord) MUST be received by the Monitor by 5:00 p.m. (Toronto time) on the date (the "General Creditor Restructuring Period Claims Bar Date") that is the later of (i) the date that is 45 days after the date on which the Monitor sends a General Creditor Claims Package with respect to a Restructuring Period Claim and (ii) the General Creditor Claims Bar Date.
- 3 All D&O Proofs of Claim that may be asserted by a Landlord, whether arising before or after June 22, 2017, MUST be received by the Monitor by 5:00 p.m. (Toronto time) on the date (the "Landlord Claims Bar Date") that is the later of (i) the date that is 45 days after the date on which the Monitor sends a General Creditor Claims Package with respect to a Landlord Claim and (ii) April 2, 2018.
- 4 Claimants are strongly encouraged to complete and submit their D&O Proof of Claim on the Monitor's online claims submission portal which can be found at cfcanda.fticonsulting.com/searscanada. If not submitted at the online portal, Proofs of Claim must be delivered to the Monitor by prepaid ordinary mail, registered mail, courier, personal delivery, facsimile transmission or email at the following address:

FTI Consulting Canada Inc., Sears Canada Monitor
TD Waterhouse Tower

79 Wellington Street West
Suite 2010, P.O. Box 104
Toronto, Ontario M5K 1G8

Attention: Sears Canada Claims Process
Fax No.: 416-649-8101
Email: searscanada@fticonsulting.com

Failure to file your D&O Proof of Claim so that it is actually received by the Monitor on or before 5:00 p.m. (Toronto time) on the General Creditor Claims Bar Date, the General Creditor Restructuring Period Claims Bar Date or the Landlord Claims Bar Date, as applicable, WILL result in your Claim being barred and you will be prevented from making or enforcing your Claim against the Directors and Officers of the Sears Canada Entities. In addition, you shall not be entitled to further notice of and shall not be entitled to participate as a creditor in the Sears Canada Entities' CCAA proceedings.

**SCHEDULE E
D&O PROOF OF CLAIM FORM
FOR CLAIMS AGAINST DIRECTORS OR OFFICERS OF THE SEARS CANADA
ENTITIES¹**

This form is to be used only by Claimants asserting a Claim against any Directors and/or Officers of the Sears Canada Entities and NOT for Claims against the Sears Canada Entities themselves. For Claims against the Sears Canada Entities, please use the form titled "Proof of Claim Form for Claims against the Sears Canada Entities", which is available on the Monitor's website at cfcanada.fticonsulting.com/searscanada.

1 NAME(S) OF OFFICER(S) AND/OR DIRECTOR(S) (THE "DEBTOR(S)") THE CLAIM IS BEING MADE AGAINST:

Debtor(s): _____

2 (A) PARTICULARS OF CLAIMANT

Full Legal Name of Claimant:

Full Mailing Address of Claimant:

Telephone Number of Claimant:

Facsimile Number of Claimant:

E-mail Address of Claimant:

Attention (Contact Person):

¹ The Sears Canada Entities" are 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 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., 4201731 Canada Inc., 168886 Canada Inc., 3339611 Canada Inc., and SearsConnect.

(B) PARTICULARS OF ORIGINAL CLAIMANT FROM WHOM YOU ACQUIRED CLAIM, IF APPLICABLE

- (i) Has the Claimant acquired this Claim by Assignment? Yes No
- (ii) If yes, attach documents evidencing assignment and provide full particulars of the original Claimant from whom you acquired the Claim from:

Full Legal Name of original Claimant: _____

Full Mailing Address of original Claimant: _____

Telephone Number of original Claimant: _____

Facsimile Number of original Claimant: _____

E-mail Address of original Claimant: _____

Attention (Contact Person): _____

3 AMOUNT OF CLAIM

The Debtor(s) was/were and still is/are indebted to the Claimant as follows:

Name(s) of Director(s) and/or Officers	Currency	Amount of D&O Claim in respect of the <u>Pre-Filing Period</u> (including interest up to and including June 22, 2017)	Amount of D&O Claim in respect of the <u>Restructuring Period</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

4 DOCUMENTATION

Provide all particulars of the D&O Claim and supporting documentation, including any Claim assignment/transfer agreement or similar documentation, if applicable, and including amount and description of transaction(s) or agreement(s), and the legal basis for the D&O Claim against the specific Directors or Officers at issue.

5 CERTIFICATION

I hereby certify that:

- (a) I am the Claimant or authorized representative of the Claimant.
- (b) I have knowledge of all the circumstances connected with this Claim.
- (c) The Claimant asserts this Claim against the Debtor(s) as set out above.
- (d) Complete documentation in support of this Claim is attached.

Signature: _____ Witness: _____
(signature)

Name: _____
(print)

Title: _____

Dated at _____ this _____ day of _____, 20____.

6 FILING OF CLAIMS AND APPLICABLE DEADLINES

All D&O Proofs of Claim in respect of D&O Claims arising prior to June 22, 2017 (except D&O Claims that may be asserted by a Landlord) MUST be received by the Monitor on or before 5:00 p.m. (Toronto time) on March 2, 2018 (the "General Creditor Claims Bar Date").

All D&O Proofs of Claim in respect of D&O Claims arising on or after June 22, 2017 (except D&O Claims that may be asserted by a Landlord) MUST be returned to and received by the Monitor by 5:00 p.m. (Toronto time) on the later of (i) the date that is 45 days after the date on which the Monitor sends a General Creditor Claims Package with respect to a Restructuring Period Claim and (ii) the General Creditor Claims Bar Date (the "General Creditor Restructuring Period Claims Bar Date").

All D&O Proofs of Claim that may be asserted by a Landlord, whether arising before or after June 22, 2017, MUST be received by the Monitor by 5:00 p.m. (Toronto time) on the date (the "Landlord Claims Bar Date") that is the later of (i) the date that is 45 days after the date on which the Monitor sends a General Creditor Claims Package with respect to a Landlord Claim and (ii) April 2, 2018.

In each case, completed forms must be delivered to the Monitor by prepaid ordinary mail, registered mail, courier, personal delivery, facsimile transmission or email at the following address:

FTI Consulting Canada Inc., Sears Canada Monitor
TD Waterhouse Tower
79 Wellington Street West

Suite 2010, P.O. Box 104
Toronto, Ontario M5K 1G8

Attention: Sears Canada Claims Process

Fax No.: 416-649-8101

Email: searscanada@fticonsulting.com

Alternatively, Claimants can, and in fact are strongly encouraged to, complete and submit their D&O Proof of Claim on the Monitor's online claims submission portal which can be found at cfcanada.fticonsulting.com/searscanada.

Failure to file your D&O Proof of Claim so that it is actually received by the Monitor on or before 5:00 p.m. (Toronto time) on the General Creditor Claims Bar Date, the General Creditor Restructuring Period Claims Bar Date or the Landlord Claims Bar Date, as applicable, WILL result in your Claim being barred and you will be prevented from making or enforcing your Claim against the Directors and Officers of the Sears Canada Entities. In addition, you shall not be entitled to further notice of and shall not be entitled to participate as a creditor in the Sears Canada Entities' CCAA proceedings.

SCHEDULE F
NOTICE OF DISPUTE OF REVISION OR DISALLOWANCE REGARDING A CLAIM AGAINST THE SEARS CANADA ENTITIES OR THEIR DIRECTOR OR OFFICERS¹

Capitalized terms used but not defined in this Notice of Dispute of Revision or Disallowance shall have the meanings ascribed to them in the Order of the Ontario Superior Court of Justice (Commercial List) in the CCAA proceedings of the Sears Canada Entities dated [December 8], 2017 (the "Claims Procedure Order"). You can obtain a copy of the Claims Procedure Order on the Monitor's website at cfcanada.fticonsulting.com/searscanada.

1 PARTICULARS OF CLAIMANT

Claim Reference Number:
(as indicated in Notice of Revision or Disallowance)

Full Legal Name of Claimant: _____

Full Mailing Address of Claimant: _____

Telephone Number of Claimant: _____

Facsimile Number of Claimant: _____

E-mail Address of Claimant: _____

Attention (Contact Person): _____

2 PARTICULARS OF ORIGINAL CLAIMANT FROM WHOM YOU ACQUIRED THE CLAIM, IF APPLICABLE

(i) Have you acquired this Claim by Assignment? Yes No
(If yes, attach documents evidencing assignment)

(ii) Full legal name of original Claimant: _____

¹ The "Sears Canada Entities" are 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 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., 4201731 Canada Inc., 168886 Canada Inc., 3339611 Canada Inc., and SearsConnect.

3 DISPUTE OF REVISION OR DISALLOWANCE OF CLAIM:

The Claimant hereby disagrees with the value of its Claim, as set out in the Notice of Revision or Disallowance dated _____, and asserts a Claim as follows:

Type of Claim	Amount allowed by Monitor as unsecured (Notice of Revision or Disallowance)	Amount allowed by Monitor as secured (Notice of Revision or Disallowance)	Amount claimed by Claimant as unsecured	Amount claimed by Claimant as secured
A. Pre-Filing Claim	\$	\$	\$	\$
B. Restructuring Period Claim	\$	\$	\$	\$
C. Post-Filing Claim	\$	\$	\$	\$
D. D&O Claim in respect of Pre-Filing Period	\$	\$	\$	\$
E. D&O Claim in respect of Restructuring Period	\$	\$	\$	\$
F. Total Claim	\$	\$	\$	\$

(Insert particulars of your Claim per the Notice of Revision or Disallowance, and the value of your Claim as asserted by you).

4 REASONS FOR DISPUTE

(Provide full particulars of why you dispute the Monitor's revision or disallowance of your Claim as set out in the Notice of Revision or Disallowance, and provide all supporting documentation, including amount, description of transaction(s) or agreement(s) giving rise to the Claim, name of any guarantor(s) which has guaranteed the Claim, and amount of Claim allocated thereto, date and number of all invoices, particulars of all credits, discounts, etc. claimed. The particulars provided must support the value of the Claim as stated by you in item 3, above.)

DATED this _____ day of _____, 20__.

(Print name of Claimant, or, if the Claimant is a corporation, the name of the Claimant and the name of the authorized signing officer of the corporation that is executing this Notice of Dispute of Revision or Disallowance.)

(Signature of Claimant, or, if the Claimant is a corporation, the signature of the authorized signing officer of the corporation that is executing this Notice of Dispute of Revision or Disallowance.)

This Notice of Dispute of Revision or Disallowance MUST be submitted to the Monitor at the below address by no later than 5:00 p.m. (Toronto time) on the day that is thirty (30) days after this Notice of Revision or Disallowance is deemed to have been received by you (in accordance with paragraph [72] of the Claims Procedure Order, a copy of which can be found on the Monitor's website at cfcanada.fticonsulting.com/searscanada). Delivery to the Monitor may be made by ordinary prepaid mail, registered mail, courier, personal delivery, facsimile transmission or email to the address below. Claimants can also, and are in fact strongly

encouraged to, submit their Notices of Dispute of Revision or Disallowance online by such deadline at the Monitor's website at cfcanada.fticonsulting.com/searscanada.

