

General CCAA FAQs

1. What is the CCAA?

The CCAA, or the *Companies' Creditors Arrangement Act*, is a federal law in Canada that provides insolvent companies with debts in excess of \$5 million an orderly and supervised means to restructure their businesses.

Once a company has been granted CCAA protection, the Court enters an Initial Order establishing what is known as a 'Stay of Proceedings', which prevents creditors from taking action against the company, its directors and officers, and its assets for an initial period of 30 days (which can be further extended as the court deems appropriate) allowing the company to continue to manage the day-to-day operations of the business while it addresses its restructuring objectives in an orderly and efficient manner.

CCAA protection provides companies with the time and "breathing room" necessary to emerge as a successful, going concern business and to position the business as a stronger, more competitive company.

2. Is a company that files for protection under CCAA considered to be bankrupt?

No. While a company filing for CCAA is insolvent, meaning that it has insufficient liquidity to continue to fund its obligations as they become due and/or its liabilities are greater than the assets that are available to satisfy those liabilities, the company is not considered to be bankrupt. In Canada, 'bankruptcy' refers to proceedings commenced under the *Bankruptcy and Insolvency Act*, which is different than the CCAA.

In fact, the Stay of Proceedings under the CCAA prevents creditors from forcing the company into bankruptcy. For this reason, CCAA is sometimes referred to as 'Bankruptcy Protection'.

3. Why did Sears Canada opt for a CCAA proceeding rather than filing a proposal under the BIA?

The CCAA is a flexible statute that is designed to address the complex restructuring needs of large corporations, being limited to only those insolvent companies with debts in excess of \$5 million.

The CCAA provides the Court with significant discretion to issue novel relief based on the specific facts of a particular case. Sears Canada feels strongly that the greater flexibility under the CCAA will ensure a more efficient and orderly restructuring process that will allow it to continue as a going concern and will improve the overall outcome for all stakeholders.

4. Is CCAA the same as declaring bankruptcy in the US?

CCAA would be most similar to a Chapter 11 reorganization in the US.

5. Once the Company is granted protection under the CCAA, who is in charge?

The Company's Board of Directors and management team remain in control of the day-to-day operations of the business, subject to the specific requirements of the Initial Order made in the CCAA proceedings, under the supervision of the Court-appointed Monitor.

6. What is a Monitor?

The Monitor is appointed by, and serves as an officer of, the Court. Its responsibilities are prescribed by the CCAA and by Court order, and include monitoring the Company's restructuring initiatives, assisting the Company with the preparation of cash flow statements and other financial reporting, liaising with stakeholders, and reporting to the Court from time to time on the progress of the CCAA proceedings.

In Sears Canada's case, FTI Consulting Canada Inc. ("FTI") has been appointed as the Monitor. Professionals from FTI will be onsite in the field and at Sears head office on a regular basis, working with the Company throughout the CCAA process.

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7. Is there a public filing or disclosure required as part of filing for protection under the CCAA?

Yes. Among other public documents filed with the Court, the Company submits an Affidavit that includes, but is not limited to, the following information: a brief history of the Company and an overview of its business; a description of the nature of its assets and liabilities; the reasons for its financial difficulties; and support for the relief being sought from the Court. Once the CCAA Initial Order is issued, the Monitor is required to notify known creditors and publish a public notice of the CCAA proceedings. The Monitor is also required to establish a website where materials relating to the CCAA proceedings will be posted. In this case, FTI has established <http://cfcanada.fticonsulting.com/searscanada>.

In addition to the Affidavit and the application for a CCAA Initial Order, there will be motions filed with the Court from time to time during the CCAA proceedings, as well as reports submitted to Court by the Monitor that will provide the Court and stakeholders with updates as to the progress of the CCAA proceedings. These documents will be matters of public record and most will be made available by the Monitor on its website.

Additionally, Sears Canada, as a publicly-traded company, has certain public disclosure obligations that it must follow in accordance with Canadian law. Sears Canada's publicly filed documents can be found at <http://www.sedar.com/>.

8. Where can public Court documents and other information related to the CCAA proceedings be accessed?

Court materials, including reports prepared by the Monitor, will be available at the Monitor's website, <http://cfcanada.fticonsulting.com/searscanada>.

9. What do I do if I have other questions?

For questions regarding ordinary course business, you should continue to speak to your regular contact person at Sears Canada. For questions relating to the CCAA proceedings, the Monitor can be contacted at 416-649-8113 or toll free at 1-855-649-8113. Additional information is also available on the Monitor's website at: <http://cfcanada.fticonsulting.com/searscanada>.

10. How long does the CCAA process take and what is the tentative timeline?

The Court has granted CCAA protection for an initial period of 30-days, which may be extended for a period that the Court deems appropriate. The Company will work to complete its restructuring in a timely fashion, though there is no standard timeframe for the duration of CCAA proceedings.

11. Will employee contracts and agreements be honoured?

The Company expects to terminate certain employment contracts as part of its restructuring efforts. However, we anticipate that most employees will continue to be employed by Sears Canada.

12. Why did the Company file for CCAA protection?

The Company faces ongoing liquidity pressures that prevent it from continuing its restructuring efforts outside of a CCAA proceeding. Generally, CCAA protection provides companies with the time and "breathing room" necessary to restructure and emerge significantly stronger than they were and better positioned to thrive in the future.

13. Does Sears Canada's CCAA filing have anything to do with the financial trouble facing Sears in the US?

No. Sears Canada operates its own business (with its own management group and employees) that is entirely separate from the Sears business based in the US. Further, while Sears Holdings owns some of Sears Canada's outstanding common shares, Sears Canada is not dependent on Sears Holdings.