FTI Consulting Canada Inc., Sears Canada Monitor
TD Waterhouse Tower
79 Wellington Street West
Suite 2010, P.O. Box 104
Toronto, Ontario M5K 1G8

Attention: Sears Canada Claims Process

Fax No.: 416-649-8101
Email: searscanada@fticonsulting.com

In accordance with the Claims Procedure Order, except in the case of forms submitted at the Monitor's online claims portal which are deemed received at the time they are submitted, notices shall be deemed to be received by the Monitor upon actual receipt thereof by the Monitor during normal business hours on a Business Day, or if delivered outside of normal business hours, on the next Business Day.

IF YOU FAIL TO FILE A NOTICE OF DISPUTE OF REVISION OR DISALLOWANCE WITHIN THE PRESCRIBED TIME PERIOD, YOUR CLAIM AS SET OUT IN THE NOTICE OF REVISION OR DISALLOWANCE WILL BE BINDING UPON YOU.

**SCHEDULE G
NOTICE OF REVISION OR DISALLOWANCE**

Regarding Claims against the Sears Canada Entities¹ or
D&O Claims against the Directors and/or Officers of the Sears Canada Entities

TO: [INSERT NAME AND ADDRESS OF CLAIMANT] (the "Claimant")

FROM: FTI Consulting Canada Inc., in its capacity as Court-appointed Monitor of the Sears Canada Entities (the "Monitor")

RE: Claim Reference Number: _____

Capitalized terms used but not defined in this Notice of Revision or Disallowance shall have the meanings ascribed to them in the Order of the Ontario Superior Court of Justice (Commercial List) in the CCAA proceedings of the Sears Canada Entities dated [December 8], 2017 (the "Claims Procedure Order"). You can obtain a copy of the Claims Procedure Order on the Monitor's website at cfcanada.fticonsulting.com/searscanada.

Pursuant to the Claims Procedure Order, the Monitor hereby gives you notice that it has reviewed your Proof of Claim or D&O Proof of Claim and has revised or disallowed all or part of your purported Claim. Subject to further dispute by you in accordance with the Claims Procedure Order, your Claim will be as follows:

Type of Claim	Amount as submitted		Amount allowed by Monitor	Amount allowed as secured	Amount allowed as unsecured
	Original Currency				
A. Pre-Filing Claim		\$	\$	\$	\$
B. Restructuring Period Claim		\$	\$	\$	\$
C. Post-Filing Claim		\$	\$	\$	\$
D. D&O Claim in respect of Pre-Filing Period		\$	\$	\$	\$
E. D&O Claim in respect of Restructuring Period		\$	\$	\$	\$

¹ The "Sears Canada Entities" are 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 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., 4201731 Canada Inc., 168886 Canada Inc. 3339611 Canada Inc. and SearsConnect.

F, Total Claim		\$	\$	\$	\$
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Reasons for Revision or Disallowance:

If you intend to dispute this Notice of Revision or Disallowance, you must, by no later than 5:00 p.m. (Toronto time) on the day that is **thirty (30) days after this Notice of Revision or Disallowance is deemed to have been received by you** (in accordance with paragraph [72] of the Claims Procedure Order), deliver a Notice of Dispute of Revision or Disallowance to the Monitor (by ordinary prepaid mail, registered mail, courier, personal delivery, facsimile transmission or email) at the address listed below. Claimants can also, and are in fact strongly encouraged to, submit their Notices of Dispute of Revision or Disallowance forms online by such deadline at the Monitor’s website at cfcanada.fticonsulting.com/searscanada.

If you do not dispute this Notice of Revision or Disallowance in the prescribed manner and within the aforesaid time period, your Claim shall be deemed to be as set out herein.

If you agree with this Notice of Revision or Disallowance, there is no need to file anything further with the Monitor.

The address of the Monitor is set out below:

FTI Consulting Canada Inc., Sears Canada Monitor
 TD Waterhouse Tower
 79 Wellington Street West
 Suite 2010, P.O. Box 104
 Toronto, Ontario M5K 1G8

Attention: Sears Canada Claims Process

Fax No.: 416-649-8101

Email: searscanada@fticonsulting.com

In accordance with the Claims Procedure Order, except in the case of forms submitted at the Monitor’s online claims portal which are deemed received at the time they are submitted, notices shall be deemed to be received by the Monitor upon actual receipt thereof by the Monitor during normal business hours on a Business Day, or if delivered outside of normal business hours, on the next Business Day.

The form of Notice of Dispute of Revision or Disallowance is enclosed and can also be accessed on the Monitor’s website at cfcanada.fticonsulting.com/searscanada.

IF YOU FAIL TO FILE A NOTICE OF DISPUTE OF REVISION OR DISALLOWANCE WITHIN THE PRESCRIBED TIME PERIOD, THIS NOTICE OF REVISION OR DISALLOWANCE WILL BE BINDING UPON YOU.

DATED this _____ day of _____, 20__.

FTI Consulting Canada Inc.

**SCHEDULE H
OTHER EMPLOYEE LETTER**
(LETTERHEAD OF THE MONITOR)

●, 2017

TO: Active and former employees of the Sears Canada Entities represented by International Brotherhood of Electrical Workers, Local 213
c/o McMahon, Morrison, Watts
Box 314, 4346 Colonel Talbot Road
London, Ontario N6P 1P9

Attention: J. Craig Morrison

AND TO: Active and former employees of the Sears Canada Entities represented by UNIFOR
c/o UNIFOR
Unifor Legal Department, Local 1000
2015 Placer Court
Toronto Ontario M2H 3H9

Attention: Anthony Dale

AND TO: Active and former employees of the Sears Canada Entities represented by Le Syndicat des Métallos
c/o Le Syndicat des Métallos, Local 9153
565, boulevard Crémazie Est, Bureau 5100
Montréal, Québec H2M 2V8

Attention: ●

AND TO: Present and former members of senior management of the Sears Canada Entities who the Monitor and the Sears Canada Entities believe may wish to assert a Claim against any of the Sears Canada Entities or their respective Directors or Officers

AND TO: Employees who have opted out of representation by Ursel Phillips Fellows Hopkinson LLP ("Employee Representative Counsel")

AND TO: Former employees who were terminated for cause and who the Monitor and the Sears Canada Entities believe may wish to assert a Claim against any of the Sears Canada Entities or their respective Directors or Officers

To whom it may concern:

Re: Current Claims Process in the CCAA Proceedings of the Sears Canada Entities (Court File No. CV-17-11846-00CL)

Recently, on [December 8], 2017, the Ontario Superior Court of Justice (Commercial List) issued an order (the "Claims Procedure Order") in the *Companies' Creditors Arrangement Act*

proceedings of Sears Canada Inc. and certain of its subsidiaries and affiliates¹ (collectively, the "Sears Canada Entities"), commencing a claims procedure (the "Claims Process") for the purpose of identifying and determining all Claims against the Sears Canada Entities and their respective current and former directors and officers.

Notwithstanding the commencement of the Claims Process, certain classes of persons are currently exempted from the requirement to file any proofs of claim. You are receiving this letter because you fall into one of the categories of such exempted persons, which includes any:

- (i) active or inactive union or non-union employee of any one of the Sears Canada Entities on or after June 22, 2017, including an employee of any one of the Sears Canada Entities who received notice of termination of employment dated on or after June 22, 2017; and
- (ii) former employee of any one of the Sears Canada Entities who was terminated for cause at any time or who received notice of cessation of termination or severance payments dated on or after June 22, 2017.

(collectively, the "Employee Claimants").

Please be advised that the current Claims Process does not include claims of Employee Claimants. Employee claims will be dealt with through a separate Employee Claims Process. That includes any claims you may have against the directors and officers and any claims not related to your compensation.

To be clear, there is NO need at this time for you to take action in connection with this Claims Process, or file any proof of claim in respect of any claim you may have against any of the Sears Canada Entities or their respective current and former directors and officers.

FTI Consulting Canada Inc., as Court-appointed Monitor (the "Monitor") and the Sears Canada Entities are at present working to develop a future claims process (the "Employee Claims Process") to address all claims (of any type) of Employee Claimants. A similar process is also being developed in respect of claims relating to pension entitlements and other post-employment benefits.

In developing this separate Employee Claims Process, the Monitor and the Sears Canada Entities are working with various stakeholders, including: (a) Employee Representative Counsel, who serves as representative counsel to non-unionized current and former employees of the Sears Canada Entities, other than members of senior management, with respect to such employees' interests other than pension entitlements and other post-employment benefits matters (and who, for greater clarity, does not represent the interests of persons listed as recipients to this letter); (b) Koskie Minsky LLP, who serve as representative counsel to, among others, non-unionized retirees and active and former employees of the Sears Canada Entities with respect to pension entitlements and other post-employment benefits matters; (c) the Ontario Superintendent of Financial Services as administrator of the Pension Benefits

¹ The "Sears Canada Entities" are 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 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., 4201731 Canada Inc., 168886 Canada Inc., 3339611 Canada Inc., and SearsConnect.

Guarantee Fund; and (d) Morneau Shepell Inc., as administrator of the Sears Canada Inc. Registered Retirement Plan.

Additional information will be made available to you as this process continues. For now, the only action you may need to take is to advise the Monitor of a change of address.

Once the Employee Claims Process has been established, the Monitor will provide information regarding the process and any claims forms to be filed thereunder to you. This information will also be available on the Monitor's website at cfcanada.fticonsulting.com/searscanada/. We would recommend checking the Monitor's website periodically/monthly.

If you have questions with respect to the foregoing, you may contact the Monitor at:

FTI Consulting Canada Inc., Sears Canada Monitor
TD Waterhouse Tower
79 Wellington Street West
Suite 2010, P.O. Box 104
Toronto, Ontario M5K 1G8

Attention: Sears Canada Claims Process

Tel.: 416-649-8113
Toll Free: 1-855-649-8113
Fax No.: 416-649-8101
Email: searscanada@fticonsulting.com

Yours truly,

FTI Consulting Canada Inc., in its capacity as
Court-appointed Monitor of the
Sears Canada Entities

SCHEDULE I
EMPLOYEE LETTER

(LETTERHEAD OF EMPLOYEE REPRESENTATIVE COUNSEL)

December ●, 2017

To the Non-Unionized Active and Former Employees of Sears Canada Entities:

**Re: Current Claims Process in the CCAA proceedings of the Sears Canada Entities
(Court File No. CV-17-11846-00CL)**

As you know, Sears Canada Inc. and certain of its subsidiaries and affiliates (collectively, the "**Sears Canada Entities**") filed for and were granted creditor protection under the *Companies' Creditors Arrangement Act* ("**CCAA**"), pursuant to an order of the Ontario Superior Court of Justice (Commercial List) (the "**Court**").

In connection with the Sears Canada Entities' CCAA proceedings, Ursel Phillips Fellows Hopkinson LLP ("**Employee Representative Counsel**") was appointed to represent the interests of the non-unionized Active Employees and Former Employees of the Sears Canada Entities, other than with respect to the Sears Canada Entities' pension plans and other post-employment benefit entitlements. Information about the proceedings and matters of specific interest to employees may be found at Employee Representative Counsel's website at <http://www.upfhlaw.ca/areas-of-practice/sears-canada-employees-and-former-employees>.

The purpose of this letter is to inform you that on **[December 8]**, 2017, the Court issued an order (the "**Claims Procedure Order**") commencing a claims procedure (the "**Claims Process**") for the purpose of identifying and determining claims against the Sears Canada Entities and their respective current and former directors and officers.

Notwithstanding the commencement of the Claims Process, certain classes of persons are currently **exempted** from the requirement to file any proofs of claim. As a non-unionized Active Employee or Former Employee of one of the Sears Canada Entities (an "**Employee**"), you fall into one of the categories of such exempted persons.

Please be advised that the current Claims Process **does not include** claims of Employees. Employee claims will be dealt with through a **separate Employee Claims Process** (as described below). That includes any claims you may have against the directors and officers and claims not related to your compensation.

To be clear, there is NO need at this time for you to take action in connection with this Claims Process or file any proof of claim in respect of any claim you may have against the Sears Canada Entities or their respective current and former directors and officers.

Employee Claims Process

Employee Representative Counsel is currently working with the Sears Canada Entities and the Monitor, among others, to develop a separate claims process (the "**Employee Claims Process**"), to address all claims (of any type) of current or former employees of the Sears Canada Entities. A similar process is also being developed in respect of claims relating to pension entitlements and other post-employment benefits. Any claims against the directors and/or officers of the Sears Canada Entities that you may have as an Employee will also be part of the Employee Claims Process. In addition, if you have a claim against the Sears Canada Entities for a matter not related to your compensation, that claim will also be dealt with through the Employee Claims Process.

Additional information will be made available to you as this process continues. For now, the only action you may need to take is to advise the Monitor and/or Employee Representative Counsel of a change of address.

Once the Employee Claims Process has been established, the Monitor will provide information regarding the process and any claims forms to be filed thereunder to you. This information will also be available on the Monitor's website at cfcanada.fticonsulting.com/searscanada/. At present, it is difficult to estimate when the Employee Claims Process will be established but it should be over the course of the next two to three months. We would also recommend checking the Monitor's website (cfcanada.fticonsulting.com/searscanada/) periodically/monthly.

If you have any questions with respect to any of the above information, please contact us at our toll-free number at 1-844-855-8352 or our email at SearsCanadaEmployees@upfhlaw.ca.

Yours truly,

Ursel Phillips Fellows Hopkinson LLP

Susan Ursel

SCHEDULE J
PENSIONER LETTER

December ●, 2017

Andrew J. Hatnay
ahatnay@kmlaw.ca

Via Regular Mail

Dear Sir/Madam:

**Re: Sears Canada Inc. and certain of its subsidiaries and affiliates (collectively, "Sears Canada")
Representation of Non-Union Employees and Retirees with Pension and OPEB Entitlements in
Sears Canada's proceedings (the "CCAA Proceedings") under the *Companies' Creditors
Arrangement Act*, R.S.C., 1985, c. C-36 (the "CCAA")
Our File No. 17/1312**

We are the Representative Counsel to Ken Eady, Larry Moore, and William Turner, who were appointed by the Ontario Superior Court of Justice (Commercial List) as Representatives of all non-union employees and retirees of Sears Canada¹ who have entitlements to pension benefits and other post-employment benefits such as health benefits, life insurance, and supplemental pension (collectively, "OPEBs") in the CCAA Proceedings. For the purposes of this letter, the non-union employees and retirees shall be collectively referred to as the "Pensioners".

We are writing further to our letter dated July 26, 2017 to provide information on the claims process (the "Claims Process") that Sears Canada established and the Court recently approved. The purpose of this Claims Process is to identify and determine claims from creditors for amounts owing to them by Sears Canada and/or Sears Canada's current and former officers and directors.

Status of the Sears Canada CCAA proceedings

On June 22, 2017, Sears Canada obtained Court protection from its creditors under the CCAA. At the same time, the Court appointed FTI Consulting Canada Inc. as the Monitor. Generally, the Monitor's role is to monitor and regularly report to the Court and stakeholders on Sears Canada's activities while it is under CCAA protection and to interact with creditors in a fair and impartial manner.

There have been a number of developments over the past few months. Sears Canada is not restructuring to continue as a viable company. Instead, on October 13, 2017, Sears Canada brought a motion before the Court for approval that it liquidate its remaining inventory. The Court approved the liquidation. Sears Canada has begun the process of liquidating the inventory in all of the remaining stores and selling all of its other assets. Sears Canada is continuing with the store liquidation process through January, 2018.

¹ (other than senior management of Sears Canada and any person who opted out of representation by Koskie Minsky LLP)

The General Claims Process

During the Claims Process, the Monitor will accept claims from creditors (subject to certain exemptions) for amounts they claim to be owing by Sears Canada and/or their current and former directors and officers.

Generally, the Claims Process will involve an initial assessment of each creditor's claim by the Monitor, in consultation with Sears Canada, after which creditors will be notified whether their claim has either been accepted or revised or disallowed in whole or in part. The claims of creditors that have been revised or disallowed will have the opportunity to respond further, after which the Monitor and Sears Canada may reconsider the claim or attempt to settle the claim(s) with the creditor. If a resolution cannot be reached, the dispute may be referred for adjudication by a Claims Officer who will decide the issues in dispute and render a decision. A creditor may appeal a decision of a Claims Officer. The process is intended to determine the total amount of debts owed by Sears Canada to its creditors.

The future Pensioner Claims Process

The Claims Process that is currently underway is for general creditors of Sears Canada and does not include claims for amounts owing to pension plans or to Pensioners in relation to pension benefits or terminated OPEBs. A separate claims process will be commenced in the future for all such claims in respect of losses of pension benefits and OPEBs. Koskie Minsky LLP as Representative Counsel will work with its actuarial advisors and other parties to ensure that these claims are appropriately valued and submitted in the Pensioner Claims Process. We will provide further information about the Pensioner Claims Process once that process has been finalized and commenced. A similar process is also being developed in respect of employee-related claims.

As a Pensioner, you do not need to make individual claims related to your pension benefits or OPEBs at this time. In addition, any claims you may have against the directors and officers, or claims you may have that are not related to your pension or OPEB entitlements, will be dealt with in the separate Pensioner Claims Process.

At this time, there is no need for you to take any action in connection with the current Claims Process.

We will continue to provide updates to you as the CCAA proceedings move forward, and post updates on our firm website for Sears Canada's Pensioners. You can access our firm website at www.kmlaw.ca/searsrepcounsel for information.

If you have any questions or concerns, call our toll-free hotline at 1-800-244-7120, or e-mail us at searsrepcounsel@kmlaw.ca.

We trust the above is helpful. We wish you the best for the holiday season.

Yours truly,

KOSKIE MINSKY LLP

Andrew J. Hatnay
AJH:vdI

cc. Client Committee
Amy Tang, Barbara Walancik, Natercia McLellan (Communications Manager), *Koskie Minsky LLP*

**SCHEDULE K
NOTICE OF CONSTRUCTION CLAIM
FOR CLAIMS AGAINST THE SEARS CANADA ENTITIES AND/OR THEIR
DIRECTORS AND OFFICERS**

TO: [INSERT NAME AND ADDRESS OF CONSTRUCTION CONTRACTOR AND/OR ITS COUNSEL]

RE:

Claim Reference Number:	
General Description of improvement including Project / Store Location:	
If applicable, Preservation and Perfection Dates (with registration nos.):	
If applicable, Amount of Lien(s) registered on title:	

This notice is issued pursuant to the Claims Process for, among other things, identifying and determining all Construction Claims against the Sears Canada Entities¹ and/or their respective Directors and Officers, which was approved by the Order of the Ontario Superior Court of Justice (Commercial List) in the *Companies' Creditors Arrangement Act* proceedings of the Sears Canada Entities on **[December 8]**, 2017 (the "**Claims Procedure Order**"). Capitalized terms not defined herein have the meanings ascribed to them in the Claims Procedure Order. A copy of the Claims Procedure Order can be obtained from the website of FTI Consulting Canada Inc., the Court-appointed Monitor of the Sears Canada Entities (the "**Monitor**"), at cfcanada.fticonsulting.com/searscanada/.

According to the books, records and other relevant information in the possession of the Sears Canada Entities, the Construction Claim of the Construction Contractor, inclusive of Construction Claims of any and all other Construction Claimants at any level in connection with the relevant improvement, is set out in the table below. Note that the term "Construction Claim" also includes any D&O Claim(s) relating thereto.

¹ The "Sears Canada Entities" are 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 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., 4201731 Canada Inc., 168886 Canada Inc., 3339611 Canada Inc., and SearsConnect.

Specific Debtor	Amount	Type of Construction Claim			
		Against a Canada Entity under provisions applicable Provincial Legislation	Sears or trust of Lien	Against a Director or Officer under trust provisions of applicable Provincial Legislation	Secured by registration of a builders' or construction lien, or by any security held in connection with a Vacated or Discharged Lien
	\$				
	\$				
	\$				
Total:	\$				

* Amount is in Canadian Dollars. All Construction Claims in an original currency other than Canadian Dollars are converted to Canadian Dollars using the Bank of Canada exchange rate on June 22, 2017.

If you, as the Construction Contractor on behalf of yourself and all Connected Sub-Contractors, agree that the foregoing determination accurately reflects the Construction Claim (including any D&O Claim(s) relating thereto), you are not required to respond to this Notice of Construction Claim. If there is *disagreement* with the determination of the Construction Claim as set out herein, **you must complete the enclosed Notice of Dispute of Construction Claim and deliver such executed Notice of Dispute of Construction Claim to the Monitor such that it is received by the Monitor by 5:00 p.m. (Toronto time) on February 15, 2018 (the "Construction Claims Bar Date").**

Please note that the Construction Claim as set out herein is deemed to include the Construction Claims of you as the Construction Contractor and the Construction Claims of any and all Construction Sub-Contractors under an agreement (written or oral) or otherwise engaged by you as the Construction Contractor or any other Construction Sub-Contractor at any level, in each case in connection with the relevant improvement (each, a "Connected Sub-Contractor" and together the "Connected Sub-Contractors").

However, pursuant to the terms of the Claims Procedure Order, you are to dispute the above Construction Claim on behalf of yourself and any Connected Sub-Contractor with respect to any disputed amount by submitting a Notice of Dispute of Construction Claim. For greater certainty, no Connected Sub-Contractor shall be required to submit a separate Notice of Dispute of Construction Claim in respect of their portion of the above Construction Claim – rather, any such disagreement by a Connected Sub-Contractor is to be included in the Notice of Dispute of Construction Claim submitted by the Construction Contractor.

As a result of the co-ordination that will be required between the Construction Contractor and the Connected Sub-Contractors, the Claims Procedure Order **requires you, as the Construction Contractor,** to send as soon as possible a copy of both your Notice of Construction Claim and the enclosed Construction Sub-Contractor Instruction Letter to all Construction Sub-Contractors in a direct contractual agreement or engagement with you in connection with the relevant improvement and ensure that **every Construction Sub-Contractor** sends as soon as possible a copy of both your Notice of Construction Claim and a Construction Sub-Contractor Instruction Letter to all Construction Sub-Contractors with whom they are in a direct contractual agreement or engagement in connection with the relevant improvement.

If a completed Notice of Dispute of Construction Claim in respect of the Construction Claim set out in the Notice of Construction Claim is not received by the Monitor by the Construction Claims Bar Date, then both you and all Connected Sub-Contractors in connection with the relevant improvement shall be deemed to have accepted the Construction Claim set out therein, and no such Construction Claimant shall have any further right to dispute the same as against the Sears Canada Entities and/or their Directors and Officers.

Since you, as the Construction Contractor, are to file the Notice of Dispute of Construction Claim on behalf of yourself and all Connected Sub-Contractors, **it is your responsibility**, as the Construction Contractor, to give each Connected Sub-Contractor the opportunity to determine and negotiate with you, any rights they may have with respect to the Construction Claim and incorporate it into the Notice of Dispute of Construction Claim.

IF A NOTICE OF DISPUTE OF CONSTRUCTION CLAIM IS NOT RECEIVED BY THE MONITOR WITHIN THE PRESCRIBED TIME PERIOD, THE CONSTRUCTION CLAIM AS SET OUT IN THE NOTICE OF CONSTRUCTION CLAIM WILL BE BINDING ON YOU AND ALL CONNECTED SUB-CONTRACTORS.

This Notice of Construction Claim does not affect any Claim other than the Construction Claim referred to herein. This Notice of Construction Claim should include all Construction Claims (as defined in the Claims Procedure Order) that you may have. If you believe it does not contain the entirety of your Construction Claim, you must include your whole Construction Claim in the Notice of Dispute of Construction Claim. If you (or any other Person, including any Connected Sub-Constructor) have any Claim that is not a Construction Claim, then you (or such other Person) must file that Claim separately in accordance with the Claims Procedure Order.

Construction Contractors requiring further information or claim documentation, or who wish to submit a Notice of Dispute of Construction Claim to the Monitor, may contact the Monitor at the following address:

FTI Consulting Canada Inc., Sears Canada Monitor
 TD Waterhouse Tower
 79 Wellington Street West
 Suite 2010, P.O. Box 104
 Toronto, Ontario M5K 1G8

Attention: Sears Canada Claims Process

Tel.: 416-649-8113
 Toll Free: 1-855-649-8113
 Fax No.: 416-649-8101
 Email: searscanada@fticonsulting.com

DATED at Toronto, this ____ day of December, 2017.

**SCHEDULE L
NOTICE OF DISPUTE OF CONSTRUCTION CLAIM
FOR CONSTRUCTION CLAIMS AGAINST THE SEARS CANADA ENTITIES¹
AND/OR THEIR DIRECTORS AND OFFICERS**

Capitalized terms not defined herein have the meanings ascribed to them in the Order of the Ontario Superior Court of Justice (Commercial List) in the CCAA Proceedings of the Sears Canada Entities on [December 8], 2017 (the "Claims Procedure Order") or the Notice of Construction Claim. A copy of the Claims Procedure Order can be found on the Monitor's website at cfcanada.fticonsulting.com/searscanada/.

1 (A) PARTICULARS OF CONSTRUCTION CONTRACTOR

Full Legal Name of Construction Contractor:

Full Mailing Address of Construction Contractor:

Telephone Number of Construction Contractor:

Facsimile Number of Construction Contractor:

E-mail Address of Construction Contractor:

Attention (Contact Person):

(B) PARTICULARS OF CONSTRUCTION SUB-CONTRACTOR, IF APPLICABLE

(i) Does a Construction Sub-Contractor at any level in connection with the relevant improvement dispute the Construction Claim as set out in the Notice of Construction Claim? Yes No

(ii) If yes, attach documents evidencing (a) such Construction Sub-Contractor's relationship to the Construction Contractor and/or Construction Sub-Contractor who agreed with or engaged them to provide goods/services/work in

¹ The "Sears Canada Entities" are 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 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., 4201731 Canada Inc., 168886 Canada Inc., 3339611 Canada Inc., and SearsConnect.

connection with the relevant improvement; and (b) provide full contact particulars in the table below of such Construction Sub-Contractor and each *other* Construction Sub-Contractor in the contractual "chain" between such Construction Sub-Contractor and the Construction Contractor. If there is insufficient space below for such particulars, include them in a separate attached schedule.

Full Legal Name of Construction Sub-Contractor:

Full Mailing Address of Construction Sub-Contractor:

Telephone Number of Construction Sub-Contractor:

Facsimile Number of Construction Sub-Contractor:

E-mail Address of Construction Sub-Contractor:

Attention (Contact Person):

2 DISPUTE OF CLAIM AS SET OUT IN NOTICE OF CONSTRUCTION CLAIM

The Construction Contractor on behalf of itself and all Connected Sub-Contractors hereby disagrees with the value of the Construction Claim as set out in the Notice of Construction Claim dated _____ and asserts the following Construction Claim as set out in the following table:

(Insert particulars of your Claim as per the Notice of Construction Claim, and the value of your Construction Claim(s) as asserted by you)

Type of Construction Claim	Name of Specific Debtor Claimed Against	Amount set out in Notice of Construction Claim	Amount claimed by Construction Contractor on behalf of itself and all Connected Sub-Contractors
A. Against a Sears Canada Entity under trust provisions of applicable Provincial Lien Legislation		\$	\$
B. Against a Director or Officer under trust provisions of applicable Provincial Lien Legislation		\$	\$

DATED this _____ day of _____, 20__

(Print name of Construction Contractor, or, if the Construction Contractor is a corporation, the name of the Construction Contractor and the name of the authorized signing officer of the corporation that is executing this Notice of Dispute of Construction Claim.)

(Signature of Construction Contractor, or, if the Construction Contractor is a corporation, the signature of the authorized signing officer of the corporation that is executing this Notice of Dispute of Construction Claim.)

This Notice of Dispute of Construction Claim MUST be submitted to the Monitor at the below address by no later than 5:00 p.m. (Toronto time) on February 15, 2018. Delivery to the Monitor may be made by ordinary prepaid mail, registered mail, courier, personal delivery, facsimile transmission or email to the address below.

FTI Consulting Canada Inc., Sears Canada Monitor
 TD Waterhouse Tower
 79 Wellington Street West
 Suite 2010, P.O. Box 104
 Toronto, Ontario M5K 1G8

Attention: Sears Canada Claims Process

Fax No.: 416-649-8101
 Email: searscanada@fticonsulting.com

In accordance with the Claims Procedure Order, notices shall be deemed to be received by the Monitor upon actual receipt thereof by the Monitor during normal business hours on a Business Day, or if delivered outside of normal business hours, on the next Business Day.

IF A NOTICE OF DISPUTE OF CONSTRUCTION CLAIM IS NOT RECEIVED BY THE MONITOR WITHIN THE PRESCRIBED TIME PERIOD, THE CONSTRUCTION CLAIM AS SET OUT IN THE NOTICE OF CONSTRUCTION CLAIM WILL BE BINDING ON YOU AND ALL CONNECTED SUB-CONTRACTORS.

SCHEDULE M
INSTRUCTION LETTER FOR CONSTRUCTION CONTRACTORS
WITH CONSTRUCTION CLAIMS AGAINST THE SEARS CANADA ENTITIES¹
AND/OR THEIR DIRECTORS AND OFFICERS

CLAIMS PROCEDURE ORDER

On [December 8], 2017, the Ontario Superior Court of Justice (Commercial List) (the "Court") issued an order (the "Claims Procedure Order") in the *Companies' Creditors Arrangement Act* proceedings of the Sears Canada Entities, commencing a claims procedure (the "Claims Process") for the purpose of identifying and determining, among other things, all Construction Claims against the Sears Canada Entities and/or their respective Directors and Officers. Reference should be made to the Claims Procedure Order for the complete definition of "Construction Claim", but in general it includes all:

- (a) Claims under the trust provisions of applicable provincial builders' lien or construction lien legislation and Claims asserted against the holdback under such legislation;
- (b) Claims secured in whole or in part by the registration of a builders' lien or construction lien under such legislation against any real property that has been or is owned or leased by any of the Sears Canada Entities; and
- (c) Claims secured by any security held in connection with a Vacated or Discharged Lien.

Capitalized terms not defined herein have the meanings ascribed to them in the Claims Procedure Order, a copy of which can be obtained from the website of FTI Consulting Canada Inc., the Court-appointed Monitor (the "Monitor") of the Sears Canada Entities, at fcanada.fticonsulting.com/searscanada/.

You have received this letter because, as indicated by the enclosed Notice of Construction Claim, you have been identified as a Construction Contractor with a Construction Claim. This letter provides general information about the Claims Process as related to Construction Claims, the obligations of Construction Contractors thereunder, and instructions for completing a Notice of Dispute of Construction Claim form.

CLAIMS PROCESS, OBLIGATIONS, AND INSTRUCTIONS TO CONSTRUCTION CONTRACTORS

If you, as the Construction Contractor on behalf of yourself and all Connected Sub-Contractors, disagree with the assessment of the Construction Claim as stated in a Notice of Construction Claim, you must complete the Notice of Dispute of Construction Claim in accordance with the guidelines herein and deliver the executed Notice of Dispute of

¹ The "Sears Canada Entities" are Sears Canada Inc., Corbell Électrique Inc., S.L.H. Transport Inc., The Cut Inc., Sears Contact Services Inc., Initem Logistics Services Inc., Initem Commerce Labs Inc., Initem Logistics Services Inc., Initem Commerce Labs Inc., Initem 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., 4201731 Canada Inc., 168886 Canada Inc., 3339611 Canada Inc., and SearsConnect.

Construction Claim to the Monitor such that it is received by no later than 5:00 p.m. (Toronto time) on February 15, 2018 (the "Construction Claims Bar Date").

Please note that a Construction Contractor's Construction Claim in relation to a given improvement is deemed to include the Construction Claims of the Construction Contractor and all Construction Claims of any and all Construction Sub-Contractors under an agreement (written or oral) or otherwise engaged by the Construction Contractor or any other Construction Sub-Contractor at any level in connection with the relevant improvement (each, a "Connected Sub-Contractor" and together the "Connected Sub-Contractors").

For greater certainty, no Connected Sub-Contractor shall be required to submit a separate Notice of Dispute of Construction Claim in respect of their portion of the above Construction Claim – rather, any such disagreement by a Connected Sub-Contractor is to be included in the Notice of Dispute of Construction Claim submitted by the Construction Contractor.

As a result of the co-ordination that will be required between the Construction Contractor and the Connected Sub-Contractors, the Claims Procedure Order **requires you, as the Construction Contractor**, to send as soon as possible a copy of both your Notice of Construction Claim and the enclosed Construction Sub-Contractor Instruction Letter to all Construction Sub-Contractors in a direct contractual agreement or engagement with you in connection with the relevant improvement and take steps to ensure that **every Construction Sub-Contractor** sends as soon as possible a copy of both your Notice of Construction Claim and a Construction Sub-Contractor Instruction Letter to all Construction Sub-Contractors with whom they are in a direct contractual agreement or engagement with in connection with the relevant improvement.

If a completed Notice of Dispute of Construction Claim in respect of the Construction Claim set out in the Notice of Construction Claim is not received by the Monitor by the Construction Claims Bar Date, then both you and all Connected Sub-Contractors in connection with the relevant improvement shall be deemed to have accepted the Construction Claim set out therein, and no such Construction Claimant shall have any further right to dispute the same as against the Sears Canada Entities and/or their Directors and Officers.

Since you, as the Construction Contractor, are to file the Notice of Dispute of Construction Claim on behalf of yourself and all Connected Sub-Contractors, **it is your responsibility**, as the Construction Contractor, to give each Connected Sub-Contractor the opportunity to determine and negotiate with you, any rights they may have with respect to the Construction Claim and incorporate it into the Notice of Dispute of Construction Claim.

IF A NOTICE OF DISPUTE OF CONSTRUCTION CLAIM IS NOT RECEIVED BY THE MONITOR WITHIN THE PRESCRIBED TIME PERIOD, THE CONSTRUCTION CLAIM AS SET OUT IN THE NOTICE OF CONSTRUCTION CLAIM WILL BE BINDING ON YOU AND ALL CONNECTED SUB-CONTRACTORS.

Construction Claimants requiring further information or claim documentation may contact the Monitor at the following address:

FTI Consulting Canada Inc., Sears Canada Monitor
 TD Waterhouse Tower
 79 Wellington Street West
 Suite 2010, P.O. Box 104
 Toronto, Ontario M5K 1G8

Attention: Sears Canada Claims Process

Tel.: 416-649-8113
Toll Free: 1-855-649-8113
Fax No.: 416-649-8101
Email: searscanada@fticonsulting.com

GUIDE TO COMPLETING THE NOTICE OF DISPUTE OF CONSTRUCTION CLAIM FORM

Please note that this is a guide only, and that in the event of any inconsistency between the terms of this guide and the terms of the Claims Procedure Order made on [December 8], 2017, the terms of the Claims Procedure Order will govern. The guide provides instructions by sections corresponding to the headings of the Notice of Dispute of Construction Claim.

SECTION 1(A) – PARTICULARS OF CONSTRUCTION CONTRACTOR

- 1 Enter the reference number of the Construction Claim as indicated at the top of the Notice of Construction Claim.
- 2 The full legal name of the Construction Contractor and its current particulars must be provided.
- 3 If the Construction Contractor operates under a different name or names, please indicate this in a separate schedule in the supporting documentation.

SECTION 1(B) – PARTICULARS OF CONSTRUCTION SUB-CONTRACTOR, IF APPLICABLE

- 1 If a Construction Sub-Contractor at any level in connection with the relevant improvement disputes the Construction Claim as set out in the Notice of Construction Claim, attach documents evidencing (a) such Construction Sub-Contractor's relationship to the Construction Contractor and/or Construction Sub-Contractor who agreed with or engaged them to provide goods/services/work in connection with the relevant improvement; and (b) provide full contact particulars in the table below of such Construction Sub-Contractor and each *other* Construction Sub-Contractor in the contractual "chain" between such Construction Sub-Contractor and the Construction Contractor. If there is insufficient space on the form for such particulars, include them in a separate attached schedule.
- 2 The full legal name of each relevant Construction Sub-Contractor and its current particulars must be provided.
- 3 If any such Construction Sub-Contractor operates under a different name or names, please indicate this in a separate schedule to be prepared and attached by you.

SECTION 2 – DISPUTE OF CLAIM AS DETERMINED IN NOTICE OF CONSTRUCTION CLAIM

- 1 Indicate both the amount set out in the Notice of Construction Claim and the amount asserted by you, as the Construction Contractor and on behalf of all Connected Sub-Contractors, for each Construction Claim: (i) against a Sears Canada Entity under trust provisions of applicable Provincial Lien Legislation, (ii) against a Director or Officer under trust provisions of applicable Provincial Lien Legislation, (iii) secured by registration of a builders' lien or construction lien, or secured by any security held in connection with a Vacated or Discharged Lien, and (iv) to the extent applicable, any unsecured portion of such Construction Claim.
- 2 Each specific Sears Canada Entity, Director or Officer claimed against must be named in the appropriate column.

- 3 If the amount claimed is in a currency other than Canadian dollars, please indicate this in the table.
- 4 If necessary, currency will be converted in accordance with the Claims Procedure Order.

SECTION 3 – REASONS FOR DISPUTE

- 1 Provide full particulars of why the Construction Contractor on behalf of itself and all Connected Sub-Contractors disputes the determination of the Construction Claim as set out in the Notice of Construction Claim. If there is insufficient space on the form for such particulars, provide it on a separate schedule.
- 2 Attach all supporting documentation, including without limitation amount, description of transaction(s) or agreement(s) giving rise to the Construction Claim(s), name of any guarantor(s) which has guaranteed payment of the Construction Claim(s), and any amount allocated thereto, the date and number of all invoices and supporting documentation, particulars of all credits, discounts, etc. claimed, the full particulars of each person for whom the services or materials were provided to by a given Construction Claimant related to the Construction Claim, a brief description of the services or materials supplied by each Construction Claimant, each contract price or subcontract price, the date of each Construction Claimant's date of last supply, date of substantial performance if applicable, copies of each contract/subcontract at issue including any change orders, amendments, and purchase orders or other related documents.
- 3 The particulars provided must support the value of the Construction Claim as stated by you in Section 2 above.
- 4 The Notice of Dispute of Construction Claim is to be signed only by the Person submitting the Notice of Dispute of Construction Claim.

FILING OF NOTICE OF DISPUTE OF CONSTRUCTION CLAIM

The Notice of Dispute of Construction Claim MUST be received by the Monitor on or before 5:00 p.m. (Toronto time) on the Construction Claims Bar Date of February 15, 2018 by prepaid ordinary mail, registered mail, courier, personal delivery, facsimile transmission or email at the following address:

FTI Consulting Canada Inc., Sears Canada Monitor
 TD Waterhouse Tower
 79 Wellington Street West
 Suite 2010, P.O. Box 104
 Toronto, Ontario M5K 1G8

Attention: Sears Canada Claims Process

Fax No.: 416-649-8101

Email: searscanada@fticonsulting.com

IF A NOTICE OF DISPUTE OF CONSTRUCTION CLAIM IS NOT RECEIVED BY THE MONITOR WITHIN THE PRESCRIBED TIME PERIOD, THE CONSTRUCTION CLAIM AS SET OUT IN THE NOTICE OF CONSTRUCTION CLAIM WILL BE BINDING ON YOU AND ALL CONNECTED SUB-CONTRACTORS.

SCHEDULE N

INSTRUCTION LETTER FOR CONSTRUCTION SUB-CONTRACTORS REGARDING CONSTRUCTION CLAIMS AGAINST THE SEARS CANADA ENTITIES AND/OR THEIR DIRECTORS AND OFFICERS¹

CLAIMS PROCEDURE ORDER

On [December 8], 2017, the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) issued an order (the “**Claims Procedure Order**”) in the *Companies’ Creditors Arrangement Act* proceedings of the Sears Canada Entities, commencing a claims procedure (the “**Claims Process**”) for the purpose of identifying and determining, among other things, all Construction Claims against the Sears Canada Entities and their respective Directors and Officers. Reference should be made to the Claims Procedure Order for the complete definition of “Construction Claim”, but in general it includes all:

- (a) Claims under the trust provisions of applicable provincial builders’ lien or construction lien legislation and Claims asserted against the holdback under such legislation;
- (b) Claims secured in whole or in part by the registration of a builders’ lien or construction lien under such legislation against any real property that has been or is owned or leased by any of the Sears Canada Entities; and
- (c) Claims secured by any security held in connection with a Vacated or Discharged Lien.

Capitalized terms not defined herein have the meanings ascribed to them in the Claims Procedure Order, a copy of which can be obtained from the website of FTI Consulting Canada Inc., the Court-appointed Monitor (the “**Monitor**”) of the Sears Canada Entities, at cfcanada.fticonsulting.com/searscanada/.

You have received this letter because you have been identified as a Construction Sub-Contractor who has supplied services or materials or work to an improvement to real property that has been or is owned or leased by a Sears Canada Entity (the “**Improvement**”), AND have done so under an agreement or engagement with either the Construction Contractor (i.e., who has the direct contractual relationship with one of the Sears Canada Entities) OR under an agreement or engagement with another subcontractor of any level.

You therefore may have a Construction Claim against the Sears Canada Entities and/or their Directors and Officers, and this letter has been sent to you to provide general information about the Claims Process as it relates to Construction Claims, your obligations in the Claims Process as a Construction Sub-Contractor, and your responsibility to ensure that any Construction Claims you may have with respect to a given Improvement are accounted for in the

¹ The “Sears Canada Entities” are 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 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., 4201731 Canada Inc., 168886 Canada Inc., 3339611 Canada Inc., and SearsConnect.

Construction Claim of the Construction Contractor (i.e., the party who has the direct contractual relationship with one of the Sears Canada Entities) in relation to that Improvement.

RESPONSIBILITIES OF CONSTRUCTION SUB-CONTRACTORS IN CLAIMS PROCESS

As a part of the Claims Process, the Construction Contractor relevant to the Improvement has received a Notice of Construction Claim indicating the Construction Claim (including any D&O Claim relating thereto) as valued by the Sears Canada Entities, in consultation with the Monitor.

Please note that, under the Claims Procedure Order, any Construction Claims you may have as a Construction Sub-Contractor as well as the Construction Claims of any other Construction Sub-Contractor at any level in relation to the Improvement (each, a "**Connected Sub-Contractor**") are deemed to be included in that Construction Claim.

If you believe that the Construction Claim as set out in the Notice of Construction Claim that has been sent to the Construction Contractor is incorrect, then the Construction Contractor, on behalf of itself and all Connected Sub-Contractors, including you, is able to dispute such Construction Claim by completing and submitting a Notice of Dispute of Construction Claim to the Monitor such that it must be received by no later than 5:00 p.m. (Toronto time) on February 15, 2018 (the "**Construction Claims Bar Date**"). However, it is the Construction Contractor's responsibility (and not you or any other Connected Sub-Contractor) to submit a Notice of Dispute of Construction Claim to dispute the Construction Claim. For greater certainty, neither you nor any other Construction Sub-Contractor is required to submit a separate Notice of Dispute of Construction Claim in respect of its Construction Claim to the extent that such Construction Sub-Contractor's Construction Claim is captured by the Construction Contractor's Notice of Construction Claim or Notice of Dispute of Construction Claim. **Please contact the Monitor should you believe that your Construction Claim is not fully captured by the Construction Contractor's Notice of Dispute of Construction Claim (or Notice of Construction Claim if a Notice of Dispute of Construction Claim is not submitted by the Construction Contractor).**

If a Notice of Dispute of Construction Claim is not received by the Monitor by the Construction Claims Bar Date, then all Construction Claimants relevant to the Construction Claim (including you and all other Connected Sub-Contractors) shall be deemed to have accepted the Construction Claim set out in the Notice of Construction Claim, and no such Construction Claimant shall have any further right to dispute the same as against the Sears Canada Entities and/or their Directors and Officers.

It is your responsibility as a Construction Sub-Contractor to contact the Construction Contractor directly to:

- (a) **determine and negotiate** with the Construction Contractor any rights you, as the Construction Sub-Contractor, may have with regard to the Construction Contractor's aggregate Construction Claim; and
- (b) **ensure that any Construction Claim you may have is accounted for** – either in the Construction Claim as assessed in the Notice of Construction Claim sent to the Construction Contractor, or in a Notice of Dispute of Construction Claim to be submitted by the Construction Contractor within the prescribed time period.

Note that the Claims Procedure Order further requires you, as a Construction Sub-Contractor, to send as soon as possible a copy of the Notice of Construction Claim and this Construction Sub-Contractor Instruction Letter to all Construction Sub-Contractors in a direct contractual agreement or engagement with you in connection with the Improvement. This is intended to give all Connected Sub-Contractors at every level the opportunity to determine and negotiate with the Construction Contractor any rights they may have with respect to the Construction Claim.

Construction Sub-Contractors requiring further information should contact their Construction Contractor, but may also contact the Monitor at the following address:

FTI Consulting Canada Inc., Sears Canada Monitor
TD Waterhouse Tower
79 Wellington Street West
Suite 2010, P.O. Box 104
Toronto, Ontario M5K 1G8

Attention: Sears Canada Claims Process

Tel.: 416-649-8113
Toll Free: 1-855-649-8113
Fax No.: 416-649-8101
Email: searscanada@fticonsulting.com

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

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

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

Applicants

Ontario
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
Proceeding commenced at Toronto

CLAIMS PROCEDURE ORDER

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Lawyers for the Applicants

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

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Tab 4

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

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

TWENTY-FOURTH REPORT OF FTI CONSULTING CANADA INC., AS MONITOR

SEPTEMBER 13, 2018

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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., 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., 6988741
CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041
ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC. AND
3339611 CANADA INC.

APPLICANTS

**TWENTY-FOURTH REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR**

A. INTRODUCTION

1. On June 22, 2017, Sears Canada Inc. (“**Sears Canada**”) and a number of its operating subsidiaries (collectively, with Sears Canada, the “**Applicants**”) sought and obtained an initial order (as amended and restated on July 13, 2017, the “**Initial Order**”), under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). The relief granted pursuant to the Initial Order was also extended to Sears Connect, a partnership forming part of the operations of the Applicants (and together with the Applicants, the “**Sears Canada Entities**”). The proceedings commenced under the CCAA by the Applicants are referred to herein as the “**CCAA Proceedings**”.

2. The Initial Order, among other things:
 - (a) appointed FTI Consulting Canada Inc. as monitor of the Sears Canada Entities (the “**Monitor**”) in the CCAA Proceedings;
 - (b) granted an initial stay of proceedings against the Sears Canada Entities until July 22, 2017; and
 - (c) scheduled a comeback motion for July 13, 2017 (the “**Comeback Motion**”).
3. Following the Comeback Motion, the Court extended the Stay Period. In addition, the following orders were issued:
 - (a) an order setting out the terms of the appointment of Ursel Phillips Fellows Hopkinson LLP as representative counsel for the non-unionized active and former employees of the Sears Canada Entities (“**Employee Representative Counsel**”);
 - (b) an order setting out the terms of the appointment of Koskie Minsky LLP as representative counsel to the non-unionized retirees and non-unionized active and former employees of the Sears Canada Entities with respect to pension and post-employment benefit matters (“**Pension Representative Counsel**”);
 - (c) an order authorizing the eventual suspension of special payments under the Sears Canada Pension Plan, certain payments in connection with supplemental pension plans and certain payments under post-retirement benefit plans pursuant to a term sheet agreed to by the Ontario Superintendent of Financial Services, as Administrator of the Pension Benefits Guarantee Fund (the “**Superintendent**”), Employee Representative Counsel, Pension Representative Counsel, each of their respective representatives, and the Sears Canada Entities; and
 - (d) an order approving a sale and investor solicitation process (the “**SISP**”) to solicit interest in potential transactions, including investment and liquidation proposals, involving the business, property, assets and/or leases of the Applicants.

4. On July 18, 2017, the Court issued an order approving an agreement and a process for the liquidation of inventory and FF&E at certain initial closing Sears Canada locations, which liquidation process is now completed.
5. On October 13, 2017, the Court issued, among other orders, an order (a) approving an agreement and a process (the “**Second Liquidation Process**”) for the liquidation of the inventory and FF&E at all remaining Sears Canada retail locations, which liquidation commenced shortly thereafter and is now completed.
6. On November 10, 2017, the Superintendent issued a Notice of Intended Decision advising that it intended to make an order for the wind up of the Sears Canada Pension Plan (the “**Pension Plan**”), effective October 1, 2017 unless a request for hearing with the Financial Services Tribunal was submitted within 30 days of the Notice of Intended Decision. A hearing to challenge the intended decision was initially requested but subsequently withdrawn. On March 29, 2018, the Superintendent issued an order winding-up the Pension Plan, effective October 1, 2017.
7. On December 8, 2017, the Court issued an Order (the “**Claims Procedure Order**”) approving a claims process for the identification, determination and adjudication of claims of creditors against the Sears Canada Entities and their Officers and Directors.
8. On February 22, 2018, the Court issued an Employee and Retiree Claims Procedure Order (the “**E&R Claims Procedure Order**” and, together with the Claims Procedure Order, the “**Claims Procedure Orders**”) approving a process for the identification, determination and adjudication of claims of employees and retirees of the Sears Canada Entities.
9. On March 2, 2018, the Court issued an Order appointing Lax O’Sullivan Lisus Gottlieb LLP as Litigation Investigator (as amended on April 26, 2018, the “**Litigation Investigator Order**”), with a mandate to identify and report on certain rights and claims that the Sears Canada Entities and/or any creditors of the Sears Canada Entities may have against any parties.

10. On May 9, 2018, the Court issued an Order approving a process for a mediation among stakeholders with the goal of achieving a potential resolution of significant claim and distribution matters (the “**Mediation**”) as a preliminary step toward a global resolution of material estate matters, potentially through a plan of compromise or arrangement. The Mediation commenced on June 13-14, 2018 with Regional Senior Justice Morawetz as mediator.
11. The liquidation of assets at Sears Canada’s retail locations is now completed, all retail locations are closed, and leases in respect of such locations have been disclaimed or surrendered back to the landlord. The Sears Canada Entities continue their efforts to sell their remaining real estate assets.
12. In connection with the CCAA Proceedings, the Monitor has provided twenty-three reports and fifteen supplemental reports (collectively, the “**Prior Reports**”), and prior to its appointment as Monitor, FTI also provided to this Court a pre-filing report of the proposed Monitor dated June 22, 2017 (the “**Pre-Filing Report**”). The Pre-Filing Report, the Prior Reports and other Court-filed documents and notices in these CCAA Proceedings are available on the Monitor’s website at cfcanada.fticonsulting.com/searscanada/.

B. PURPOSE

13. The purpose of this twenty-fourth report of the Monitor (the “**Twenty-Fourth Report**”) is to provide the Court with information regarding:
 - (a) the current status of various matters in the CCAA Proceedings, including the activities of the Monitor and the Sears Canada Entities since the status and activities updates outlined in the Monitor’s Twenty-First Report to the Court dated July 20, 2018 (the “**Twenty-First Report**”);
 - (b) the Monitor’s request for an order (the “**Further NORD Extension Order**”) further extending the deadline for the Monitor to issue Notices of Revision or Disallowance in respect of (i) D&O Claims; and (ii) indemnity claims filed by the

Directors and Officers, pursuant to the Claims Procedure Order and the E&R Claims Procedure Order;

- (c) the Monitor's request for an order (the "**Third Fee Approval Order**") approving the fees and disbursements of the Monitor and its counsel, Norton Rose Fulbright Canada LLP ("**NRFC**"), for the periods set out in the Fee Affidavits (as defined below); and
- (d) the Monitor's comments and recommendations in connection with the foregoing.

C. TERMS OF REFERENCE

14. In preparing this Twenty-Fourth Report, the Monitor has relied upon audited and unaudited financial information of the Sears Canada Entities, the Sears Canada Entities' books and records, certain financial information and forecasts prepared by the Sears Canada Entities and discussions and correspondence with, among others, the senior management ("**Management**") of, and advisors to, the Sears Canada Entities (collectively, the "**Information**").
15. Except as otherwise described in this Twenty-Fourth Report:
 - (a) the 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 Monitor has not examined or reviewed the financial forecasts or projections referred to in this Twenty-Fourth Report in a manner that would comply with the procedures described in the *Chartered Professional Accountants of Canada Handbook*.
16. Future-oriented financial information reported in or relied on in preparing this Twenty-Fourth Report is based on Management's assumptions regarding future events. Actual results will vary from these forecasts and such variations may be material.

17. The Monitor has prepared this Twenty-Fourth Report in connection with its request for the Further NORD Extension Order and Third Fee Approval Order. The Twenty-Fourth Report should not be relied on for any other purpose.
18. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.
19. Capitalized terms not otherwise defined herein have the meanings ascribed to them in the following documents filed as part of the CCAA Proceedings: (i) the affidavits of Mr. Billy Wong, the former Chief Financial Officer of Sears Canada; (ii) the affidavit of Ms. Becky Penrice, the former Executive Vice-President and Chief Operating Officer of Sears Canada; (iii) the affidavits of Mr. Philip Mohtadi, General Counsel and Corporate Secretary of Sears Canada; and (iv) the Prior Reports.

D. UPDATE ON THE CCAA PROCEEDINGS AND THE ACTIVITIES OF THE SEARS CANADA ENTITIES AND THE MONITOR

20. Set out below is a summary of material developments since the date of the Twenty-First Report.

Claims Process

21. In connection with the Claims Procedure Orders, the Monitor has received nearly three thousand Proofs of Claim and D&O Proofs of Claim. The claims represent tens of thousands of pages of materials.
22. The Monitor, in consultation with the Sears Canada Entities and counsel when appropriate, has conducted a review of all Proofs of Claim and D&O Proofs of Claim filed.
23. In reviewing the claims, the Monitor ensured that the level of review was proportionate to the quantum of the claim asserted and the expected recoveries on such claims.
24. Pursuant to the Claims Procedure Orders, a claim against the Applicants or the Directors and Officers is deemed to be accepted unless the Monitor issues Notices of Revision or Disallowance in respect of such claim prior to July 31, 2018. The only two

exceptions to this deadline are in respect of Proofs of Claims and D&O Proofs of Claims filed in respect of the Sears Pension Claim, and as provided in the NORD Extension Order (as defined below).

25. As such, and where appropriate, the Monitor issued over 700 Notices of Revision or Disallowance covering over 1,600 claims prior to the July 31 deadline under the Claims Procedure Order. In addition, the Monitor has issued approximately 200 Notices of Revision or Disallowance to employees and retirees under the E&R Claims Procedure Order.
26. The deadlines for claimants to file Notices of Dispute have now passed; the Monitor has received approximately 200 Notices of Dispute in respect of the NORDs that it has issued under the Claims Procedure Order and approximately 40 Notices of Dispute in respect of the NORDs issued under E&R Claims Procedure Order.
27. The Monitor, in consultation with the Sears Canada Entities, and counsel when appropriate, is reviewing the Notices of Dispute received with a view to reaching a consensual resolution of disputed claims.
28. To date, the Monitor has been able to resolve consensually claims totalling over \$1.2 billion (as filed), including 77%¹ of claims filed by former landlords of the Applicants. Of the remaining 23% of unresolved landlord claims, 17% are represented by the Objecting Landlords (as defined in the Fifth Supplement to the Nineteenth Report dated August 31, 2018).
29. To the extent that disputes cannot be resolved consensually and expeditiously, the Monitor is making arrangements to refer such claims to The Honourable James Farley, one of the two claims officers appointed pursuant to the Claims Procedure Order, for adjudication.
30. At the date of this Twenty-Fourth Report, and assuming all Claims against the Applicants are valued as per the NORDs or, where applicable, in accordance with the

¹ Applying the agreed upon valuation formula to all landlord claims.

settlement with landlords discussed above, the initial amount of Claims against the Applicants, has been reduced from approximately \$11 billion to approximately \$1.7 billion.

Construction Lien Matters

31. As described in previous reports of the Monitor, the Claims Procedure Order established a specific procedure for the filing of claims of Construction Contractors and Construction Sub-Contractors.
32. To the extent a dispute has arisen in connection with claims of Construction Contractors and Construction Sub-Contractors who asserted liens against owned or leased properties that were either sold, surrendered or assigned for cash proceeds to which such liens attached or for which reserves were established, the Monitor, in consultation with Sears Canada, prepared a reconciliation of such claims, and has worked with counsel to the Construction Contractors (on their own behalf and on behalf of their Construction Sub-Contractors) to resolve any disputes regarding that reconciliation.
33. As of the date of this Twenty-Fourth Report, the Monitor has obtained three orders approving the payment of approximately \$6 million to Construction Contractors (on their own behalf on behalf of their Construction Sub-Contractors) in full and final settlement of 24 secured claims of Construction Contractors (in addition to the claims of their Construction Sub-Contractors). The process of reconciling and resolving further secured claims is ongoing.

Real Estate Sale Process

34. At the time of the Monitor's Twenty First Report, Sears Canada continued to own the following real estate assets:
 - (a) Upper Canada Mall full-line store (Newmarket, ON);
 - (b) Distribution center (Belleville, ON);
 - (c) Windsor full-line store (Windsor, ON);

- (d) Peterborough full-line store (Peterborough, ON);
 - (e) Barrie full-line store (Barrie, ON);
 - (f) Charlottetown store (Charlottetown, PEI);
 - (g) Chicoutimi residual land (Chicoutimi, QC);
 - (h) Edmonton residual land (Edmonton, AB); and
 - (i) Sainte-Agathe-des-Monts residual land (Sainte-Agathe-des-Monts, QC).
35. Since the date of the Twenty-First Report, and following consultation with the Monitor and the Owned Real Estate Consultation Parties, Sears Canada entered into and completed sale transactions, with Court approval where required, for the following properties:
- (a) Distribution center (Belleville, ON);
 - (b) Windsor full-line store (Windsor, ON);
 - (c) Peterborough full-line store (Peterborough, ON); and
 - (d) Chicoutimi residual land (Chicoutimi, QC).
36. In addition, a transaction for the sale of the Charlottetown store (Charlottetown, PEI) has been entered into by Sears Canada and was approved by this Court on August 20, 2018. This transaction is expected to be completed in the near future.
37. The current status of the sale of the Newmarket full-line store is set out in detail in the Monitor's Twenty-Third Report dated September 10, 2018.
38. The Sears Canada Entities, in consultation with the Monitor and the Owned Real Estate Consultation Parties, continue to advance the sale of the remaining properties.
39. Given the nature of the remaining assets and the timeline for completion of their sale, the Sears Canada Entities, in consultation with the Monitor, and their financial advisors,

BMO Nesbitt Burns Inc. (“**BMO**”), have agreed to end BMO’s engagement effective August 31, 2018. Sears Canada, in consultation with the Monitor, are in the process of considering their options for the Barrie property, including potentially retaining a real estate brokerage firm in connection with that property. CBRE continues its engagement on the other remaining owned real estate assets.

Employee Matters

40. As of the date of this Twenty-Fourth Report, the Applicants have 10 remaining employees including 9 employees at Sears Canada’s offices in Toronto, and 1 employee overseeing the real estate assets that have not yet been sold. The Monitor expects that the number of employees will continue to decrease.
41. To date, the Monitor has received 84 applications for assistance from the Employee Hardship Fund, of which 61 have been approved. So far, approximately \$140,875 has been paid out of the Employee Hardship Fund. The time period for applications to the Employee Hardship Fund currently expires on December 18, 2018.
42. The Monitor, the Sears Canada Entities and Employee Representative Counsel have continued their discussions with representatives of the Federal Government in connection with the timing and availability of the *Wage Earner Protection Program* (“**WEPP**”) to the former employees of the Sears Canada Entities who qualify for the assistance provided under that program. The Monitor, the Sears Canada Entities and Employee Representative Counsel are working together to ensure that qualifying employees receive the most favourable treatment available to them under the WEPP in the circumstances as a result of potential increases in the maximum amount available to qualifying employees under the WEPP that may be implemented in the near future.

Directors and Governance

43. On July 13, 2018, Employee Representative Counsel served a motion seeking an order removing the directors of Sears Canada and expanding the powers of the Monitor to oversee the remaining operations, management and wind-down of the Sears Canada Entities.

44. This Motion was scheduled to be heard on August 27, 2018.
45. During the month of August, the Monitor engaged in numerous discussions with Employee Representative Counsel and counsel to the directors with a view to seeking a consensual resolution of the issues that gave rise to the above noted motion.
46. As previously reported to the Court, a consensual resolution of the issues raised by the motion was achieved such that Employee Representative Counsel has withdrawn its motion.

Litigation Matters

47. In the Eleventh Report of the Monitor dated January 15, 2018, the Monitor identified certain Transactions of Interest to be further investigated to determine if remedies should be pursued by the Monitor in connection with such transactions pursuant to Section 36.1 of the CCAA.
48. The Monitor understands meetings of the Creditors' Committee (as defined in the Litigation Investigator Order) and the Litigation Investigator have occurred and are ongoing. Discussions at those meetings are the subject of confidentiality obligations of all parties in attendance.
49. The Monitor continues to consider appropriate next steps in connection with litigation matters. The Monitor believes any such next steps should be coordinated with the Litigation Investigator and pursued only following Court approval on notice to the Service List.

Mediation Process and Progress Towards Global Resolution

50. As described in the Eighteenth Report of the Monitor dated May 7, 2018, during the week of March 26, 2018, the Monitor and the Sears Canada Entities met with counsel representing clients with significant claims against the Sears Canada Entities including landlords, Employee Representative Counsel, Pension Representative Counsel, the Superintendent, the Plan Administrator, the Hometown Dealers, and their respective advisors to discuss ways to bring about a timely and efficient conclusion to these CCAA

Proceedings. During the course of these discussions, it became clear that there was support for considering the potential resolution of significant estate matters in the context of the Mediation, and completion of the distributions to the creditors of the Sears Canada Entities through a possible plan of compromise or arrangement pursuant to the CCAA.

51. The goal of the Mediation is to achieve consensus on preliminary proceeds allocation issues necessary to allow the Sears Canada Entities, in consultation with the Monitor, to pursue a proposed CCAA plan for the purpose of dividing and distributing estate proceeds as efficiently and quickly as possible.
52. An efficient and expedited distribution process is essential in the current proceedings where the Monitor expects recoveries from the sales of the Sears Canada assets will be very low relative to the claims filed against Sears Canada.
53. The Mediation process was approved by the Court on May 9, 2018.
54. The Mediation commenced on June 13, 2018 and continued on June 14, 2018. The Mediation process has not been terminated at this time and discussions among stakeholders regarding the subject matter of the Mediation are ongoing.
55. Throughout the months of June, July and August, the Monitor and its counsel have engaged with counsel to the Applicants' landlords, the three counsel representing pension parties, Employee Representative Counsel, counsel to class action plaintiffs having filed large claims against the Applicants, and counsel to many stakeholders with multi-million dollar claims, with a view to resolve or advance the adjudication of these claims.
56. The Monitor has reached an agreement with landlords representing 77% of all claims filed by landlords on a formula for the valuation of claims filed by landlords, excluding specific environmental claims and D&O Claims.
57. The Monitor is also continuing discussions with counsel to certain pension parties on a settlement of the claims in respect of the Sears Canada Pension Plan, excluding D&O Claims. To the extent that these discussions result in an agreement, the pension motions discussed at length in the Twenty-Second Report of the Monitor dated September 7, 2018

and currently scheduled to be heard by the Court on November 1-2, 2018 will no longer be required to be heard.

58. The Monitor continues to believe that a consensual resolution of material outstanding issues in the near term will provide a better outcome for the Applicants' stakeholders as a whole rather than engaging in costly protracted litigation.
59. The Monitor notes that the communications at the Mediation remain confidential.

Other Activities of the Monitor

60. The Monitor has also undertaken the following activities:
- (a) monitored the Sears Canada Entities' receipts and disbursements;
 - (b) maintained the current Service List for the CCAA Proceedings and posted regular updates of the Service List to the Monitor's Website;
 - (c) supervised and assisted in activities related to the sale of the Remaining Real Estate Assets;
 - (d) worked with Employee Representative Counsel, Pension Representative Counsel and their advisors to respond to questions and provide information to their respective constituents;
 - (e) worked with the Sears Canada Entities to assist in appropriately accounting for pre-filing and post-filing obligations;
 - (f) attended numerous meetings and teleconferences with stakeholders, their counsel and advisors;
 - (g) engaged with all landlords and established a formula that is acceptable to the majority of the landlords to value their claims and resolve them consensually;
 - (h) engaged with the Pension Representative Counsel and their advisors in an on-going effort to resolve their claims consensually;

- (i) planned and worked with the Sears Canada Entities to facilitate an orderly wind-down of their operations;
- (j) worked with Sears Canada Entities to assist in certain refunds and the return of deposits held by vendors;
- (k) responded to requests by former employees for financial assistance under the Employee Hardship Fund;
- (l) continued to operate and monitor its telephone hotline and email account for stakeholder inquiries and to respond to such inquiries; and
- (m) continued its work in connection with the claims processes contemplated pursuant to the Claims Procedure Orders.

E. RECEIPTS AND DISBURSEMENTS FOR THE SEVEN-WEEK PERIOD ENDING SEPTEMBER 1, 2018

61. The Sears Canada Entities' actual net cash inflow on a consolidated basis for the seven-week period ended September 1, 2018 was approximately \$23.6 million, compared to a forecast net cash outflow of \$1.6 million presented in the Monitor's Twenty-First Report dated July 20, 2018, resulting in a positive variance of approximately \$25.2 million as indicated in the table below:

VARIANCE REPORT	Actual	Forecast	Variance
(CAD in Millions)	For the 7 Week Period Ending September 1, 2018		
Receipts	29.6	9.2	20.4
Operating Disbursements			
Payroll and Employee Related Costs	(1.3)	(1.3)	-
Merchandise Vendors	1.1	-	1.1
Non-Merchandise Vendors	0.6	(1.6)	2.2
Rent and Property Taxes	(0.6)	(0.4)	(0.2)
Sales Taxes	-	-	-
IT Costs	-	(0.4)	0.4
Total Operating Disbursements	(0.2)	(3.7)	3.5
Net Operating Cash Inflows / (Outflows)	29.4	5.5	23.9
Professional Fees	(5.8)	(7.1)	1.3
Net Cash Inflows / (Outflows)	23.6	(1.6)	25.2
Cash			
Beginning Balance	134.7	134.7	-
Net Cash Inflows / (Outflows)	23.6	(1.6)	25.2
Ending Balance	158.3	133.1	25.2

62. Explanations for the key variances are as follows:

- (a) the positive variance in Receipts of \$20.4 million consists of a positive permanent difference of \$20.4 million primarily related to proceeds from the sale of owned real property and the receipt of tax refunds which were not included in the forecast due to uncertainty around the timing and amount of these proceeds;
- (b) the positive variance in Merchandise Vendor disbursements of \$1.1 million is a permanent difference due to refunds and collections received from vendors which were not included in the forecast due to uncertainty of the amounts and timing of these refunds;
- (c) the positive variance in Non-Merchandise Vendor disbursements of \$2.2 million consists of a permanent difference of \$1.5 million due to refunds received from

vendors and a timing difference of \$0.7 million that is expected to reverse in future forecast periods;

- (d) the negative variance in Rent and Property Taxes of \$0.2 million consists of a negative timing difference between actual and forecast property tax payment schedules which is expected to reverse in future forecast periods;
 - (e) the positive variance in IT Costs of \$0.4 million is a timing difference of \$0.4 million that is expected to reverse in future forecast periods; and
 - (f) the positive variance in Professional Fees of \$1.3 million is primarily a timing difference that is expected to reverse in future forecast periods as outstanding invoices are paid. The Monitor has and will continue to request that all professional firms submit invoices on a regular and frequent basis.
63. The Sears Canada Entities' cumulative receipts and disbursements since the commencement of the CCAA Proceedings through the week ended September 1, 2018 are reflected in the table below:

CUMULATIVE RECEIPTS AND DISBURSEMENTS	
(CAD in Millions)	
For the 63 Week Period Ending September 1, 2018	
Receipts	1,296.6
Operating Disbursements	
Payroll and Employee Related Costs	(264.2)
Merchandise Vendors	(292.3)
Non-Merchandise Vendors	(175.8)
Rent and Property Taxes	(90.6)
Sales Taxes	(67.9)
Pension	(14.7)
IT Costs	(27.2)
Recovery of Expenses from Agent	83.6
Capital Expenditures	(0.8)
Total Operating Disbursements	(849.9)
Net Operating Cash Inflows / (Outflows)	446.7
Professional Fees	(77.0)
Repayments of Existing Credit Facilities	(283.3)
DIP Fees and Interest Paid	(19.7)
Net Cash Inflows / (Outflows)	66.7
Cash	
Beginning Balance	126.5
Net Cash Inflows / (Outflows)	66.7
DIP Draws / (Repayments)	(32.0)
Others incl. FX Valuation	(2.9)
Ending Balance	158.3

F. NORD EXTENSION ORDER

64. Pursuant to the Claims Procedure Orders, the Monitor was required to notify claimants (other than a holder of a Sears Pension Claim (as defined in the E&R Claims Procedure Order)) whose claims have been revised or rejected of such revision or rejection and the reasons therefore by sending a Notice of Revision or Disallowance by no later than July 31, 2018 or such later date as ordered by the Court.
65. The Monitor notes that a large proportion of the D&O Claims (as defined in the Claims Procedure Orders) filed relate to contingent litigation matters and that corresponding indemnity claims filed by Directors and Officers (as defined in the Claims Procedure

Orders) against the Sears Canada Entities similarly relate to contingent litigation outcomes.

66. The determination of these contingent claims is closely tied to the determination of significant litigation, the approach to which will likely be informed by the Litigation Investigator's recommendations. Accordingly, the Monitor wishes to defer responding to these contingent claims until those recommendations and their effect are fully understood.
67. On July 24, 2018, this Court issued an Order extending until October 1, 2018 the period to deliver Notices of Revision or Disallowance in connection with D&O Claims and indemnity claims filed by Directors or Officers (the "**NORD Extension Order**").
68. The Monitor is asking the Court for an additional extension of the period to deliver Notices of Revision or Disallowance in connection with any D&O Claims or indemnity claims filed by Directors or Officers until December 18, 2018. By this date, which coincides with the expiry of the current Stay period, the Monitor believes that it will have more information about the contingent matters that are the subject of many of the D&O Claims and Director or Officer indemnity claims.
69. No stakeholder is prejudiced by the proposed extension as (i) additional time will allow the Monitor to receive information necessary to the Monitor's consideration of those claims and deliver Notice of Revision or Disallowance, as required; and (ii) to the extent distributions are available to the relevant claimants, no distributions are expected to be made to creditors in connection with any claims during the period of the proposed extension.

G. FEE APPROVAL MOTION

70. The Monitor and NRFC have each maintained detailed records of their time and disbursements with respect to these CCAA Proceedings.
71. Pursuant to an order made on January 22, 2018 (the "**First Fee Approval Order**"), this Court approved the fees and disbursements of the Monitor and NRFC for the periods

described in the First Fee Approval Order being June 20, 2017 to December 31, 2017 in the case of FTI and June 19, 2017 to December 17, 2017 for NRFC.

72. Pursuant to an order made on April 18, 2018 (the “**Second Fee Approval Order**”), this Court approved the fees and disbursements of the Monitor and NRFC for the periods described in the Second Fee Approval Order being January 1, 2018 to March 31, 2018 for FTI and December 18, 2017 to March 18, 2018 for NRFC.
73. The Monitor and NRFC are now seeking the approval of their fees and disbursements since the Second Fee Approval Order.
74. Attached as **Exhibit “A”** to the Affidavit of Paul Bishop sworn September 13, 2018 that is attached as **Appendix “A”** to this Twenty-Fourth Report (the “**Bishop Affidavit**”) are copies of the invoices rendered by the Monitor in respect of these CCAA Proceedings for the period from April 1, 2018 to August 31, 2018. For this period, the Monitor’s accounts total \$3,804,608.50 in fees, \$23,037.22 in disbursements and \$497,593.94 in HST for a total amount of \$4,325,239.66. **Exhibit “C”** to the Bishop Affidavit contains a summary of the personnel, hours and hourly rates charged by the Monitor in respect of these proceedings during the applicable period.
75. Attached as **Appendix “B”** to this Twenty-Fourth Report is the Affidavit of Orestes Pasparakis, sworn September 13, 2018 (the “**Pasparakis Affidavit**” and, together with the Bishop Affidavit, the “**Fee Affidavits**”). For the period from March 19, 2018 to August 12, 2018, NRFC’s accounts total \$3,159,657.00 in fees, \$28,350.08 in disbursements and \$414,308.88 in HST for a total amount of \$3,602,315.96. At **Exhibit “C”** to the Pasparakis Affidavit are copies of invoices rendered by NRFC as counsel to the Monitor for such amounts, while **Exhibits “A”** and “**B**” to the Pasparakis Affidavit contain a summary of the personnel, hours and hourly rates charged by NRFC in respect of these CCAA Proceedings during the applicable period.
76. As indicated in the invoices included in the Fee Affidavits and the descriptions of activities contained in this Twenty-Fourth Report and the Prior Reports, the Monitor has played a central role in these proceedings over the past 15 months, including in

connection with the Mediation and the discussions that have followed, and in leading the claims processes contemplated pursuant to the Claims Procedure Orders.

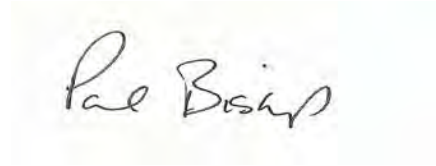
77. In addition to the activities noted in **Section D** of this Twenty-Fourth Report, the Monitor and its counsel have:
- (a) reviewed nearly 3000 of Proofs of Claim and issued over 900 NORs in advance of the deadline imposed by the Claims Procedure Orders. In connection with such review, the Monitor reviewed the supporting documentation submitted with the Proofs of Claims, and when no supporting documents were submitted (for example, in the case of most claims of the Objecting Landlords), the Monitor had to conduct its own analysis of the potential claims of claimants;
 - (b) performed a comprehensive oversight role in respect of management and wind-up of the business and remaining assets;
 - (c) advised on and implemented the terms of the E&R Claims Procedure Order, including preparing claim statements for all employees;
 - (d) dealing with matters relating to numerous environmental claims made against the Applicants;
 - (e) conducted all activities that were required or appropriate to undertake in connection with the Claims Procedure Order and the E&R Claims Procedure Order, including the settlement of several hundred claims filed by stakeholders, including employees;
 - (f) resolved stakeholder issues and concerns constructively on a daily basis to ensure that Court appearances are limited;
 - (g) advanced their work in connection with the Transactions of Interests that could provide additional recoveries to the Sears Canada Entities' estates;
 - (h) assisted with the negotiation of various purchase agreements for the sale of most of Sears Canada's owned properties;

- (i) liaised with the various advisors to the Directors and Officers in respect of D&O Claims and litigation matters;
 - (j) assisted, advised and dealt with matters in connection with the appointment of the Litigation Investigator, and provided support to the Litigation Investigator;
 - (k) reviewing, and reporting to the Court, on intercompany transactions involving the Applicants;
 - (l) prepared and filed 7 reports and 9 supplemental reports to this Court;
 - (m) attended numerous hearings, case conferences and Chamber appointments;
 - (n) prepared materials in connection with, and attended, mediation; and
 - (o) worked with the Applicants to develop a proposed path forward to efficiently resolve the remaining issues in these proceedings.
78. The Monitor respectfully submits that the Monitor's and its counsel's fees and disbursements are reasonable in the circumstances and have been validly incurred in accordance with the provisions of the orders issued in these CCAA Proceedings. Accordingly, the Monitor respectfully seeks the approval of its fees and disbursements and the fees and disbursements of its counsel.

The Monitor respectfully submits to the Court this, its Twenty-Fourth Report.

Dated this 13th day of September, 2018.

FTI Consulting Canada Inc.
in its capacity as Monitor of
the Sears Canada Entities

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

Paul Bishop
Senior Managing Director

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

Greg Watson
Senior Managing Director

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

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF SEARS CANADA INC., 9370-2751 QUEBEC 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., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC., and 3339611 CANADA INC.

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
PROCEEDING COMMENCED AT
TORONTO

**RESPONDING MOTION RECORD AND COMPENDIUM OF
CERTAIN FORMER DIRECTORS OF SEARS CANADA INC.**

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